EU-Croatia Joint Consultative Committee

EU- Hrvatska Zajednički Savjetodavni Odbor

EU-Croatia Joint Consultative Committee
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Report on EU Regional Policy

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Note: Some of the information included in this report, particularly general information on EU regional policy, comes from documents published by the European Commission.

1. Purpose and objectives

EU regional policy is an investment policy. It supports job creation, competitiveness, economic growth, improved quality of life and sustainable development.

Regional policy aims to reduce the significant economic, social and geographical disparities that still exist between Europe's regions. Leaving these disparities in place would undermine some of the cornerstones of the EU, including its large single market and its currency, the euro.

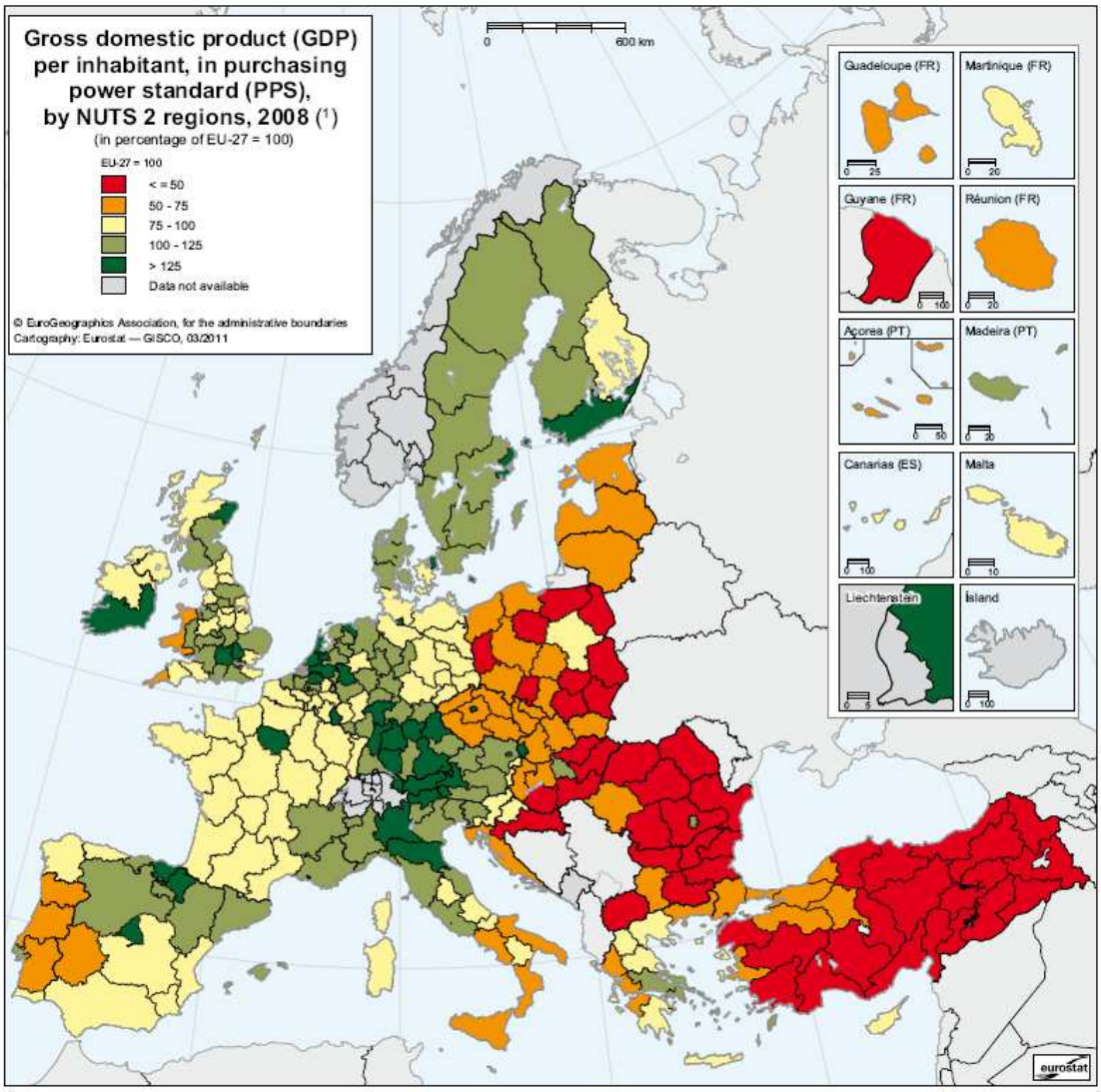
The funding helps, for example, to improve transport and internet links to remote regions, boost small and medium-sized enterprises in disadvantaged areas, invest in a cleaner environment and improve education and skills. EU funding is also invested in innovation, developing new products and production methods, energy efficiency and tackling climate change.

