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THE IMPACT OF COHESION POLICY ON CROATIA'S REGIONAL POLICY AND DEVELOPMENT

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List of Abbreviations

CARDS – Community Assistance for Reconstruction, Development and Stabilisation (EU pre accession fund)

CEE – Central and Eastern Europe

CF – Cohesion Fund

EAFRD – European Agricultural Fund for Rural Development

ERDF – European Regional Development Fund

EMFF – European Maritime and Fisheries Fund

ESF – European Social Fund

ESIF – European Structural and Investment Funds

IPA – Instrument for Pre-Accession Assistance

ITI – Integrated Territorial Investments

SAPARD – Special Accession Programme for Agriculture and Rural Development

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INTRODUCTION

This policy paper provides an overview of the role of cohesion policy in the process of designing Croatia's regional policy. Its purpose is to contribute to a wider understanding of the interplay between the cohesion policy and domestic regional policy, particularly with regard to the main channels of the influence and resulting policy changes.

This paper provides a comparative analysis of the effects of cohesion policy on the development policies of two European Union (EU) member states (Slovenia and Slovakia) with particular attention to the issue of absorption capacity and factors which impede more effective use of EU funds to promote developmental change in Croatia. Reference is also made to some of the most pressing regional development problems facing Croatia.

The first section of this paper explores the main goals and determinants of EU cohesion policy, including a brief overview of the basic changes in the multi-annual financial framework 2014-2020. Reflections are also provided on the role of cohesion policy on influencing regional policies in the new Member States in Central and Eastern Europe. The second section provides a comparison-case study analysis on the experience of two member states from Central and Eastern Europe participating in cohesion policy. This is followed by an overview of the impact of cohesion policy on Croatia's regional policy and development including the observations about the role of pre-accession funds.

Concluding remarks and recommendations are provided at the end of this chapter, based on current challenges and constraints in the post-accession period.

STRENGTHENING REGIONAL DEVELOPMENT - THE ROLE OF EU COHESION POLICY

Main Principles and Novelties in Cohesion Policy

Cohesion policy is the EU's main investment policy. Almost one-third of the overall EU budget has been set aside for cohesion policy in the current programming period (2014-2020). It covers all of the EU's regions and cities with the aim of supporting job creation, business competitiveness, economic growth, sustainable development and improving citizen's quality of life. Cohesion policy serves as a catalyst for mobilising additional public and private funding, both by way of adherence to the principle of additionality and by strengthening overall investor confidence.

Cohesion policy is mainly delivered through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and Cohesion Fund (CF). Together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), these are referred to as the European Structural and Investment (ESI) Funds. The current programming period is the first time they are being governed by a single set of basic rules designed to ensure consistency and synergies as well as simplifying implementation for beneficiaries (Deffaa, 2014).

A number of principles were introduced within cohesion policy from the very beginning and these continue to form the basis for the policy's effective implementation today. Several of these deserve to be singled out as relevant for this paper (EC, 2014c):

- *Multi-annual and strategic programming* – developing and funding multi-annual national programs and strategies in accordance with EU priorities. The principle embraces other cohesion policy principles, by stipulating concentration, setting clear objectives for each country, focusing on several key development priorities and investments, and effectively coordinating funds and policies.
- *Partnership* – stipulating that all key authorities including all levels of government, relevant socio-economic stakeholders and civil society should be included in all phases of programming, management and monitoring processes.
- *Additionality* – ensuring that EU funds are complementing, not replacing national funds, enabling coherence between national and EU funds, adding value and contributing to the achievement of synergetic effects, thus strengthening growth potential and competitive advantage.
- *Effective and efficient management* – relating to sound financial management, the reduction of administrative burdens and compliance with EU and national laws.

The abovementioned principles were of particular importance when Central and East European (CEE) Member States adapted their national regional policies and aligned them more closely to cohesion policy. This will be elaborated on later in the paper.

Several major changes were introduced to cohesion policy during 2014-2020 as a response to evaluation results and accomplishments in previous financial periods and as a result of the demonstrated need to improve overall effectiveness and efficiency.

New programming documents were introduced - the framework national document for all funds, the Partnership Agreement, was translated into a set of more focused programming documents - Operational Programmes and the Rural Development Programme. A very important novelty was the introduction of “thematic concentration” which obliges countries to align investments co-financed by ESI funds more closely to the Europe 2020 targets, and in particular to the areas covered by the first four thematic objectives: research and development, information and communication technologies, small and medium enterprises and the low carbon economy. Furthermore, other rules related to the ESI funds resulted in a higher concentration of funds across a smaller number of priority areas. At the EU level, this concentration of funds on a smaller number of priorities clearly connected with EU priorities should contribute to achieving improved effectiveness of EU funds and reduce the problem of fragmented investments across (too) many policy areas that did not lead to the expected (developmental) effects.

A further novelty was the policy's more pronounced focus on the results of interventions and setting clear and measurable targets for assessing the performance of programmes co-financed

by ESI funds. This includes closer monitoring and evaluation of their progress based on common EU and programme-specific indicators as well as rewarding performance.

