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IPA Cross-border Co-operation Programme



DUNICOP

Aspects of local and regional development

**Tímea Drinóczi, Jelena Legčević
(eds.)**

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2013

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Foreword

The collection of papers ‘Aspects of local and regional development’ is the result of a successful cooperation between the Faculty of Law at the University of Osijek and the Faculty of Law, University of Pécs within the project DUNICOP (Deepening UNiversity Cooperation Osijek-Pécs) approved as part of the IPA cross-border cooperation Croatia-Hungary. The collection presents the research results of Croatian and Hungarian PhD students who are trying to create a common research space, which was one of the main project goals. The scientific results were presented at an international interdisciplinary conference which was held on the 4th and 5th of October at the Faculty of Law in Osijek. With its content the collection encompasses a wide range of current topics from the regional development and environment protection fields and the number and quality of doctoral theses are worth attention and are of crucial importance for the development of the European Higher Education Area.

With the Lisbon Declaration the European Union has set the goal of becoming the most competitive and dynamic economy based on knowledge. The promotion of a society of knowledge which strives to learn is only worth as much as that knowledge and learning is aimed at the critical observation of existing circumstances and the recognition of what is to come. Everything that was achieved is treated as potentially out of date. That is the reason why the search for improvement always continues and achieves results. It is why knowledge has to be ever more comprehensive, complex, complete and encouraging for the critical examination of the existing reality and the introduction of those components that will enrich a better future.

An international cooperation of this kind can help PhD students to acquire knowledge and competence by conducting scientific research but also this kind of cross-border cooperation can prepare doctoral students for the new challenges of society and the economy, and the new challenges in the development of their scientific or professional career.

The achieved results, including this collection of papers, are encouraging and represent an excellent basis for our European path of promoting and confirming future scientific undertakings.

Prof.dr.sc. Željko Turkalj
Rector of the Josip Juraj Strossmayer University of Osijek

Osijek, 18 November 2013

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Preface

International doctorate conference entitled ‘Aspects of local and regional development’ is organized for doctoral students by the Faculty of Law, J.J. Strossmayer University of Osijek with the Faculty of Law, University of Pécs and held in Osijek on the 4-5 October 2013. The Conference is one of the events of the DUNICOP project (**D**eepening **U**NIversity **C**ooperation **O**sijek - **P**écs project; HUHR/1101/2.2.1/005). DUNICOP is a one-year long common research and curriculum development project between the Universities of Pécs and Osijek in the field of law. The project is co-financed and supported by the European Union through the Hungary-Croatia IPA Cross-border Co-operation Program and by the two participating law faculties. The DUNICOP project is operated in various inter-related areas and through various activities and is regarded as a successful continuation of previous EUNICOP and SUNICOP projects. Among the activities one can find joint regional research, focusing on the field of regional development and environmental protection, enhancing cooperative teaching activity and curriculum development, exchanging good practices in tendering and project management as well as quality assurance, and promotion of joint results.

The conference ‘Aspects of local and regional development’ is a new activity of the co-operation between the faculties and it offers for the first time a possibility for doctoral students to share their own individual research results and participate in an international conference. To attract the widest possible audience who can benefit from the research results, the conference papers are collected and published in an edited volume. The Faculty of Law, J.J. Strossmayer University of Osijek is much privileged to host the conference.

the editors

Osijek – Pécs, 11 November, 2013

Zsuzsanna Horváth*

Principles and priorities of the Seventh Environmental Action Programme of the European Union

I. Environmental Action Programmes of the European Union

The environmental policy of the European Union – formerly the European Community – has been guided by environmental action programmes since its inception, the early 1970s. The First EAP was adopted in 1973, when the European Community has not formal competence in environmental protection issues, since the EC Treaty had not even mentioned environmental protection within its policies. This absence in the Treaty continued until 1987 when the Single European Act introduced a new Title on the Environment establishing a constitutional competence for the Community in environmental policy, and a legal basis for environmental legislation. However, the environmental action programme as such was not mentioned in the text of the Treaty until the Maastricht amendments, which acknowledged the general action programmes setting out priority objectives, and indicated the legislative procedure for their adoption. Therefore, the First to Five environmental action programmes were adopted by the Council and by the representatives of the Governments of the Member States meeting within the Council, which signs the original absence of formal competence. The form of the adopting measures was also special: the First EAP was adopted as a Declaration, the Second to Fifth as Resolutions, which are the so-called *soft law* instruments without genuine binding force. Since the Maastricht Treaty amendments environmental action programmes have to be adopted by the European Parliament and the Council of Ministers acting in accordance with the ordinary legislative procedure (i.e. co-decision), in the form of binding decision.¹ This change shows the growing importance of environmental action programmes and the stronger (legal) obligations of the European

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¹ Article 192(3) of the Treaty on the Functioning of the European Union.

institutions to implement their tasks (i.e. to initiate and adopt legislation in a given field) stemming from the action programmes.

*The First EAP (1973)*² defined for the first time the objectives and basic principles of the Community environmental policy; furthermore, by describing the actions and projects in different sectors of the environment at Community level for the following years, delineated the areas of Community policy in environmental protection. The objectives and the then defined 11 principles are still valid; later they were further strengthened and extended; the most important ones were introduced to the environmental title of the Treaty. The First EAP described projects and actions to reduce water and air pollution and wastes, to protect natural environment, urban areas and working conditions. It contained actions in the field of economic instruments, research projects, provision of information, raising awareness and education to develop and improve the environment. The programme underlined that Community activities in different sectors – such as in agricultural, industrial, energy, regional, social, etc. policies – must take account of the protection and improvement of the environment in the elaboration and implementation of these policies.

The following environmental action programmes were the continuation and extension of the first and consequent action programmes; they reaffirmed the objectives and principles of the EU environmental policy, introduced new ones and broadened the scope of the EU environmental actions.

*The Second EAP (1977)*³ emphasized that due to the economic expansion natural resources were limited reducing further production possibilities, therefore it called for particular attention to non-damaging use and rational management of land, the environment and natural resources and for a comprehensive waste management policy. The programme stated that economic development could not be made at the expense of the environment, and emphasized the importance of

² Declaration of the Council of the European Communities and of the representatives of the Governments of the Member States meeting in the Council of 22 November, 1973 *on the programme of action of the European Communities on the environment* (The First Action Programme), OJ C 112, 20.12.73.

³ Resolution on the Second Environmental Action Programme, OJ C 139, 13.6.77.

prevention and the evaluation of environmental effects of Community and national actions.

The Third EAP (1982)⁴ required the further strengthening of the preventive side of the environmental policy, and requested to integrate concern for the environment into the planning and development of certain economic activities as much as possible, thus making environmental policy a part of economic and social development. The five areas as candidates for such integration were agriculture (including forestry and fisheries), energy, industry, transport and tourism. The programme paid attention to regional aspects and the contribution of environmental policy to the competitiveness of the Community's economy. It pointed out the necessary choice of the appropriate level of environmental action – local, regional, national, Community or international – which is the precursor of the subsidiarity principle introduced later, by the Maastricht Treaty.

The Fourth EAP (1987)⁵ adopted parallel with the coming into force of the Single European Act, signaled a new stage in the development of EU environmental policy which then gained a constitutional base in the Treaty. With its central role among EU policies, environmental protection needs to be taken into account as a fundamental factor when economic decisions are taken. The Treaty development entailed that there was no need to justify Community environmental legislation solely by economic reasons, but the environment could be protected as such. The new role of the policy was to contribute to the achievement of the internal market, and to reach the high level of environmental protection. The programme considered the more effective implementation of the Community environmental legislation by all Member States as a matter of priority. The programme explained the beneficial economic and employment aspects of environmental policies and actions, and called for an improvement in the use of economic instruments. Initiatives were made in new fields, such as the risk assessment of and stricter control on the use of chemicals, biotechnology and nuclear safety.

⁴ Resolution on the Third Environmental Action Programme, OJ C 46, 17.2.83.

⁵ Resolution on the Fourth Environmental Action Programme, OJ C 328, 7.12.87.

The Fifth EAP titled 'Towards Sustainability' (1993)⁶ also signaled a new phase in the development of the Community environment policy; it was adopted after the coming into force of the Maastricht Treaty establishing the European Union. The aims of the EU were to develop an economic and monetary union, to extend the integration to various new fields, to strengthen the political integration, to enlarge the Union by Northern and Central-Eastern European Countries. During the preparation of the programme, in 1992 the United Nations Conference on Environment and Development in Rio de Janeiro adopted a Declaration and Agenda 21 which were signed by the Community as well as its Member States. Important conventions on climate change and biodiversity were opened for signature. These events were new challenges to be met by the Community and its environmental policy. The Fifth EAP referred to the new principles defined by the Rio Declaration; the most important is the concept of sustainable development, precautionary action and shared responsibility; these were the basis for the new programme. Thus, the programme was the implementation of the Agenda 21, a sustainability strategy at Community level. Since the forms of activity and development were not sustainable, it required significant changes in almost all major policy areas including new patterns of production, consumption and behavior. For it, the programme called for the accelerated integration of environmental requirements into the definition and implementation of other Union policies, particularly in selected target sectors: manufacturing industry, energy, transport, agriculture and tourism. Priorities were, inter alia, climate change, acidification and air quality, protection of nature and biodiversity, management of water resources, the urban environment and waste management. Utilization of a broader mix of instruments, legislative, regulatory measures and market based ones as well as the more effective implementation and enforcement of the Community environmental policy and law were emphasized. The 1998 decision for the revision of the programme, while reinforcing former priorities, called for a more effective implementation and faced new challenges; these were posed to its environmental policy by the future enlargement of the EU with new Northern and Central-Eastern

⁶ Resolution on the Fifth Environmental Action Programme, OJ C 138, 17.5.93.

European states: i.e. higher level of health, safety and environmental protection on the one hand, and financial and technical support to level up the protection on the other.

The Sixth EAP titled 'Environment 2010: Our Future, Our Choice' (2002)⁷ was adopted for a ten years long period ending in July 2012. The Sixth EAP intended to form a basis for the environmental dimension of the EU Sustainable Development Strategy and to contribute to the EU environmental integration strategy. More emphasis was put on other principles, such as: a high level of protection, subsidiarity, decoupling environmental impacts and degradation from economic growth, precaution and prevention. The strategic approach was to apply a whole range of instruments and measures, i.e. regulatory and market-based ones. The key four priority areas of the Sixth EAP were: climate change, nature and biodiversity, environment and health and quality of life, natural resources and wastes. For each it set objectives, targets and described necessary actions: e.g. to reduce greenhouse gas emissions by 8% by 2012 compared with 1990 levels; to improve energy efficiency, to reduce emissions in transport, industry, agriculture, heating and in other sectors, to establish an emissions trading scheme. In the area of nature and biodiversity the main objective was to halt biodiversity decline, conservation of marine environment and wetlands, conservation of species and habitats, sustainable use of soil, extension of Nature 2000 networks, encouraging more environmentally responsible farming and fisheries, sustainable management of forests, development of provisions and methods on the control of GMO-s. To improve health protection the programme required an accelerated risk assessment, management and authorization of chemicals, the application of the principle of substitution of dangerous chemicals by safer ones and minimization of the hazards and risks to health and environment. For the sustainable use of natural resources the programme set the aim to ensure that the consumption of resources do not exceed the carrying capacity of the environment, and to break the linkages between economic growth and resource use. To achieve a significant reduction in volumes of waste, the programme required a shift towards more sustainable production

⁷ European Parliament and Council Decision No 1600/2002 EC *laying down the Sixth Community Environment Action Programme*, OJ No L 242, 10 September 2002.

and consumption patterns inter alia through the EU Integrated Product Policy (IPP) and strategy for waste management. The Sixth EAP introduced a new concept of producer responsibility, which in waste management means that the producer is responsible for ensuring that end-of-life products are collected, treated and recycled with minimum risks and impacts on the environment. Adoption of various thematic strategies as sector-specific environmental (sub) programmes was envisaged in areas of air, soil, urban environment and natural resources protection. The programme intended to continue the Union's active international cooperation in the solution of global environmental problems; furthermore it encouraged the Associated Member States to adopt policies that contribute to sustainable development based on the transposition and implementation of the EU environmental *acquis*. In the 2007 mid-term review of the Sixth EAP the Commission evaluated the progress made so far positively, however it stated that in the four priority areas the EU was not yet on the path of sustainable environmental development. Climate change, biodiversity, health and resource use remained the most pressing environmental challenges.⁸

The Sixth EAP expired in the mid-July 2012. Nearing to this date, in assessing its implementation, the Commission generally stated that the Sixth EAP was successful in providing an overarching framework for the EU environment policy; the large majority actions, like the seven thematic strategies⁹ had been or were in the process of being completed.¹⁰ According to the Commission, the adoption of the sixth environmental action programme by ordinary legislative procedure, i.e. by co-decision of the European Parliament and the Council of (environmental) Ministers has an advantage of seeing it by stakeholders as more legitimate than previous programmes where the Parliament had a weaker role. 'This has helped to create a wider sense of ownership for subsequent policy proposals' and 'helped to defend

⁸ Commission, *Mid-term review of the Sixth Community Environment Action Programme*, COM(2007)225, Brussels, 30.4.2007.

⁹ Thematic strategies were developed on air pollution, sustainable use of pesticides, prevention and recycling of waste, sustainable use of natural resources, soil protection, protection and conservation of marine environment, and on urban environment.

¹⁰ Commission, *Final Assessment of the Sixth Community Environmental Action Programme*, COM(2011)531, Brussels, 31.8.2011, p. 3.

environmental policy against competing policy demands'. However, the Commission warned that there were shortcomings and limitations: this (i.e. inclusion in the EAP) is 'no guarantee that Member States are actually committed to these objectives'.¹¹

Despite considerable achievements, there were shortfalls in priority areas: e.g. biodiversity decline could not be halted by 2010; there was not enough progress in nature, freshwater and soil protection; chemicals still have negative impact on health and on the environment; air and ozone protection remained major concerns in urban areas; there is no sufficient access to water of satisfactory quality. While the waste management was reinforced and the increase in resource use was slower than economic growth, it still did not respect the carrying capacity of the environment in the longer term; although greenhouse gas emissions were reduced generally, and adaptation to climate change emerged, such emissions in the transport sector closely linked to economic growth and certain emissions (HCFC-s) had been increased. Over-exploitation of the marine environment and fisheries, environmental pressures from transport and unsustainable production and consumption still continue to grow. Generally, implementation of EU environmental law shows bad record in most of the Member States – which undermines the achievement of objectives and the credibility of environment policy, partly due to weak environmental governance structure and weaknesses in monitoring and in inspections. There are still subsidies that are environmentally harmful and policy coherence is unsatisfactory. Examining future challenges, the Commission emphasized the importance of prevention principle, which should precede the remediation of environmental damages, and of further integration of environment in all relevant policies, as well as transformation to a green, resource efficient, competitive and low-carbon economy envisaged by the Europe 2020 strategy for smart, sustainable and inclusive economic growth. An ambitious Union environmental policy is seen as an integral part of this strategy.¹²

¹¹ Ibid., p. 12.

¹² Ibid., pp. 10-12.

II. The Seventh Environmental Action Programme (2013)

1. Preparation of the new environmental action programme

Accepting the final assessment of the Sixth EAP, the Council invited the Commission to present its proposal for the new EAP by January 2012. It called also for intensified greening of the EU Financial Framework, *inter alia*, ‘to promote concrete environmental outcomes and the transition to a safe and sustainable low carbon, resource efficient, biodiversity friendly and climate resilient economy’.¹³ In 2011 the Commission started to prepare the new environmental action programme for the EU. In this it could build also on the Council’s earlier call for development of an ambitious new programme clearly identifying priorities and objectives, furthermore, realistic and achievable targets and timetables for 2020. The Council emphasized, *inter alia*, the necessity of an improved coherence among policies through a better and more meaningful integration of the environment into agricultural, fisheries, transport energy, industry trade, development and research policies; a shift towards a green economy; focus on climate change, biodiversity and sustainable use of resources; the urban environment; and improvement of quality of life and human health through environment policy. The Council urged the Commission and the Member States to enhance and improve the implementation and enforcement of EU environmental legislation and a harmonization and further improvement of existing rules on environmental inspections, as well as the role of science and eco-innovation in the development of a green economy.¹⁴

The Commission organized a wide public consultation¹⁵ on the EU environment priority objectives and tools. The Commission states

¹³ Council Conclusions 15384/11, *Assessment of the Sixth Community Environment Action Programme and the way forward: Towards a 7th EU Environment Action Programme*, Brussels, 11 October 2011, p. 5.

¹⁴ Council Conclusions on *Improving Environmental Policy Instruments*, Environment Council meeting, Brussels, 20 December 2010, Doc. 5302/11, Brussels, 17 January 2011, pp. 3, 5-6.

¹⁵ The consultation period lasted between 12 March and 1 June 2012, aimed at collecting views from various stakeholders at EU and national levels, including national authorities, industrial firms and associations, NGOs and interested

that the new environmental action programme should be a ‘strategic document’ providing an ‘overarching framework’ for the EU initiatives which secures broad commitment from Member States and other actors to the priority objectives to be attained, as Article 192(3) of the Treaty on the Functioning of the European Union provides for.¹⁶ The consultation document emphasizes the necessity of improving the implementation of environmental policy and law; further integration of climate and environment into other EU policies and strengthening policy coherence; enhancing the use of scientific knowledge and information in policy and practice, and the application of precautionary approach. Examining complex challenges the world and the EU must face, it lists the EU strategies and initiatives on which the new action programme should be built, e.g. on a resource efficient and competitive low carbon economy to 2050; biodiversity strategy to 2020; climate and energy package with targets to 2020; furthermore, the new strategies in preparation, e.g. on safeguarding Europe’s waters; adaptation strategy to climate change and a comprehensive review of air quality legislation. The document emphasizes the heavy dependence of Europe on resource import and the need for building a circular economy by giving much higher priority to waste strategies, prevention, re-use and recycling and energy efficiency. Priority should be given to improvement of health through a better environment which was a highlighted priority objective of the former action programme as well, however, implementation gaps were the main reason for the failure to adequately address water and air quality problems. Improvement of quality of life for inhabitants of urban areas facing with air, noise, water and waste problems should also be an eminent priority objective. The consultation document notes the bad record in the implementation of EU environmental legislation with statistical data on costs of non-implementing and on additional industry turnover and job creation that could be reached via full implementation e.g. of waste legislation.¹⁷ Therefore, the new programme should set as

individuals; some 300 responses arrived.

¹⁶ Commission, Consultation document, *EU environment policy priorities for 2020: Towards the seventh EU Environment Action Programme* (hereinafter Commission, Consultation document), p. 1, available at http://ec.europa.eu/environment/consultations/pdf/7EAP_Consultation_document_FINAL.pdf (10.12.2013).

¹⁷ The cost of non-implementation is approx €50 billion/year in the EU; full

a priority the improvement of knowledge (!) for all key EU obligations and of inspection and surveillance regimes in the Member States, as well as improving access to justice in all areas of environmental law; furthermore fostering partnership in the form of implementation agreements.¹⁸

In 2012 the Council in its conclusions on the framework for the new EAP set the vision for 2050 and objectives for 2020. It emphasized again, the necessary establishment of a green Europe to safeguard the environment and health for present and future generations. The document underlined, *inter alia*, that better implementation, enforcement, monitoring and strengthening of environmental policy and legislation should be the integral part of the Seventh EAP, and again, it listed the means and principles for the transition to a circular green economy through, *inter alia*, better integration of environment including the value of biodiversity and natural resources into other policies and more sustainable production and consumption patterns.¹⁹

In its 2012 Resolution the European Parliament expressed its views on priorities of the new environmental action programme and invited the Commission to set concrete targets for 2020, especially in the areas of climate change and energy efficiency; sustainable use of resources to reduce the ecological footprint by 50% within the next 20 years; resource efficiency; biodiversity and forestry; and in other policies such as transport, agriculture, fisheries cohesion and so on.²⁰

The Commission submitted its proposal for the new EAP to the European Parliament and the Council at the end of 2012 with the title

implementation of EU waste legislation would lead to waste industry turnover of €42 billion. Commission, Consultation document, p. 7.

¹⁸ Commission, Consultation document pp. 7-8.

¹⁹ Council of the European Union, *Conclusions on setting the framework for a Seventh EU Environment Action Programme*, 3173rd Environment Council meeting, Luxembourg, 11 June 2012.

²⁰ The European Parliament's Resolution of 20 April 2012, *Review of the 6th Environment Action Programme and the setting of priorities for the 7th Environment Action Programme – A better environment for a better life* (2011/2194 (INI), especially in points 17, 24, 26, 39, 59, available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0147&language=EN&ring=A7-2012-0048> (27.11.2013).

‘Living well, within the limits of our planet’.²¹ The title reflects the idea of ‘one planet living’ developed by the WWF, which is a necessary way to reach sustainable development. The core of the concept is that humanity is currently using natural resources up to the equivalent of 1.5 planets to support its activities; high-income countries have a footprint five times greater than that of low-income countries. Humanity is in an ‘ecological overshoot’ situation: it is taking 1.5 years for the Earth to fully regenerate the renewable resources that people are using in a single year. ‘Instead of living off the interest, we are eating into our natural capital’. ‘Unless we change course that number will grow very fast – by 2030, even two planets will not be enough.’²² Therefore, there is an imperative need to change production and consumption patterns, and the way of living to ‘keep the Earth a living planet’.

The Seventh Environmental Action Programme as such is annexed to the Decision of the European Parliament and the Council adopting the programme. The Decision consisting of only 4 Articles is preceded by an extensive Preamble of 38 recitals highlighting the long-term vision, the medium-term targets, the driving strategies of the EU on which the new programme could be based on, the underlying objectives and principles of the programme, the most important future actions and policy instruments to achieve priority objectives and desired outcomes. The Preamble refers, inter alia, to the evaluation of the Sixth EAP; and since many objectives have not been met during the former period, they are transferred to the Seventh EAP. It notes that despite achievements, unsustainable trends still persist, especially in the four priority areas set by the Sixth EAP: notably in climate change, nature and biodiversity, environment and health and quality of life, and natural

²¹ Commission, *Proposal on a General Union Environment Action Programme to 2020 Living well within the limits of our planet* (Seventh EAP), COM(2012)710, Brussels, 29.11.2012.

²² If all of humanity lived like an average resident of Indonesia, only two-thirds of the planet’s biocapacity would be used; if everyone lived like an average Argentinean, humanity would demand more than half an additional planet; and if everyone lived like an average resident of the USA, a total of four Earths would be required to regenerate humanity’s annual demand on nature. WWF *Living Planet Report 2012*, Summary, pp. 1-6, available at http://awsassets.panda.org/downloads/lpr_2012_summary_booklet_final.pdf (18.12.2012).

resources and wastes. Reference is made to the Europe 2020 strategy with its objective to create a smart, sustainable and inclusive economy: the new programme builds on the EU sustainable growth strategy; furthermore, other relevant strategic policy initiatives such as on climate and energy, low carbon economy, biodiversity, resource efficiency, waste, innovation constitutes the basis of the new EAP. The Preamble emphasizes the necessity of full and even implementation of the EU environmental *acquis*, the environmental integration requirement, the regional dimension of the EU environment policy, and that the new programme is a part of the follow up to the Rio+20 Conference on Sustainable Development in its aim to transform the economy into an inclusive green economy with poverty eradication. One of the novelties of the outcome document adopted by the Rio+20 Conference *The future we want* is the promotion of a *green economy* as a tool to achieve sustainable development.²³ The concept is understood as a low-carbon, resource efficient, and socially inclusive economy. ‘In a green economy, growth in income and employment are driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.’²⁴ According to the Commission, the green economy promotes the *right kind* of growth with fundamental changes in conventional model of economic progress. ‘What is needed is an economy that can secure growth and development, while at the same time improving human well-being, providing decent jobs, reducing inequalities, tackling poverty and preserving the natural capital upon which we all depend. Such an economy – a green economy – offers an effective way of promoting sustainable development, eradicating poverty and addressing emerging challenges and outstanding implementation gaps.’²⁵ The Preamble refers

²³ UN Conference on Sustainable Development, Outcome Document, *The future we want*, A/CONF.216/L.1*, Rio de Janeiro, 20-22 June 2012, available at <http://sustainabledevelopment.un.org/futurewewant.html> (18.12.2013).

²⁴ United Nations Environmental Programme (UNEP), 2011, *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication*, p. 16, available at <http://www.unep.org/greeneconomy/GreenEconomyReport/tabid/29846/Default.aspx> (18.12.2013).

²⁵ Commission, *Rio+20: towards the green economy and better governance*, COM (2011) 363, Brussels, 20.6.2011, p. 5.

to the use of an appropriate mix of instruments including economic incentives, market based instruments, information requirements and voluntary measures to complement legislative frameworks.

Article 2 of the decision lists priority objectives, while Article 3 refers to the guiding principles of the EU environmental policy provided for by Article 191(2) TFEU, such as the polluter-pays principle, the precautionary principle and preventive action, and the principle of rectification of pollution at source. The principle of minimization of significant adverse effects on human health and the environment caused by chemicals, which was first mentioned in the Sixth EAP, however, is referred to only in the Preamble. Article 3 is a provision on a common responsibility of the EU and the Member States for the achievement of objectives set out by the programme with due account of subsidiarity, and of public authorities, social partners and civil society.

2. Guiding principles and priorities of the Seventh EAP

The Seventh EAP starts with the following 2050 vision of the EU institutions which is intended to help to guide action up to and beyond 2020: ‘In 2050, we live well, within the planet’s ecological limits. Our prosperity and healthy environment stem from an innovative, circular economy where nothing is wasted and where natural resources are managed sustainably, and biodiversity is protected, valued and restored in ways that enhance our society’s resilience. Our low-carbon growth has long been decoupled from resource use, setting the pace for a safe and sustainable global society.’²⁶

Article 2 of the Decision on the action programme focuses on nine priority objectives which can be divided into three groups:

First: *thematic priority objectives* with the intention to protect, conserve and enhance the Union’s natural capital and strengthen ecological resilience; turn the Union into a boost sustainable, resource-efficient, green and competitive low-carbon economy, and effectively address

²⁶ Decision of the European Parliament and of the Council on a *General Union Environment Action Programme to 2020, Living well, within the limits of our planet*, PE-CONS 64/1/13 REV 1, Strasbourg, 20 November 2013, Annex, p. 1.

and safeguard the Union's citizens from environmental pressures and risks to health and well-being.

Second: *priority objectives which constitute an enabling framework to support thematic objectives*. These are to maximize benefits of Union environment legislation by improving and promoting better implementation of EU environment law, ensure that policies benefit from state of the art science by improving knowledge and evidence base for EU environment policy, secure the necessary investments in support of environment and climate change policy and address environmental externalities, improve environmental integration and policy coherence, the way environmental concerns and requirements are reflected in other policies.

Third: *two other priority objectives reflect the spatial dimension – urban and international* - of the policy; these aim at enhancing the sustainability of EU cities and the urban environment, and improving the EU's effectiveness in addressing international environmental and climate-related challenges. (Regional dimensions of this priority and the need to cooperate with partner countries is referred to in the Preamble.)

III. Principle of environmental integration in the Seventh EAP

The principle of environmental integration has its roots in the international environmental policy: the 1972 Stockholm Declaration²⁷, and the 1992 Rio Declaration listed it among environmental principles. Principle 4 of the latter states that '[i]n order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it'.²⁸ The Johannesburg Declaration on Sustainable Development

²⁷ UNEP, *Stockholm Declaration of the United Nations Conference on the Human Environment*, Principle 13, available at <http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=97&ArticleID=1503&l=en> (18.12.2013).