There are three main objectives:

- the **Convergence** objective concerns regions with low levels of GDP and employment, where per capita GDP is less than 75% of the EU average. It applies to 99 regions, representing approximately 35% of the population of EU-27. The type of projects funded include improving basic infrastructure, helping businesses, water and waste treatment, high-speed internet connections, training, job creation, etc.;

- the **Regional Competitiveness and Employment** objective is applicable to the rest of the EU, that is to 168 regions, representing almost 65% of the population of EU-27;

- the **European Territorial Cooperation** objective aims to facilitate cross-border, transnational and/or inter-regional cooperation between regional and local authorities. The population living in cross-border areas amounts to 181.7 million (37.5% of the total EU population).



(1) Turkey, 2006.

Source: European Commission, DG Regio

2. Available funds

The **Cohesion Fund** contributes to measures in the field of the environment and trans-European transport networks. It applies to Member States with a Gross National Income (GNI) of less than 90% of the Community average, which means it covers the new Member States (which joined the EU on 1 May 2004) as well as Greece and Portugal. Spain is eligible for the Cohesion Fund on a transitional basis.

The **European Regional Development Fund** (ERDF) finances infrastructure mainly in the least-developed regions, local development projects, support for economic change and competitiveness and aid for territorial co-operation within the EU. Priorities are given to research, innovation, environmental conservation, and risk prevention.

The **European Social Fund** (ESF) sets out to improve employment and job opportunities in the European Union. It is used in the framework of the Convergence and Regional Competitiveness and Employment objectives.

Funds and objectives:

Objectives	Structural Funds and instruments		
Convergence	ERDF	ESF	Cohesion Fund
Regional Competitiveness and Employment	ERDF	ESF	
European Territorial Cooperation	ERDF		

Source: European Commission, DG Regio

The ERDF and the ESF are together known as the **European Structural Funds**.

The funds are allocated to the member countries over seven years (2007-13) on the basis of a series of criteria: *eligible population*, *national wealth*, *regional wealth* and *unemployment rate*. Each country decides how to divide up the resources among its regions.

Especially important for new EU Member States is the Joint Assistance to Support Projects in European Regions (JASPERS). This is a technical assistance facility for the twelve EU countries which joined the EU in 2004 and 2007. It provides the Member States concerned with the support they need to prepare high-quality major projects, which will be co-financed by EU funds.

3. Budget

3.1 Current EU members

Funding for regional and cohesion policy in 2007-13 amounts to EUR 347 bn (35.7% of the total EU budget for that period).

Budget by fund	
European Regional Development Fund	€201bn
European Social Fund	€76bn
Cohesion Fund	€70bn

Budget by objective	
Convergence	€283bn
Regional Competitiveness and Employment	€55bn
European Territorial Cooperation	€9bn

3.2 **Croatia**

A) Before accession

EU financial assistance in the field of regional policy is channelled through the Instrument for Pre-Accession Assistance (IPA)

	2007-2011	**2012**	**2013 (1st half)**
Cross-border cooperation	71 782 815	16 442 542	9 749 192
Regional development*	257 350 000	57 578 127	31 000 000

* Human resources component (ESF-related) not included

B) From 1 July to 31 December 2013

Million €, current prices	2013
Structural Funds (ESF + ERDF)	299.6
Cohesion Fund	149.8

Zagreb will be under the Convergence objective

C) 2014-2020

For the next programming period, discussions are still ongoing on the Financial Perspective and the new regulations. The final amount for Croatia will also depend on whether the Zagreb region retains Convergence status, that is if its per capita GDP is below 75% of the EU average, or whether it becomes a Competitiveness region, which depends also on whether the current data on geographical limitations remains the same.