The impact of EU funding has also been maximized through the introduction of so-called “ex-ante conditionalities,” which require countries to secure pre-conditions prior to the start of funding. These are related to the strategic policy framework, legal framework and the existence of required administrative capacity. Increased reliance on the use of financial instruments instead of grants is seen as a way of achieving more with the same resources due to a higher leverage effect, reducing, among other things, beneficiary’s grant dependency and promoting an “entrepreneurial culture” (Wishlade and Michie, 2017).

A novelty that was of particular importance to local, regional and urban development was the introduction of new territorial development instruments with a specific set of rules - the Integrated Territorial Investments (ITI).¹ The approach followed the previous successful experience of the Leader Programme, a process of preparing local strategies led by local action groups and implemented within the framework of an integrated and multi-sectoral approach.

It is expected that all the relevant novelties within cohesion policy in the 2014-2020 multiannual financial framework mentioned above will contribute to better management of EU funds, more effective delivery of set development priorities as well as the strengthening of governance on the whole, including local, regional and urban governance. Even though the European Commission (Commission/EC) has repeatedly stated that new rules will also include more flexibility and will simplify implementation; indeed, the need for simplification remains a top priority (Bachtler, Mendez and Wishlade, 2016). With that in mind, the Commission launched a new legislative initiative, aiming to amend existing regulation that sets out a general framework for budget management, as well as a series of acts governing multiannual EU programmes in specific fields, including cohesion policy.²

The Role of Cohesion Policy in Influencing Regional Policies in Selected New EU Member States

Cohesion policy was of pivotal importance for development and public investments in Central and Eastern European (CEE) Member States. Estimates show that investments from cohesion policy programmes raised annual GDP in CEE countries from 0.8% in Slovenia to 2.1% in Latvia during the 2007-2013 programming period (European Commission, 2014a: 232).

Investments from EU sources were particularly important in helping less developed Member States mitigate the fall in public investments during the Financial and Economic Crisis. Allocations

¹ Integrated Territorial Investments (ITI) is a new tool introduced in by the Common Provision Regulation for use during the ESIF programming period. Its aim is to simplify the implementation of territorial strategies that need funding from different sources. ITI also promotes a more local or ‘place based’ form of policy making. For more information see: EC, 2015, Scenarios for integrated territorial investments, DG REGIO, http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/pdf/iti_en.pdf

² The full adoption of these amendments is expected to take place during 2018. Some of the amendments in the field of agriculture came into force on 01 January 2018.

from cohesion policy funds - ERDF, ESF and the Cohesion Fund in the CEE region ranged from 30% of total public investments in Slovenia to almost 85% in Slovakia during 2015-2017 (European Commission, 2017a: 22).

Even though abundant new investment opportunities were significant for all CEE countries, participation in cohesion policy should by no means be perceived only as an opportunity for increased investment for these countries. A range of additional policy benefits have been observed in new Member States and other countries with lower governance capacity participating in cohesion policy. This later translates into real benefits for citizens, businesses and other key policy intervention beneficiaries. The most important benefits were the multi-annual strategic planning process, the application of the partnership principle, monitoring and evaluation techniques as well as opportunities for policy learning (Bachtler and Gorzalek, 2007; Mairate, 2006).

Another important impact cohesion policy had in new Member States was its influence on decision makers - shifting national policy interventions away from the traditional focus on infrastructure and business aid to focusing on human resources, innovation, community development and horizontal themes (Bachtler and Mendez, 2007). From a longer term perspective, these changes made a significant difference in regional and general public policies in the CEE region.

A further significant impact of cohesion policy can be seen in institutional capacity building. Intensive capacity building funded by EU funds took place at all levels in all CEE countries. Some of these are now examples of best practice in efficient and effective management of EU funds and the use of EU funds for promoting policy development and developmental change. Positive effects were also seen in new forms of governance introduced, with particular focus on participatory governance and citizen inclusion in development initiatives and activities.

The processes of preparing for and implementing cohesion policy instruments were seen as an opportunity to improve regional and other public policies in the CEE region. All the more so since all of the CEE countries were faced with the serious problem of regional disparities and strived to achieve more balanced regional development. Abundant funding opportunities that cohesion policy provided were a strong motivation for national policy actors in CEE countries to transform and adapt their national policy environment to that of the cohesion policy (Adams et al. 2011).

Experience in Two New Member States Implementing EU Cohesion Policy

Slovenia

Slovenia's experience with implementing cohesion policy was such that the most pronounced effects occurred in the first years post-accession. Extensive modifications in the institutional and administrative organisation of management and implementation systems took place over 2005-2006, aimed at simplifying overly-complex delivery systems. Among other factors, high staff turnover made it difficult to manage and implement cohesion policy programmes in a coherent and stable way in these first years post-accession (EC, 2008). Despite the initial difficulties which

each CEE new Member State was faced with, the benefits from participating in cohesion policy were visible early on. Among these was the introduction of new procedures and systems which evolved throughout the initial period after membership. The introduction and further development of partnerships at all levels increased over the three-year programming period post-accession and inter-ministerial coordination was improved. Capacity building at all levels was also notable and evaluation, as a new element and tool for policy making, was systematically introduced and strengthened further by way of a developed evaluation strategy.