²⁸ *Rio Declaration on Environment and Development*, and *Agenda 21*, Report of the United Nations Conference on Environment and Development (Annex I) UN Doc A/CONF.151/26 (Vol. I). See 'The Rio Declaration on Environment and Development' and the 'Agenda 21' introduced and commented by Stanley P Johnson, *The Earth Summit, The United Nations Conference on Environment and Development (UNCED)*, London: Graham & Trotman, 1993, pp. 118, 199-210.

stresses the requirement not only of the integration of environmental requirements into other fields, but of the integration among all the three pillars of sustainable development.²⁹ The integration principle is listed as one of the most important guiding principle of international law on sustainable development.³⁰ According to the CISDL commentary on the integration principle, '[s]tates should ensure that social and economic development decisions do not disregard environmental considerations, and not undertake environmental protection without taking into account relevant social and economic implications'. This emphasizes the responsibility of environmental policymakers and regulators as well, so as to duly calculate the impact of environmental decisions on social and economic policies, which is called the 'reverse sustainable development obligation'.³¹

The EU environmental policy is strongly based on the integration principle which is reflected in its environmental action programmes as well as in Treaty provisions. The EU developed its integration strategy, the so-called 'Cardiff Process' in 1998, with the aim to put the integration requirement into practice. The Commission stated that the traditional vertical approach of environmental regulation could only partly solve the problems, and that the integration of environmental considerations into other policies is no longer an option but an obligation. Therefore it called for a new strategy based on horizontal approach providing for guidelines for the EU institutions to properly integrate environmental

²⁹ *Johannesburg Declaration on Sustainable Development and Johannesburg Plan of Implementation*, Johannesburg, 26 August-4 September 2002, available at <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N02/636/93/PDF/N0263693.pdf?OpenElement> (18.12.2013).

³⁰ See, e.g. ILA Resolution 3/2002: *New Delhi Declaration of Principles of International Law Relating to Sustainable Development*, in ILA, 'Report of the Seventieth Conference', New Delhi, 2002, available at <http://www.ila-hq.org/en/committees/index.cfm/cid/25> (18.12.2013); Marie-Claire Cordonier Segger, 'Sustainable Development in International Law', in Hans Christian Bugge & Christina Woigt, ed., *Sustainable development in International and National Law*, (Groningen, Europa Law Publishing 2008) p. 87.

³¹ Centre for International Sustainable Development Law (CISDL), *Brief Commentaries on the ILA Resolution 3/2002*, point 7, available at http://cisdl.org/public/docs/new_delhi_declaration.pdf (18.12.2013).

dimension into other policies.³² The integration principle was inserted into the EC Treaty for the first time by the Single European Act in 1987, when the amended Treaty acknowledged the Community competence in environmental policy, and established a constitutional basis for action at European level. After some important modification of this Treaty provision, the integration requirement is provided for by Article 11 of the Treaty on the Functioning of the European Union, resulted from the Lisbon Treaty amendments: Environmental protection requirements must be integrated into the definition and implementation of the Union's policies and activities, in particular with a view to promoting sustainable development. Consequently, the environmental integration cannot be considered as a goal in itself, but a means to achieve sustainable development. The accommodation of the integration requirement in such a prominent place of the Treaty shows its general character,³³ referring not only to environmental but to all the other sector policies. The integration is still can be considered as the most important principle governing the EU environmental policy, since it strongly links the environmental policy and all the other policies of the EU together.³⁴

The integration principle is referred to in almost all parts of the Seventh EAP. It is explained within priorities of the so-called enabling framework which supports effective action to reach thematic priority objectives. In its proposal for the new programme the Commission underlines that the overall state of Europe's environment indicates negative trends.³⁵ This indicates that progress to date is insufficient in this field. Environmental requirements now are mentioned parallel with climate considerations in demanding more effective integration into other policies. The Commission emphasizes the correct application of the Environmental

³² Commission, *Partnership for Integration – A strategy for Integrating Environment into EU Policies*, Cardiff – June 1998, COM(98)333, Brussels, 27.5.1998.

³³ André Nolkaemper, 'Three Conceptions of the Integration Principle in International Environmental Law' in Andrea Lenschow, ed., *Environmental Policy Integration, Greening Sectoral Policies in Europe* (London, Earthscan 2002) p. 23.

³⁴ Ludwig Krämer, *EU Environmental Law* (London, Sweet & Maxwell 2011) p. 365.

³⁵ The EAP is based on the European Environment Agency's Report: *The European environment – state and outlook 2010*, (Copenhagen, 17 Oct 2010), available at <http://www.eea.europa.eu/soer/intropage> (18.12.2013).

Assessment and the Strategic Environmental Assessment Directives, which can effectively ensure integration of environmental protection requirements into projects, plans and programmes. In this effort local and regional authorities in issuing authorization for the use of land will have a particularly important role to play in protecting, conserving and enhancing natural capital.³⁶ The programme focuses on nature and habitat protection objectives in connection with an envisaged expansion of energy and transport infrastructures. It refers to other proposed policy reforms in the common agricultural, fisheries, Trans-European Networks and cohesion policies, in which measures to further support environmental integration is included. The above-mentioned concept of ‘reversed integration’, which is an expression of ‘policy coherence’ is also put forward: ‘Similarly, efforts primarily intended to achieve environmental improvements should be designed to deliver co-benefits for other policies wherever possible. For instance, efforts to restore ecosystems can be targeted to benefit habitats and species and to sequester carbon dioxide, while improving the delivery of ecosystem services vital for many economic sectors, such as pollination or water purification for agriculture, and creating green jobs.’³⁷

According to the programme, it should be ensured that ‘by 2020 sectoral policies at EU and Member State level will be developed and implemented in a way that supports relevant environment and climate-related targets and objectives’. It requires reviews of relevant policies, and also new initiatives for better integration of environment and climate-change incentives, and a ‘systematic ex-ante assessment of the environmental, social and economic impacts of policy initiatives at EU and Member State level to ensure their coherence and effectiveness’.³⁸

Integration of environmental requirements into activities connected to utilization of land is mainly discussed under the first priority objective to protect the EU’s natural capital. The programme requires sustainable land management and remediation of contaminated sites by 2020. The

³⁶ Commission, *Proposal on a General Union Environment Action Programme to 2020 Living well within the limits of our planet* (Seventh EAP), COM(2012)710, Brussels, 29.11.2012, p. 31.

³⁷ *Ibid.*, p. 32.

³⁸ *Ibid.*

programme promises further actions to reduce the most significant man-made pressures on land and future setting of targets in this regard.³⁹ An important study completed by the IEEP pointed out that the present EU land use policy lacks a proper strategic underpinning from an environmental perspective, however this would be necessary not only for protection of Europe's ecosystem but for the EU's climate mitigation and adaptation efforts. This study argues for a more vigorous protection and valuation of key resources, such as agricultural land, productive soils, biomass and water, which is in a common interest of the EU as well as of Member States or local communities. This can also be read in a way that questions the adequacy of the present EU competence in land use policy: new EU initiatives outside of agricultural policy are prevented by arguments of subsidiarity and proportionality, however, meeting EU goals on biodiversity, water and climate change is dependent on establishment and maintaining appropriate land management.⁴⁰

The Commission's proposal is accompanied with an impact assessment; the Annex 6 analyses the underlying priority objectives. On the necessary integration of environmental considerations into key sectors – such as the common agricultural, fisheries, transport, energy, trade and cohesion policies, and the buildings sector – the Commission takes the view, that the new policy proposals for the next programming period of 2014-2020 will enhance environmental integration and the contribution of these sectors to the environmental objectives and targets, i.e. enhance policy coherence. The Commission states that integration is the main means of ensuring the delivery of most of environmental objectives and targets, thus, it envisages the review of EU legislation and actions in various fields, e.g. environmental impact assessment, air quality, greenhouse gas emissions from cars, forest strategy and development policy.⁴¹

³⁹ Ibid., pp. 14-15.

⁴⁰ Axel Volkery, Sirini Withana, Doreen Fedrigo and David Baldock, *Towards a 7th Environment Action Programme: Priorities and action needs*, IEEP (Institute for European Environmental Policy) Policy Paper (London, September 2012) pp. 8-9, available at http://www.ieep.eu/assets/986/Priorities_and_action_needs_of_the_7EAP_-_IEEP_policy_paper.pdf (27.11.2013).

⁴¹ Commission, *Impact Assessment accompanying the proposal for a new general*

IV. Final remarks

The Commission proposal was adopted on 20 November 2013, when the Council and the European Parliament signed into law the Decision on a 7th EU Environment Action Programme, which will guide EU policy action on environment and climate policy for the next seven years.⁴²

There is a certain skepticism felt over the Seventh Environmental Action Programme of the EU. According to a rather negative opinion, the Commission's proposal for the new EAP 'constitutes one step more of the Commission to reduce EU environmental policy to an insignificant accessory of its policy to promote economic growth'. The reason is that "there is no concrete action" suggested by the Commission, 'the objectives of the programme largely repeat the objectives which are laid down in Articles 191 and 11 TFEU for environmental policy', 'other objectives are ridiculously vague', and without concrete actions and targeted results they are meaningless; a middle or long term sustainable economic policy cannot be achieved without a strong environmental policy. Without the EU's willingness to efficiently protect human health and the environment, there is a risk of re-nationalization of environmental issues.⁴³

The Seventh EAP is mainly criticized for its lack of clear targets and timetables for environmental legislation, urged, inter alia, by the European Parliament. *In its analysis, the WWF is* unsatisfied as the programme mainly repeats previous commitments rather than setting a

Union Environment Action Programme to 2020 Living well, within the limits of our planet, Annex 6: The underlying analysis of priority objectives, point 7) Improving integration and policy coherence, available at http://ec.europa.eu/environment/newprg/pdf/ia_annexes/Annex%206%20-%20The%20underlying%20analysis%20of%20the%20priority%20objectives.pdf (27.11.2013).

⁴² Decision of the European Parliament and of the Council on a *General Union Environment Action Programme to 2020, Living well, within the limits of our planet*, PE-CONS 64/1/13 REV 1, Strasbourg, 20 November 2013. The Decision has not considerably changed the text of the Commission's original proposal.

⁴³ Ludwig Kramer, 'The Commission's proposal for a 7th EU environmental action programme', *ClientEarth*, 15 January 2013, available at <http://www.clientearth.org/environmental-thinking/environmental-thinking-publications/the-commissions-proposal-for-a-7th-eu-environment-action-programme-2091> (28.11.2013).

clear roadmap with targets and timetables to reach by 2020 as requested by the Environment Council. It is of the opinion that the programme fails also to provide a clear strategy for the reduction of Europe's consumption of global resources. According to one opinion about the proposal for the Seventh EAP, it 'is a list of ingredients rather than a recipe for solving global environmental problems. The 7th EAP proposal reads more like an A-Z of current policy rather than providing a credible strategy towards reducing our impact on world resources. It neither outlines clear targets needed, nor does it set out a timeline for achieving the policy goals. We need a more specific strategy that addresses the environmental challenges and offers milestones towards fixing the issues.'⁴⁴ The *European Environmental Bureau* (EEB) welcomes respect for planetary limits in the new EAP proposal, but it is concerned particularly about missing concrete targets. 'The costs of maintaining Europe's excessive consumption through our use and abuse of nature's resources have become prohibitively high – both for the economy and for the environment. The 7th EAP can and must provide a way forward out of the economic crisis which is environmentally sustainable. The Commission's proposal takes us part of the way there but leaves many elements to be decided later.' However, the EEB states that '[t]he new programme represents a unique opportunity not only to take decisive action on environmental problems but to help build up a green economy, one that does not bankrupt the environment. Almost 40 years of EU environmental policy have demonstrated how regulatory action at EU level has contributed to cleaner rivers and less polluted air, brought back endangered wildlife from the brink of extinction, improved the quality of life and in the process has created new jobs in sectors such as renewable energy, conservation and environmental technologies and expertise that is now exported to the rest of the world.'⁴⁵

Despite the criticism for its lack of clearer targets and legislative proposals, the formal approval and coming into force of the new action

⁴⁴ Quotes from Mr Tony Long, Director WWF European Policy Office, available at <http://www.wwf.eu/?206888/7th-EAP-Commission-Version> (27.11.2013).

⁴⁵ Quotes from Jeremy Wates, EEB Secretary General, available at <http://www.eeb.org/index.cfm/news-events/news/eeb-welcomes-respect-for-planetary-limits-in-7th-eap-proposal-but-misses-concrete-targets/> (27.11.2013).

programme is seen as a ‘step forward in making the EU a resource-efficient, green and competitive low-carbon economy’ and helps ‘to realize that tackling Europe’s environment and climate challenges is not only essential in its own right but is also in fact an opportunity for long-term growth and societal wellbeing’.⁴⁶ The implementation of the new action programme will hopefully bring the European Union closer to its strategic aims and targets put forward in the field of climate change and energy policies, *inter alia*, to reduce GHG emissions by 80-95% by 2050, and to reach a new international agreement on climate and energy package in the medium and longer term. For the achievement of these aims, both the EU institutions and the Member States – including their regional and local administrations – have to commit themselves to the common agenda for environmental policy action up to 2020 governed by priorities and principles of the new action programme.

⁴⁶ See the Commissioners’ welcome words on the occasion of signing the decision on the new EAP, available at http://europa.eu/rapid/press-release_MEMO-13-1020_en.htm (26.11.2013).

Attila Pánovics*

The European Code of Conduct on Partnership ('ECCP')

I. Partnership in evolution

Often referred to as 'regional policy', cohesion policy is a visible expression of solidarity across the European Union and represents a very substantial part of the EU budget. Cohesion policy accounts for approximately one third of the EU budget – some EUR 350 billion in the 2007-2013 period. Out of this amount, cohesion policy is the largest fund provider.¹

Cohesion policy is generally perceived as a great opportunity for future investment. One needs to be aware, however, of the shift from the original compensation nature of the policy to one that promotes competitiveness, innovation and the knowledge economy. This shift will demand more effective use of resources and more visible results in the future programming period.²

EU regional policy equips Europe to tackle the current challenges to long-term development: unemployment, a lack of competitiveness, and climate change. In order to face these challenges and work on solutions, the cooperation of all stakeholders³ is needed. EU development resources support key areas for economic development, which are SME support, research, development and innovation (R+D+I), the digital agenda and the low carbon economy, as set out in the Europe 2020 Strategy. All actors at all levels of governance as well as other stakeholders need to be mobilized and cooperate in partnership to jointly design and implement measures to ensure that the Europe 2020 Strategy will achieve its goals.

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¹ Though cuts will happen in many EU policy areas, cohesion policy is one of the least affected areas.

² Panorama Inforegio magazine, European Commission, No. 47, Autumn 2013, p. 28.

³ There is a lack of clarity about what exactly is meant by 'actor', 'stakeholder', 'partner', 'NGO' (non-governmental organization) or 'CSO' (civil society organization) in the context of cohesion policy. These terms are employed inconsistently.

The legal basis of EU Cohesion Policy is in the Treaty of Lisbon and its priorities are set by the EU, but it is implemented by national and regional actors in partnership with the European Commission. The partnership principle has been for a long time one of the key principles for managing the EU development resources (the EU Structural and Investment Funds, hereinafter ESI funds). All stakeholders regard it as a crucial element in the effective implementation of ESI funds.

The implementation of this principle has been piecemeal and slow since it was launched in 1988. Organized civil society⁴ was included in the process, particularly the social partners. The principle was reinforced when the Commission had more of direct responsibility in the cohesion policy and when Community initiatives like EQUAL and LEADER were introduced.

Partnership with all relevant stakeholders at all levels of the programmes lies at the heart of the success of EU cohesion policy. This partnership applies to all stages of the programming process: design (preparation and planning), management and implementation, monitoring, and evaluation.

Partners – regional and local authorities, economic and social partners, and the multitude of organizations representing civil society – should be actively and closely involved throughout the whole programme cycle. Partnership can bring many benefits and added value, ranging from enhanced commitment and broader expertise to greater transparency and improved efficiency of the policy making process.

It is recognized that there is no ‘one-size-fits-all’ recipe for the implementation of the partnership principle. Experience shows that there are wide differences across the EU on application of the partnership principle, depending on national institutional set-ups and

⁴ Organized civil society is defined by the Economic and Social Committee (EESC) as: all private-initiative non-state organizations and their members who are actively involved in shaping public affairs on the basis of their own concerns and drawing on their own specific knowledge, abilities and scope for action. This definition covers a wide range of organizations: employers’ federations, trade unions, associations set up to promote certain matters of general interest as well as non-governmental organizations (NGOs).

political cultures.⁵ The principle has always been more easily taken on board in countries where partnership has been an endogenous part of policy-making. In those Member States that has only recently joined the EU, the participation of partners – especially social partners and non-governmental organizations (hereinafter NGOs) – is low in general.⁶ Implementing partnership is certainly a challenge for the latest newcomers such as Bulgaria, Romania and Croatia. Moreover, this is also the case in some Member States that joined in 2004.

II. Need for reform

In the last decades, EU cohesion policy has been crucial in promoting cohesion and development in an enlarging territory. Cohesion policy programmes have shown that they have the flexibility to respond to the crisis but there is much still to be delivered across many policy priorities and Member States. The effects of the financial and economic crisis have been negative for both business and non-profit sectors.

The crisis has made it more difficult to reach the Europe 2020 goals due to reduced employment rates and increasing poverty and social exclusion.⁷ During 2014-2020,⁸ cohesion policy will have to tackle the challenges of the current economic situation and to meet the priorities of the Europe 2020 strategy.⁹

The current multi-annual financial framework (MFF) of the EU ends in 2013. On 6 October 2011, the European Commission adopted a draft legislative package that will frame EU cohesion policy for the period 2014-2020. All the actors concerned expected the Commission's proposals to contain provisions for strengthening partnership. The legislative architecture for cohesion policy comprises of an overarching

⁵ <http://ec.europa.eu/esf/main.jsp?catId=67&langId=en&newsId=7956> (15.11.2013).

⁶ Reports from some Member States show that in many cases partnership is just formal and there's an on-going trend towards a dilution of the partnership principle and a decrease of civil participation.

⁷ Eighth progress report on economic, social and territorial cohesion, The regional and urban dimension of the crisis, COM(2013)463 final, Brussels, 26.6.2013, p. 15.

⁸ The regional policy framework of the EU is set for a period of 7 years (2007-2013, 2014-2020, etc.).

⁹ Europe 2020 Strategy, COM(2010)2020, 03.03.2010.

regulation (the Common Provisions Regulation, hereinafter CPR) setting out common rules for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), and further general rules for the ERDF, ESF and Cohesion Fund; three specific regulations for the ERDF, the ESF and the Cohesion Fund; and two regulations on the European territorial cooperation goal and the European Grouping of Territorial Cooperation (EGTC).¹⁰

Article 9 of the CPR states that all five ESI funds shall support 11 thematic objectives derived from the Europe 2020 Strategy, which will be translated into specific priorities for every fund, set out in the funds specific EU Regulations. The provisions on the partnership principle have been reinforced in Article 5 of the CPR, particularly so as to include the new Partnership Agreement¹¹ to be signed between the Commission and the given Member State covering all ESI funds.

At the current phase of implementation, evaluation evidence demonstrates the impact of EU Cohesion Policy. The experience in the recent Member States has shown that the ESI funds can play a key role in their economic development. It is expected that these funds will provide a stable and valuable support to the competitiveness and well-being in these countries and strengthen the partnership with all EU Member States.

The less developed Member States and those still benefitting from ‘convergence’ support have widely recognized the importance of cohesion policy in supporting public investment. The experience in the most recent EU Member States has shown that EU development resources (hereinafter the ESI funds) play a key role in their economic development,¹² but the constraints on national development expenditure

¹⁰ Cohesion Policy 2014-2020, Investing in growth and jobs, European Commission, 2011, p. 1.

¹¹ The Partnership Agreement is the strategic document for utilizing the resources of the Common Strategic Framework for the next period. Partnership Agreements concluded by the European Commission and the EU Member States will set out the overall contribution, at national level, to the thematic objectives and the commitments to concrete actions to deliver the objectives of Europe 2020.

¹² In Hungary, the contribution of the support from the ERDF and Cohesion Fund to

have tightened in recent times. This has made it more difficult for Member States to find the funding needed to co-finance cohesion policy programmes. At the same time – in the context of national budget cutbacks – EU funding has become virtually the only source of finance for development expenditure for many of the new Member States (EU12).¹³

In the current tight economic situation, and with little room in national budgets for spending, a quicker delivery of available investment has become a priority within the existing budgets and operational programmes, and for some Member States a re-programming of the EU resources has taken place to allow for the injection of resources into sectors where a quick absorption of investments is possible. The pace of implementing EU Cohesion Policy was stepped up in 2010, though a real question has arisen in certain Member States as to whether they have the capacity to absorb EU funding available over the remainder of the 2007-2013 programming period. Efforts are nevertheless being made in many countries to improve implementation by *inter alia* reallocating expenditure to areas where there is more demand for funding or where funding can be spent more quickly.

Despite all efforts, it seems that deep-seated imbalances remain between and within countries in Europe. The level of prosperity in the twelve countries that have joined the EU since 2004 is relatively low, and these countries still lag behind their EU15 peers in many respects.¹⁴

It is not a surprise that the Commission wanted to emphasize and strengthen the partnership principle for the programming period 2014-2020. Partnership is one of the elements that substantially promote the

development spending is estimated to around 75% of government capital spending per year over the remaining programming period.

¹³ The ERDF and Cohesion Fund together amount to EUR 270 billion for the 2007-2013 period, representing an average of 0.3% of EU GDP a year but over a third (37.7%) of government capital expenditure yearly for EU12 countries. These figures demonstrate the critical importance of EU funding to development expenditure for EU12 countries.

¹⁴ Upon accession, the EU Structural and Cohesion Funds available to Croatia will amount to EUR 450 million. This investment is expected to account for a large share of the country's development budget in the years ahead, and presents an important opportunity to address its needs.

effectiveness of EU Cohesion Policy, but there are important lessons to be drawn from the current programmes. Stakeholder participation has often become a cornerstone to implement different strategies of the EU. Nevertheless, partnership was not actively promoted in the 2007-2013 programming period.

The effectiveness of cohesion policies in different countries and regions¹⁵ highlights the importance of structured dialogue with all stakeholders. To generate maximum impact and ensure the most effective use of EU resources, the expertise of the different partners has to be effectively harnessed and integrated. Some fundamental weaknesses still prevail, but the implementation of the partnership principle can make an important contribution to making policy-interventions more relevant, effective and efficient.

The application of the partnership principle needs to be strengthened in order to support programming for the future. In recent years, some EU institutions and bodies have asked for guidelines on partnership established at EU level. European Parliament resolutions have urged¹⁶ the Commission to come up with an agreed definition of partnership as well as a guide. The Committee of the Regions (CoR) has recommended that the partnership practice should have been reinforced,¹⁷ while opinions of the European Economic and Social Committee (EESC) have called¹⁸ for a European code of good practice.

The European Commission discovered that the institutional system has to build in particular on the experience acquired relating to the application of the partnership principle. The practice obtained in

¹⁵ There are more than 270 regions across the 28 EU Member States, each with its own specific economic and cultural history and needs.

¹⁶ See in particular the EP resolution on governance and partnership at national and regional levels and a basis for projects in the sphere of regional policy – P6_TA(2008)0492 (Beaupuy report) and the EP resolution on good governance with regard to the EU regional policy: procedures of assistance and control by the European Commission – P7_TA(2010)0468 (Manescu report).

¹⁷ See in particular, Committee of the Regions, White paper on multi-level governance, CONST – IV – 020, CdR 89/2009.

¹⁸ See in particular the exploratory Opinion of the EESC on How to foster efficient partnership in the management of cohesion policy programmes, based on good practices from 2007-2013 CESE 967/2010 (Olsson report).

connection with the current programming period has to be used to prepare the 2014-2020 period. The positive experiences that clearly show what was successful have to be taken into account, but the errors that occurred and cannot be ignored also have to be taken into consideration. Learning from mistakes in this case is the most valuable experience.

III. The proposal of the Commission

In 2012, a new effort has been launched by the European Commission that is a first step to make the partnership principle effective. The Treaty of Lisbon enabled the Commission to adopt new types of European Union legal acts. These changes aimed at improving the implementation of EU decisions. Article 290 of the Treaty on the Functioning of the EU specifies that 'a legislative act may delegate to the Commission the power to adopt non-legislative acts of general application to supplement or amend certain non-essential elements of the legislative act' Only the Commission can be authorized to adopt delegated acts, and the EU legislator (the Council of Ministers and the European Parliament) may revoke a delegation or limit its duration. Therefore, the Commission still has to consult with EU Member States while drafting a delegated act.¹⁹

The proposal of the Commission to adopt a new delegated act²⁰ has been drawn up on the basis of the proposals for regulations adopted by the European Commission in October 2011. ECCP has already been a milestone on the way to establish 'governance in partnership' and create a culture of multi-level governance.²¹ The Commission is trying to be a catalyst in this process – collecting good practices and making them easily available to others. These examples confirm the growing interest in the EU Member States to take the partnership

¹⁹ Delegated acts are the successor to the Regulatory Procedure with Scrutiny (RPS) that was introduced in 2006, but there are significant changes. The Commission has committed itself to finalizing these legislative revisions, replacing RPS with delegated acts, by the end of 2014.

²⁰ Commission staff working document, The partnership principle in the implementation of the Common Strategic Framework Funds - elements for a European Code of Conduct on Partnership, SWD(2012) 106 final, Brussels, 24.4.2012.

²¹ See the Committee of the Region's 'White Paper on Multi-Level Governance' and the 'Barcelona Agenda'.

principle seriously. The adoption of the delegated act will be the most emblematic examples of the active engagement of civil society (the non-profit sector) in the management of ESI funds.

The proposal prepares the ground for the European Code of Conduct on Partnership, which will lay down minimum requirements for national authorities to ensure a high quality involvement of partners. Under six headings the proposal enumerates 18 detailed guidelines. These six headings are, respectively: which partners to select; how to involve the partners in preparation of the programming documents; how to involve the partners in the implementation phase; how to involve the partners in the evaluation; assistance to partners; exchange of good practice.

The objective of the ECCP is not to impose constraints where the relationship between the NGOs and their governments is satisfactory but rather to extend ‘good practice’ across the EU Member States, and create win-win situations for all stakeholders. The proposal is the Commission’s initiative to strengthen the partnership principle in one of the EU areas where the participation of the stakeholders can give the biggest added value. The ultimate objective is to achieve a higher level of absorption of ESI funds and a reduction in the error rates, and a key factor in this is eliminating bottlenecks at all levels.

1. The possible range of partners

Broad partnership represents a large spectrum of different interests. Under Article 5 of the CPR, Member States shall organize a partnership with the following partners:

- a) competent regional, local, urban and other public authorities, representatives of universities, educational facilities, research centers, and other national public bodies;
- b) economic and social partners (in particular general cross-industry organizations and sectoral organisations, national chambers of commerce and business associations, and equivalent bodies organized at national/regional level);²² and

²² The economic and social partners are groups or associations representing the general interest of industries or branches, employers and employees, but in no case the interests of a sole company, enterprise or economic group (see at p. 7.).

- c) bodies representing civil society (including environmental partners, NGOs, and bodies responsible for promoting social inclusion, gender equality and non-discrimination).

All these stakeholders must be treated as equal partners in the planning, managing and supervising of ESI funds; partnership should be at equal terms for all public and private partners. Where the number of organizations interested — and hence the potential partnership — is particularly large, it might be appropriate for potential partners to establish coordination platforms and umbrella organizations and to designate a common representative to contribute to preparing and implementing programmes, in order to ensure wider representativeness and to make the partnership work more smoothly.²³

Especially the competent local and regional public authorities shall not be treated simply as economic, social and environmental stakeholders in the implementation of ESI funds as they are democratically elected public institutions often with legal competence for economic development and social integration and often being the bodies that provide the co-financing. Local and regional public authorities, and in particular local and regional political representatives with a public mandate and democratic legitimacy, should be involved and treated as equal partners of the managing authorities and not be assimilated to economic, social and environmental stakeholders. They shall be treated as partners and not as stakeholders by the managing authorities in preparing, delivering, monitoring and evaluating the operational programmes at national, regional and local level.²⁴

It is widely accepted that NGOs represent general interests, alongside public administrations, but they are often excluded from real and genuine partnership. The selection of partners must also include the most representative NGOs, which deal with the subject areas covered by the different funds, particularly in areas such as environment, social inclusion, gender equality and equal opportunities. NGOs must be

²³ Proposal p. 8.