4. **How is it done?**

4.1 **Who does what?**

The Commission is responsible for the common regulatory framework, defines guidelines, decides on programmes, coordinates and evaluates policy at EU level, and controls budgetary execution.

The Member States and regions implement the multi-annual programmes, take care of co-financing provisions, set up regional partnerships through monitoring committees and select and monitor individual projects.

4.2 **Principles**

A) Concentration

- Concentration of resources**:** for 2007-13 81.9% are concentrated on the poorest regions and countries.
- Concentration of effort: for 2007-13, the focus is on the knowledge economy.

– Concentration of spending**:** annual funding is allocated to each programme.

B) **Programming.** Cohesion policy does not fund *individual projects.* Instead, it funds multi-annual national programmes aligned with EU objectives and priorities.

C) **Partnership.** Each programme is developed through a collective process involving authorities at European, regional and local level, social partners and organisations from civil society.

D) **Additionality.** Financing from the European Structural Funds may not replace national spending by a member country.

E) **Co-financing.** All regional policy programmes are co-financed by the member countries. The EU contribution ceilings are:

– maximum 50% for the most developed regions,
– maximum 85% for the less developed regions,
– maximum 85% for the Cohesion Fund.

4.3 Who can apply?

There is a huge range of potential recipients: businesses, including SMEs, public bodies, associations, voluntary groups. Lists of beneficiaries are made public.

5. The future regional policy

The whole EU budget for 2014-2020 is the subject of ongoing negotiations and discussions. The Commission has brought forward a proposal, which is described below.

5.1 Budget

Proposed budget 2014-2020	Billion EUR
Less developed regions	16.6
Transition regions	38.9
More developed regions	53.1
Territorial cooperation	11.7
Cohesion fund	68.7
Extra allocation for outermost and sparsely populated regions	0.926
Connecting Europe Facility for transport, energy and Information and Communication Technologies*	EUR 40 billion (with an additional EUR 10 billion ringfenced in the Cohesion Fund)

*New fund

5.2 Categories of regions after 2014

- less developed regions, whose GDP is below 75% of the EU average
- transition regions, whose GDP is between 75% and 90% of the EU-27 average
- more developed regions, whose per capita GDP is above 90% of the average.

5.3 Co-financing

For the new category of transition regions the maximum co-financing rate will be 60% from the EU. The other ceilings for co-financing rates remain unchanged.

5.4 Concentration on Europe 2020

Minimum allocations are fixed for a number of priority areas. For example, in more developed and transition regions, at least 80% of ERDF resources at national level will be allocated to energy efficiency and renewables, innovation and boosting the competitiveness of small and medium-sized enterprises (SMEs). This amount will be 50% in less developed regions.

5.5 Partnership Contract

The Partnership Contract will be an agreement between the Commission and the Member States regarding the use of funds and performance.

5.6 Community-led local development – cohesion policy 2014-2020

The **local action groups** should be made up of representatives of local public and private socio-economic interests, such as entrepreneurs and their associations, local authorities, neighbourhood or rural associations, groups of citizens (such as minorities, senior citizens, women/men, youth, entrepreneurs, etc.), community and voluntary organisations, etc.

The **local development strategies** need to be coherent with the relevant programmes of the CSF funds through which they are supported.

The **area and population coverage** of a given local strategy should be coherent, targeted and offer sufficient critical mass for its effective implementation.

A single methodology for CLLD will be applicable across all funds and regions – enabling all regions to benefit from EU support for capacity-building, local public-private partnerships and their strategies, networking and exchange of experience;

Support from the CSF will be consistent and coordinated

Lead fund: In the case of multi-fund strategies, there will be the option of financing the running costs and organisation of the local development strategy through a single fund.