Programme design and management in the first years of EU membership was characterised by a national government-managed approach where EU funding was integrated into existing national administrative systems and existing organizations took over cohesion policy management tasks (EC, 2008). Cohesion policy making was mostly highly-centralised and the main participants were ministries, with scarce co-ordination and partnership between central government institutions and other actors, whether non-state or sub-national. However, EU pressure requiring stronger adherence to the partnership principle grew post-accession and its effects were visible over the 2007-2013 programming period. Along with increased cross-sectoral participation, the most notable institutional development was the creation of a network of regional development agencies (Bache et al., 2011).

As for initial investments, even though there was a strong focus on investments in public infrastructure upon becoming a Member State, the effects of participating in cohesion policy were visible in the upgrading of human and knowledge capital in the first years post-accession.

During the 2007-2013 programming period, over 80% of available EU funds were used to support innovation, research and technological development (RTD), the environment and transport infrastructure. More “traditional” measures were complemented with innovative measures in the middle of the programming period – support for business research and development activities as well as for the establishment of new creative centres and so-called research vouchers. One positive effect was that nearly 6000 new jobs were created, mainly in the framework of RTD projects and those helping firms finance investments. Other relevant achievements were seen in the construction of railway lines, the improvement of existing and construction of new roads, including those which were part of the TEN. Improvements were also seen in the segment of environmental infrastructure (connections to clean water supplies and upgraded wastewater treatment facilities), developing broadband internet infrastructure as well as expanded electricity generation from renewable energy sources.

The effective use of EU funds in the 2007-2013 programming period was constrained and bottlenecks were created by the administrative burden, resulting in project implementation delays and in a lower fund absorption rate. Further problems arose as a result of unadjusted reporting tools and continuous staff turnover. Evaluation results showed a large space for improvements in the implementation of cohesion policy in Slovenia. Among the prevailing challenges identified was the setting of the conditions for learning from previous experience and improving poor communication at the structural-level (Služba Vlade Republike Slovenije za razvoj in evropsko kohezijsko politiko, 2017).

Despite initial difficulties and serious constraints, it is estimated that additional investments triggered by EU funds supported an increase of Slovenia's GDP in 2015, which was about 2.5% higher than it would have been without cohesion policy; estimates show that it will be over 2% higher in 2023. During the economic crisis, investments made through EU funds were a relevant factor for encouraging economic activities and contributed to decreasing regional disparities throughout Slovenia (EC, 2016:9).

Along with its contribution to an increase in GDP, the Slovenian example of participation in cohesion policy confirmed a number of relevant achievements. With regard to the sustainability of these achievements, on a large scale the results varied from very good to excellent. The results of sustainability and growth were slightly weaker, however, but still considered good when viewed from the perspective of job creation.

During the current 2014-2020 programming period, Slovenia is managing only one operational programme for all three funds and the results of this change remain to be assessed. An important change also took place during this period – compared with the previous focus on infrastructure-based support, priority areas are now investment in business and innovation.

Despite these achievements, genuine empowerment of sub-national actors did not take place. As a consequence of fulfilling EU requirements, as well as due to the reality of its national system, the country has taken further steps towards Europeanisation rather than towards regionalisation. Constraints – such as national institutional capacity, lack of regional power and structural problems all contribute to the smooth allocation and absorption of funds.

Slovenia began the current programming period burdened with structural problems and difficulties with fund absorption capacity along with the absence of clear development specialisation. These appear to be the main challenges for the period up to 2020 as well (Grief, 2015).

Slovakia

Slovakia faced with very similar challenges as Slovenia in its first years post-accession. Cohesion policy management was also centralised, with a dominant influence of the national institutional and administrative context and no definable “domestic” regional policy independent of cohesion policy. Working in partnership was not easy and over the initial period often remained rather formal (EC, 2008).

Evaluation practices were introduced as a positive practice, and although all evaluations examined the strategy's quality and consistency, the appraisal of other programme elements, such as management and implementation arrangements, was not always present.

Similarly to Slovenia, Slovakia's participation in cohesion policy during the 2007-2013 programming period resulted in significant developmental impacts. Participation in cohesion policy during this period is estimated to have increased Slovakia's GDP by 3.5% in 2015; without these funds, this would not have been achieved at this level (EC, 2016 b).