²⁴ Code of Good Conduct – The Contribution of the Council of European Municipalities and Regions, June 2012, <http://ec.europa.eu/esf/BlobServlet?docId=404&langId=en>, (10.11.2013).

free to designate their individual representatives to be members of the partnership. Consideration should be given to the procedure of selecting partners supporting pluralism in order to also include marginalized groups; the dominant benefit of working with the NGO sector is its ability to engage with 'hard-to-reach' groups.²⁵

2. How to involve the partners

The application of the partnership principle needs to be assessed in terms of the full programme cycle, ranging from preparation of the Partnership Agreements, to the design, implementation, monitoring and evaluation of the operational programmes. The conduits of the investment process are the national and regional public administrations and there is no standard formula for how this process should operate.

In the present period (2007-2013) the partnership principle almost exclusively focused on the involvement in the monitoring phase of the programming cycle. Nevertheless, monitoring must not be reduced to the formalities of the Monitoring Committees (to which partners must take part, as laid down in Article 5 CPR). ECCP will prescribe that managing authorities shall carry out an evaluation of the performance and the effectiveness of the partnership during the whole programming period.

Proper and timely preparation cannot be underestimated for successful implementation of the ESI funds. Securing the timely availability of motivated partners is a key success factor of the partnership principle. As the Commission staff working document indicates, the active involvement of all stakeholders in the very early stages of programming is crucial, in particular preparing the Partnership Agreement at national level and the operational programmes at national and/or regional levels.²⁶ With regard to the consultation processes Member States should: ensure timely disclosure and easy access to adequate information; allow sufficient time for partners to analyze and

²⁵ A number of groups and population segments have traditionally been underrepresented in regional development policies. In the context of cohesion policy, 'hard to reach' is a term used to describe those sections of the community that are difficult to involve in public participation (rural population, people with disabilities, ethnic groups, etc.).

²⁶ Proposal p. 9.

comment on key preparatory or draft documents; ensure availability of channels for partners through which they may ask questions, provide their contributions and receive feedbacks; ensure dissemination of the outcome of the consultation process.

The document emphasizes that Member States should apply the partnership principle in a transparent manner, in particular with regard to the identification of partners and their access to necessary information with respect to the obligations laid down by Member States and managing authorities related to data protection, confidentiality and conflict of interest. This must of course be done according to the national legislation of each EU member state.

The Commission provides a number of best practice examples to illustrate how already today, successful partnerships have been established in several EU countries.²⁷ On the basis of this stock-taking exercise, work of a more operational nature could have begun to share good practices, making them easily available to others, and develop new tools and search for solutions to address the issues.

3. Capacity building

Investing significant financial resources in Europe's regions requires a high degree of organization, competence and engagement. To achieve a higher level of absorption of ESI funds and ensure low levels of implementation errors requires a well-targeted effort to build the appropriate capacity of all stakeholders. Across the EU there are in reality wide divergences in performance in absorption capacity, efficiency, and effectiveness of the ESI funds.

Capacity building is necessary for partners in all EU countries to contribute substantially to the process. It is a key ingredient for an effective and efficient implementation of the partnership principle. In general, capacity building should be understood as the enhancement of the participation of partners in the preparation, implementation and monitoring of the ESI funds at all stages. Capacity building is fundamental to expand the skills,

²⁷ In 2011, the EESC has already issued a brochure titled 'It takes two to tango' presenting selected cases of good practice in the Member States, available at <http://www.eesc.europa.eu/resources/docs/cese-2011-05-en.pdf> (10.10.2013).

capacities and operational tools in Member States so that more ESI funds can be invested and the quality of spending improved. All stakeholders play an important role in the delivery of the operational programmes and there are specific measures in place to reinforce the capacities of these partners. The successful implementation of the partnership principle is necessarily linked to the financial and human capacities of partners. Members of the organized civil society, especially NGOs rarely have significant capacities to deal with ESI funds.

There are a wide variety of issues that affect the ability of the partners to take part in the programming periods of EU cohesion policy. The proposal of the Commission reminds governments of the need for political commitment and for making real partnership a priority across all relevant policy areas, ensuring it is embedded in future ESI funds programmes. The effectiveness of the partnership principle also depends on the technical ability of the partners to contribute substantively to the process, raising the question of capacity-building. The success of each step in the programme life-cycle depends on three interrelated factors, and all the elements of these three aspects need to function properly for effective implementation of the ESI funds: administrative capacities and infrastructure, human resources (volume and competence level of key staff), and procedures and tools (documentation on methods, guidelines, manuals, etc.).

The ECCP will lay down indicative areas, themes and good practice for the use of the ESI funds to strengthen the institutional capacity of partners. Managing authorities could allocate part of their technical assistance to strengthen the institutional capacity in particular of small local authorities, economic and social partners and non-governmental organizations, to participate effectively.²⁸ In these difficult times of crisis and economic downturn the fact that these partners may benefit from the technical assistance is strongly welcome. This support may take the form of, *inter alia*, dedicated workshops, training sessions, coordination and networking structures or contributions to partners' costs incurred for the participation in meetings related to the preparation, implementation, monitoring and evaluation of a programme.

²⁸ Nevertheless, Member State own funds should also be used for this aim.

IV. The problem of timing

The negotiations on the forthcoming Multiannual Financial Framework (MFF 2014-2020) which defines the maximum amounts available for each major category of spending started in 2011. The procedure continues fundamentally at EU level and involves the European Commission, the European Parliament and the Council, and should take into account the opinions of the European Economic and Social Committee (EESC) and the Committee of the Regions (CoR). In principle, it takes 12-18 months to agree on the legal bases for all the multi-annual programmes and projects which will be financed under the MFF.

The negotiations were expected to be concluded by the end of 2012. The Council and the European Parliament should have reached an agreement during 2012 to adopt the new legal bases in 2013. The Commission intended to present the key elements of the ECCP and make a consultation with key stakeholders in the first half of 2012.

The Draft Delegated Act sets out the proposed structure and content of ECCP.²⁹ Unfortunately, the adoption of the ECCP was delayed by the inter-institutional debate at EU level which undoubtedly will weaken in practice the implementation of the partnership principle. Agreement of the Council and the Parliament on the plans to reform EU Cohesion Policy and to create a common set of rules for ESI funds is necessary for final approval of the EU's 2014-2020 budget. EU Member States and the members of the European Parliament could not reach an agreement on the EU budget for 2014³⁰ until 11th November 2013 when the Council endorsed an agreement reached with the European Parliament in the Conciliation Committee.³¹ The political agreement

²⁹ *The European Code of Conduct on Partnership – The Delegated Act – Preparatory Fiche No. 1*, 18 January 2013, available at http://ec.europa.eu/regional_policy/what/future/pdf/preparation/fiche_code_conduct_2013_01_21.pdf (31.05.2013).

³⁰ The overall budget for the next seven years is EUR 960 billion in commitments and EUR 908 billion in payments (at 2011 prices). The deal sees an overall level of commitments of EUR 142.6 billion and of payments of EUR 135.5 billion in 2014. It also includes an agreement on various pending amending budgets for 2013; available at http://europa.eu/rapid/press-release_MEMO-13-978_en.htm. (12.10.2013).

³¹ The Conciliation Committee is composed of the 28 members of the Council and an equal number of members of the European Parliament.

also constituted a crucial step in the direction of the adoption of the next Multiannual Financial Framework 2014-2020. On 20 November 2013, after an intense two-year negotiation process, the European Parliament voted in favor of the agreement on the Cohesion Policy legislative package. Now there is a real chance that the new regulations will enter into force before the end of the year.

Despite of all these efforts, it may easily happen that the tangible use of resources in the next programming period will start with significant delay. The EU's 2014-2020 budget has to be confirmed by the EU member states, and Cohesion Policy will invest EUR 325 billion in Europe's regions and cities to deliver the EU-wide goals of growth and jobs, as well as tackling climate change and energy dependence. This will in turn leverage national and regional resources worth at least EUR 100 billion, for an overall expected investment of more than EUR 400 billion.³²

It is not possible to assume that such a complex and complicated system as the ESI funds can be navigated without shortcomings, but it is also necessary to separate formal errors from intentional ones. Considerable efforts have already been made by the national administrations to adapt sectoral strategies and the programming of public financial resources in line with the Europe 2020 targets. In parallel to the implementation and monitoring of the current period's programmes, EU Member States are currently preparing their Partnership Agreements, setting out the framework for the 2014-2020 ESI funds. The dialogue with representatives of the European Commission takes place in an informal manner, a series of consultations has been held throughout the process with those responsible for designing and implementing the policy across the EU Member States.

The staff working document (SWD) of the Commission came at an appropriate point in time as in several EU Member States programming for the period 2014-2020 had already started in 2012. The proper implementation of the partnership principle and the application of these requirements should have been mandatory and enforced by the European Commission as a necessary prerequisite before the

³² http://europa.eu/rapid/press-release_MEMO-13-878_en.htm (12.10.2013).

Commission has signed the Partnership Agreements with the Member States.

The draft Regulation on common provisions (the Common Provisions Regulation – CPR) for five EU funds will considerably strengthen the conditions for the implementation of the partnership principle in the context of ESI funds. In principle, the ECCP has to be adopted by the Commission as a delegated act within three months of adopting the CPR, but the requirements of the CPR are still under negotiation. This means that the future code cannot be taken into account in a timely manner by the Member States in the preparation of Partnership Agreements and operational programmes.

V. The Hungarian situation

The Hungarian Partnership Agreement identifies the most of the important challenges facing the country, and defines its main development priorities. The Partnership Agreement identifies the main national focal points within the fulfilment of the Europe 2020 strategy, and also incorporates the key issues addressed in the National Reform Programme and the Country-specific Recommendations published by the European Council.

Detailed development objectives are outlined within each programme, as follows: the sector and territorial operational programmes (OPs); the rural development programme; the OP of the European Maritime and Fisheries Fund; the European territorial cooperation programmes.

The Partnership Agreement will be approved by the European Commission following in-depth consultation with the Hungarian Government. The Final Draft of the Partnership Agreement has already been accepted by the Commission, and the Commission services consultation process has been launched on the 1st of July.

The Partnership Agreement of Hungary was prepared and coordinated by the Ministry for National Economy, involving all relevant ministries.³³ The structure of the operational programmes connected to the Partnership Agreement will be the following: Economic Development

³³ See Decree 1600/2012 (XII. 17.) of the Government.

and Innovation Operational Programme (EDIOP), Territorial and settlement development Operational Programme (TOP), Competitive Central-Hungary Operational Programme (CCHOP), Human Resources Development Operational Programme (HDOP), Environmental and Energy Efficiency Operational Programme (EEEOP), Transport-Mobility Development Operational Programme (MOP), Coordination Operational Programme (COP), Rural Development Operational Programme (RDOP), Hungarian Fishery and Aquaculture Operational Programme (HFAOP).

Most of the operational programmes will be financed by funds from more than a single source (using the option of multi-fund OPs), and the Hungarian Government would also like to use innovative territorial integration solutions (CLLD, ITI). It seems that strong central coordination will be necessary to ensure enhanced thematic harmony between different ESI funds and programmes.

There are several horizontal principles and objectives in the frame of the Hungarian Partnership Agreement: the partnership principle, non-discrimination, sustainable development (with reference to Article 8 of CPR), accessibility, territorial cohesion (in order to handle demographic challenges, to prevent further climate change, and to ensure regional sustainability and local economy).³⁴

The Final Draft of the Partnership Agreement declares that these principles and objectives must be applied during the preparation and implementation of the projects, and during the maintenance of the results. They must also be observed in the course of establishing the institutional system for implementation. The results of their application must be monitored both at project and programme levels and must be evaluated regularly. The institutional system as well as the beneficiaries must be prepared for the expectations and best practices of the application of these principles and objectives.

From the partnership aspect, the Hungarian planning process can be divided into two phases:

³⁴ Some of them must be applied for each programme and are included in the Partnership Agreement, others are programme-specific, and are only defined in the relevant programme.

- In the first phase the planning of the Partnership Agreement has been a top-down process. The planning documents were based on development needs defined by the 'sector line' ministries as well as on the guidelines, templates and comments of the Commission. The partners were primarily involved in the drafting of the national strategies that served as a basis for the planning. In this phase, the involvement of the partners took place mainly in the light of their input to key preparatory national planning documents.
- In this phase the drafting of the Partnership Agreement and the operational programmes is continued and finalized on the basis of extensive expert consultations, followed by a broad partnership input involving all relevant economic, social, environmental and territorial actors. The partner consultations of the second phase are directly connected to the EU planning documents. In the first step the planning experts of the Partnership Agreement and the operational programmes carry out consultations with the key partners³⁵ identified during the first phase. In the second step, a centrally coordinated, wide public consultation was launched, supported by systematic tools.

In accordance with the extensive integration requirements of the next development period, counties play a crucial role in the publicity of the planning process, and the involvement of local and county-level special interest groups. The partnership feedback must be especially strong in the definition of themes of the territorially decentralized developments.³⁶

³⁵ Key partners will also be invited to be involved in the partnership of the OP implementation. As members of the Monitoring Committees, they will have the opportunity to express their views.

³⁶ Hungarian Partnership Agreement, for the 2014-2020 period: Final Draft (2 July 2013, Budapest) p. 8, available at http://www.nth.gov.hu/files/download_files/624/PA_final_draft_EN_20130701.pdf (10.10.2013).

VI. Conclusions

EU cohesion policy is capable of great flexibility and, in times of economic crisis, adapting to the changing needs of people and their communities. In addition, ESI funds were perceived – in both poor and rich regions – as an important tool to foster acceptance of the EU itself among citizens who expect to know what has been achieved with public money. Investments under the European Regional Development Fund, Cohesion Fund and European Social Fund have already led to progress and improvement for many citizens.

Cohesion policy is the EU's main common investment policy tool. Over recent years, it has shifted from an infrastructure oriented policy to an investment policy. EU resources are now Europe's key drivers to modernize and restructure the European economy in line with the objectives of the Europe 2020 strategy. Despite all delays in programming, EU Cohesion Policy remains a focus of public opinion, especially in times of economic crisis and austerity measures. In these times of financial hardship, it is not acceptable to anyone that public funding is not used in the most effective manner.

The Commission staff working document reflects the need to shift from a merely formal to an effective application of the partnership principle. The adoption of the delegated act will force a change of thinking between the public authorities. It will in fact empower all partners to play an active role in implementing EU policy objectives and in particular the Europe 2020 Strategy. The involvement of cohesion policy actors/partners/stakeholders at all levels in the planning, implementation, monitoring and evaluation of the programmes is needed to ensure that they feel 'ownership' of the EU's interventions and share a common commitment to the EU objectives.

The Commission proposal is a first step in formalizing and codifying the partnership principle at EU level. The Commission recognized that the partnership principle must be strengthened and the approach be placed at the heart of the future Cohesion Policy if we want to ensure lasting success. In this time of crisis, there is a need for an even stronger commitment of all partners and stakeholders. The proposal sought to

encourage national governments to overcome barriers to thinking more strategically and imaginatively about the advantages of partnerships.

Without an ECCP, there's a fear that the implementation of ESI funds will suffer from the lack of financial and human capacities of partners, which will negatively influence the quality of implementation in the next programme cycle. As EU resources programming for 2014-2020 has already started in several Member States, it would be important for both public administrations and organized civil society to make use of the staff working document. Until now, the Commission could not effectively disseminate the elements of its proposal in the Member States, and make it popular in cooperation both with organized civil society and public administrations wanting to share their experiences. Nevertheless, the real efficacy of the Commission's efforts will depend on implementation in the future Partnership Agreements and operational programmes.

Anton Devčić*

Regional development based on EU funds: opportunity and challenge for absorption capacities

I. Introduction: on regional development in Croatia

Generally, achieving development takes time, or if it is seen as a process, we can say that it is a complex process. The history of these attempts to achieve development shows different examples. However, there were always many who were unhappy with the state of the economy in their countries, even though they can go abroad and buy new technology, or buy development with money and credit. Thus, in the early 18th century, Peter the Great, dissatisfied with poverty in Russia, tried to buy a developed economy. In the 20th century, Iran and rich Arab countries have tried that too. They failed like many before them and after them. Many of our delegations visited Ireland and have been impressed with its growth but have not learned much of it. It is a shock to all who sit in the cabinets and think that by simply buying or transplanting technology they may trigger development. And finally, we would need to understand the cruel truth: development cannot be given to someone. Development is a process that cannot be bought, but everyone has to do it, which means that either country itself will achieve it, or there will be no development. And for that to happen, people who know and can achieve this are needed.¹ As an example we have Europe itself. Europe not only has a euro crisis, it also has a growth crisis. That is because of its chronic failure to encourage ambitious entrepreneurs. Data show that continental Europe has a problem with creating new business destined for growth.² But not everyone has the same or similar views on the complex terms of growth and development. While some

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¹ M. Ožanić, *Promašaji ekonomskih teorija, Razvoj Hrvatske počiva na glupim tezama, zabudama i iluzijama*, [Failures of economic theory, based on the development of Croatian stupid theories, delusions and illusions], available at <http://liderpress.hr/arhiva/58989/> (11.01.2012).

² The economist, 'Briefing European entrepreneurs: Les miserables', Volume 404 Number 8795, 2012, pp. 113-133.

believe that growth and sustainable development go hand in hand, others believe that economic growth leads to an excessive workload of the environment that not only damages nature irreversibly but also set limits on growth.³

The understanding of economic development in regions in developed countries has gone through a fundamental change during recent decades. Nowadays, regions are increasingly looked upon as independent, dynamic market places that are connected via flows of interregional and international trade. Regional development is driven by changes in economic specialization, which can be explained by two different, but complementary theoretical frameworks for analyzing location and trade: one old and one new.⁴

When we talk about regional development in Croatia, about the need and the necessity of creating a plan for regional development at the county level, we may conclude that it took many years to get the process started. The systematic process of creating regional development starts by making a proper legal framework, in particular the adoption of the Act on Regional Development,⁵ the development of the Regional Development Strategy of Croatia,⁶ and the regulations on mandatory content, methodology development and evaluation of local development strategies.⁷ On the basis of this legal framework, in particular in accordance with these regulations, the County Development Strategy for the period of 2011 to 2013 was adopted in each county. The county development strategies of the Pannonian Croatian counties, and parts of these strategies dealing with development based on EU funds, so

³ I. Barković, *Teorije rasta* [The growth theories] (Pravni fakultet Osijek, Osijek 2006) p. 151.

⁴ C. Karlsson and B. Johansson, 'Knowledge, Creativity and Regional Development', *CESIS Electronic Working Paper Series Paper No. 148*, 2008.

⁵ Zakon o regionalnom razvoju [Law on regional development], Narodne novine, NN 53/2009.

⁶ Ministarstvo regionalnog razvoja, šumarstva i regionalnog razvoja Republike Hrvatske, *Strategija regionalnog razvoja Republike Hrvatske 2011-2013* [Regional development strategy of Republic of Croatia] (Zagreb, MRRŠVG 2010).

⁷ *Pravilnik o obveznom sadržaju, metodologiji izrade i načinu vrednovanja županijskih razvojnih strategija* [Regulations on mandatory content, methodology development and evaluation of local development strategies] NN 53/2010.

as the SWOT analysis and the perception of strengths, weaknesses, threats and opportunities in particular against EU funds for each of the county in the region, will be subject to analysis in the following sections of this paper.

Besides the fact that each of the counties in Croatia made a development strategy with the accompanying SWOT analysis in terms of the development of the county, in the Regional Development Strategy of Croatia a SWOT analysis was conducted at the level of each of the Croatian NUTS II regions and on the basis of cooperation of representatives of partner groups at the level of each of the regions. As with other similar strategies, SWOT analysis is performed on the basis of previously conducted analyses of the socio-economic situation in each region.

II. Opportunities that EU funds offer to stakeholders of Pannonian Croatia

Therefore, the stakeholders of Pannonian Croatia should at any time view their potential for getting and implementing EU funds objectively. Because if they are underpriced, they may be in a position to miss opportunities, and if they are over-estimated, they are in danger that they simply cannot achieve their goals, and least through EU funds. In any case, the key to success in the long run in attracting EU funding for stakeholders in Pannonian Croatia is the development of managerial and administrative capacities, allowing each participant to get in position to at least, if nothing else, to be better informed about the conditions and possibilities that exist in EU funds. Furthermore, the key to those stakeholders that have no independent power to deal with larger projects and even for those who have such power is seeking partners, so that a synergy of capacities may achieve the best possible result in attracting and implementing funds. The European Union as a 'donor' highlights, recognizes and appreciates this partnership approach. This approach has great potential especially in the area of regional (trans-county) projects, to which a significant amount of EU funds are devoted. Political decision makers also have an important role to play. There is evidence to support that economic growth and human capital accumulation cause political development, even democracy. There is also evidence suggesting that political development causes

economic growth. Mutual causality seems to exist and no one should really be surprised at this conclusion. Economic growth generated by the decisions of an autocrat can increase the diffusion of power and that diffusion of power can further augment growth.⁸

On one hand, the threats in this area of European projects and funds lay in a possible situation in which EU funds will not be used – on another hand the opportunity lay in a possible scenario in which these funds will be used. Namely, the stakeholders in the Pannonian Croatia were included in SWOT analysis of their county development strategies a number of opportunities, and significant number of them is specifically based on EU funds. Therefore you can see opportunities in all or individual funds, in all projects or individual projects of strategic importance, the so-called soft and hard projects, and in various forms of cooperation, etc. We know that the European Union encourages different forms of co-operation: inter-regional, cross-border and any other which involves two or more different administrative areas. Generally it can be said that stakeholders of Pannonian Croatia see an opportunity in EU funds. However, not all people and territories can benefit equally from the changes that globalization brings about. The process of globalization is shaping a world where there are winners and losers; where the winners are precisely those that can maximize the opportunities for innovation, economic activity, and growth that real-time access to information offers.⁹In addition, globalization in the OECD countries has come to view regions as stronger than nations.¹⁰ The same is true regarding most countries. In Table 1, a detailed description of what stakeholders of the Pannonian Croatia considered as an opportunity in the area of projects and EU funds is given.

⁸ R. Grabowski, et al., *Economic development: a regional, institutional, and historical approach* (New York, M.E. Sharpe Inc. 2007) p. 298.

⁹ R. Crescenzi and A. Rodriguez-Pose, *Innovation and Regional Growth in the European Union* (Berlin Heidelberg, Springer-Verlag 2011) p. 133.

¹⁰ OECD, *How Regions Grow: Trends and Analysis* (Paris, OECD 2009).

Table 1 Opportunities of counties of Pannonian Croatia in relation to EU funds, according to SWOT analysis in county development strategies

Opportunities	
<ul style="list-style-type: none"> - The use of international funds for regional development - Regional networking 	Bjelovarsko-bilogorska
<p><i>Economy and Competitiveness</i></p> <ul style="list-style-type: none"> - Close to Hungary for cross-border cooperation and willingness to share experiences in EU funds (for economy development) - Enabled access to EU funds for (economy) development <p><i>Infrastructure</i></p> <ul style="list-style-type: none"> - Preparation of the major infrastructure projects of infrastructure for EU Structural Funds of the relevant institutions (Croatian water-, communal companies, waste management) and regional development that encourages the cooperation of counties, and the preparation and implementation of quality development projects 	Virovitičko-podravska
<ul style="list-style-type: none"> - Greater use of different sources of external funding (EU funds, national resources, the World Bank, other international donors), producing high-quality projects with greater utilization of existing human resources, if necessary, by hiring consultants - Better cooperation and coordination between civilian-sector administration, and among the counties of the Pannonian region; cooperation on the local-regional-national level 	Požeško-slavonska
<ul style="list-style-type: none"> - Availability of EU funds for transport infrastructure, environmental protection and business infrastructure - The availability of EU programs - Participation in international programs, international and cross-border cooperation - EU programs (IPA IV) 	Brodsko-posavska
<p><i>Managing of development</i></p> <ul style="list-style-type: none"> - The ability to finance development projects from EU funds - Options of CBC to create a new socio-economic connections 	Osječko-baranjska

<p><i>Natural resources, environmental protection, energy and infrastructure</i></p> <ul style="list-style-type: none"> - Increasing the possibility of county agents to connect with neighboring regions and the preparation of development projects. - Cross-border cooperation in environmental protection, nature <p><i>Economy</i></p> <ul style="list-style-type: none"> - Entering the EU will significantly increase the possibilities for financing development projects and expansion of markets. - Achieved quality cross-border cooperation with partners from neighboring and other countries provides the opportunity for the preparation and implementation of joint activities and projects and transfer of knowledge and experience <p><i>Social Activities</i></p> <ul style="list-style-type: none"> - EU funds for equipping buildings (construction) - EU funds to connect high-school institutions and public administration and the economy <p><i>Managing of development</i></p> <ul style="list-style-type: none"> - Entering the European Union will significantly increase the possibilities for financing development projects - Collaborate with other counties within the statistical regions - Regional initiatives such as the Danube Strategy increase the possibility of county agents to connect with neighboring regions and the preparation of development projects 	<p>Vukovarsko-srijemska</p>
<ul style="list-style-type: none"> - The use of national and international sources of funding - The establishment of cross-border cooperation in education, culture, health, and the civil sector 	<p>Karlovačka</p>

<ul style="list-style-type: none"> - Strengthening the capacity of county and local governments for development management (human resources, education and training) through national and EU programs - Improvement of development agencies and other institutions in the county/local governments, through national/EU programs - Compliance of vocational and academic education with planned labor market needs through national and EU projects - Development of scientific research centers and the IT-related needs of the business sector through national and EU programs - Increasing the capacity to attract and utilize EU funds for the implementation of development programs - Strengthening international, inter-regional and cross-border cooperation with BiH Croatian intensifying rapprochement with the EU. - Creating new and improving existing telecommunications, electricity, gas, water supply and sewerage infrastructure through the use of increasing opportunities for national programs, EU programs and other programs - Improving systems and technologies for collecting and recycling waste through national and EU programs - Enhancing partnership and cooperation horizontally (civil, public, private and economic sectors) and vertically (local, regional and central administrations and institutions), support an integrated, multi-sectoral initiatives and programs through EU programs 	<p>Sisačko-moslavačka</p>
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Source: Regional development strategies of Pannonian Croatia Region, author¹¹

Most of the counties, seven of eight, see opportunity in the availability of EU funds. They find that the funds will contribute to their development in a different way. So stakeholders in Bjelovarsko-bilogorska County

¹¹ Županijska razvojna strategija Bjelovarsko-bilogorske županije 2011.-2013., Županijska razvojna strategija Brodsko-posavske županije 2011.-2013., Županijska razvojna strategija Karlovačke županije 2011.-2013., Županijska razvojna strategija Osječko-baranjske županije 2011.-2013., Županijska razvojna strategija Požeško-slavonske županije 2011.-2013., Županijska razvojna strategija Sisačko-moslavačke županije 2011.-2013, Županijska razvojna strategija Virovitičko-podravske županije 2011.-2013 i Županijska razvojna strategija Vukovarsko-srijemske županije 2011.-2013.

emphasize the opportunity of using funds for regional development, while those in Virovitičko-podravska and Brodsko-posavska emphasize general development based on EU funds. Stakeholders in the Osiječko-Baranjska and Vukovarsko-srijemska County see opportunity in the possibilities of financing development projects from EU funds, while the stakeholders of Karlovačka county believe that it is most important to use national and international funding sources. Stakeholders in Požeško-slavonska County think that the higher utilization of funds from various sources is important, but at the same time emphasize that the path to that utilization is the preparation of high-quality projects and greater utilization of existing human resources. This emphasizes that it is necessary to ‘mobilize’ available human resources. The only county of Pannonian Croatia that does not highlight opportunities for the general availability of EU funds, but emphasizes the importance of funding for individual regions or sectors of activity is Sisačko-moslavačka county.