5.7 **The EESC's opinion**

The EESC strongly believes that a partnership which involves all partners and stakeholders in the preparation, execution and *ex-post* evaluation of projects undertaken in the framework of EU cohesion policy contributes directly to its success.

The EESC acknowledges the Commission's efforts to simplify procedures but considers these to be insufficient. Too much complexity remains. By placing excessive emphasis on auditing and procedures, both national and European authorities continue to stifle access to EU funding for SMEs and NGOs. Bureaucracy needs to be reduced.

Although the EESC welcomes the Commission's proposals for thematic concentration as a means of effort, it nevertheless recommends showing greater flexibility, largely to make the territorial approach easier to apply and, thus, to improve the effectiveness of the policy.

As a consequence of the crisis, scarcity of both public and private resources may result in difficulties in providing the necessary co-financing for measures which are essential to make the desired changes happen. The EESC considers that a flexible, responsible approach with regard to co-financing rates and conditionality clauses would improve the chances of the measures financed by the funds having lasting impact.

The ERDF can have considerable impact on the achievement of both convergence objectives and Europe-wide objectives in the area of competitiveness. Given that the level of resources cannot be increased in any significant way, the EESC believes there is further potential in defining clearer objectives and ensuring that the proposed investment priorities are more precisely linked to the objectives. As the territorial approach lends itself to defining more precise objectives, the EESC's view is that more emphasis is to be placed on Europe-wide, region-based strategies, such as existing or future macro-regional strategies, as references for area-specific objectives.

The EESC has often stated that, given the concentration of resources, there is a need to provide resources and distinct legal frameworks to bolster transnational cooperation and thus strengthen links within Europe. The EESC further proposes that the Commission consider widening the scope of possible measures undertaken by the Connecting Europe Facility by opening it up so that it can co-finance projects of Special European Interest in addition to transport and communication projects. Finally, the EESC recommends introducing mechanisms that ensure that financed projects do serve the interest of better economic, social and territorial cohesion in Europe.

6. **What is the role of civil society organisations?**

The participation of civil society organisations in programming, management monitoring and auditing of EU funds:

- strengthens democracy and a consensual policy culture; enhances transparency and helps to overcome mismanagement and corruption; supports the limited administrative capacity of public administrations in this area;
- ensures more effective use of restricted public sources, results in quality enhancement of supported projects and in better take-up of funds;
- supplies independent expertise and helps to implement and improve conditions which should be taken into account: environmental protection, gender balance, social networks, needs of people with disabilities, way of life;
- is conductive to real decentralisation of EU funds; strengthens the feeling of public ownership of supported projects and the legitimacy of EU cohesion policy.

Partners have their point of view on the use of the funds in general.

It is necessary to think about these conditions in the programming, monitoring and evaluation process:

a) building the capacity of the social-economy partners for these roles in the process (available funding – technical assistance, etc.);
b) genuine involvement of CSO representatives in the process (in-time information, their alternative suggestions could be taken on board, participation in each phase, etc.);
c) proportionality of the established bodies (1/3 public administration, 1/3 social partners, 1/3 NGOS) at all levels of decision-making.

6.1 Bottlenecks in organised civil society involvement in preparation, monitoring and implementation of programme documentation

Restricted capacities of non-profit organisations and social partners represent the biggest problem. Improved cooperation and development of partnership structures cannot be expected until these sectors have equal access to the pre-requisites for preparation, monitoring and implementation processes. These organisations should be confident, equal partners of the public administrations. It is essential for the subsequent development and consolidation of the partnership.

Civil society organisations need to educate their experts and managers, make use of consultants and bring information technologies to bear in order to communicate effectively and to achieve faster cooperation when drafting, discussing or commenting on documents. Last but not least, they need equal access to the technical assistance available for this purpose.