Moving towards the EU average was facilitated through EU funds in all regions other than the Banska Bystrica. Even though there were negative effects on convergence in the EU-28 as the result of a spending slowdown in 2014, effects on the reduction of regional differences were nevertheless positive (Radvanski, 2016:94). In the absence of EU funding, the convergence process would have been reversed in most regions (Radvanski, 2016:63). The convergence level is expected to continue over the course of the current programming period with the main challenge being ensuring its long-term sustainability. Around half of the total allocations to convergence regions were used to support transport, energy and ICT infrastructure. Environmental infrastructure and culture were also areas with significant investments (EC, 2016b:9). The most significant change in the gross value added, driven by investments from EU funds, were observed in the construction sector, which had received over a half of the total allocations by the end of 2014 (Radvanski, 2016:72). Along with the market services, this sector accounted for the majority of new jobs created. In the Bratislava Competitiveness Region, most investments were in the enterprise sector. This division of investments across policy areas has seen little change. Rather, focus is on long-term objectives and measures countering the economic downturn (EC, 2016b:9)

Among the main constraints for more effective and efficient use of EU funds were late programme adoption and a fine-tuning implementation period. Delays were mainly caused by bureaucratic procedures, difficulties in public procurement related to project selection and approval, differences in administrative capacity between the Ministries and intermediary bodies, delays in preparing and approving major projects. Initial slowdowns were followed by a significant acceleration, and as result in March 2016, ERDF and CF payments for expenditure incurred was 91% of available funding (EC, 2016b: 14). These improvements suggest that funding is likely to be absorbed by the end of the programming period.

PREPARATION FOR AND PARTICIPATION OF CROATIA IN COHESION POLICY

The Influence of Cohesion Policy on the Development of Croatia's Regional Policy

One of the areas where preparations for cohesion policy strongly influenced the regional policy framework was the introducing of the key principles of cohesion policy. The 2009 Regional Development Act introduced these principles into Croatia's regional policy. Among those stipulated by the Law were partnership and cooperation, strategic planning, monitoring and evaluation, equal opportunities and sustainability. These principles also form an important part of Croatia's current Regional Development policy. Despite the importance of all the principles, strategic planning needs to be singled out because of the obligation it makes regarding the preparation of multi-annual strategic documents at the national and regional level. A number of EU-funded technical assistance projects helped the central and regional level governments to acquire the tools and skills necessary for the introduction of strategic planning as a regular policy instrument. Along with regional policy, the systematic and obligatory introduction of the strategic planning process also represented a novelty in other related policy areas (Maleković and Puljiz,

2009; Liha Matejiček, 2014:182; Đulabić and Manojlović, 2011:1063; Bajo and Puljiz, 2017). To date, strategic planning documents forming the basis for implementing long term development policies have been built into nearly all sectoral policies. Equally important, they have been developed in all of Croatia's counties and larger cities as well as in many smaller cities and towns.

As a result of adhering to strategic planning as one of the most important principles of cohesion policy, in May 2018 Croatia began preparing the Croatian National Development Strategy 2030. Croatia's share of the EU financial perspective is expected to be programmed on time and the Strategy should be incorporated into the new Operational Programme during the upcoming programming period.

The first programme evaluations in Croatia were implemented in the regional policy framework, with the introduction of the obligatory ex-ante evaluations for county development strategies and the National Regional Development Strategy, based on EC standards and approach.

Croatia's preparation and current participation in cohesion policy has greatly contributed to the strengthening of its local and regional actors. Awareness raising, training and other forms of capacity-building activities were extensively financed by pre-accession funds and contributed to improved understanding and gained skills necessary for efficient and effective EU fund absorption. The establishing of development agencies at the county and local level was another example of the relevant influence of the policy concepts stemming from cohesion policy at the regional level in Croatia. The process encouraged the emergence of new local and regional actors, who, along with their previous role in project development and implementation, also gave significant contributions to the improvement of horizontal coordination and strategic planning capacities at the regional level. Their role was particularly important in raising the capacities of other actors in their counties as well as in providing the necessary support to stakeholders engaged in project preparation and implementation (Đulabić and Manojlović, 2011). A stronger role for counties and county development agencies in the national context followed after the 2009 Regional Development of the Republic of Croatia Act was passed, which officially named county agencies as the regional coordinating bodies, in charge of coordinating the strategic planning process and preparing development projects.

Further regional empowerment took place after the 2014 Regional Development Act was passed. Continuing adherence to cohesion policy principles on the issues of subsidiarity, participatory approach, cooperation, vertical coordination and strategic planning, the Act also stipulated that regional coordinators are responsible for coordinating the elaboration of county development strategies, other development strategies and action plans, the coordination of the elaboration and implementation of urban development strategies, the coordination of activities related to the promotion of regional competitiveness and urban development as well as for preparation and implementation of development projects.

Croatia's participation in cohesion policy has had numerous other benefits which directly or indirectly influence Croatian policymakers and consequently the design of policy interventions. New development themes, issues and concepts are gradually influencing domestic policy makers and informing their actions. The strong focus on smart and sustainable development in Operational Programmes for 2014-2020 paved the way for more intensive engagement on

concepts such as smart cities, social innovations, green cities, green energy, green mobility, green economy, green tourism and others. The importance of these themes is widely acknowledged in Croatia as relevant for the development of sustainable local communities and cities, with meaningful contributions aiming at raising quality of life. A positive fact is that all these concepts and new themes are given due attention both in the main regional development document – the National Strategy for Regional Development 2020 - as well as in county development strategies and strategies for the development of urban areas eligible for the ITI instrument.