When we talk about the emphasis on specific projects or on specific areas in which certain projects would be implemented, the stakeholders in four of the eight counties have expressed some areas and projects as an opportunity to achieve certain breakthrough in development. Areas and projects are very diverse, but what is common to all of them is a combination of soft and hard projects. When we talk about so-called hard projects, which typically involve the implementation of various activities or construction and equipment of different objects or physical infrastructure, the stakeholders in Virovitičko-podravska County see opportunity in the development of major infrastructural projects, infrastructure for EU Structural Funds, in particular relevant institutions (e.g. Croatian Waters, Centers for waste management etc.). Stakeholders in Brodsko-posavska consider that the availability of EU funds for transport infrastructure, environmental protection and business infrastructure is important, and stakeholders in Vukovarsko-srijemska County emphasize the importance of building and equipping facilities in the sphere of social life. Thus, in these three counties we have very different opinions about areas that are considered as an opportunity for implementation of the funds, at least when we talk about ‘hard’ projects. To this diversity of views we can still add the attitude of stakeholders of Sisačko-moslavačka County that see

opportunity in the development of scientific research centers and IT-centers in connection with the needs of the business sector through national and EU programs, as well as creating new and improving existing telecommunications, electricity, gas, water supply and sewer infrastructure. What we have in Sisačko-moslavačka County is similar to Brod-Posavina and Virovitica County: environmental protection with improved technology and the collection and recycling of waste through national and EU programs.

Projects carried out through the so-called soft measures are those that have the role of teaching, transmitting and multiplying knowledge, and also raise awareness, inform and draw attention to certain thematic issues. If soft measures come alone, then they are usually focused on a particular group in society or on a particular area of interest. But they often come in combination with hard measures and in the most cases they serve the hard measures to give a definite purpose. Brodsko-posavska County, for example, incorporates EU programs and the fourth component of IPA (Instrument for Pre-Accession Assistance-IPA, Eng. Instrument for Pre-Accession Assistance), called 'Development of human potentials'. Those are soft measures that are aimed at developing the capacity of certain population groups. The IPA, as a comprehensive instrument for pre-accession assistance, is completely replaced with a large Structural and Cohesion Funds with our full membership in the European Union. Vukovarsko-srijemska županija sees opportunity in EU funds for connecting higher education institutions and the public administration and the economy. This connection is on the trace of Triple Helix concept, which is not yet sufficiently rooted and widespread in the Pannonian Croatia, unlike some of the old members of the European Union. For example, in the Netherlands, each of their fundamental and well-known agricultural production assets is based on the cooperation of public institutions, businesses and scientific institutions. In fact, its success in this area of production may be perceived as a result of this fact. Sisačko-moslavačka County sees opportunity in national and EU projects which would coordinate vocational and academic education with planned market needs and the development of scientific research centers and the IT-related needs of the business sector. Aligning education and labor market requirements is an area with which the European Union is greatly concerned, by conducting various programs

to improve the position of stakeholders in the labor market. In addition, they stressed the importance of strengthening the capacity of county and local governments for the management of development (human resources, education and training) through national and EU programs.

Most of the stakeholders in the Pannonian Croatian counties recognized a wider area as important in terms of achieving the opportunity to use EU funds: the area of cooperation and networking with various stakeholders from the direct or indirect environment. Virovitičko-podravska, Osječko-baranjska, Brodsko-posavska, Vukovarsko-srijemska, Karlovačka i Sisačko-moslavačka County highlighted as opportunities various forms of cooperation, each emphasizing the importance of cross-border cooperation. In the SWOT analysis of Vukovarsko-srijemska county, potentials in terms of quality management of natural resources, environmental protection, energy and infrastructure, then the potential for economic cooperation, especially in the form of exchange of experience and technology were emphasized. Also, in the management of development, the importance of regional initiatives such as the Danube strategy and the need for greater cooperation with neighboring regions in the preparation of development projects stands out. The European Union strongly supports cross-border cooperation through funds, encouraging and fostering cooperation between regions or counties in border regions. For example, one component (the third) of the IPA instrument was devoted to cross-border cooperation. All these regions are involved in cross-border programs with concrete projects of cooperation with regions of Bosnia and Herzegovina, Serbia and Hungary.

Since in the Structural and Cohesion Funds significant funds are earmarked for cross-border cooperation, it is clear that the border counties see opportunity in the projects that will use these funds. Bjelovarsko-bilogorska and Požeško-slavonska county were the only two counties in the Republic of Croatia which do not stretch to the outer Croatian borders, so they were at a disadvantage compared to other border counties and could use up to 20% of the total value of each tender in IPA III components. Therefore, Bjelovarsko-bilogorska stresses the importance of regional integration and networking in general, and Požega-slavonia mentions better cooperation and

coordination between the civilian sector and administrative capacities, the possibilities of using the funds to finance their own project ideas and general ration then among the counties of the Pannonian region and vertical cooperation between local, regional, and national level as important factors. In Sisačko-moslavačka County, an opportunity to improve partnerships and horizontal and vertical co-operation with the constant support in integrated, multi-sectoral initiatives and projects through EU programs can be seen.

III. Results of research of stakeholders in Pannonian Croatia relating to EU funds

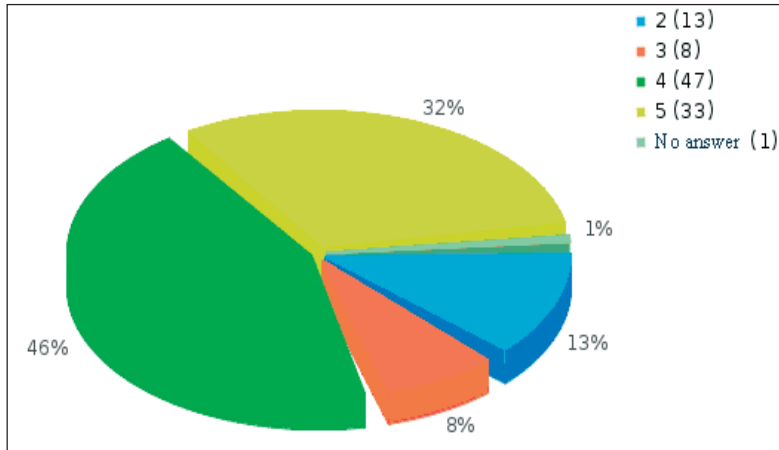
This part of the paper will present the results of research that has been conducted in the region of Eastern (Pannonian) Croatia and which aims to define the position of the stakeholders in the region, but also the region as a whole, having regard to the potential of EU funds. The position of stakeholders is largely determined by absorption capacities, and also by certain macroeconomic indicators, financial strength, and management and administrative capacities of each group of stakeholders and the region as a whole. The attitude of stakeholders about their own approach to the whole system of recruitment and use of EU funds definitely affects the position of stakeholders in relation to the funds. What is the point of view of stakeholders, what is their real position and what is the position of the region as a whole? These and other relevant questions were answered by the research conducted in the framework of the preparation of this paper.

The starting point of this research is the fact that the region of Pannonian Croatia, as well as the concerned stakeholders, are in many ways limited in capacities to attract EU funds, because of the fact that the intelligent approach to management of capacities is especially important for stakeholders in the region, which does not mean that it is not applicable to other stakeholders in other areas which also have limited capacities. On the contrary, this approach is in many of its features universal, but it is primarily tested on indicators of the Pannonian Croatia region.

Because of the fact that the research brought answers to 60 questions, it is impossible to present all of them in this paper, so we present only some which we perceive as significant. In this case, figures are divided

as follows: 1-completely disagree; 2-mostly disagree; 3-nor agree nor disagree; 4-mostly agree; 5-completely agree. Graph one displays the attitude of stakeholders that gave up on the preparation of grants for EU funds because they perceived it as being too complicated.

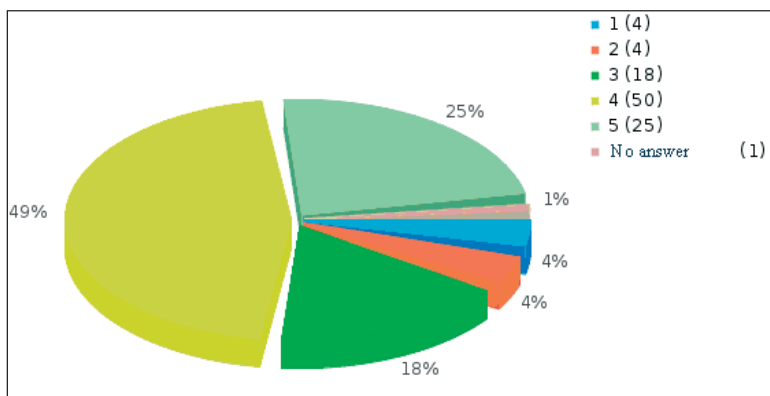
Graph 1 Stakeholders are giving up on preparation of EU funds, because perceiving it as too complicated



Source: author, 2010-2012

As we can see, 32% completely and 46% mostly agree that stakeholders are giving up on the preparation of projects, because they perceive it as too complicated. 8% of them nor agree nor disagree and 13% of them mostly disagree. Therefore, we can conclude that most stakeholders perceive the process of project preparation for European Union funds as too complicated.

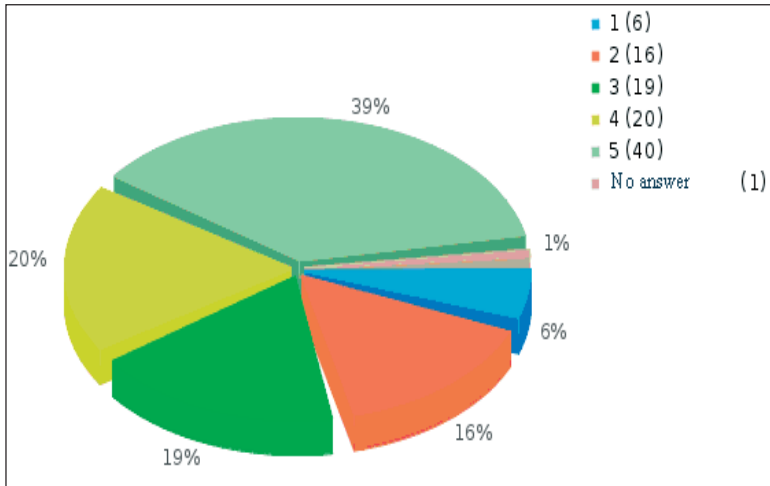
Graph 2 Stakeholders who want to prepare a project for EU funds, and believe that it is most important to withdraw money from EU funds



Source: author, 2010-2012

As we can see, 25% completely and 49% mostly agree that stakeholders believe that it is highly important to withdraw money from EU funds. 18% nor agree nor disagree and 4% mostly and 4% fully disagree. Therefore, we can conclude that most of stakeholders have a very clear attitude that the withdrawal of European Union funds money is a most important issue. This tells us, how big the impact of this financial aspect is on project preparation.

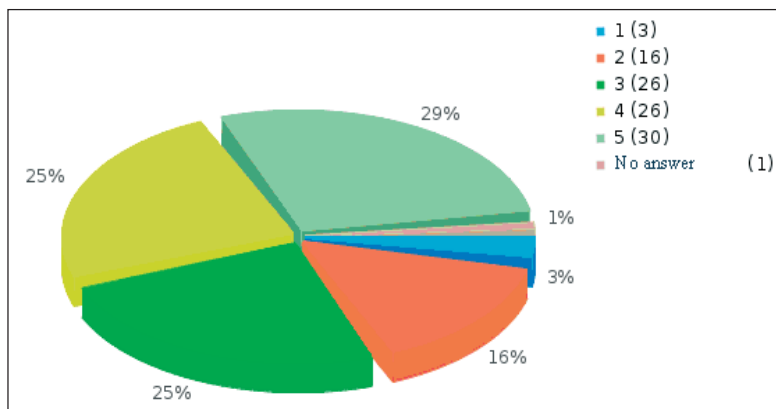
Graph 3 Stakeholders who want to prepare a project for EU funds, and believe that the implementation of projects goes easy once they already got EU funds money



Source: author, 2010-2012

As we can see, 39% completely and 20% mostly agree that stakeholders believe that the implementation of projects goes easy, once they were already awarded EU funds money. 19% nor agree nor disagree and 16% mostly and 6% completely disagree with this. Therefore, we can conclude that most of the stakeholders believe that project implementation is not a complicated process. Quite the opposite, they believe that it is a simple process.

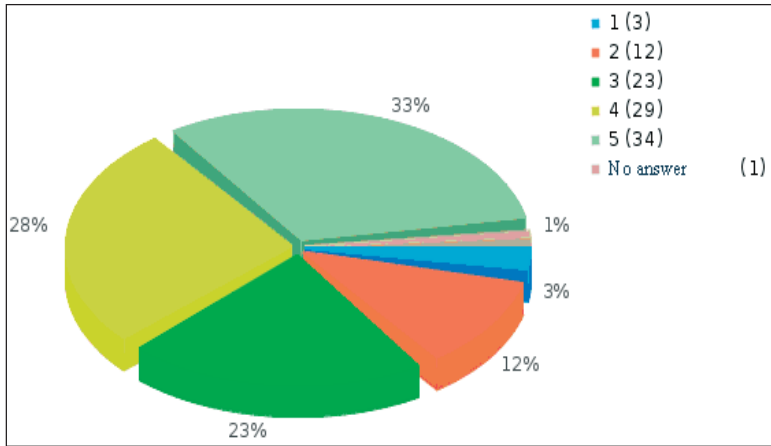
Graph 4 Stakeholders who want to prepare a project for EU funds and believe that they are able to implement multi-million projects



Source: author, 2010-2012

As we can see, 29% completely and 25% mostly agree that stakeholders believe that they are able to implement multi-million projects. 25% nor agree nor disagree while 16% mostly and 3% completely disagree. Therefore, we can conclude that most stakeholders believe that implementation is not a complicated process; therefore they believe that they have capacities to implement big projects.

Graph 5 Stakeholders who are in need of EU funds money, and believe that they are able to prepare and implement an EU project



Source: author, 2010-2012

As we can see, 34% completely and 29% mostly agree that stakeholders who are in need of EU funds money believe that they are able to prepare and implement an EU project. 23% nor agree nor disagree while 16% mostly and 3% completely disagree. Therefore, we can conclude that most stakeholders who are in need of EU funds believe that they could successfully prepare and implement an EU project. If we take into consideration conclusions that came out if these answers, together with other answers, we can conclude that stakeholders are usually driven by their needs and wishes, not always by the real possibilities and the current situation of their capacities.

IV. Conclusion

For a country, region or any other mostly dependent on EU funds (which largely bases its development on such resources), the quality of planning and management of absorption capacity for the use of EU funds is tremendously important. Since the system of financing of projects from EU funds is determined and limited by the amount of percentage of GDP, capacity it is impossible for stakeholders to directly affect that capacity, except to the extent that they can contribute to the growth

of the gross domestic product. Stakeholders can only affect financial capacities directly in a limited way, but by defining the quality strategy, priorities, and above all quality development projects, it is possible that such a limited capacities be optimally used and thus take advantage of EU funds, while respecting the maximum criteria of effectiveness and the efficiency of use of resources. But this requires decisions based more on economic and less on political factors. It is necessary to achieve a higher level of cooperation between institutions, especially multipliers of knowledge, and it is necessary to use information and knowledge about the funds in a new way. Most of the responsibility to get as much worth as possible from natural resources and their good use depends on the countries themselves. The same true regarding EU funds, where results first of all depend on the absorption capacities of states and on the way each country operate with those capacities.¹²

The opportunities created by EU accession could be used easier and better, so that every euro you spend is measured by the real effects that implies on socio-economic development, not as by far, when the effects were only measured by absolute amount which is achieved through projects. On other words, the absolute and nominal worth of amount of used EU funds is not complete measure or complete sign of real effects of used EU funds. In particular, promoting cooperation and the application of the partnership principle, the principles of quality and the development of the practical implementation of the guidelines of a knowledge-based economy, the region of Pannonian Croatia has the potential to become the region that will use EU funds in an intelligent way. This will be achieved through the preparation and implementation of quality projects that specifically contribute to socio-economic development and have higher added value, and not just those which are only financially beneficial in the short term and therefore have fewer implications for the broader development of the region, as well as less added value.

¹² J. E. Stiglitz, *Uspjeh globalizacije, Novi koraci do pravednoga svijeta* [Making globalization work: the next steps to global justice] (Zagreb, Algoritam 2009) p. 171.

Hospes communities in Croatia during the age of the Árpád Dynasty**

I. Hospes privileges during the age of the Árpád Dynasty

The legal status and development of *hospes* communities - which constitute an important element and a later stage of the birth and development of free bourgs (medieval towns) in Hungary - are from more than one aspect considerable scientific topics to deal with. In Western Europe, bourgs were born in the 12th century while in Central-Eastern Europe (so in Hungary too) that only happened about a hundred years later.¹ According to *Bálint Hóman*, the roots of bourgeoisie and the tradition of living in bourg-like settlements did not exist in the 12th century among the Hungarian population that had just settled in the preceding centuries.² These traditions were brought in by the *hospes* coming from abroad. That is why the issue can also be interesting from the aspect of legal history.

Information about the spread of bourg-like settlements,³ social relations, polity, settlement policy, royalty and the economic system can also be found in the charters of privileges of the *hospes* communities. Furthermore, significant historical events (like the Tartar invasion), regional differences or correlations⁴ and segments of *ius regium* (the public rights and legal status of the monarch) may be highlighted through their analysis. Re-affirmations of the privileges can present the

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¹ Hóman Bálint, *Magyar középkor* (Budapest, Magyar Történelmi Társulat 1938) p. 450.

² Hóman, op. cit. n. 1, at p. 451.

³ Mezey Barna, szerk., *Magyar alkotmánytörténet* (Budapest, Osiris Kiadó 2003) p. 162.

⁴ László Balázs, 'Vas megyei hospes-privilégiumok az Árpád-korban' 4 *Vasi Szemle* (2013) pp. 412-424.

development of a certain community. Finally, these royal charters written in Latin also contain some Hungarian notions such as ‘*zsolozsma*’, ‘*füstpénz*’, ‘*alamizsna*’, ‘*vámzab*’, ‘*must*’, ‘*udvarnok*’, ‘*csöbör*’.

All the information and knowledge mentioned above can be found in royal charters reflecting the royal will which – be it laid down in a document or not – has the power of statute⁵ and thus these charters can provide us with the most authentic basis for our analysis.

II. Privileges

When talking about the *hospes* communities, the word ‘privilege’ may have two different meanings. On the one hand, a privilege is a form of document, a royal charter in which the special rights and duties of *hospes* are declared. In this sense, a privilege is a source of law, the will of the monarch and so a statute in itself.⁶

The majority of legal historians (*Bónis, Eckhart, Csizmadia, Mezey*) deem that in terms of their content, written sources of the 13th century can be divided in two groups. According to them, decrees are sources of general law, while privileges regulate the legal relations of private individuals or communities and create *ius singulare*. Meanwhile, according to *Gábor Béli*, there is no substantive difference between decrees and privileges prior to the establishment of the assembly of the estates in Hungary.⁷ This opinion seems more well-founded. It is obvious that privileges were principally given to determine the legal status of dependants but these charters often include rules concerning other individuals, clerks or communities. So the circle of addressees is wider. A more important reason is that *hospes* communities were often given the same or similar privileges. Furthermore, sometimes a community could directly attain the privileges of another *hospes* community, for example, that of *Fehérvár (Alba)*. That is why we can say that these privileges built up an extensive and coherent system of legal rules which clearly prizes open the frames of *ius singulare* and demolishes the theories stating that privileges create *ius singulare*.

⁵ Béli Gábor, ‘Árpád-kori törvényeink’ 1-2 *JURA* (2000) p. 40.

⁶ Béli, loc. cit. n. 5, at pp. 41-43.

⁷ Béli, loc. cit. n. 5, at p. 40.

On the other hand, a privilege can be a single special right of a private individual or a community, often declared in a royal charter having the same name. In this sense, privileges are the substantive content of a royal charter.

III. Hospes communities or bourgs?

A further interesting question may occur. Who in fact got the privileges? Why do we talk about *hospes* communities and not bourgs?

As mentioned above, bourgs existed in Western Europe already in the 12th century, while settlements of this kind appeared in Hungary later. Obviously, even in Hungary there were settlements which were from some aspects more important and more developed than others. These communities however can only be considered bourgs in a functional aspect. Becoming real ‘bourgs’ also requires a legal aspect.⁸ According to *Bálint Hóman*, there are three basic groups of legal liberties of the *hospes* communities.⁹ He mentions first of all the free election of their judge, the so-called *villicus*. The second is autonomy, which means that there is no authority having competence (or jurisdiction) over them but the monarch. The third privilege is that the *hospes* are totally or partly exempt from paying duty. Naturally, there are also many other privileges which all helped bourgs in a legal sense to appear and so these liberties contributed to the development of a type of settlement with a population having definite privileges.

As *András Kubinyi* adds, the addressees of these liberties were not the communities but the Teutonic, Latin, Slav and Hungarian *hospes* themselves.¹⁰ During the reign of the *Árpád* Dynasty several populations migrated to settle in the territories of Hungary. Such populations were (besides those mentioned above) the Saxons, Seklers, Cumans, and (following the Hungarian designations) ‘*böszörmény*’, ‘*besenyő*’ and

⁸ Kubinyi András, ‘Városfejlődés a középkori Magyarországon’ in Gyöngyössi Márton, szerk., *Magyar középkori gazdaság- és pénztörténet* (Budapest, Bölcsész Konzorcium 2006) p. 153.

⁹ Hóman, op. cit. n. 1, at p. 459.

¹⁰ Kubinyi, loc. cit. n. 8, at p. 154.

‘*jász*’ people.¹¹ The importance of these *hospes* is that they brought along the tradition of living in bourg-like settlements when they became an integral part of the Hungarian castle system (*castrum*) and blended with Hungarian people serving in the same system (*castrenses*). Attaining privileges from the monarch the *hospes* seceded from the *castrum* and founded their free communities. So, the meaning of the word ‘*hospes*’ changed during the 13th century. Initially it referred to the origin of people but later it referred to a special legal status.

The theory of *Bálint Hóman* and other legal historians, according to which the roots of medieval Hungarian bourgs go back to the communities of the half-free population of the castle system¹² even if the settlement and the bourg itself do not mean the same. This differentiation means that bourgs of the late 13th century did not always have to be fortified.¹³ Being fortified with walls is not a basic requirement for the *hospes* communities in the 13th century. Fortification started to increase after the Tartar invasion, while some of the *hospes* communities attained their privileges earlier.¹⁴

Although the terminology of the privileges is not determining,¹⁵ it is noticeable that privileges given before 1270 do not talk about bourgs (*civitas*) but villages (*villa*), people (*populi*) or hospites.

After all, calling these settlements ‘*hospes* communities’ seems to be the more accurate way of pointing out the fact that the *hospes* communities are close antecedents (however not the only ones) of the later free bourgs.¹⁶ They were some kind of ‘*nasciturus*’ bourgs.

IV. Arenga passages and *ius regium*

As *György Granasztói* emphasizes, giving privileges to the *hospes* communities was basically the right of the monarch until the end of the

¹¹ Degré Alajos, ‘Magyar alkotmány- és jogtörténet’ in Béli Gábor, szerk., kötet címe? (Pécs, IDRResearch Kft. – Publikon Kiadó 2009) pp. 53-57.

¹² Hóman, op. cit. n. 1, at p. 454.

¹³ Kubinyi, loc. cit. n. 8, at p. 153.

¹⁴ Szücs Jenő, *Az utolsó Árpádok* (Budapest, Osiris Kiadó 2002) p. 77.

¹⁵ Szücs, op. cit. n. 14, at p. 79.

¹⁶ Szücs, op. cit. n. 14, at p. 77.

13th century.¹⁷ Giving privileges, similarly to granting functions and offices, is an important element of *ius regium*. *Ius regium* is the entirety of legal norms regulating the public legal status of the monarch, which norms provide the monarch with some kind of political or economic benefits.¹⁸ This includes so to say all the norms and privileges which make the monarch what he is. *Ius regium* defines the legal status and public rights of the king.

The privileges of the *hospes* communities often include references to the rights of the monarch. These references can be found mostly in the *arenga* passages of the royal charters. The *arenga* is the introductory element of the essential part of the charter, containing some kind of philosophical, theological or legal message.¹⁹ The length of this part of the charter can be different in the different privileges. It usually comprehends two or three lines of the text but sometimes it can be longer than the essential part of the privilege. For example, the privilege of 1248 of the *hospes* from *Nyitra* includes the following *arenga*: ‘the royal highness should perspicaciously consider the merits of his dependants and answer to these merits by rewarding those who are deserving of it so that following their example, others can better be roused to true and faithful services’.²⁰ A more direct reference to the power of the monarch can be found in the privilege of 1254 of the *hospes* from *Dobronya* and *Bábaszék*: ‘it is appropriate for the royal highness to be helpfully condescending to the requests of his dependants, so as to increase the number of his adherents and to extend the royal power to the widest extent possible, since it is the characteristic of monarchs that they glitter in the crowd of people’.²¹

¹⁷ Granasztói György, *A középkori magyar város. Magyar História* (Budapest, Gondolat Kiadó 1980) p. 80.

¹⁸ Pármiczky Mihály, *De iure regio Hungarico tempore regum stirpis Arpasianae. A magyar ius regium az Árpád-házi királyok korában* (Budapest, Budapesti Királyi Magyar Pázmány Péter Tudományegyetem Jogtörténeti Szeminárium Illés Szemináriuma 1940) p. 7.

¹⁹ Szentpétery Imre, *Magyar oklevéltan* (Budapest, Magyar Történelmi Társulat 1930) pp. 19-20.

²⁰ Stephanus Ladislaus Endlicher, ed., *Rerum Hungaricarum Monumenta Arpadiana* (Sangalli 1849) p. 498.

²¹ Endlicher, op. cit. n. 20, at p. 482.

There is however a further connection between *ius regium* and the privileges of the *hospes*. By giving a privilege the monarch not only establishes and declares the rights and privileges of the *hospes* but also enumerates their duties, the addressee (beneficiary) of which is usually himself. Sometimes the *hospes* are also obliged to provide someone else (e.g. the palatine, the *banus*, the *comes*) with services, but it is important to see that the legal basis of these duties is *ius regium* being embodied in another donation (of assets and offices), of which the beneficiary is one of the persons mentioned above. From the aspect of the monarch, these duties mean rights and demands (e.g. sending military units to the monarch, paying taxes and providing bed and board) which are also elements of *ius regium*.²²

Conclusions on the public rights of the monarch can be drawn not only from the duties of the *hospes* but also from their privileges and exemptions. For example, if the monarch declares in the privilege of a *hospes* community that the inhabitants of the settlement are no longer obliged to provide him with bed and board, it must be seen, that the monarch has the right to demand that kind of service from other dependants (and settlements).

V. The three-legged system of the privileges

As mentioned above, aggregating the basic liberties of the *hospes* communities, *Bálint Hóman* distinguished between three privileges: the free election of their judge, autonomy and being totally or partly exempt from paying duty.²³ However the content of autonomy is of a wider range, it is strongly related to the free election of the *villicus*. The defect of this system is that it concentrates on three fundamental privileges while ignores some very important and common elements of the legal status of the *hospes*, such as the freedom of devise and other private law elements, the free election of the priest of the community or being allowed to organize free fairs. This system also ignores the duties of the communities.

²² Degré, loc. cit. n. 11, at p. 74, Pármiczky, op. cit. n 18, at pp. 6-7.

²³ Hóman, loc. cit. n. 1, at p. 459.