According to a recent study undertaken by the SFteam for Sustainable Future, almost all of those interviewed believed that the major obstacle to successful civil advocacy was that civil society organisations have low financial and staffing capacity. A further key factor was the competence of the delegated representatives. Governments also agree with this. It means that the selection needs to be made with greater care. Although no political corruption was encountered, many of the civil delegates in the study mention the low political support for partnerships as a reason for this situation. The lack of lobbying power and negotiating ability among civil society delegates was also mentioned by the governments.

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Organised civil society could take on more roles. One of them is role of **final beneficiaries**. In this role there are several key conditions, which have to be pre-negotiated:

a) possible pre-financing for CSOs' projects;
b) a minimum of co-financing (no own resources);
c) project management and fundraising training for this sector;
d) help desks available free of charge;
e) partnership projects with the public sector.

For many of the Croatian organisations the implementation of European projects and the European Social Fund will be their first professional experience. Some of them have learned professional management and teamwork from the pre-accession funds; they have introduced new procedures and developed their activity.

6.2 Bottlenecks during implementation of projects

Interim payments, final payment and cash-flow problems

Ex-post payment of all costs after completing the project or after completing a project phase is always a big problem for NGOs and other small applicants (SMEs, schools, small cities etc.). With regard to low capital capacity they are not able to cover these shifts in cash-flow. Moreover, these end beneficiaries are not even able to obtain cash, credit or access to a current account from a bank or national or local authority.

This is how it works: project beneficiaries indeed submit monitoring reports every three months (which enormously increases their workload) but payments come with a great delay: six or 12 months. This is caused by overestimation of managing authorities' capacity to process monitoring reports and payment orders. Some organisations have found it so inconvenient that they do not make use of European funds even in areas where they are experienced and where it would be most appropriate. These problems have restricted NGOs' access to financial assistance from Structural Funds. Even though the requirements for civil society organisations to be able to obtain co-financing for the projects are very low, most civil society organisations do not generally have their own resources.

Moreover, delayed payments could be a significant part of the overall problem of low take-up of the European Social Fund.

Bureaucracy and administration

Civil society organisations in the EU criticise the rampant bureaucracy involved in using the grants under operational programmes, in particular:

- the complexity and formality of rules on use of the grants;

- the fact that rules are stricter than usual (in comparison with grant systems established in "old" EU countries or, in particular, European Commission directorates-general);
- EU financing rules change too often;
- dissemination of methodology and criteria;
- the fact that programme officers and their public representatives are not subject to penalties for mistakes.

This is why some citizens' organizations find European resources non-transparent and point to conflicts of interest in operational programmes: there are institutions, which both manage and use the funds (for example, regional governments in some countries).

Durability of results

Sustainability of results of completed, successful projects is another problem. This problem applies more to civil society in countries where at least one programming period has already passed.

Technical assistance

Civil society organisations criticise the fact that the technical assistance section does not help partners to understand the programming process, nor does it help them to take an active part in the drafting of programme documentation or monitoring and evaluation.

Usually, the technical assistance budget is centralised and belongs to a national authority – the part of the Structural Funds which is dedicated to information and communication could be used more effectively and expediently for training of the potential applicants (providing detailed information, consultation concerning the applications, etc.), research or needs analysis than for advertising successful projects.

Support for project applicants and beneficiaries in the form of individual consultations and guidance is needed. When developing European projects, the group of partners has to overcome specific problems such as cash-flow, pre-financing, multi-source financing, constant uncertainties regarding use of the "*de minimis*" rules for organised civil society community projects, or lack of sufficiently high-level middle managers.

Social economy projects

Social firms are a new model of education for disadvantaged people on the labour market. They are a type of social company. Over 50% of a social company’s income must be from the sale of its own products and services. Twenty-five percent of its employees must be disadvantaged, socially or because of a disability, and it provides its employees with proper support in their work, as well as psychosocial support.

The great challenge and opportunity of social businesses' projects is cooperation with the community and the district where the social firms are established. Another challenge and opportunity is obtaining new customers and partners from the private sector – for example, increasing the concept of public responsibility in the private sector through the development of ethical approaches to business and trading.

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