The promotion of the Integrated Territorial Investments approach implies connecting different EU funding sources to invest in various (and as much as possible, mutually interconnected) development projects embedded into local strategies, but also aligned with objectives of the related operational programmes. The approach is based on the territorial concentration principle targeting relatively restricted geographic areas, usually urban agglomerations or a single urban area.

Changes in cohesion policy for the current programming period give specific importance to urban development in Croatia. This was reflected in Croatia's 2014 Regional Development Act where urban areas, i.e. urban agglomerations with larger and smaller urban areas, were introduced with the aim of promoting more effective planning and regional policy implementation, particularly in its urban dimension. The Act specifies that cities which are urban centres must elaborate their urban development strategies. This relevant novelty has triggered far-reaching changes including the introduction of the concept of sustainable and integrated urban development, already reflected in all of Croatia's strategic documents dealing with topics relevant to its cities and urban regions.³

Finally, but not less important, since the initial stage supporting the formation of Croatia's regional policy by way of pre-accession assistance – and particularly through the OBNOVA, and CARDS programmes - preparation for participation in cohesion policy had a strong influence on the process of tackling the most serious problems facing Croatia's regional development – the striking differences in socio-economic development among local and regional areas. EC standards and approach were used to set up a system for continually assessing the level of socio-economic development, which was the basis for the government's assistance to the least developed areas from nearly two decades ago. A new Croatian Development Index was developed in 2017 and has been significant for implementing the current regional policy. Likewise, preparation for and participation in cohesion policy were of pivotal importance in tracing programmes and measures for supporting the most disadvantaged regions – including border regions, mountain, island, rural and other regions, those facing population decline, industrial restructuring and other serious problems. Focusing on accentuated regional disparities and disadvantaged regions was emphasised in Croatia's first Regional Development Policy, whose preparation was financed by the CARDS programme, and continues to influence the current Croatian Regional Development Policy 2020.

³ For more on the integrated sustainable urban development approach see: URBANET, 2018, <http://www.urbanet.info/sdgs-integrated-urban-development/>

Overall, it is evident that the strong requirements of cohesion policy represented in various stages of the policy cycle, from strategic planning and implementation to evaluation, emphasise the need for constant improvement in the quality of the governance of national administrations. This was particularly so in the case of Croatia as the newest Member State. The capability to respond to increasingly demanding principles and objectives of the EU policies, in this case the cohesion policy, requires that Croatian policymakers permanently adapt and improve the public policy framework; this is yet another important positive side-effect of cohesion policy.⁴ Still, it is difficult to make a detailed assessment of its impact as this requires more in-depth studies and analysis.

Importance of EU Funds for Croatia's Socio-Economic Development

In the current programming period, Croatia's total allocation from ESI funds is €10.7 billion, which is over 3% of its annual GDP or about ten times the amount allocated for 2007-13. This significant allocation means that figures on the share of EU funding will likely account for a very large proportion of total public investments in Croatia in the upcoming period, likely more similar to that of Slovakia than Slovenia, assuming Croatia demonstrates the necessary absorption capacity. In 2013-2016 the share of revenues from the EU budget in total Croatian budget revenues increased from 1.6% to 6.3%. For 2017, revenues from the EU budget were planned at the level of 9.0% of the total revenues of the Croatian budget, while, according to the planned figures for 2018 and 2019 this should reach almost 11% of the total revenues (Ministry of Finance, 2018). This puts the revenues from the EU budget as the third most important source of revenue after taxes and pension contributions.

Along with the very strong financial and investment impact, through participation in cohesion policy Croatia has had the chance to significantly change the structure of its public investments and, consequently, increase their effects on the country's long-term competitiveness. This is clear if we consider the sectoral distribution of ESI funds. The most abundant allocations are in the area of environmental protection which mostly covers large infrastructure projects in water and waste treatment facilities. The support for the competitiveness of small and middle-sized enterprises (SMEs) is the second most significant funding area. With an average annual allocation of €140 million from just ESI funds, the support for entrepreneurship has been considerably increased in comparison to the national level of funding pre-accession, when it was approximately €25-30 million. Research, development and innovation (RDI) has also been allocated significant funds earmarked for various types of support, ranging from investments into public and private RDI facilities to support for the development of new products and services. Other areas with significant investment increases are energy efficiency and other activities supporting the