Erik Fügedi tried to correct the deficiencies of *Hóman*'s theory by establishing another three-legged system of privileges. He distinguished between legal, economic and religious liberties.²⁴ This system seems to be more accurate as the elements of autonomy (which are difficult to clearly identify) are divided into the fields of legal, economic and religious privileges. Another advantage is that *Fügedi* uses the category of economic privileges instead of being exempt from paying duty, so he does not ignore for example the free organization of fairs. The problem of the system is that it also excludes the duties of the *hospes*. Moreover, some rights or liberties may be difficult to classify, for example being free from providing the palatine or the *comes* with bed and board or the freedom of devise which was the most important private law element among the liberties of the *hospes*.²⁵

Considering the theories of *Hóman* and *Fügedi* and supporting the three-tier model, the following system can be established. The first and most important group of the privileges of the *hospes* includes the free election of their judge and some further rules concerning law-enforcement. These can be called the freedom of jurisdiction.²⁶ The second group includes economic liberties and the third one includes other rights (including some elements of autonomy, religious liberties and many others) and the duties of the *hospes*. In this system, private law elements can mainly be found in the third group and only some of them are to be found among the economic liberties.²⁷

VI. The significance of the hospes communities in Croatia

Examining the written sources of the 13th century, nearly four dozens of privileged *hospes* communities can be identified. If we try to locate

²⁴ Fügedi Erik, 'Középkori magyar városprivilegiumok' in *Tanulmányok Budapest múltjából XIV* (Budapest 1961) pp. 28-78.

²⁵ László Balázs, 'Private law elements in the privileges of the hospes communities in Hungary along the 13th century' in Macieja Mikuly, Władysława Pęksy i Kamila Stolarskiego, eds., *Possessio ac iura in re. Z dziejów prawa rzeczowego* (Kraków 2012) p. 100.

²⁶ László Balázs, 'Bíráskodási szabadság a XIII. századi hospesközösségekben' in Drinóczi Tímea, Naszładi Georgina, szerk., *Studia Iuvenum Iurispritorum 6* (Pécs, 2012) p. 42.

²⁷ László, loc. cit. n. 25, at p. 101.

these settlements, we will see that the central territories of the country (in fact the plains) are empty. This fact can mainly be attributed to geographical, economic and military reasons. It also means that some of the *hospes* communities were parts of territories other than *Hungaria*, for example of *Slavonia* or *Transylvania*. The consequence of this is that since the 20th century nearly eighty percent of these *hospes* communities have no longer been part of Hungary but of the neighbouring countries.

In Croatia we can find five settlements nowadays which were privileged *hospes* communities during the age of the *Árpád* Dynasty. The *hospes* of *Petrinia* (today: Petrinja) got their privileges in 1225 and in 1240, the *hospes* of *Verőce* (Virovitica) in 1234 and in 1248, the *hospes* of *Szamobor* (Samobor) in 1242, the *hospes* of *Jasztrebarszka* (Jastrebarsko) in 1257. The most important and interesting privilege from these territories is that of the *hospes* of *Zágráb* (Zagreb) of 1242. It was re-affirmed and extended in 1266. Some of these royal charters contain references to other ones, for example the privileges of the *hospes* from *Petrinia* are mentioned in the privileges of *Samobor* and also of *Jasztrebarszka*.

Due to the special legal status of the *Slavonian-Croatian* territories, the significance of the charters of these *hospes* communities is that they contain special regulation concerning their relations to the *banus*. It is also interesting but not inevitable that the privileges and exemptions of the *hospes* living in these communities are more or less similar to each other. As the detailed analysis of all the *hospes* privileges in Croatia would be too long, this essay concentrates on the specialties of these charters.

1. The privilege of 1225 of the *hospes* from *Petrinia*²⁸

The privilege of 1225 of the *hospes* from *Petrinia* is one of the earliest *hospes* privileges available in written form.²⁹ That is because the

²⁸ Wenzel Gusztáv, szerk., *Árpádkori új okmánytár I-XII* (Pest-Budapest 1860-1874) XI. nr. 121.

²⁹ Boreczky Elemér, 'A királyi tárnokmester hivatala 1405-ig' (Különlenyomat a Magyar Jogász-Ujság 1905. évi folyamából, Budapest, Országos Központi Községi Nyomda Rt. 1904) pp. 60-61.

chancellor's office had been established by *Béla* III at the end of the 12th century while the Tartar invasion was yet to come.

According to the initial sentence of the text, the privilege was given by *Béla*, firstborn son of King *András* II and King of Hungary. So, he is the later King *Béla* IV. The reason why he was called 'king' in this document is that he bore the name and status 'younger king of Hungary'.

The first rule of the charter to mention is that it declares exemption from all the duties and services for a term of seven years. The exemption from paying duty on their free fairs is emphasized in a separate sentence. The document also defines what the *hospes* are obliged to provide after the term of exemption.

In terms of jurisdiction and law enforcement the privilege declares that in any cases of the *hospes* of *Petrinia*, the production of evidence must be carried out by taking oaths (*eis iudicetur iuramentum*). In fact, it means the exclusion of trial by combat (duels). Consequences of false accusation are also enumerated in the document.

Another interesting section declares that if the *banus* causes damage to them, he must pay a hundredfold compensation (*si Banus eis ad ualorem unius marce dampnum feceret, in centuplo restitueret eisdem*). Nowadays, this rule of compensation may seem strange but in the 13th century punitive damages were much more common.

The freedom of devise is not an essential element of the privileges of the *hospes* anyway but the privilege of *Petrinia* declares total freedom of devise and the freedom of testamentary donations (*tam ipso viuente, quam ab hoc seculo transmigrante*). It also allows the free purchase of assets when the owner is going to die. A further privilege is the free election of their priest. Not even this privilege is however an essential element of the legal status of the *hospes*.

Finally, the charter enumerates some royal donations, such as several forests to have wood for building, a mountain called '*Grachie*' for use and estates and vineyards towards *Zabat* (maybe rather *Zágráb*), the boundaries of which are precisely described.

2. The privilege of 1234 of the *hospes* from Verőce³⁰

The privilege of 1234 of the *hospes* from Verőce was given by Kálmán, King and Prince of entire Slavonia (*Colomannus dei gracia rex et dux tocius Sclauonie*). The first issue to examine is who Kálmán was and what the expression ‘king and prince’ means. Kálmán who was the son of King András II was the prince of Slavonia but he never became king of Hungary. On the other hand, the king of Slavonia (as a land of Hungary) was always the king of Hungary himself as it can be seen in thousands of royal charters. That is why ‘king and prince’ cannot mean ‘king and also prince of Slavonia’. It can only mean ‘prince of Slavonia and king of something else’. The ‘something else’ is probably Halics, of which Kálmán had been the king in the 1220s.³¹ So, he carried on bearing the name ‘king’ in his charters just to highlight the power and significance of his own person.

The second issue to examine is how Kálmán could give a privilege to the *hospes* of Verőce when he was no king. The answer must be looked for in the special legal status of the land. The prince of Slavonia was the landlord of the territory but he was also subject to the monarch. It means that the privilege of 1234 must have been given with permission and consent of the king, and this is how it can be based on *ius regium*.

An interesting rule of devise can also be found in the privilege. It does not declare the total freedom of devise, it says instead that testamentary heirs of a *hospes* can be only his relatives or the church of the community. The latter can be read out from the expression ‘*pro remedio anime*’, which means ‘to save his soul’.

The privilege mentions that the judge (*villicus*) of the *hospes* of Verőce should proceed together with jurors from the community (*cum ciuibus uille eiusdem cum iuratis, qui quidem coniurati ad facienda iudicia fuerint computati et destinati*). The charter does not determine the number of jurors but it is probably 12 (similarly to the privileges

³⁰ Endlicher, op. cit. n. 20, at p. 443.

³¹ Pauler Gyula, *A magyar nemzet története az Árpádházi királyok alatt II* (Budapest, Atheneum 1899) pp. 52-57, 72-73, 94-95.

of *Nyitra*³² and *Nagyszőlős*³³) or 10 (similarly to the privilege of *Pozsony*³⁴).

Finally, some specialties of the economic liberties are to be mentioned. The privilege declares that the *hospes* are not obliged to provide the monarch with horses, carts (called ‘*porosz*’) and foodstuffs except for one day of the year. This exemption may be a special formulation of the rule of providing ‘bed and board’ which is a typical duty of the subjects to their landlords. Neither are the *hospes* obliged to pay *zsolozsma* (*zulusmoa* or *uictualia bani*) to the *banus*. Two conclusions may be drawn from this exemption. On the one hand, this is a significant economic privilege as *zsolozsma* includes everything that has to be given to the *banus*. It means that the *hospes* of *Verőce* had to provide him with nothing. On the other hand, this means that the *hospes* of *Verőce* were in fact exempted from all the services and authority of the *banus* and were directly subject to the monarch.

3. The privilege of 1240 of the hospes from Petrinia³⁵

The significance of the privilege of the *hospes* from *Petrinia* is shown by the fact that other royal charters contain references to this document. According to the privilege of 1242 of the *hospes* from *Szamobor*, these *hospes* applied to the monarch for the re-affirmation of their liberties which they had gained from *Kálmán*, Prince (*dux*) of *Slavonia*. The *arenga* passages of the privilege also mention that the liberties of the *hospes* from *Szamobor* correspond to those of the *hospes* from *Petrinia*. Furthermore, according to the privilege of 1257 of the *hospes* from *Jasztrebarszka*, these *hospes* also applied to the monarch to allow them the same liberties that the *hospes* of *Petrinia* and *Szamobor* had been taking advantage of.

This means that well-founded conclusions on the content of the privilege of *Petrinia* could be drawn from the content of the privileges of *Szamobor* and *Jasztrebarszka* even if the privilege of 1240 was lost.

³² Endlicher, op. cit. n. 20, at 498.

³³ Wenzel, i.m. VIII. nr. 23.

³⁴ Endlicher, op. cit. n. 20, at p. 623.

³⁵ Wenzel, op. cit. n. 28, at XI. nr. 220.

According to the initial sentence of the text, the privilege was given by *Kálmán*, King of *Halics* and Prince of entire *Slavonia* (*Colomannus dei gracia rex Ruthenorum et dux tocius Sclauonie*). This naming proves the premise mentioned above.

The content of the privilege is very similar to that of the privilege of 1225. Not even the arenga passages have changed. One of the few differences is that the seven-year exemption declared in 1225 is missing (expired). Another difference is that the rudimentary regulation of the freedom of jurisdiction in the privilege of 1225 is succeeded by the common form of the *hospes* privileges of the 13th century.

At the end of the charter we can find some new royal donations, such as the estates called ‘*Gurgus*’, ‘*Waratuk*’, ‘*Haaco*’, ‘*Potok*’ and ‘*Kenesepola*’, the boundaries of which are precisely described.

4. The privilege of 1242 of the *hospes* from Szamobor³⁶

The privilege of 1242 of the *hospes* from *Szamobor* was given by King *Béla IV* at the end of the Tartar invasion. Some information can be read out from the initial sentences of the charter concerning the circumstances of the community. They define for example that the settlement lies near the castle of *Okics* (*Osckich*, today: *Klinča Sela*, *Novo Selo Okičko*). As mentioned above, the privilege also explains that the *hospes* from *Szamobor* applied to the monarch for the re-affirmation of their liberties which they had gained from *Kálmán*, Prince of *Slavonia* and brother of *Béla* (*humiliter a nobis flagitarunt et instanter, ut modum et statum libertatis eorum de gracia et prouidencia pie memorie regis Colomanni, carissimi quondam fratris nostri, iuxta tenorem libertatis hospitum de Petrina liberaliter concessa, nostrarum auctoritate literarum dignaremur confirmare*). There is also a reference to the liberties of the *hospes* from *Petrinia*, when the charter says that the privileges of the *hospes* from *Szamobor* correspond to those of the *hospes* from *Petrinia*.

The essential content of the privilege is the same as the content of the privilege of 1240 of the *hospes* from *Petrinia*. The only considerable difference is that the privilege of *Szamobor* does not include any royal

³⁶ Endlicher, op. cit. n. 20, at p. 456.

donations. A further but less important difference is that this charter also says where it was given: in *Veróce*.

5. The privilege of 1242 of the hospes from Zagreb³⁷

Probably the most important settlement on the territory of Croatia was the *hospes* community of Zagreb. Before analyzing the essential provisions of the royal charter, some specialties can be mentioned.

The initial sentence of the text includes a supplication (*in nomine sanctissime Trinitatis et indiuidue unitatis, amen*). Considering the written sources of the Middle Ages, this is not a rare initial part of royal charters. However, it is interesting that in the overwhelming majority of the *hospes* privileges no supplications can be found. The *arenga* passage contains a reference to the royal power and to *ius regium*. It says: ‘the pride of monarchs requires them, and it is also the duty of the superiority of prestige, the more they gain or earn in the multitude of people, the better to excel in power and authority’ (*regum celsitudo requirit, et sublimium dignitati debetur, ut tanto amplius in multitudine plebis gaudeat, quanto ipsi auctoritate antecellunt*).

The privilege was given near *Veróce* by King *Béla IV* right after the Tartar invasion, which had a great influence on the content of the charter. The monarch explains that he has decided to allow the establishment of a fortified settlement on the mountain called ‘*Grech*’ so as to protect the borderlines of his country. He also refers to the consent of *Dénes, banus* of entire *Slavonia* and of other lords, and to the fact that he has precisely determined the boundaries of the settlement. Anyway, according to *ius regium* in the 13th century, the monarch did not need the consent of anyone to be able to establish a fortified settlement. However, the reference to the *banus* of *Slavonia* highlights the special legal status of this territory and its landlord.

In terms of the economic liberties, the privilege says that the *hospes* of Zagreb are obliged to provide the monarch with 12 oxen, 1000 loaves of bread and 4 ‘*átalag*’ (almost 300 liters) of wine by virtue of the right to ‘bed and board’ (*debent dare pro prandio duodecim boues, mille panes et quatuor tunellas uini*). It is considerable that they were

³⁷ Endlicher, op. cit. n. 30, at p. 451.

also obliged to provide the Prince of *Slavonia* with half of the amounts mentioned but only if the prince was a descendant of the monarch (*duci autem tocius Sclauonie, si sit de prole regia, medietatem predictorum dare tenentur*). According to the charter, the *banus* must be provided with a single ox, 100 loaves of bread and an ‘átalag’ of wine but only once, when he is appointed to be *banus*. The *hospes* of Zagreb had to send 10 military units to the monarch when he was going to start a campaign towards the sea or in *Austria* or *Carinthia* (*cum enim rex Hungarorum expeditionem ad partes maritimas, uel Carinthiam uel Austriam facere uoluerit, dicti ciues decem milites mittere teneantur cum armis militaribus apparatus*).

The privilege declares that the *hospes* are obliged to fortify mountain ‘*Grech*’ with walls at their own expense (*item iidem ciues uoluntate spontanea super se assumerunt, quod expensis propriis dictum montem Grech muro firmissimo communirent*). This was obviously an obligation even if it was written that the *hospes* had voluntarily offered this service to the monarch. In return, they were donated the estates near the mountain and were exempted from all the services mentioned above for a term of 5 years (*sane ab omnibus istis seruiiciis usque quinquennium erunt liberi et immunes, transacto quinquennio tenebuntur*).

In terms of the freedom of devise, the privilege differentiates between personal estates and real estates. Personal estates (*mobilibus*) could be left by will to anyone while real estates (*res immobiles*) could be left by will only to the wife or the relatives of the deceased and could not be exempted from the jurisdiction of the community. If there was no heir of the deceased (*si quis intestatus decesserit*), two thirds of his assets were to be distributed to the church and the indigents of the community while one third was to remain to the community itself (*due partes rerum suarum per uiros fide dignos, consilio ciuium ad hoc deputatos, pauperibus et ecclesie ciuitatis eiusdem distribuantur, tertia uero pars ad utilitatem ciuitatis reseruetur*).

The privilege also contains some interesting provisions concerning jurisdiction. It declares that if the *hospes* sustain robbery or latrocinny in *Hungaria*, *Croatia*, *Dalmacia* or *Slavonia*, the landlord of the territory is obliged to pay them a proper compensation or to reveal the identity of the offender (*si iidem hospites in districtu Hungarie, Dalmacie,*

Croacie, Sclauonie spoliati per latrones uel alios malefactores fuerint, dominus terre in qua spoliati fuerint, estimate pecunie quantitate, iuxta arbitrium bonorum uirorum et sacramentum conciuuium, ad hoc electorem, uel ablata refundat, uel malefactorem ostendere teneatur).

Furthermore, in any cases of the *hospes* of Zagreb, the production of evidence must be carried out by taking oaths and hearing witnesses (*et nulla causa ad duellum iudicatur, sed per testes et iuramento terminetur*). It means once again the exclusion of trial by combat (duels). The document also declares that only people having the same legal status (as the *hospes*) can be heard as witness (*testes autem eiusdem condicionis et libertatis, cuius isti, assumantur*). Finally, if one of them sues another member of the community in front of the monarch ignoring the jurisdiction of the *villicus* of Zagreb, the *villicus* must appear instead of the respondent, and the claimant must pay compensation for the expense of the *villicus* (*si quis aliquem ciuem uel ciues, non requirens antea iusticiam sibi fieri a iudice ciuitatis, ad regem citauerit, pro illo uel illis iudex ire tenebitur, et ei citator refundat expensas, eo quod contempta auctoritate legalis priuilegii, sibi cogniti, irrequisito iudice ciuitatis, fatigauerit cum frustra laboribus et expensis*).

Probably the most interesting and unique part of the privilege of 1242 of the *hospes* from Zagreb is the catalogue of crimes and punishments. These provisions are like a primitive criminal code of the settlement. The crimes and punishments enumerated are the following:

If a *hospes* insults, abuses or reviles another person (*quiscunque ciuis alium ciuem uituperiis, opprobriis aut contumeliis affecerit, si inde conuictus fuerit*), he must pay him 10 ‘*pensas*’ that is to say 100 ‘*denarios*’. If he fails to pay even after the third notice, he must be expelled from the settlement as a contemptible person (*tanquam infamis de ciuitate turpiter expellatur*) and all his assets devolve to the community. If a *hospes* slaps the face or pulls the hair of another one, he must endure the same punishment (*si quis eciam alapam alteri dederit, uel per crines maliciose traxerit, eandem penam paciatur*).

If a *hospes* wounds another person with a knife, a sword, a pike or an arrow without causing him the deficiency of a limb (*si quis uero cultello,*

gladio, lancea aut sagitta, aut aliquo tali modo alium uulnerauerit, uulneratusque sine defectu membrorum resanatus fuerit), he must pay a compensation for the medical expenses and pay 25 ‘*pensas*’ to the victim and 5 ‘*pensas*’ to the community. If he causes the deficiency of a limb (*si uero in aliquo membrorum debilitates fuerit*), he must pay a compensation for the medical expenses and pay 10 ‘*marcas*’ to the victim and 5 ‘*pensas*’ to the community.

If a *hospes* murders another person, two thirds of his assets devolve to the parents of the victim and one third passes to the community. But if the offence was not intentional (*in ludo sine premeditate malicia*), he must pay only 100 ‘*pensas*’ to the relatives of the victim and 20 ‘*pensas*’ to the community.

If a stranger commits one of the crimes mentioned above in Zagreb, he must endure the same punishment. Finally, if a *hospes* or a stranger is caught in theft or robbery (*in furto uel latrocinio deprehensus fuerit*), he must be punished by the *villicus*.

We can see that most of the punishments can be divided in two parts, a higher amount of compensation and a lower amount of fine. The differentiated regulation of intentional manslaughter and non-intentional murder is also considerable. Finally, the fact that thefts and robberies were to be punished by the *villicus* means that the judge of the *hospes* community had to apply the customary laws of the country.

6. The privilege of 1248 of the hospes from Verőce³⁸

The *hospes* of Verőce got another privilege in 1248. The specialty of this privilege is that (contrary, for example, to the second privilege of the *hospes* of Zagreb) it is not the re-affirmation of the former charter. Moreover, it does not include the enumeration of the liberties of the inhabitants of the settlement.

According to the initial sentence of the document, it was given by Mária, Queen consort of Hungary (*Maria Regina Hungarie*). The Latin word ‘*regina*’ makes it obvious that the woman was not a reigning queen but only the wife of the monarch of Hungary. Actually, she had

³⁸ Wenzel: i.m. II. nr. 128.

no general powers, authority or jurisdiction. Monarchs however used to provide their wives with several donations, which means that the people living on the donated estates were obliged to provide services to the queen consort. These people were also called ‘people belonging to the Queen consort’. It seems that the queen consort was allowed to give privileges to her people, but the legal basis for that must have been the royal donation and consent, *ius regium* after all.

In this charter we can also find a reference to the liberties of the *hospes* of *Segesd*. The privilege of *Segesd* is not available but it is known that those privileged *hospes* were ‘people belonging to the queen consort’. *Segesd* itself was so to say the seat of the queen consort, the inhabitants of which were obliged to provide her with several services. This reference shows that at least a part of the population in *Verőce* became ‘people belonging to the queen consort’ and they also became obliged to provide her with services. These services were 600 loaves of bread, 6 grazing oxen and some wine by right of subsistence (*ratione victus annuatim nobis debent dare sexcentos panes sex boues pascuales vinum sexaginta cubulos quatuor palmaru*). It is important to emphasize that the privilege given by *Mária* did not destroy the effect of the privilege of 1234.

In the remaining lines of the document the queen consort precisely enumerates the boundaries of the territory of the *hospes* community in order to safeguard them in peace (*ut congregati conserventur, et congregandi securius valeant sustentari*). The privilege was given in the Isle of Rabbits (*insula leporum*, today: *Margit-sziget*).

7. The privilege of 1257 of the hospes from Jasztrebarszka³⁹

The privilege of 1257 of the *hospes* from *Jasztrebarszka* was given by King *Béla IV*. In the initial part of the document the monarch explains that his *hospes* of *Jasztrebarszka* from *Podgoria* County applied to him (*hospites nostri de Iastrebarska, de comitatu de Podgoria, nobis humiliter supplicauerunt*) to allow them the same liberties that the *hospes* of *Petrinia* and *Szamobor* were taking advantage of.

³⁹ Endlicher, op. cit. n. 20, at 496.

Comparing this privilege to those of *Petrinia* and *Samobor*, we can see that the *hospes* of *Jasztrebarszka* were given exactly the same liberties as the *hospes* of *Samobor*. The document contains the exclusion of trial by combat, the hundredfold compensation of the *banus*, the total freedom of devise and the free election of the priest.

There are only two differences. The privilege of *Jasztrebarszka* does not say where it was given and does not contain ‘*corroboratio*’ which is a common part of privileges (and other royal charters) re-affirming the essential provisions.

8. The privilege of 1266 of the hospes from Zagreb⁴⁰

The privilege of 1266 of the *hospes* from Zagreb was given by King *Béla IV* as a re-affirmation and expansion of the *hospes* liberties of 1242. It is unknown where the privilege was given. The document also contains a reference to the provisions of the privilege of 1242 when it explains that the monarch had decided to allow his dependants to fortify the mountain called ‘*Grech*’ with walls so as to protect the southwestern territories and borderlines of the country. It is also declared that the fortification has been finished by the *hospes* of Zagreb, who spared neither trouble nor expenses to manifest their obedience and loyalty (*sumtus non modicos, labores continuos et damna plurima usque ad exinanicionem extreme uirtutis fideliter subierunt, exopnentes se et sua illis temporibus pro regio siue ducatus honore crebis periculis et fortune*).

In terms of jurisdiction, compensation for the expenses caused to the claimant by avoiding the jurisdiction of the *villicus*, rules of testimony, exclusion of trial by combat and the freedom of devise, the privilege of 1266 contains the same provisions as the privilege of 1242. The consequences of suffering robbery or latrocinium in the territory of *Hungaria*, *Croatia*, *Dalmatia* or *Slavonia* are also extended to suffering murder (*spoliati uel occisi per latrones uel alios malefactores fuerint*).

Concerning economic liberties, the privilege declares that the *hospes* of Zagreb are no longer obliged to send military units to support the campaigns of the monarch. They do not even have to provide him or his brother *Béla*, Prince of *Croatia* and *Slavonia* with services except

⁴⁰ Endlicher, op. cit. n. 20, at 507.

for 40 customary '*marcas*' that is to say 200 '*pensas*' which they are obliged to give to the prince from year to year. The document also contains the re-affirmation of the donation of the estates near the mountain called '*Grech*'.

There were also some changes in the catalogue of crimes and punishments. Further offences were added to the list, a former provision was deleted from the document and some punishments were changed.

If a *hospes* insults, abuses or reviles a living person, he must pay him 10 '*pensas*' that is to say 100 '*denarios*'. If he fails to pay even after the third notice, he must be expelled from the settlement as a contemptible person and all his assets devolve to the community. If a *hospes* slaps the face or pulls the hair of another one, he must endure the same punishment.

If a *hospes* commits one of the offences mentioned above in court or anywhere else in the presence of the *villicus*, he must endure a doubled punishment (*si uero hec iudice sedente pro tribunali, uel alias ubicunque in eius conspectu idem perpetrare presumerit, pena duplici plectatur*). Furthermore, if a *hospes* commits one of the crimes mentioned above to the injury of the *villicus* or one of his assessors (*si hoc in persona iudicis, uel cuiuscunque assessoris sui idem attentauerit*), he must pay a fine of 10 customary '*marcas*'. Finally, if he fails to pay, he must lose one of his hands (*quod si soluendo non fuerit, manum amittat*).

If a *hospes* wounds another person with a knife, a sword, a pike or an arrow, he must pay a compensation for the medical expenses and pay 10 '*marcas*' to the victim and 2 '*marcas*' to the community.

If a *hospes* murders another person, two thirds of his assets devolve to the parents of the victim and one third passes to the community. But if the offence was not intentional, he must pay only 100 '*pensas*' to the relatives of the victim and 20 '*pensas*' to the community.

If a stranger commits one of the crimes mentioned above in Zagreb, he must endure the same punishment. If a *hospes* or a stranger causes deficiency of a limb to someone else, he must be punished by the *villicus*. Finally, if a *hospes* is accused of calumny or perjury, and similarly, if he is caught in calumny or perjury, he must be taken to the *villicus* immediately (*si quis in calumnia uel falso testimonio*

manifeste conuictus fuerit uel eciam deprehensus, hec in iudicem uel eius assessorem siue consiliarium deinceps admittatur).

To summarize these changes, we can make the following remarks. Offences committed in court or in the presence of the judge were punished with increased severity. Offences committed to the injury of the members of court are even more serious. The regulation of theft and robberies is missing but it can only mean that the rules of customary law were to be applied. Customary rules were also applicable in the case of calumny, perjury and of causing deficiency of limbs. In terms of punishments, we can say that they were neither considerably higher nor considerably lower than in 1242. Exchange rules relating to ‘*marcas*’, ‘*pensas*’ and ‘*denarios*’ are analyzed by *Bálint Hóman*.⁴¹

VII. Closing remarks

After analyzing the *hospes* privileges of *Petrinia*, *Verőce*, *Szamobor*, *Jasztrebarszka* and Zagreb, we can already see what kind of specialties the liberties of these *hospes* communities contained and in what ways the development of the *hospes* communities in *Croatia-Slavonia* was different from that of the communities in *Hungaria*.

We had the opportunity to take a short glance at two *hospes* privileges which were given by another person than the king of Hungary and to understand the reasons and legal background of this specialty.

We also managed to reflect on correlations between the contents of these documents by highlighting how the *hospes* had applied to the monarch for the privileges of another community. The development (especially from a legal aspect) of several settlements was also illustrated.

Finally, the catalogue of crimes and punishments in the privileges of 1242 and 1266 of the *hospes* of Zagreb are unique provisions which can be found in no other *hospes* privileges.

To sum up, the author of this essay hopes that he was able to add some extra information to the knowledge of the audience about legal history, the history of settlements and regional development in *Croatia* in the age of the *Árpád* Dynasty.

⁴¹ Hóman Bálint, *Magyar pénztörténet 1000-1325* (Budapest, MTA 1916) pp. 297-298.

Barnabás Novák*

Sustainable development and the right to a healthy environment – a linguistic approach

The reflection proposed in this study has been inspired by three questions. After a brief reminder of the birth of the new Hungarian Constitution, we propose in the second section to analyze the new terms [*fenntarthatóság (sustainability); egészséges környezethez való jog (right to a healthy environment); nemzet közös öröksége (the nation's common heritage)*] of the new text in a contrastive perspective (*Hungarian – French – Italian*). Multilingualism is a phenomenon which greatly increases the efficiency of information exchange among people in every sector of life. In particular, in the domain of law a vast category of users need to exchange legal information world-wide and carry out activities in a context where a common understanding of law beyond language barriers is highly desired. In particular, in legal translation the demand for precision is greater than in literary translation, since what is to be carefully taken into account is not only compliance with the rules of the foreign language, but also with the rules of the foreign legal system. One serious practical problem legal translators are faced with is the limited help provided by legal dictionaries, which fail to meet their expectations for conveying the meaning of the source legal language into the target language. In the third section we aim to study the various types of equivalence in order to better understand what is involved in the complex harmonization of terminology. In the conclusions, we return to the harmonization process by highlighting its usefulness and implications for potential future projects.