⁴ Fulfilment of the so-called *ex-ante conditionalities* is probably the most known example of the impact of cohesion policy on the national policy framework in the current perspective. These were introduced with the goal of ensuring that the conditions needed for the effective and efficient use of ESI Funds were in place. The conditions are linked to: policy and strategic frameworks (to ensure that the strategic documents at national and regional levels which underpin ESI Funds investments are high quality and in accordance with standards commonly agreed by Member States at the EU level), regulatory frameworks (to ensure that the implementation of operations co-financed by ESI Funds comply with EU *acquis* and sufficient administrative and institutional capacity of the public administration and stakeholders implementing the ESI Funds (European Commission, 2014).

transition to a low-carbon economy. Additional support from EU funds is also significant in the segment of employment, education and social inclusion, as well as in ICT (Puljiz, Maleković and Keser, 2018). When compared with the sectoral composition pre-accession, a time when most public investments were focused on road construction and communal infrastructure and other types of basic physical infrastructure, ESI funds are considerably better aligned with the long-term factors that enhance Croatia's competitiveness.

ESI funds have the potential to impact local and regional governments. Financial instruments geared towards financing typical local development projects, such as local roads, kindergartens, schools, open public spaces etc., have been considerably reduced as they are not a priority in the eleven thematic objectives of the ESI funds.⁵ Local projects must now be more aligned with areas of EU importance, such as broadband internet development and more clearly linked to specific public policies such as the deinstitutionalization of the social care system or improvements in vocational education. Having in mind these constraints as well as the fact that many local governments are at the same time faced with the lack of administrative capacity to prepare and implement EU-funded projects, it is not surprising that the latest analysis on the absorption of ESI funds at the local level shows that almost three-quarters of municipalities and half the number of cities did not use EU funds at all in 2015 and 2016 (Ott, Bronić and Stanić, 2018).

More Efficient and Effective Participation in Cohesion Policy - Major Constraints Facing Croatia

Data on Member States' performance in using EU funds acknowledges that Croatia is still facing serious challenges in absorbing funding. Data from 2007-2013 shows that the absorption rate, measured as the ratio between funds allocated and funds actually spent, reached 81% for Croatia, which is the lowest rate among the Member States. A similar situation was observed in 2014-2020. In December 2017 Croatia held 24th place according to its contracting rate (39%) which is significantly below the EU average (51%). An even more difficult situation is observed with payments, where Croatia holds the last position, with only 11% of the total allocation paid to the country, while the EU average is 18%.⁶

When discussing the absorption issue it must be emphasised that Croatia faced particularly difficult challenges as the result of the timing of its accession to the EU. Acceding to EU on 01 July 2013 meant that the Croatian administration had to deal with the need to simultaneously manage activities related to the transition from the IPA regime to Structural and Cohesion Funds, the absorption of first post-accession EU funds for the last six months of 2013 as well as the preparation of the new programming, and had to prepare a legislative and management framework for the management of ESI funds for the 2014-2020 multi-annual financial framework. This inconvenient timing created a significant burden on its administration as a result of dealing with a multi-fold level of funding as well as the sectoral coverage in the post-accession period. The pressure resulting from this situation and the resulting obstacles for project implementation

⁵ Most of these typical local projects are financed from the European Agriculture Fund for Rural Development and not from the European Regional Development Fund.

⁶ According to data from <https://cohesiondata.ec.europa.eu/overview#>. Accessed on May 14 2018.

represented an “absorption shock” for both the central-level administration as well as for EU funds beneficiaries (Puliz, Maleković and Keser, 2017).

Despite the fact that significant resources had been invested into strengthening administrative capacity, results were limited. The establishment of the Ministry of Regional Development and EU funds in 2012, followed by notable building up of institutional capacity and moving the topic of EU funds much higher on the Government’s political agenda were very important advancements. Nevertheless, problems persisted in the years following accession, even though the number of staff increased considerably. The problem with qualified staff retention in public institutions is still one of the most pressing problems (European Commission, 2016). Even though the number of employees in sectors dealing with EU funds is constantly increasing, newly employed personnel are not sufficiently experienced and need substantial time to compensate the gaps which appeared following the departure of more experienced staff. The lack of tradition and expertise in policy coordination further add to slow implementation as inter-governmental agreements take a very long time, thereby slowing down decision-making processes.

No less important, frequent changes in government leadership and in the institutional setting during 2015-2016 also resulted in further delays of many important decisions related to fund management. The circumstances described at the central government level were reflected in the fact that development impacts, i.e. focus on achieving long term and sustainable results, relevant for promoting developmental change, were not a priority. Furthermore, these circumstances, and particularly the already-mentioned frequent changes in government leadership, resulted in delays in initiating relevant structural reforms, with immediate consequences for local and regional governments, particularly in education, health, public administration and employment.

Constraints were also very noticeable at the local and regional level. Even though some local governments, particularly counties, absorbed much more EU funding in 2015 and 2016 as compared to previous years, as this paper has already noted, most municipalities have not used any ESI funds at all. These are local administrations which are not investing in capacity building, project preparation and implementation skills and are not benefitting from sharing experience and learning from the numerous examples of good practice in ESI fund absorption in Croatia and other countries.⁷ Reasons for not using, or inadequately using ESI funds are also the result of lengthy administrative proposals and delays at the national level, postponed calls, delayed allocations and contracting procedures, frequent changes in public calls (requirements and/or documentation) etc. (Ott, Bronić and Stanić, 2018).

At the project level, the most serious problems relate to lengthy procedures for resolving property ownership and expropriation procedures. A lack of delivery capacity is particularly evident in some investment-intensive sectors, such as the environment and transport (EC, 2017). A further constraint is inappropriate attention given to the sustainability of a project’s results and development impacts in the long term. This is observed in a number of sectors, but especially in projects related to cultural heritage and tourism.

⁷ For example, the counties of Lika-Senj, Virovitica-Podravina and Sisak-Moslavina and a number of municipalities, among them Motovun, Primorski Dolac, Veliki Grđevac, Župa Dubrovačka, Ludbreg and others (Ott, Bronić and Stanić 2018).

Learning from the Experiences of other Member States

The main constraints facing Croatia are very similar to those that were present in this paper's case studies – Slovenia and Slovakia. The three countries have a centrally managed cohesion policy, with only scarce empowerment of sub-national actors; their domestic regional policies are not independent of cohesion policy.

Cohesion policy processes in the two case studies often led to significant changes to domestic policy systems with the aim of ensuring an integrated EU-national approach to management and implementation (EC 2008) and this practice is also present in Croatia. However, there is a strong tendency for systems to be designed with the aim of ensuring regulatory compliance rather than as strategic or operational tools for programme management; this has been observed in Slovenia, Slovakia but also Croatia

Horizontal inter-sectoral partnerships and particularly vertical ones, involving regions, have gradually been developed, along with the slow but steady process of regional empowerment as a result of cohesion policy-induced support to the development of regional development agencies and continuous capacity building.

In all three analysed countries, this process was quite emphasised from the pre-accession period onwards, but investments in human and knowledge capital were more pronounced in Slovenia. However, it is not clear whether learning from previous experiences (seriously contemplating lessons learned from the previous programming periods, or in the case of Croatia, from the pre-accession period) has been successful in any of the analysed countries. The introduced and already fairly developed practice of evaluation, particularly in the example of Slovenia, could be an opportunity for implementing such improvements, but also for further strengthening evaluation practices in Croatia.

Similarities are also apparent regarding absorption capacity and imposing unnecessary administrative burdens. These have resulted in delays and problems with preparing and implementing major projects, their sustainability and more. The mentioned similarities, both in the effects and constraints related to efficient and effective participation in cohesion policy justify the need for Croatian stakeholders and experts to continually share experiences and learn from Slovenia and Slovakia, but also from other CEE countries.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

EU cohesion policy has had a significant influence on regional and overall national policy development in Croatia. It has triggered the systematic use of strategic planning points and simultaneously contributed to adherence to all other important cohesion principles – additionality, partnership, concentration, coordination, monitoring and evaluation. All these

significantly improved the quality of governance in both regional policy and in other public policies in the field of development.

The introduction of new forms of governance was supported by the systematic and continuous adherence to a culture of building partnerships between all levels of government during the policy design and implementation processes. Along with notable changes and improved vertical cooperation and coordination, adherence to the participatory approach and improved coordination at the horizontal level introduced major changes to the prevailing sectoral approach used in Croatia, with dominant silos among different, albeit very related policies. This has gradually contributed to a paradigm shift in Croatia and the first visible changes in the approach to policymaking based on new modes of coordination and the initial mastering of the integrated development approach to governance.

This increased awareness and knowledge about the constraints and threats caused by ineffective horizontal cooperation, the contribution of effective partnerships have at all levels, the systematic imposition of policy evaluation, the growing knowledge on the integrated sustainable (urban) development approach and other new concepts all confirm the relevance of what has been achieved so far. This is particularly so from point of view of the paradigm shift which can be seen – from a hierarchical, legalistic and centralised but ineffective planning to more inclusive, accountable and network model of coordination (Antonopoulos and Bachtler, 2014).

Based on the evidence presented, preparations for cohesion policy and the management of EU funds have provided an important push that has shifted and improved methods used in shaping Croatia's regional policy. From the point of view of the wide cross-sectoral nature of EU funds as well as the expected development impacts in the current multi-annual financial framework, the effects of preparing for cohesion policy can be observed in fostering visible change in both Croatia's regional policy as well as its overall management of public policies.

Keeping in mind cohesion policy's enormous financial impact and the rules and regulations that follow its implementation, for Croatia, cohesion policy represents a very powerful instrument for adapting national policies and practices to those of the EU. The outcome of this relationship is a national system for managing EU funds and a range of related sectoral policies that now undergo continuous adaptation and capacity building processes in order to meet the current standards. The quality of the adaptation process is primarily determined by the quality of governance in all sectors related to the use of EU funds. This is exactly where the main problem lies and where the answer to the question about the reasons for the slow absorption of the EU funds can be found.