I. The connection between law and language

Empirical research carried out in the United States from the 1970s on, based on the traditions of law and society as well as sociolinguistics, have led to the maturation of the stream of law and language.¹ In the

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¹ Vinnai Edina, *Nyelvhasználat a jogi eljárásban*, available at http://phd.lib.uni-miskolc.hu/JaDoX_Portlets/documents/document_12225_section_4264.pdf (05.06.2013)

following decades researchers of the US and Europe have introduced an increasing number of aspects into the examination of the connection between law and language. The fact that the stream of law and language is a relatively fresh and plastic current is perfectly displayed by the lack of its unified denomination. Certain studies use the expression *law and language*, whereas others prefer the term *language and law*. The roots of the stream of law and language are associated with two, already existing fields of science: *sociolinguistics* and *law and society*.² The most important accomplishment of sociolinguistics is having shown that linguistic variations are not hazardous, but are stipulated by the society – by now we are aware of how certain social differences appear in the field of linguistics. The trend of law and society has started its evolution in the 1960s, developing simultaneously with sociolinguistics, its representatives examining law in action, focusing on problems that prove the imperfection of law during the process. The first steps of the examination of legal language focused on its written form, studying statutes and other forms of written legal documentation. Hungarian research of legal language has begun in the 1960s,³ yet its initial steps included mostly the statements of doubts concerning the plainness of legal language.⁴ The first detailed study that processed previous bibliographical items of the field was written by Sándor Karcsay, published in 1981.⁵ He was the first Hungarian author to transgress the peculiar language-purifying passion of his predecessors and provided a dispassionate record of the most important features of legal language as a terminology. According to Karcsay's definition, terminology is an ensemble of linguistic communicational means, which serves to express notions that have evolved throughout the economic, technical and cultural development of human division of labor. Thus it is not a subjective cant, only a kind of jargon or patter, as unfortunately it is often suggested even in linguists' writings. The aim of terminology is to assure an accurate and unambiguous understanding

² Vinnai, *ibid.*

³ Bacsó Jenő, 'A jogszabályok közérthetősége', 9 *Jogtudományi Közlöny* (1968) p. 457.

⁴ Kiss Jenő, *Társadalom és nyelvhasználat. Szociolingvisztikai alapfogalmak* (Nemzeti Tankönyvkiadó, Budapest 1995) pp. 74-78.

⁵ Karcsay Sándor, 'Jog és nyelv', 4 *Jogtudományi Közlöny* (1981) pp. 325-338.

in the communication of a restricted professional area. The maturity of a terminology generally mirrors the all-time state, the political, economic, cultural and scientific-technological level and differentiation of a given society, alongside with its linguistic richness. In the above definition we can find the explanation for an often mentioned criticism concerning legal language: the reason why its terminology is not plain and understandable enough for the everyman is the fact that the interest in generating a uniform meaning of legal words and expressions that is to be understood by all professionals in all circumstances is much more important than plainness, and is a primary key to legal certainty. Meanwhile, compared to other terminologies, the expectations of laymen concerning the plainness of legal language are well-founded, regarding that law, as a system of norms that has a decisive role in sustaining social order, regulates an ever-growing field of the lives of all citizens. On the other hand, an argument in favor of legal language is that law regulates multiple fields of specialty (technological, medical, economic, financial areas), thus in many cases the languages of these specialties are the ones that make legal language complicated.⁶

Legal composition is tied to the areas of law and linguistics at the same time:⁷ in its content to the former, in its expressions to the latter. The content of law follows the changes of social and economic relations that are the very basis of regulations, whereas its language develops together with law. Changes necessarily bring along new notions, which necessitate the coining of new terms.⁸ The successful creation of these new terms grants the possibility for an auspicious communication of lawmakers' will and thus the means of evoking the appropriate use and effect of law. The main measure that terms need to come up to is the retaining of legal certainty, regulations' conformance to content, functional punctuality and impersonal tone, which can be summed up as follows: understandability, expressive power, adequacy, extent and

⁶ Vinnai, op. cit. n. 1.

⁷ Szabó Miklós, *Kommunikáció általában és a jogban* (Miskolc, Bíbor Kiadó 2002) p. 115.

⁸ Drinóczi Tímea and Petrétei József, *Jogalkotástan* (Budapest – Pécs, Dialóg Campus Kiadó 2004) p. 315.

consequent presentation.⁹ Consequently the language of regulations is not dominated by elegance and diversity, but rather a consistent terminological punctuality. As Klaudy¹⁰ puts it: the actuation of the European Union's multilingual system of institutions requires such a huge pursuit of translations that it gives translation studies a big chance to become a science of European integration. Besides the integrational processes, however, the translation of national regulations should also be given an important role.

II. National regulations and linguistic formation

A preliminary question concerning the efficiency of the national regulation is whether it can establish and introduce its own conceptual background, and whether it is able to present itself linguistically, excluding any possibility of doubt. Thus we can claim that the pledge of the conceptual individuality of a legislative system that considers itself autonomous is linguistic unequivocality, which is influenced by several other factors that are dependent on or independent of international law.

The equivalence of the subject-matter of legal messages conveyed by each official language is dependent on three basic factors. First of all it is dependent upon the reconcilability of legal customs, peculiar legal institutions and legislative concepts of a constantly increasing number of European Union member countries. Another decisive fact is whether it is possible to separate or circumscribe the areas of law where legal customs and legal institutions could hypothetically be approximated or identified to each other, and where, in certain cases, laws of the European Union have to form new, unequivocal notions, keeping clear boundaries from national legislative terms. Last but not least the success of the subject-matter's reconcilability highly depends on a conscious linguistic representation of these conceptual decisions, that is, the quality of the laws' wording and the method of the linguistic reconciliation of terms.¹¹ The aim of laws is to give normative answers

⁹ Drinóczi and Petrétei, op. cit. n. 8.

¹⁰ Klaudy Kinga, 'Fordítástudomány az ezredfordulón', in Klaudy Kinga, szerk., *Nyelv és fordítás. Válogatott fordítástudományi tanulmányok* (Budapest, Tinta Könyvkiadó 2007). pp. 33-43.

¹¹ R. Sacco, 'Langue et Droit', in R. Sacco – L. Castellani, eds., *Les multiples*

to occurring situations in a given field of emergence: their terminology is consistent with these judiciary needs and aims. Thus all occurrences of the language of law are determined by their own environment and can only be perfectly understood within its frames.¹²

Differences that can be traced in the cultures of law manifest in the use of legislative terms that are typical only in specific legal systems, but are also present in the case of judiciary terms that can be spotted in all the legislative systems, but with slightly different contents. The latter ones are the cases that prove to be the most challenging in terms of the reconciliation of the subject-matter. Thus we can state that the examination of legal terms should be carried out based on a comparison of systems instead of a system-independent way.

Translation studies examine the reconciliation of subject-matters in terms of source and target languages.¹³ Throughout the research it focuses on the cultural, social and historical fixities of both languages. Concerning translations, the freshest approaches of translation studies, indeed, do necessitate not only the understandability of the source text but also a way of translation that makes the understanding and the reception accessible for the recipients.¹⁴ Translations, in the meantime, should still carry the same professional values and credibility as does the source text.¹⁵ Therefore traditional translations necessitate the knowledge of two linguistic systems (in the case of multiple target languages, the number consequently varies) and all the belonging fixities. The task of the translator is to bridge the gaps between these compound systems. The foundation stone of a good translation and an appropriate reconciliation of the subject-matter, therefore, is the proper combination of knowledge about the given cultures, no matter

langues du droit européen uniforme (Torino, L'Harmattan Italia 1999) pp. 163-164.

¹² Somssich Réka, *Az európai közösségi jog fogalmainak nyelvi megjelenítése, különös tekintettel az európai magánjogra*, available at http://www.ajk.elte.hu/file/AJKDI_SomssichReka_dis.pdf (06.06.2013).

¹³ D. Crystal: *The Cambridge Encyclopedia of Language* (Cambridge, Cambridge University Press 1987) p. 344.

¹⁴ M. Magris and M.T. Musacchio, 'La terminografia orientata alla traduzione tra pragmatismo e armonizzazione' 1 *Terminologie et Traduction* (1999) p. 150.

¹⁵ Magris and Musacchio, loc. cit. n. 13, at pp. 150-151.

what type the source text is.¹⁶ The abovementioned combination, a straightforward terminology of national legal expressions, necessarily presumes the consistent use of the same technical terms for all the possible occurrences.

III. Social and cultural factors

Taking the social factors in consideration we can state that all the freshly prepared measures should be realized in the already-existing social context, and should gain their viability there. All the societies are historical entities. The network of every state's social relationships stipulates the social structure and the main borders of judiciary regulations. Aside from social setting, culture has a decisive role as well. The efficiency of law largely depends on its successful setting into the cultural context of the society. Thus we can claim that there is a perpetual interference between culture and society that has a constant impact on law and its development. This strong contiguity can be determined as follows: law is a component of the given society's culture, but there is no law or judiciary system that is unaffected by the culture of society. Taking all of the above into consideration, the construction of law can only be fully realized by fulfilling the following conditions: The wording of judiciary sources should be clear; it has to eliminate extraneous expressions and oblique terms that would impede the intentions of the law-maker. It should be simple and easy to understand, but not at the cost of the understanding and the transparency of the contents to be expressed. It also needs to be accurate, aiming at brevity and explicitness. Self-consistency and rationality are important as well: the texts have to follow and apply terms that are compatible with the accepted cultural and judicial languages. Furthermore, it has to be consistent with the criteria of law-making in terms of content, form and legal proficiency.¹⁷

¹⁶ C. Lécrivain, 'Europe, traduction et spécificités culturelles', in *Europe et traduction* (Ottawa, Artois Presses Université 1998) p. 350.

¹⁷ See in more detailed Drinóczi Tímea, *Minőségi jogalkotás és adminisztratív terhek csökkentése Európában* [Quality legislation and reduction of administrative burdens in Europe] (Budapest, HvgOrac Kiadó 2010).

IV. Methods of conceptual reconciliation for the translation of legal texts

The following section is going to summarize five methods that help with conceptual reconciliation in cases where the legal system and terms of source and target language are not interchangeable, and thus linguistic reconciliation is not obvious. They provide a more or less good solution for the translators of judiciary texts in the case of technical terms that are closely tied to a given legal system but are not to be expressed by its own language. The above mentioned methods are as follows: functional reconciliation, reconciliation by definition, borrowing technical terms from the source language, using literal, construing translations of words, neologisms (creating new vocabulary items).¹⁸

Functional reconciliation stands for finding a target-language match of the source language's term that has the same function in the target language as does the expression to be translated from the source language. Functional reconciliation is an intellectual process that goes hand in hand with analysis and interpretation, and presupposes a valid knowledge of the given legal systems and their technical terminology. Its aim is to add to a punctual reconciliation, however, it has its own dangers and is not applicable in certain contexts or terms. Such problematic legal expressions are, for example, the ones that represent similar legal institutions in the given judiciary systems, but mirror different legal approaches and thus are essentially different. A disadvantage of this method is that it leaves translation for the target language only:¹⁹ the source language's expressions are interpreted in the context of the target language. Due to the conceptual system-fixity of legal expressions, functional reconciliation does not hand us an entirely satisfactory solution.

Reconciliation by definition could be, so to say, a clear solution, as the translator tries to transplant legal expressions of the source language into the target language by giving the content of notions on an explanatory level, recognizing the deficiencies of translation as

¹⁸ Somssich, op. cit. n 12.

¹⁹ U. Eco, *A tökéletes nyelv keresése* (Budapest, Atlantisz Kiadó 1998).

a tool. Thus the level of reconciliation will obviously be higher, yet the application of the method can be harmful in terms of the text's continuity, and might complicate the process of translation, which may, as a consequence, easily shift towards a pure interpretation. Yet as a supplementary method used from time to time (but not always), it might prove helpful.

The three latter methods of reconciliation are to be applied in situations when source and target languages are completely different and contain legal institutions that are unknown to each other and thus cannot be reconciled.²⁰ The first one of these possible solutions is the word for word adaptation of technical terms from the source language to the target language. In such cases the text makes it obvious that the given legal institution, alongside with its legal context, is a foreign one. A clear disadvantage of this method is that the grammatical application of the adapted foreign terms is complicated, and they do not convey their contents to the readers who are not familiar with the judiciary features of the source language. The second solution is using literal, construing translations of words and emphasizing them with differentiating punctuation marks or fonts (quotation mark, italics), thus emphasizing that the contents represented in the target language are tied to a foreign legislative system (*kalk*). Hungarian linguistics has marked this translation method with several names aside from the generally accepted *kalk*. Besides grammatical copying, Sándor Eckhardt called it *tükörszó*,²¹ János Melich²² uses the word *tükörjelentés*,²³ whereas Béla Nagy J. simply applies the term *visszatükrözés*.²⁴ Bálint Csűry draws up the essence of mirror translation as follows: 'mirror meaning is when one of our words, under grammatical influence, enters in denotational relationship with contents of ideas with which it has not been in

²⁰ E. Didier, 'La traduction juridique en Europe. Etat et perspective de la Common Law en Français et du Droit Civil en anglais', in R. Sacco and L. Castellani, eds., *Les multiples langues du droit européen uniforme* (Torino, L'Harmattan Italia 1999) pp. 35-55.

²¹ Mirror word.

²² Melich János, 'Jelentéstani kérdések', in Telegdi Zsigmond, szerk., *Szöveggyűjtemény az általános nyelvészet tanulmányozásához* (Budapest, Tankönyvkiadó 1968) p. 113.

²³ Mirror meaning.

²⁴ Mirroring.

denotational connection formerly'.²⁵ Thus in the case of mirroring, an already-existing word gets a new meaning, or existing words make up a new compound.²⁶ The outcome is ponderous, linguistically strange to the target language, and gearing the foreign legal term to the target language might as well prove perplexing.

The third of the latter solutions is neologism, that is, linguistic innovation. Within its frames, Didier differentiates between two types: morphological neologism and semantic neologism. In the former case, a new term is coined by leaving the root and the form of the source language's word intact, thus composing a word that grammatically osculates into the target language. This solution is most viable in the case of languages having the same origins.²⁷

V. Interpretation of constitutions as a terminological task

Interpretation of a constitution means the exploration, refinement, specification and development of the constitution's contents of signification. There are several methods of interpretation regarding a constitution: grammatical, logical, taxonomical, historical, genetic, teleological and comparative. The barriers in the process of the constitution's interpretation are: being bound to the text, precedent-based framework in the practice of constitution interpretation, international treaties and practice of judges and the logical unit of the constitution. All the norms of a constitution should be interpreted the way that they would be reconcilable with the basic principles and values of the constitution and that contradictions of constitutional rights would be avoided. For the successful transmission of (legal) contents all the above criteria should be fulfilled by the translator at the same time. Muráth²⁸ points out that terminological work is often identified

²⁵ Melich, loc. cit. n. 20, at p. 113.

²⁶ Ibid.

²⁷ C. Sacchetto, 'Translation and Tax Law', in R. Sacco, ed., *L'interprétation des textes juridiques rédigés dans plus d'une langue* (Torino, l'Harmattan Italia 2002) pp. 203-225.

²⁸ Muráth Judit, 'Terminológia, szakma, nyelv', in Silye Magdolna, szerk., *Porta Lingua – 2009. szaktudás idegen nyelven*. (Debrecen, Debreceni Egyetem Agrártudományi Centrum 2009) pp. 325-334.

only with the need for new expressions in national languages in order to determine new notions, with the coining of new terms and with their insertion into the preexistent notional system.

The peculiarity of cases when the constitution gives an explicit rule for the interpretation is that it becomes the subject of interpretation itself, and eventually it is the Constitutional Court that can stipulate its contents of meaning and its pragmatic rule. This is what is going to happen to the regulation of Article R(3) of *Alaptörvény*: *The provisions of the Fundamental Law shall be interpreted in accordance with their purposes, the National Avowal and the achievements of our historical constitution.*²⁹ Thus the place of *National Avowal*³⁰ in the legal system is well structured, but its technical realization sets some problems and its actual role, alongside with that of the other terms to be examined, will be revealed by the Constitutional Court during its activity of interpretation of the *Alaptörvény*.

VI. Presentation of the corpus applied throughout the examination

The corpus of my study is based on the original Hungarian text of Hungary's *Alaptörvény* and its official Italian translation. The new *Alaptörvény* of Hungary, passed by the parliament on 18 April, 2011, was signed by president Pál Schmitt on 25 April, 2011, Easter Monday, within ceremonial frames. The new norm text entered into force on 1 January, 2012. The original form of the previous text, overruled by the *Alaptörvény*, was passed by the parliament on 18 August, 1949, based on the soviet constitution of 1936. This was Act XX of 1949 on the Constitution of the People's Republic of Hungary. Although the constitution had been modified multiple times between 1949 and 1989, and had been significantly changed in 1989, it was Act XX of 1949 that had been the Constitution of Hungary until January 2012. The *Alaptörvény* is Hungary's new constitution, the unit of legal norms that regulate the most important relations in terms of social symbiosis,³¹

²⁹ Article R(3) Az Alaptörvény rendelkezéseit azok céljával, a benne foglalt Nemzeti Hitvallással és a történeti alkotmányunk vívmányaival összhangban kell értelmezni.

³⁰ Nemzeti Hitvallás.

³¹ Petrétai József, *Alkotmányjog I* (Budapest – Pécs, Dialóg Campus Kiadó 2002).

which is tightly connected to the social setting, the traditions and the culture of the given society. The *Alaptörvény* is the highest level of all the norms of Hungary, therefore no law can be passed that would overrule its contents.

Legal language is well systematized and organized both logically and linguistically, and possesses a general terminology that is clarified and institutionalized by legal measures.³²

The new Hungarian *Alaptörvény's* coming into effect brought along changes of its contents as well as the modification of terms, and due to the coinage of new terms it has rewritten a significant number of legal measures.

VII. The methodology of the study

I have carried out the study on the grounds of the comparative method, regular in terms of terminology, based on Tamás' study about the analysis of Italian and Hungarian economic expressions.³³ My terminological study can be seen both as a monolingual terminological work carried out within one language and a multilingual comparative study that examines co-relations of several languages. Regarding the aim of my examination, it belongs to the group of terminological case studies,³⁴ which is connected to a given text that is the new *Alaptörvény* of Hungary and its Italian translation. In connection with the field of law, Sandrini³⁵ determines systematic and terminological case studies based on the aim of the translation and its role in the given communicational situation. Whereas systematic terminological studies are stipulated by neutrality and are characterized by the objective description of

³² Dobos Csilla, 'A jogi szaknyelv és szakmai kommunikáció', in Dobos Csilla, szerk., *Szaknyelvi kommunikáció* (Budapest, Tinta Könyvkiadó 2010).

³³ Tamás Dóra, 'Az olasz és a magyar gazdasági rendszerek eltéréseinek hatása a gazdasági terminológiára', in Nádor Orsolya, szerk., *A magyar mint európai és világnyelv. A XVIII. MANYE Kongresszus előadásai.* (Budapest, MANYE – Balassi Bálint Intézet 2009) pp. 790-792.

³⁴ Fóris Ágota – Pusztay János, szerk., *Utak a terminológiához* (Szombathely, Berzsenyi Dániel Főiskola 2006).

³⁵ P. Sandrini, 'Der transkulturelle Vergleich von Rechtsbegriffen', in S. Šarčević, eds., *Legal language in action: Translation, terminology, drafting and procedural issues* (Zagreb, Globus 2009) pp. 151-165.

similarities and differences between two legal systems, comparative case studies examine a well-defined aim and communicational situation. Thus the results of the former can be interpreted as the bases of terminological databases, while those of the latter, tightly connected to the translation, provide solutions for concrete solutions in translations. Whereas systematic terminological works might not go beyond the limits of the comparison of conceptual systems and the identification of the differences between them, the main goal of terminological case studies is to define their target language equivalents in terms of their context and communicational setting.³⁶

I have carried out the study using the forthcoming *Magyar-olasz szótár*³⁷ (Hungarian-Italian Dictionary), *Olasz-magyar szótár*³⁸ (Italian-Hungarian Dictionary), *Magyar-francia nagyszótár*³⁹ (Hungarian-French Dictionary), *Francia-magyar nagyszótár*⁴⁰ (French-Hungarian Dictionary), *Magyar értelmező kéziszótár*⁴¹ Hungarian Thesaurus, *Az Alkotmány magyarázata*⁴² (The Explanation of the Constitution), *Jogi fogalomtár*,⁴³ *Magyar-francia-magyar jogi szótár/Dictionnaire juridique hongrois-français, français-hongrois*⁴⁴ (Dictionary of Law, Hungarian-French, French-Hungarian), *Francia-magyar, magyar-francia közigazgatási szótár*⁴⁵ (French-Hungarian, Hungarian-

³⁶ Fischer Márta, 'A fordító mint terminológus, különös tekintettel az európai uniós kontextusra', available at <http://www.euenglish.hu/wp-content/uploads/2012/05/PHD-FISCHERM%C3%81RTA-2010.pdf> (05.25.2013).

³⁷ Koltay-Kastner Jenő – Juhász Zsuzsanna, szerk., *Magyar-olasz szótár* (Budapest, Akadémiai Kiadó 2000).

³⁸ Herczeg Gyula – Juhász Zsuzsanna, szerk., *Olasz-magyar szótár* (Budapest, Akadémiai Kiadó 2001).

³⁹ Eckhard Sándor, szerk., *Magyar-francia nagyszótár – Grand dictionnaire hongrois-français* (Budapest, Akadémiai Kiadó 2004).

⁴⁰ Eckhard Sándor, szerk., *Francia-magyar nagyszótár – Grand dictionnaire français-hongrois* (Budapest, Akadémiai Kiadó 2003).

⁴¹ Tótfalusi István, szerk., *Magyar értelmező kéziszótár* (Budapest, Merényi Könyvkiadó 1996).

⁴² Balogh Zsolt, szerk., *Az Alkotmány magyarázata* (Budapest, KJK-Kerszöv 2003).

⁴³ Hargitai József, *Jogi fogalomtár* (Budapest, Magyar Hivatalos Közlönykiadó 2005).

⁴⁴ Bárdosi Vilmos – Trócsányi László: *Magyar-francia-magyar jogi szótár/Dictionnaire juridique hongrois-français, français-hongrois* (Budapest, KJK-Kerszöv 2001).

⁴⁵ Czékalané Jakab Valéria, *Francia-magyar, magyar-francia közigazgatási szótár*

French Dictionary of Administration), *simone.it* Italian monolingual dictionary of legal terms, online legal terminology databases and legal technical books. Altogether I have examined the fields of the Italian translations of three terms that are most frequently criticized by the Venice Commission and different publications of the field, that is *fenntarthatóság* [sustainability]; *egészséges környezethez való jog* [right to a healthy environment]; *nemzet közös öröksége* [the nation's common heritage]. In each case I examine terms translated from Hungarian to Italian or French with a terminology-based approach. I examine terms' level of equivalence and punctuality of definition based on the forthcoming Hungarian, Italian and French publications as well as the legal norm. Besides terminological observations I provide reflections of translation critique and law throughout the study, always being attentive to the governing principles of political correctness.

VIII. The aim and hypotheses of the study

The terminological questions raised throughout the translation of *Alaptörvény* can be answered through the comparison of the relevant terminology, by being acquainted with bibliographies of translation studies and law, and products of source and target languages. The study of the above questions is important not only in the integration of the result of these two fields of science but also in point of the foreign evaluation of Hungary's new *Alaptörvény*. In my paper I aim to determine how terminological questions raised throughout the process of translation – centered on the solutions of the Italian translation – are solved by the translator. I interpret terminological reconciliation in two dimensions. In the wider one I examine terminological reconciliation as a basic process of translation. In the narrower dimension I analyze the peculiarities coming from the differences between the legal perception of two different legal systems⁴⁶, the translational solutions for Hungarian culture-based expressions and their level of equivalence, which prove to be a hard task of interpretation and reconciliation for the interpreter.

(Budapest, Paginarum 2001).

⁴⁶ J. Sager, *A Practical Course in Terminology Processing* (Amsterdam, John Benjamins Publishing Company 1990) p. 21.

Based on the above two dimensions, I aim to find an answer to the following questions: Is the translation of new terms and their representation and interpretation in another language a problematic issue? What sort of methods can help us to choose foreign equivalents of expressions? Is the new wording able to construct a terminological uniformity without causing controversies in interpretation and regulation? Does the new *Alaptörvény* threaten the well-established and defined terminological safety of constitutional law?

IX. Results

1. The term of sustainability

Humankind, people and society take goods that they have piled up since the beginning of the earthly system, directly or via economy, from their natural environment, to be able to satisfy their needs. Granting sustainability requires us to preserve the quality of the natural and built environment and its values, which will be necessary for present and future generations. An individual can expropriate things from the system in quantity and under circumstances that would not harm one's future chances to satisfy his or her vital needs.

The term *sustainability* is present in Hungary's *Alaptörvény* with multiple meanings. The text contains references to economic, social, defensive and economic sustainability.

Article N (1) Hungary shall enforce the principle of balanced, transparent and *sustainable budget management*.

Article Q (1) In order to create and maintain peace and security, and to achieve the *sustainable development of humanity*, Hungary shall strive for cooperation with every nation and country of the world.

Article XVII (1) Employees and employers shall cooperate with each other in order to ensure jobs, make the national *economy sustainable* and for other community goals.

Article XIX (4) Hungary shall promote the livelihood of the elderly by *maintaining* a general state pension system based on social solidarity and by allowing for the operation of voluntarily established social institutions. Eligibility for a state pension may include statutory criteria in consideration of the requirement for special protection to women.

Article 45 (1) Hungary's armed forces shall be the Hungarian Defence Forces. The core activities of the Hungarian Defence Forces shall include the military defence of Hungary's independence, territorial

integrity and state borders, common defence and peacekeeping tasks arising from international agreements, and humanitarian activities according to the rules of international law.

Thus we can claim that the aim of sustainability is to maintain or develop the living conditions of human society. Environment appears as a condition in this task, which means that we can expropriate the natural resources of our environment only to the level that it would not violate its possibilities of rejuvenation, that is, its capability of subsistence. Economy is a means of society's sustainability, and thus that of the use of nature as well. We have to use this tool wisely, for the benefits of society, and without causing any harm to the environment. Accordingly, the aim of sustainable development is not growth lacking conditions, but the amelioration of society's standard of living. The basic requirements of sustainable society are social justice, the basis of which is granting access to the possibility of equal opportunities, and going shares in social liabilities; the pursuit of ameliorating the standards of living; the sustaining use of natural resources, for the realization of which the environment-conscious and environment-ethical behavior of society is a must; and last but not least the preservation of the quality of environment. Sustainable development is able to preserve the dynamic balance of environment, society and economy via a voluntary, careful and anticipatory behavior.⁴⁷ The wording of the *Alaptörvény* of Hungary aims at this behavioral norm.

The Italian solutions of translation, *sostenibilità* (sustainable) and *sostenibile* (sustainable) do not result in any kind of ponderosity. A further proof for this is the fact that in *Magyar-olasz szótár* the equivalent of sustainability is the expression 'sostanibilità n'.⁴⁸ Their use is consistent with the Italian legal language, thus we can state that the translator managed to achieve a balance between the contents of meaning contemplated by Hungarian lawmakers and the requirement of clear wording.

When examining the French translation of the text's corpus we get a more nuanced picture. Based on the terminological reconciliation theory of

⁴⁷ www.nfu.hu/.../utmutato_a_fenntarthato_fejlodes_ervenyesitesehoz.doc (09.06.2013).