This does not mean that the learning process, more specifically the improvement of institutional capacity for the effective management of EU funds, is not taking place. On the contrary, the administration is doubtlessly improving its capacity. However, the process of institution building is slow and puts constant stress on the Croatian administration for possibly being responsible for losing a part of the allocated funds. In such circumstances, the work on the quality of project preparation, their strategic relevance and contribution to policy objectives is often put aside and the only focus is on the quantity, i.e. on ensuring sufficient quantity of prepared projects which will absorb all available funds. While this is understandable on one hand, in such circumstances it becomes questionable as to how much the nation's development will actually gain from EU

funding in the long run, particularly when it comes to the application of the new concepts such as the smart specialization approach or integrated territorial investments.

A desirable policy mix includes different but interconnected policy areas, followed by well-organized policy coordination. It also concentrates on strategic development priorities; this is still missing – particularly in areas of business development, employment, research and development, education, transport and environment. It remains to be seen whether, and to what extent Development Strategy 2030, the elaboration of the overarching strategic document on the central government level, will reflect the readiness of key policymakers, stakeholders and experts to concentrate on key areas most relevant to Croatia's competitiveness and development specialisation.

Finally, it remains to be seen to what extent participation in cohesion policy will contribute to alleviating one of the most pressing problems facing Croatia's regional development - the reduction of significant differences across regions and persistent population decline, both serious, long-term problems particularly inherent to Croatia's less developed and remote regions.

Recommendations for Croatia

It is possible to provide several main recommendations for Croatia's policy makers based on the circumstances, main constraints and challenges Croatian policy makers are facing as discussed in this paper. All the recommendations are related to the need for achieving optimal impacts on Croatia's continued participation in cohesion policy. The recommendations are as follows:

- Despite relatively satisfactory use of pre-accession funds aimed at raising administrative capacity, the absorption capacity for using and managing ESI funds is still a pressing problem. Croatian authorities will have to continue to invest resources in developing their absorption capacity, removing key investment bottlenecks and ensuring that available allocations from ESIF are used in the most efficient and effective way. Procedures will also have to be considerably sped up. Consideration also needs to be given to the simplification of national rules and procedures, in accordance with recommendations given by the Council of Europe (EC, 2018).
- The focus of key actors on all levels should be on achieving results, i.e. the desired developmental change, particularly in the least developed counties and local municipalities and cities.
- Statistical systems, result indicators and thorough monitoring and evaluation practices must be developed to form the basis for continuous improvement in regional and other development policies.
- Along with improving inter-sectoral cooperation, more attention needs to be paid to achieving the complementarity / synergy of related measures being implemented in different sectors, thus ensuring the desirable maximization of inter-sectoral impact.

- Programming is more successful if accompanied by crucially necessary structural reforms, particularly in the areas of judiciary, health and public administration.
- On the central government level, horizontal barriers for infrastructure investments, including the resolution of legal and property rights, must be resolved.
- Sound management of regional policy requires setting much longer-term development objectives, since the still-prevalent considerations of the period up to 2020 are already futile if they do not include thorough considerations beyond 2020, but also post-2027. A much longer perspective comes to the forefront when considering topics related to climate change, energy efficiency, research and development. Elaboration of the National Development Strategy 2030 will require improved concentration on strategic country-specific funding priorities.
- Strengthening the coordination at lower government levels, as well as further capacity building related to strategic planning are still necessary. This is also the case with absorption capacity as well as knowledge related to the preparation and implementation of complex and major projects.
- Based on initial best practice Croatian examples, innovative, integrated, more inclusive transparent approaches and new, participatory models of governance need to be introduced in smaller and less developed local municipalities and cities.
- The initial positive results from promoting joint cooperation among local governments in development projects of mutual interest need to be further supported. Policymakers at the local and regional levels would benefit immensely from sharing experiences and best practices on the basis of the wealth of experience already existing in the country.
- The sustainability of the results of finalised projects must be given far more importance at a much earlier stage in the project cycle.
- Efforts need to be devoted to making most of ESI funds and instruments for alleviating one of the most pressing problems facing Croatia's regional development – long-term population decline, including the emigration of young people from the least developed areas.
- Steps need to be taken to ensure that qualified staff, particularly at the middle management level, are retained in government institutions dealing with ESI funds and that the most knowledgeable and experienced staff are employed in institutions engaged in project preparation and implementation at all levels.

- Despite visible achievements, continuing to raise the capacity for project preparation and implementation is particularly important at the local and regional levels. Along with the relevant ministries and public agencies directly engaged in EU fund management at the central level, there is plenty of room to intensively engage others through targeted training and support from associations of cities, municipalities and counties and regional development agencies.
- Notwithstanding noteworthy achievements in introducing a participatory approach including key actors at all levels, policy debates that include key stakeholders, the research community, relevant public actors and civil society are still missing and need to be introduced on a regular basis as tools for continuously improving Croatia's public policies, national regional policy in particular.

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