⁴⁸ Koltay-Kastner – Juhász, szerk., op. cit. n. 37, at p. 714.

Gerzymisch-Arbogast,⁴⁹ the translator first has to understand the text of the source language, and he or she has to interpret the questionable terms in context with the help of a notion-based approach. This is followed by a comparative terminological case study, in the frames of which source and target language notional systems are compared and reconciled with each other. In the third phase of translation the interpreter inserts the term into the target language text in accordance with the context, using all the forthcoming tools he has access to. However, Fóris⁵⁰ shows that the preparation of tools often lacks the necessary anticipatory terminological researches. Consequently, words that have few or no notional equivalence among each other are frequently marked in tools as equivalents. The translational solution of *préennité* used in the French version of the *Constitution* rather mirrors the elevated style of the Hungarian text than gives a clear picture of the target language equivalent of the term *fenntarthatóság*. When coming across the term *préennité* the reader is much more likely to make associations with the expression *eternity*. Yet the *Magyar-francia szótár*⁵¹ associates the expression *pérennité* with the term *sustainability*.⁵² In the LeRobert⁵³ monolingual thesaurus, the official translational solution, the term *pérennité*, is defined as follows: ‘*pérennité* n. f. didact. ou littér. État, caractère de ce qui dure toujours’.⁵⁴ While using the term *sustainability* as an adjective, the French solution of the translation with the term *durable* focuses on continuity and sustainability over the time the Hungarian equivalents of which are rather the notions *tartós*⁵⁵ or *maradandó*.⁵⁶

⁴⁹ H. Gerzymisch-Arbogast, ‘Identifying term variants in context: The SYSTEXT approach’, in M. Snell-Hornby, et al., eds., *Translation studies: An interdisciplinary*. (Amsterdam – Philadelphia, John Benjamins 1994) pp. 279-283.

⁵⁰ Fóris Ágota, *Hat terminológia lecke* (Pécs, Lexikográfia Kiadó 2005).

⁵¹ Eckhard, szerk., op. cit. n. 39 and 40.

⁵² Bárdosi and Trócsányi, op. cit. n 44.

⁵³ P. Robert: *Le nouveau Petit Robert: Dictionnaire alphabétique et analogique de la langue française* (Paris, Le Robert 2002) p. 529.

⁵⁴ Pérennité (Noun, Feminine, Didactics or Literature) State, character of what lasts forever.

⁵⁵ Permanent.

⁵⁶ Everlasting.

2. The right to a healthy environment

Human rights are not constant, they are subject to changes, their contents continuously change in accordance with the social environment that they exist in. The last couple of years have brought along a complete re-interpretation of several terms (human rights, development, environment, population, security), with regard to the global changes that had an effect on the entire humankind.⁵⁷ Both in national and international lawmaking and in the entries of the bibliography we can find a very rich set of adjectives (e.g. healthy, clean, whole, natural, appropriate, secure, balanced, uncluttered, aesthetic, human, prosperous, developmental) that are often used linked to each other (e.g. healthy and prosperous). Besides, the right to a healthy environment can be interpreted in narrow and wide sense as well.⁵⁸

Needless to say that people can claim to protect their environment, but this is only one part of their right to the environment. However, environmental protection is not only a right but a moral obligation as well. Efforts are being made throughout the whole world for the recognition of people's right to a healthy environment. More and more national documents and constitutions acknowledge it as a basic human right and a constitutional right. The right to a healthy environment may stand as an independent basic right as well, thus it has to be marked in the *Alaptörvény* accordingly. The right to health, according to the *Alaptörvény*, means the right to a healthy body and soul. The former constitution – as the International Covenant on Economic, Social and Cultural Rights put it – mentioned 'the healthiest physical and emotional state possible',⁵⁹ but it had no pragmatic importance. Among institutional assurances it reflected to labor safety, the organization of health care facilities and medical care, the assurance of regular exercise and the protection of built and natural environment. Besides

⁵⁷ M. Prieur and C. Lambrechts, eds., *Les hommes et l'environnement: quels droits pour le vingt-et-unième siècle? Études en hommage à Alexander Kiss* [*Mankind and the Environment: What Rights for the Twenty-First Century? Studies in Honour of Alexandre Kiss*] (Paris, Frison-Roche 1997) p. 145.

⁵⁸ Bándi Gyula, *Környezetjog* (Budapest, Osiris Kiadó 1999) pp. 53-54.

⁵⁹ Art. 70/D(1) *A Magyar Köztársaság területén élőknek joguk van a lehető legmagasabb szintű testi és lelki egészséghez.*

preserving the above rights, the *Alaptörvény* also adds an agriculture that is free from genetically modified creatures, an access to healthy food and drinking water and the assurance of the possibility of doing sports.

Article XX (1) Every person shall have the right to physical and mental health.

(2) Hungary shall promote the exercise of the right set out in Paragraph (1) by ensuring that its agriculture remains free from any genetically modified organism, by providing access to healthy food and drinking water, by managing industrial safety and healthcare, by supporting sports and regular physical exercise, and by ensuring environmental protection.

Article XXI (1) Hungary shall recognize and enforce the right of every person to a healthy environment.

(2) A person who causes any damage to the environment shall be obliged to restore it or to bear all costs of restoration as defined by law.

The list of institutional assurances has thus become more elaborated in the *Alaptörvény*, acting upon the recent challenges of the world. This is what both the Italian and the French translations follow with their solutions. Examining the Italian term *diritto all'ambiente sano* we can see that the expression is present in the Italian legislation in a way that is very similar to the way the Hungarian *constitution* formulates it. Consequently the translation, even if it seems to be a word-to-word solution at the first glance, is one hundred percent pertinent. We can find a similar solution when looking at the French version *droit à un environnement sain*. It is important to note, though, that none of the recent dictionaries, thesauri, glossaries or databases of terms contains the expression.

However, unambiguity requires that the same term be used and understood by the translators and users of the text to denote notion contemplated by the lawmakers. To assure the consistency of the use of a unified terminology, the process of translation must be preceded by a serious constructive and investigative job. In the case of the above term the biggest challenge was to interpret and understand the exact meaning of the notion denoted by the expression, which the translator could carry out via the tools of the comparative science of law.

3. Common national heritage

The notion *common national heritage* has spectacularly spread in both political and scientific discourse in the last two decades. On grounds of expedience we should divide the term into two units and examine the notion *heritage* first, and only then place it in the context of the adjectives *common* and *national*. It was due to the organization of the Ministry of National Cultural Heritage⁶⁰ in 1998 that the notion of cultural heritage has gained special importance in the political discourses of Hungary. Yet although the gradual intensification of the codification process aiming at the legal determination of national heritage had a significant effect on several fields of science (history of arts, monument protection, archeology, ethnography, history, etc.), Hungarian scientific life reacts to the challenges coming from politics relatively slowly. The first scientific conferences and conciliations about the notion of heritage and its connection to expressions with similar meaning (monument, historical monument, monument locations, etc.) have been organized in the first half of the 2000s.⁶¹ The notion of cultural heritage has been formulated gradually, its genesis being tied to several distinct occasions by the bibliography. According to Alois Reigl, chief expert of monuments of the Austro-Hungarian Monarchy, antiquity and the middle ages only kept count of ‘intentional’ monuments. It was the renaissance when ‘historical’ monuments were born.⁶² The term national heritage (*patrimoine national*) was coined by Édouard Pommier in the fall of 1970, when experts had to find a new category for the books, manuscripts, medals, machines, paintings, gravures and further similar objects confiscated from the clergy.⁶³ Thus we can say that the national interpretation of the notion *heritage* has been the fruit of the French Revolution, but even in France, often cited as an example of the building of nation, it

⁶⁰ Nemzeti Kulturális Örökség Minisztériuma.

⁶¹ Sonkoly Gábor, ‘A kulturális örökség fogalmának értelmezési és alkalmazási szintjei’, available at <http://www.szellemiorokseg.hu/files/letoltesek/15.pdf> (19.05.2013).

⁶² Marosi Enikő, ‘Műemlékvédelem – az örökség hagyományozása’, Bardoly István and Haris Andrea, szerk., *A magyar műemlékvédelem korszakai* (Budapest, Országos Műemlékvédelmi Hivatal 1996) pp. 9-20.

⁶³ D. Poulot: *Musée, nation, patrimoine, 1789-1815* (Paris, Gallimard 1997) p. 87.

was only in the 1860s when the systematic survey and classification of historical monuments has started spreading.

The end of the 60s brought along the expansion of the notion of heritage in European jurisdiction – this was when the notion of architectural heritage has appeared. By the end of the 70s the notion of *cultural heritage* became popular as well, coupled with the term *collective memory*. It is interesting to note that among the regulations of the European Council we could first meet this term in 1949, when one of the basic aims of the institution was defined as the guarding of ‘common (European) heritage’.⁶⁴ Throughout the process of guarding and protecting the heritage the original content was enriched by a new segment: the interpretation of nation. Thus heritage got attached to memory, both of them being a part of the identity that has to be looked for, excavated, guarded or re-discovered. In this respect heritage does not only serve to map the possessed goods but also to describe, define, the self-identity of the testator/inheritor: the nation.⁶⁵

The term *national* appears in the *Alaptörvény* of Hungary with several significations: economic, social, defensive and agricultural sustainability are all part of the text.

Article J (1) The *national holidays of Hungary* shall be:

- a) the 15th day of March, in memory of the 1848-49 Revolution and War of Independence,
- b) the 20th day of August, in memory of the foundation of the State and King Saint Stephen the State Founder, and
- c) the 23rd day of October, in memory of the 1956 Revolution and War of Independence.

Article R (3) The provisions of the Fundamental Law shall be interpreted in accordance with their purposes, the *National Avowal* and the achievements of our historical constitution.

Article T (2) Legislation shall include Acts of Parliament, government decrees, orders by the Governor of the *National Bank* of Hungary, orders by the Prime Minister, ministerial decrees, orders by autonomous regulatory bodies and local ordinances. Legislation shall also include orders issued by the *National Defence Council* and the President of the Republic during any state of national crisis or state of emergency.

⁶⁴ Sonkoly, loc. cit. n 61.

⁶⁵ Ibid.

Article XIV (3) Hungary shall grant asylum to all non-Hungarian citizens as requested if they are being persecuted or have a well-founded fear of persecution in their native countries or in the countries of their usual residence due to their racial or *national identities*, affiliation to a particular social group, or to their religious or political persuasions, unless they receive protection from their countries of origin or any other country.

Article XVII (1) Employees and employers shall cooperate with each other in order to ensure jobs, make the *national economy* sustainable and for other community goals.

Article XXIX (1) *Nationalities* living in Hungary shall be constituent parts of the State. Every Hungarian citizen belonging to any nationality shall have the right to freely express and preserve his or her identity. Nationalities living in Hungary shall have the right to use their native languages and to the individual and collective use of names in their own languages, to promote their own cultures, and to be educated in their native languages.

(2) Nationalities living in Hungary shall have the right to establish local and *national self-governments*.

It is important to note, however, that the above section does not discuss the logical background of cultural heritage, regarding that it is not the individual or the local community that chooses the elements with which they aim to identify⁶⁶ but they are part of a common national heritage accepted and respected by everyone, which has continuously broadened throughout the various eras of Hungarian history. In this case we are dealing with a peculiarly historic notion of heritage, which aims to subsume and preserve the heritage of the Hungarian nation and support national unity. Common national heritage ranks from local level to the universal heritage hierarchy by this principle. In this context the definition of cultural heritage presumes a social practice that has every nation as member, as it is based on the elevation of individual memories to social level. Thus common national heritage colligates a much wider area than ever before, and it often is further enriched by surprising details. The Italian and French translational solutions follow this alignment. Examining the Italian expression *patrimonio comune nazionale* we can claim that the term used in the Hungarian

⁶⁶ K. Pomian, 'Nation et patrimoine', in D. Fabre, eds., *L'Europe entre cultures et nations* (Paris, Éd. de la MSH 1996) pp. 88-90.

Alaptörvény is similarly represented in Italian legislation as well.⁶⁷ Thus the translation, even if it seems to be a word-to-word solution, is completely relevant. Yet the grammatical structure with double adjective has a generally disturbing effect. Leaving out the adjective *comune* would not be practical, though, regarding that it would damage the communal and historic traits of the term.

We may find a similar solution in the case of the French version, *patrimoine commun*, yet in this case it would be worth to consider the use of the notion *héritage* as well. It is important to note, though, that none of the recent dictionaries, thesauri, glossaries or databases of terms contains the expression.

However, unambiguity requires that the same term be used and understood by the translators and users of the text to denote notion contemplated by the lawmakers. Besides the determining traits, the effects of Hungarian interpretation of law and language politics are also appreciable when providing terms with signification on a national level. Official Italian and French translations and their résumés of terms should categorically mark whether they use an existing term or a translational suggestion only.

X. Conclusions

The examples presented above give a perfect idea on how complex terminological work is. For the definition of the examined terms, translators still lack the basic sources (dictionaries, technical thesauri, registries of expressions, commentaries to the constitution). Terms' level of equivalence is ambiguous and hard to interpret. Contrastive examinations show how Hungarian terms are nation-bound, and how

⁶⁷ Simone.it, <http://www.simone.it/newdiz/?action=view&id=1291&dizionario=1> (28.05.2013) *Patrimonio comune dell'umanità*: Principio di diritto internazionale in base al quale le risorse delle aree non sottoposte alla sovranità di alcuno Stato devono essere gestite in maniera tale da assicurare l'equa distribuzione. La dottrina del Patrimonio, che costituisce un'evoluzione del principio di *res communis omnium*, fu enunciata per la prima volta dal delegato maltese Arvid Pardo in seno all'Assemblea Generale dell'O.N.U. nel 1967. In seguito l'Assemblea Generale adottò il principio del Patrimonio in relazione alle risorse dei fondi marini internazionali, nella Risoluzione XXV/2749 del 1970.

they lack local terminological researches prior to the preparation of the text. Besides the determining traits, the effects of Hungarian interpretation of law and language politics are also appreciable when providing terms with signification on a national level. Official Italian and French translations and the belonging résumés of terms should definitely mark whether they use an existing term or a translational suggestion only.

I see the utility of the experiment's results in the possibility of the realization of a unified terminology within the field of constitutional law, which would contribute to the evasion of errors of interpretation and application and would be helpful for the selection of the exact interpretational counterparts of expressions. The unification of the use of terms' foreign equivalents would help to develop legal certainty. Hungarian terms and their Italian and French equivalents presented in the study show us well how necessary it would be to systematize and clarify legal terminology.

Damir Štokovac*

The Interregional Co-operation Programme

I. Introduction

The Interregional Co-operation Programme covers all EU States, Norway and Switzerland, and was co-funded by the European Regional Development Fund (ERDF). The program was approved by the EU Commission as a wide cooperation program on September 2007 for the period from 2007-2013. The program includes support and help for regions to integrate better in the EU. The total budget for the INTERREG IVC program is around 400 million, 320 million provided by the ERDF.

The program provides a framework for exchange of experience between regional and local institutions of the countries included in the program. The obtained projects have built in past experiences developing new approaches and instruments that improve the efficiency of regional development policies and give a boost to economic development between regions. The INTERREG IVC aims to create new economic growth and jobs. The program is used as an instrument for the implementation of the initiative Regions for Economic Change (RFEC). The RFEC is designed as support of regional and urban networks aiming for economic modernization and reduce economic disparities.

The priorities of the program are to improve the effectiveness of regional development policies such as knowledge economy, innovation, the environment and risk prevention etc. The program is structured around jobs and sustainable development. Between the priorities there are too main ones. The first is based on innovation and knowledge economy, entrepreneurship and small and medium enterprises (SME), employment, the information society, human capital and education. The second addresses environment and risk prevention, water management, biodiversity and preservation of natural heritage, energy

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and sustainable transport, cultural heritage and landscape, waste prevention and management.

II. European regional policy

European regional policy represents a solidarity policy of the EU. The regional policy is one of the oldest policies of the members. In 1958 two funds were founded: The European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF). After the first enlargement, the European Regional Development Fund (ERDF) was founded in 1975, the main goal of which was the redistribution of budget resources to the poorest regions. At the beginning of the millennia, the transfer of resources represented around one third of the European budget.

The policy of economic and social bonding is one of the most important policies of the EU. It's designed to reduce the economic and social gap between the regions in the EU. Hand in hand with the regional policy stays the cohesion policy which is a synonym for the similar goals. The cohesion policy started with the development of the common European market. Based on the Treaty of Maastricht, the Cohesion Fund was founded for support in the fields of environment protection and transportation in the less developed regions of the Union.

The creation of a common market initiated a process of customization that implied a great influence on the social welfare of it's citizens. As new economic bonding and strengthening kicks in there are necessary changes to be made in the regions. The creating of a common market resulted in new divisions in the regions creating concentration of growth in more competitive regions and backlog in the other regions on the outskirts. Those regions cannot finance new projects as well as infrastructures so they need help. For this reason the EU created programs that help those regions to close the gap with the richer ones. Regional policy relates to infrastructure interventions, since the development problems on a region level affect the growth of countries as well as the Union as a whole. The basic principle of the regional European policy is financial solidarity which manifests itself in redirecting resources through European funds.

The development of a region is established by two indicators: the GDP per capita and unemployment rate. The data are collected on a level of administrative units called NUTS base on the Eurostat statistics. This unit division was created to have one territorial structure for the whole Union. The NUTS levels can be further downsized to a NUTS 4 and NUTS 5 level which are basically on community levels.

Table 1 Statistical categorization of territorial units

<i>NUTS levels</i>	<i>Min population</i>	<i>Max population</i>
<i>NUTS 1</i>	<i>3.000.000</i>	<i>7.000.000</i>
<i>NUTS 2</i>	<i>800.000</i>	<i>3.000.000</i>
<i>NUTS 3</i>	<i>150.000</i>	<i>800.000</i>

Source: Made by author

When a new country enters the Union, the standard as well as GDP per capita and unemployment rate declines. The main weaknesses are the long term structure and regional unemployment, the high unemployment rate, the undeveloped service sector. The impossibility of resolving the difference in development and the transfer of capital to the regions that are already rich called for a system of aid for undeveloped regions that has the goal to reduce those differences.

The European Commission is the main authority responsible for the implementation of the relevant European policy. It's main task is approval, monitoring as well as aid in creating the programs. The use of the given resources is strictly monitored. The Commission initiates and proposes the distribution of resources and approves the programs started in the member countries. Every three years the Commission prepares the Cohesion Report, while specialized administration manage the funds for financing the implementation of regional politics. The Council makes the most important decisions, which after the approval of the European Parliament and Consultation from the Economic and Social Committee as well as from the Committee of the Regions determines the amount of resources for a six year period, the tasks, goals, the way how funds should work and all the rules which applies to them. The planning and selection of projects is not made in Brussels but on national and local levels.

The regional policy is an investment policy because it is created to support job creation, competitiveness, economic growth, improved quality of life and sustainable development. This policy takes into consideration the need to equalize the level of development between countries and regions. It represents solidarity with less developed countries and regions and fosters investing in key sectors where invested funds can make a difference. Eliminating the disparities would be of great benefit for the European market as well as for its currency. Leaving the disparities could mean great problems in the future as well for the developed countries as for the poorest ones. In the period 2007-2013, the investment of 347 billion euros is planned in the European regions. The funding helps to boost small and medium-sized enterprises, cleaner environment, education and skills, to improve transport and internet links to remote regions, innovation, developing new products and production methods, etc. Since the policy has to be implemented in many regions it brings many issues. How can we capitalize on the strengths of each territory so that they could contribute to the development of the Union as a whole? How can we better connect territories including transport, internet, energy networks, etc. How should the positive and negative sides of cities' concentration be managed? And how should cooperation between regions be developed to boost economy and social benefits?

The regional policy is intended to help to achieve the Europe 2020 strategy which contains the following objectives: Employment - 75 % of the population aged 20-64 should be employed; Innovation - 3% of the EU's GDP should be invested in Research & Development; Climate change - The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right); Education - The share of early school leavers should be under 10% and at least 40% of 30-34 years old should have completed a tertiary or equivalent education; Poverty - Reduction of poverty by aiming to lift at least 20 million people out of the risk of poverty or exclusion.

To achieve these goals, the Union will need to operate in a cohesive way in many areas.

III. The regional funds

The regional funds stay at the disposal of the EU countries to get more resources for sustainable growth and for strengthening the economic and social links between regions in the EU. They are at the service of European regional policy.

There are three main funds that finance the EU regional policy: European Regional Development Fund, European Social Fund and Cohesion Fund.

1. European Regional Development Fund (ERDF)

This fund is meant to strengthen the social and economic cohesion in the European Union. The ERDF finances direct aid to investments in companies, infrastructures (research and innovation, telecommunications, environment, energy and transport), financial instruments (like capital risk funds, local development funds, etc.), and technical assistance measures. Help from this fund is directed to spatial units called NUTS regions. Croatia is divided into two NUTS II regions. NUTS II regions are regions in which the GDP per capita is lower than 75% of the EU average. The main goal will be to speed up the growth and employment through the growth and improvement of the quality of investments in the human and capital resources, development of innovations and knowledge society, economic and social changes adaptability, the protection and improvement of the environment and administrative efficiency.

2. European Social Fund

The goals of this fund are the following: lowering difference of the living standard and welfare in the EU countries, emphasizing the employment in the EU, and assistance to European companies and the workforce to cope with global challenges. The fund had a budget of 75 billion € (2007-2013) to spend in the following areas: attraction and retention of people in employment and the modernization of the social protection system, improving investment into human capital through better education and skill acquisition, strengthening administrative capacities and assisting the maintenance of a healthy workforce.

3. Cohesion Fund

The cohesion fund is the financial mechanism for financing the big infrastructural projects in the EU in the fields of transportation and environmental protection, trying to achieve economic and social cohesion between the countries in the EU as well as encouraging sustainable development. The fund had a budget of 55 billion euros for the 2007-2013 period.

The fund finances intervention in the following fields: environmental infrastructures with the goal of adopting EU standards in environmental protection, effective use of energy and use of renewable energy sources and trans-European transportation networks.

In the table below, we can see how the usage of fund resources by country is divided. The majority had a usage of around 50 % or lower.

Table 2 Utilization of fund resources by country (December 2012)

Countries members	Fund usage in %
Lithuania	60,5
Portugal	58,4
Ireland	55,6
Estonia	53,9
Sweden	53,3
Finland	52,7
Germany	52,3
Poland	51,3
United Kingdom	50,3
Austria	49,3
Latvia	48,5
Spain	48,4
Slovenia	47,6
Belgium	46,8
Greece	45,3
Luxembourg	44,9
Netherlands	44
Hungary	43
Cyprus	42,6
Denmark	42,5
France	41,6
Slovakia	38,9
Czech Republic	37
Malta	33,2
Bulgaria	28,5
Italy	28
Romania	20,7
Average	45,15

Source: <http://www.eu-projekti.info/zanimljivost-saznajte-kolika-je-iskoristenost-strukturnih-fondova-u-drzavama-clanicama-eu> (25.06.2013).

IV. INTERREG IVC program

The interregional cooperation program facilitates the cooperation of regions by enabling them to work together and improve their policies.

The main objective of the program is to improve regional development, by the means of cooperation, in certain areas helping sustainable development and building new cohesion between regions in Europe. This program should bring added value to communities and regions by enabling authorities and other actors at different levels to learn from experiences of the others and to develop new and/or innovative approaches and solutions in the fields of knowledge economy, innovation, environment and risk prevention. The program should facilitate exchange of experience and best practices between regions and contribute to a reduction of disparities between European regions. There are also specific objectives of the program which are: improving regional and local policies in the field of innovation and the knowledge economy, focusing on regional capacities for research and technology development, support to entrepreneurship and SMEs, support to business development and innovation initiatives, promotion of the use of ICTs and support to employment, human capital and education; improving regional and local policies in the field of environment and risk prevention, focusing on prevention and management of natural and technological risks, water and coastal management, waste prevention and management, biodiversity and preservation of natural heritage, energy efficiency and renewable energies, clean and sustainable public transport, cultural heritage; enabling actors at regional and local level from different countries across the EU to exchange their experiences and knowledge; matching regions less experienced in a specific policy field with regions with more experience in that field, with the aim of jointly improving the capacities and knowledge of regional and local stakeholders; ensuring that the good practices identified within interregional cooperation projects are made available to other regional and local actors and are transferred into regional policies in particular into EU Structural Funds mainstream programs.

1. Priority themes

There are two thematic priorities in this program:

- a) Innovation and the knowledge economy: innovation, research and technology development; entrepreneurship and SMEs; employment, human capital and education; the information society.
- b) Environment and risk prevention: natural and technological risks; waste prevention and management; energy and sustainable transport; cultural heritage and landscape; water management; biodiversity and preservation of natural heritage.

The INTERREG IVC program is meant to support interregional cooperation aimed at improving regional policies. It is clear that the themes are linked, therefore operations can propose a cross-sectoral and integrated approach where it's appropriate. However, each operation should have a clear focus on a specific regional policy.

2. Managing the program

The program has one Joint Technical Secretariat for the whole of the EU. It's based in Lille, France. It is also supported by four Information Points that deliver technical advice and information to applicants. Depending on the location of the Lead Partner they can be based in Valencia (Spain), Lille (France), Rostock (Germany) and Katowice (Poland). These Points are also used to answer questions on country specific requirements like eligibility of partners.

The Monitoring Committee is the central decision-making body of this program. The Monitoring Committee members are available for consultation, however, questions and requests should be forwarded to the Joint Technical Secretariat and the Information Points or the National Contact Points. The Conseil Régional Nord (Pas-de-Calais) is the authority that manages the INTERREG IVC program.

The structure of the program is made up from a Managing Authority, a Certifying Authority, an Audit Authority, a Monitoring Committee, a Joint Technical Secretariat, a Task Force (optional) and National Contact Points (Strongly recommended).

2.1. Managing Authority

The Région Nord-Pas de Calais is the Managing Authority of this program and is situated in Lille, France. The Managing Authority signs the contract with the Lead Partner on behalf of the program. The Région Nord-Pas de Calais, assisted by the Joint Technical Secretariat, will be responsible for managing and implementing the Operational Programme, in particular for: ensuring that operations are selected for funding in accordance with the criteria applicable to the Operational Programme and that they comply with applicable EU and national rules for the whole of their implementation period; verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with EU and national rules; ensuring that there is a system for recording and storing in computerized form accounting records for each operation under the Operational Program and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected; ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules; ensuring that the evaluations of Operational Programmes are carried out in accordance with the established rules; setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements; ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification; guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the Operational Programme to be monitored in the light of its specific goals; drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation; ensuring compliance with the information and publicity requirements.¹

¹ Operational Programme, INTERREG IVC, http://www.interreg4c.eu/programme_management.html (20.06.2013).

2.2. The Certifying Authority

The Caisse des Dépôts et Consignations is the Certifying Authority of this program, a French public institution responsible for general public missions, situated in Paris.

The Certifying Authority is responsible for certifying the overall reliability and quality of the project implementation before making a payment claim to the European Commission. It also is the paying body and is as such responsible for receiving the payments made by the Commission and making payments to the beneficiaries.

2.3. The Audit Authority

The Interministerial Committee for the Coordination of Controls regarding European Structural Funds is the Audit Authority and is situated in Paris. This authority ensures that the audits are carried out to verify the effective functioning of the management and control system of the program as well as control that the expenditures are in line with the declared numbers. This authority also submits regular audit reports and strategies for the applying of the audit.

2.4. The Monitoring Committee

After a program is approved, participating countries must set up a Monitoring Committee in agreement with the Managing Authority within three months. The Committee draws up its own rules of procedure and is made up of up to three representatives per country. This committee periodically reviews the progress made toward the specific targets of the submitted programs and based on that can suggest to the managing authority changes and interventions related to the program. The representatives of the committee ensure that all relevant partners on the national level are involved in the preparation, implementation, monitoring and evaluation of the program.

2.5. Task Force

The Monitoring Committee may be assisted by a Task Force. This Task Force is composed of the previous, present and future Chairs of the Monitoring Committee, the Commission and the Managing Authority, assisted by the Joint Technical Secretariat. The Chair can invite other

participants to take part in the Task Force meetings when necessary. The Monitoring Committee is informed about the meetings and the results of the Task Force. The Task Force can make proposals to the Monitoring Committee on issues related to the implementation of the program.

2.6. The Joint Technical Secretariat

The Managing Authority, after consultation with the countries included in the program, sets up a Joint Technical Secretariat, based in Lille, which assists the Managing Authority, the Audit Authority, the Monitoring Committee and the Task Force, when applicable, in carrying out their duties.

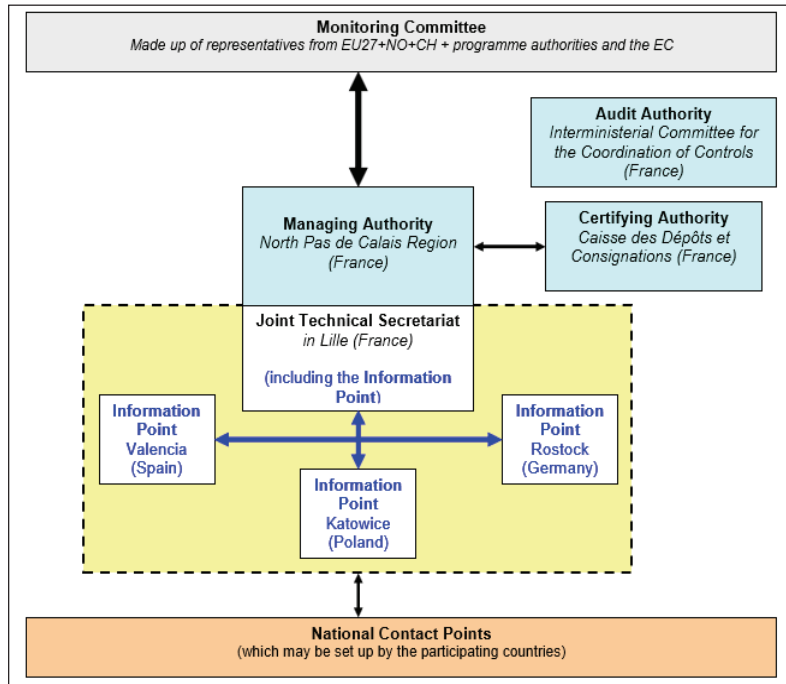
The Joint Technical Secretariat has international staff. The number and qualifications of staff corresponds to the defined tasks. The Joint Technical Secretariat prepares, implements and follows-up decisions of the Monitoring Committee, manages the project application process for all projects, provides advice and assistance to projects regarding implementation of activities and financial administration, monitors progress made by projects through collecting and checking project monitoring reports, etc.

Four Information Points (IPs) support The Joint Technical Secretariat. They are located in Rostock (Germany), Katowice (Poland), Lille (France), and Valencia (Spain). The activities of the Information Points focus on a certain geographical area. The Information Points also have international staff. They will assist the Joint Technical Secretariat in fulfilling the following tasks:

2.7. National Contact Points

Countries participating in this Interregional Cooperation Programme are strongly recommended to set up National Contact Points. These National Contact Points may have an important role in promoting the program amongst potential project applicants and supporting applicants in generating projects. These Points are supported by the Information Points and the Joint Technical Secretariat.

Scheme 1 Schematic overview of INTERREG IVC Programme structures



Source: Operational Programme, INTERREG IVC, http://www.interreg4c.eu/programme_management.html (27.06.2013).

3. Financing of the program

There is a single financing plan for the program. This financial plan is presented in the two tables below.

The first table specifies the amount of the total financial contribution of the ERDF and the national funding for the whole period. The table also presents the average rate of the ERDF contribution for each priority.

The second table breaks down the ERDF and the national funding for the three program priorities. We can see that the major part of the resources goes to Innovation and Knowledge Economy, then to the Environment and Risk Prevention, and lastly to Technical Assistance.

The tables below present a breakdown of the financial contribution from ERDF for each year of the programming period. As the programme continuous over the years the financing increases to match the implantation cycle. At the beginning the number of projects is supposed to be smaller and then grow over the years.

Table 3 Financial Plan of the INTERREG IVC Programme for the whole programming period

	Community Funding (a)	National Counterpart (b) + (d)	Indicative breakdown of The national counterpart		Total Funding (e) = (a) + (b)	Co-financing rate ¹ (f) = (a)/(b)	For information		
			National Public Funding (c)	National Private funding (d)			EIB Contributions	Norwegian Contribution	Swiss Contribution
Priority 1 Innovation and the Knowledge Economy ERDF, public funding	176,726,969	44,181,742	44,181,742	0	220,908,711	80 %	0	1,600,000	1,650,000
Priority 2 Environment and Risk Prevention ERDF, public funding	125,315,487	31,328,872	31,328,872	0	156,644,359	80 %	0	1,040,000	1,170,000
Priority 3 Technical Assistance ERDF, public funding	19,279,306	8,262,560	8,262,560	0	27,541,866	70 %	0	360,000	180,000
TOTAL	321,321,762	83,773,174	83,773,174	0	405,094,936	79 %	0	3,000,000	3,000,000

Source: Operational Programme, INTERREG IVC, http://www.interreg4c.eu/programme_management.html (27.06.2013).

Table 4 Distribution of the total eligible budgets between the three priorities

	Total Eligible Funding (in EUR)	Share of Total Eligible Funding (in percent)	ERDF Funding (in EUR)	Share of Total ERDF Contribution (in percent)	National Funding (in EUR)	Share of Total National Funding (in percent)
Priority 1 Innovation and the Knowledge Economy	220,908,711	54.53	176,726,969	55.00	44,181,742	52.74
Priority 2 Environment and Risk Prevention	156,644,359	38.67	125,315,487	39.00	31,328,872	37.40
Priority 3 Technical Assistance	27,541,866	6.80	19,279,306	6.00	8,262,560	9.86
TOTAL	405,094,936	100.00	321,321,762	100.00	83,773,174	100.00

Source: Operational Programme, INTERREG IVC, http://www.interreg4c.eu/programme_management.html (27.06.2013).

Table 5 Programme funding per year

	ERDF
2007	33,519,180
2008	35,753,777
2009	39,659,847
2010	45,335,266
2011	51,221,838
2012	55,632,584
2013	60,199,270
Total for the period	321,321,762

Source: Operational Programme, INTERREG IVC, http://www.interreg4c.eu/programme_management.html (27.06.2013).

Table 6 Maximum ERDF co-financing rates

	Co-financing rate (ERDF)	EU Member States
Projects: Priority 1 & Priority 2	Max. 75 %	Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Spain, Sweden, UK
	Max. 85%	Bulgaria, Czech Republic, Cyprus, Estonia, Greece, Hungary, Lithuania, Latvia, Malta, Poland, Portugal, Romania, Slovakia, Slovenia.
Thematic programme capitalisation: Priority 1 & Priority 2	75 %	All EU Member States
Priority 3	70%	All EU Member States

Source: Operational Programme, INTERREG IVC, http://www.interreg4c.eu/programme_management.html (27.06.2013).

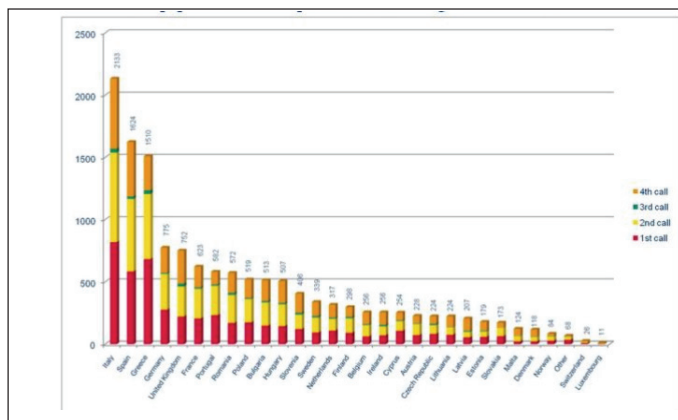
The following graphs show what the number of approved projects was during the years, also divided by country and priority. We can see from the graphs that the number of projects rose over the years and that there were more approved applications for the first priority (innovation and the knowledge economy).

Graph 1 Applications per year



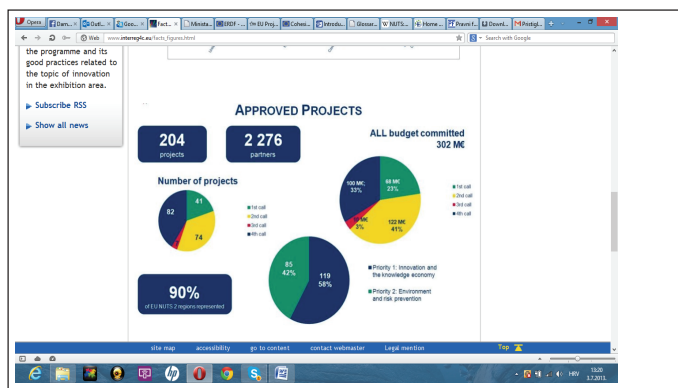
Source: http://www.interreg4c.eu/facts_figures.html (29.06.2013).

Graph 2 Applicants per countries – all calls



Source: http://www.interreg4c.eu/facts_figures.html (29.06.2013).

Graph 3 Approved projects



Source: http://www.interreg4c.eu/facts_figures.html (29.06.2013).

In the following three tables, the number of applications and approved projects for each priority and field can be seen. 50% of the projects were approved, a little more for innovation and the knowledge economy.

Table 7 Number of applications and approved projects per priority

	Applications	Approved projects	Approved projects in %
Innovation and the knowledge economy	204	119	58
Environment and risk prevention	204	85	42
Total	408	204	50

Source: Made by author

Table 8 Number of applications and approved projects for the first priority

	Approved projects	Approved projects in %
Innovation and the knowledge economy		
Innovation, research and technology development	37	31
Entrepreneurship and SMEs	44	37
Employment, human capital and education	18	15
The information society	20	17
Total	119	100

Source: Made by author

Table 9 Number of applications and approved projects for the second priority

Environment and risk prevention	Approved projects	Approved projects in %
Natural and technological risks	16	19
Waste prevention and management	5	6
Energy and sustainable transport	38	45
Cultural heritage and landscape	10	12
Water management	9	10
Biodiversity and preservation of natural heritage	7	8
Total	119	100

Source: Made by author

4. Positive and negative aspects of the program

4.1. Positive aspects

The program shows great mobilization potential, because in a very short time period there were a considerable number of applications as well as a large number of participating organizations. This means that there are many regions that are ready for an open cooperation with other partners, which is very positive. The bottom-up approach, being demand driven and giving power to regional and local public authorities, helped a lot in aiming the resources in the right directions. The three main priorities of the program offer many possibilities to the participants to choose from. The working method developed by the program bodies is very rigorous and effective. The “four point system” is very well developed and constitutes a good basis for future work and harmonization as well as the national points. The total number of regions involved was high and there was also a wide geographic coverage.

4.2. Negative aspects

The cooperation topics are too vague and sometimes misleading and therefore need to be better defined. A thematic approach could allow an easier development of strategies to promote the results. The bottom-up approach sometimes gives problem to partners with little or no experience. There are not yet enough good practices integrated into

regional and local policies. When it comes to projects, they don't always know how to disseminate their own tools, sometimes the capitalization of a program is a problem because of unforeseen things. Sometimes it takes too much time to set up activities by the bodies of the program. A few months mean a lot to the program partners. There are still some monitoring and control aspects that could be improved (simplified application forms and procedures, more efficient and harmonized auditing, greater budget flexibility, simplified reporting, etc.).

V. Conclusion

The INTERREG Programme is created by the European Union to speed up and help the cooperation of different regions in the Union. There are two main priorities in the program and those are innovation and the knowledge economy; and environment and risk prevention. Those are the fields in which the cooperating regions should find new solutions combining each other's good practices. The results of the cooperation between those regions and the finding of common solutions should benefit them and the whole Union because the good practices can be used to do just the same in similar situations. It's also clear that this program shall greatly benefit regions of new member states that didn't have that much communication with other regions in the Union. New programs shall always be initiated by partners in the EU and they must fight for the funding. In this way the competition for funds should guarantee the quality of the programs. This program is a good way to collect a lot of good ideas and solutions but there is still also a lot to be done to get these ideas and knowledge into practice. All in all, since the usage of funds by countries is still low, there is plenty of room for more good projects to be funded.

Dario Vračević*

Wine roads without borders

I. Introduction

We have been enjoying the richness and sort characteristics of Baranja wines since the times when Roman legions planted the first vineyards here according to the wishes of contemporary emperors. Their knowledge was kept over the centuries, renewed and perfected, and even today in the cellars and on the wine roads it is possible to hear a few wine legends or a grain of wine wisdom, which was not blurred by centuries of retelling accompanied by wine.

The name ‘Baranja’, which in Hungarian means ‘the wine mother’, is probably related to good conditions. These ideal conditions for wine grape cultivation and production of excellent wines were recognized by the Romans who, more than 2,000 years ago, named the Banska Kosa Hill ‘Mons Aureus’, or a golden hill. Advanced wine grape growing was not interrupted even during the Turkish invasion. In addition to enjoying grapes and wines, they were interested in financial aspects as well. By defeating the Turks, Prince Eugene of Savoy became the majority owner of Baranja and organized there an ideal economy, in which we can emphasize the vineyards, as well as the majority of the built wine cellars.

II. White, red, rose, dry, sweet, dessert...

Wine – the most noble and healthy of all drinks, a bond of generous nature and hard labor, as old as history itself. It was worshipped by ancient civilizations, wars were declared because of it, it was used in trade, people bowed down before it. Experts wrote about it, poets wrote poems about it, and both rulers and citizens enjoyed it equally. Despite the fact that the production technologies and assessment methods have changed, the eternal question as to which is the best among them has never been answered. Every wine-maker will,

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through legends and stories about his magic potion, offer the very best one.

It is up to you now to try it – because the truth is in wine. ‘*In vino veritas*’

A wine road is the area which offers wine, hospitality and tourism services by domestic households; grape growers and wine makers and other legal and physical persons who are engaged in the above mentioned activities, are registered and organized in accordance with special regulations. The road comprises nearby places, i.e., rural settlements, if they add to ethno-tourism in that area. The tourist-wine road has the following features: natural beauty and specific features of the environment it passes through, cultural and historical sites, tradition and specifics of a particular area.

While monitoring viti- and viniculture, the County has been designating tourist-wine roads since 2009. Pursuant to the Decision on Tourist-Wine Roads in the Area of the Osijek-Baranja County, 12 tourist-wine roads have been proclaimed so far: tourist-wine road Kneževi Vinogradi-Kotlina-Kamenac, tourist-wine road Zmajevac and tourist-wine road Suza in the municipality of Kneževi Vinogradi, tourist-wine road of North Baranja, tourist-wine road Martinovo Brdo and tourist-wine road Vinska cesta Batina in the municipality of Draž, tourist-wine road Zlatno brdo in the municipality of Popovac, tourist-wine road Sveti Martin in the City of Beli Manastir, tourist-wine road Erdut in the municipality of Erdut, Tourist-wine road Mandićevac in the municipality of Drenje, tourist-wine road Zlatarevac in the municipality of Trnava and tourist-wine road Frankovka in the municipality of Feričanci.

III. The importance of tourist-wine roads

An important segment in the continuing revitalization of the region and future project realization is to proclaim the area a tourist-wine road. The area is already intended for tourists and by proclaiming a tourist-wine road an even more active increase in the ethno-tourism offer will take place, making new and improving already existing offers in the area.

A wine road is a special way of offering and selling agricultural products of a certain wine-growing district in which participating producers joined under the wine road etiquette offer their specialties, particularly wine. Along with tourism and hospitality services, integral parts of the wine road are environmental features and natural beauties the road passes through, as well as historical and cultural sites. By building a wine road, the tourism offer in a district is defined, the route of the wine road is determined, the place for welcoming the guests is designed, signs are made and wine roads are marked. In relation to this, a decision on the design and the size of the wine road is based on the offer of wine and other domestic specialties in wineries.

The analysis of tourism development in Croatia in the last 30 years has shown that, from the marketing point of view, Croatia mostly profiled tourism products very modestly, whereas regarding the quality of tourism potential, it has actual possibilities to reach the position of one of the most prominent and successful European tourist destinations in the next 15 to 20 years. As a solution, a different role is offered to the tourist destination itself, which now has to take over the key role in future tourism development in Croatia while aiming at designing developmental projects with interesting programs and trying to create better conditions for their entrepreneurial realization. The project entitled '*Wine Roads*' has determined such roads as a special form of selling agricultural products from one wine-growing district in which rural businesses and other participants are joined under the common term '*wine roads*'.

It is often said that the potential for wine tourism is enormous, but who are the stakeholders and who stands to gain the most if and when it realizes its true potential?

IV. The wine route concept

The concept of a delimited space is vital to the idea of a wine route since it defines, for its wine-producing members, an identity that proclaims unique attributes for their wines and cultural heritage. In order to stress the attributes that distinguish them from their competitors, wine route associations tend to employ a rhetoric that

stresses the nature of the grapes and the wines they produce, the soils and climate that give them distinctive character and the cultural heritage that nurtured them.

As a defining framework for this study, a wine route is defined as basically a tourist route that connects several wine estates (Baranja in Croatia and Hungary), and wineries in a given area (German: 'Weinstrasse'). This route is characterized by natural attractions (mountains and other scenery), physical attractions (facilities such as wineries on wine estates), vineyards, and roads and markers (signposts) directing the tourist to the individual wine route estate enterprises. Most, if not all wine routes are characterized by a delimited space in the form of an often officially demarcated wine region or geographical indication (GI)¹ that has an identity in the form of a (branded) descriptive.

As wine routes are also regionally based, each wine route therefore seeks to articulate a set of attributes that endows it with a distinctive trademark or brand identity² or one that enables them to claim some unique feature. The mix of environmental, cultural and social features that convey a distinctive character to each wine route is usually perceptible. The tourist will recognize and value the difference in landscape and winescape when moving between wine routes.³

The concept of a wine route also incorporates images that sustain the notion of exploration and discovery. It requires a journey during which a range of unexpected experiences may be encountered. This expectation is encouraged by (advertised) claims of distinctive attributes that are particular to the wine route. A wine route allows the tourist to engage with the diversity of the natural and cultural features of the landscape.

In today's international wine market it is important to acknowledge that the successful building of the brand identity and the image of the

¹ http://www.wipo.int/geo_indications/en/about.html (01.05.2013).

² W. Moran, Rural space as intellectual property, *Political Geography* 12, (1993) p. 263.

³ C. M. Hall, et al., eds., *Wine tourism around the world: Development, management and markets*, 1st ed. (Oxford: Butterworth Heinemann, 2000) p. 20–43.

winery, the wine region and the wine country of origin is, arguably, the single most important factor that will determine future success in the wine industry.

One of these factors is the proximity of a destination to the producing region. In considering the question of proximity, the following factors may be taken into account: geographical distance between the producing region and the tourist destination; travel time needed to cover the geographical distance; amount of money required by the tourist to cover the geographical distance and cognitive distance between the producing region and the destination.

The cognitive distance refers to one's perception of the distance (as opposed to the real distance). Geographical features (for example, winding mountain roads to vineyards) may make the distance seem longer. Great differences in culture and lifestyle between the generating region and the destination region may also give the impression of greater distance than is really the case.

The northeast region of Croatia has historically been divided into two sub-regions: Slavonia and Baranja, which geographically make a whole. It is bordered by three rivers: Sava on the South, which makes a natural border with Bosnia and Herzegovina, Danube on the East, which is a border with Serbia, and Drava on the North, which is a border with Hungary.

That vast plain region is filled with acreage of rich fertile soil that had ensured prosperity to all its inhabitants for centuries.

There are few regions in Croatia that can boast such richness of culinary heritage as Slavonia and Baranja; its power of gastronomy and enology is like no other.

Rich wheat fields have been the foundation of nutrition for the local people since old times, but the great migration of people, numerous travelers and conquerors have brought new plants, animals, and foods from distant places.

The Northeast of Croatia is divided into two wine sub-regions: Podunavlje with its three most prominent vineyards (Srijem, Erdut,

and Baranja), and Slavonija with ten vineyards, most importantly Đakovo, Slavonski Brod, Kutjevo, and Daruvar.

The most important climate factor of this region is that the falls are warmer than the springs, which is beneficial for the natural process of accumulation of grape sugar, the main cause for the high quality of the wine.

The wine production in Slavonia and Baranja consists of mainly international sorts that are characterized by a specific terroir and a unique aroma. The peak of that production quantitatively and qualitatively is the riesling (graševina), which is followed by chardonnay, Rhine riesling, red, gray and white pinot, traminac, sauvignon, green silvanac, frankish, zweigelt, and lately more often the cabernet sauvignon, syrah and even zinfandel.

Grasevina is surely the most valuable of all of the Slavonian enological icons. Traminac is produced here mostly as dry, or semi-dry wine, as opposed to the rest of Europe and the world where it is usually very sweet, while the Rhine riesling is stylistically most similar to its models from Germany, which is excellent, because wines from that region are globally recognized as the highest quality dry Rhine rieslings.

In the contemporary way of life, due to a change in touristic demand and the way of utilizing tourist merchandize, tourism is dominated by the service industry. The tourist brand 'a vacation on the sea in the sun' has a relatively long tradition in Croatia, and has developed mostly because of the available resource potential. The biggest challenge for sustainable tourism is that, not long ago, there were no clear definitions of the sustainable development. Up until now, there were hundreds of different approaches as to what clearly clarifies as 'sustainable tourism'. Some of them are good, some are bad; not one is yet universal.⁴ By developing sustainable tourism, a precondition for balance in a short and long period is being filled, and value is built for all of the participants in the market. To achieve set goals, participants on all levels, from the local to the national, must conduct

⁴ R. Conrady and M. Buck, eds., *Trends and Issues in Global Tourism 2012* (Springer, 2012) p.109.

in accordance with the principles of sustainable development. Only by balancing the mutual relationship can a clarify stable and long term sustainable tourist development be made.

Croatia has traditionally been a tourist-oriented country. The growth of tourist traffic has in the last few years confirmed that Croatia is on the way to making tourism the active generator of the development of the economy. The primary goal of Croatian tourism is to ensure long-term positive effects by sustainable usage of natural and cultural-historical potentials, active participation in its preservation and development, making an appealing surrounding for investors, and by efficient promotion. Taking in consideration the need of a more even touristic development, and an integral, more diverse tourist offer of the blue and green Croatia, it is necessary to make operational master plans for the development of lower structure tourism. The creation of such plans ensures the participation of the local inhabitants with the institutions into making their own tourist development. Despite the fact that many local and regional self-governments have formulated plans for the development of tourism in their regions, these mostly correspond to the most prominent touristic units, while others need financial and expert support for that activity.

V. Defining the term ‘wine route’

A wine route is a special form of selling agricultural, catering and touristic products of a wine region where rural commerce (family agricultural economy) and other legal and physical persons, united under the common name of wine route, offer their products, especially wine from their own making, and other rural products.

With the goal of developing the rural areas and tourism, Osijek-Baranja County has started a project of touristic-wine routes. By the decision about the touristic-wine routes in the region of Osijek-Baranja, the term of touristic-wine routes has been coined, the conditions such road must fulfill and the procedure of proclaiming a touristic-wine route, as well as the way and conditions of co-financing its arrangement in the region, have been formulated.

The touristic-wine route is an area where wine, catering and tourism are offered by rural households, wine makers and other legal and physical persons that are in the already mentioned business, registered in accordance with the special regulations. The road includes near-by villages and estates if they increase the ethno-touristic offer of that region. The touristic-wine route has the following features: natural beauty and a special environment that includes cultural and historical landmarks, the tradition and the uniqueness of the specific area.

Touristic-wine routes are proclaimed by the County Assembly, on a proposal from the Commission.

Following the development of wineries and wine-making, the County has been proclaiming touristic-wine routes since 2009. By the Decree of touristic-wine routes in the area of Osijek-Baranja County 18/081. and 1/102., 12 proclaimed so far.⁵

Osijek-Baranja County was awarded with the irrevocable sum of 936 389 Euros from the pre-admission IPA European Union funds for the project of the reconstruction of wine routes with the purpose of promotion and development of wine tourism in the region.

That project, named ‘*Wine tour*’⁶, which is co-financed by the EU by 75%, with the total worth of 1,2 million Euros, is important to bind the agricultural manufacture with the goal of increasing the quality of continental tourism as an economic priority of Osijek-Baranja County. The main goal of the project is to encourage development and the opening of new work spaces in the areas that are falling behind through culture tourism, especially in the areas connected to the tradition of growing grapes and making wine as unique tourist experiences. The specific goal of the project is the acceleration of the economic growth of the region through production, promotion, governing and improving the offer of the cultural tourism of Osijek-Baranja County based on the new and improved public tourist infrastructure. Along with the construction of 18,5 kilometers of wine routes in the framework of the project, there has been also planned

⁵ <http://www.obz.hr/hr/pdf/2012/23sjednica/InformacijaoodobrenomprojektinomrijedloguWinetourusklopuprogramaIPAreionalnakonkurentnost.pdf> (01.05.2013).

⁶ <http://www.obz.hr/hr/index.php?tekst=1224> (01.05.2013).

an arrangement of 4 mini wine museums in each of the 4 vineyards in Osijek-Baranja County (Baranja, Erdut, Đakovo and Feričanci), along with a regional museum in Osijek's historical old town.

Wine tourism is not only connected with wine cellars, so called 'wine taprooms' or wine-taps, but also with all forms of business that are connected to wine. It includes clarify country houses for vacations, hotels, tour operators, and souvenir shops.

Wine tourism is just one in the series of different forms of tourism based on the typical products and the culinary tradition that has lately been intensively developed. Those kinds of tourist offers have positive effects not only on the manufacture of certain products, but also on the whole range of additional elements such as grape production, wineries, restaurants, tourist agencies, as well as the whole food sector⁷.

A direct impact of the wine tourism on the economic growth of the area is visible in the field of increased sales and the consumption of products and services. It is about selling wine and other authentic products, increased traffic in the restaurants, and over-night stays. In the same time, satisfied wine tourists become the best marketing advertisers whose recommendations entice new tourists to discover uniqueness of a certain region. The impact of this kind of tourism is seen through many other aspects: from increased care for protection of the area, improved traffic and communal infrastructure, to the socio-economic and demographic transformation of the area in which wine tourism is taking place.

The main goal of every touristic subject in this field of wine-taps is making the most profit possible with minimal expense. For maximal revenue it is important to maximize the number of tourists in a certain wine-tap, or increase the prices, keeping in mind the extensive price-elasticity of tourism.

SWOT (strength, weakness, opportunities, threats) analysis is a quantitative analytic method that uses the gradation of elements in

⁷ D. Di Gregorio and E. Licari, 'Rural Development and Wine Tourism in Southern Italy,' (ERSA conference papers ersa06p626, European Regional Science Association, 2006).

four field (strength, weakness, opportunities and threats) to estimate strong and weak points, convenience and problems of an object or a phenomenon in question.

Table 1 SWOT analysis of the wine sector

Strength	Weaknesses
<ul style="list-style-type: none"> -significant local wine market and consumption through tourism -a rich offer of authentic wine sorts -Possible offer of wine through rural tourism and wine routes -experience and tradition of grape and wine production 	<ul style="list-style-type: none"> -a large number of small manufacturers which are not well technologically equipped -usage of dated production technology -weak education of manufacturers -high wine prices on the market
Opportunities	Threats
<ul style="list-style-type: none"> -to modernize the current winery capacities -to empower small manufacturers -to increase competitiveness of wine production -decreasing the costs of production by modernizing the wineries -decreasing the price of wine on the market -increasing employment 	<ul style="list-style-type: none"> -creating large wine supplies -an increase in the import of cheap wine of the same quality compared with wine export -the wines are not cost-competitive on the international market -a large number of small manufactures that can't compete with large manufacturers on the market because of the high production costs

Source: Made by author

The age of vineyards, the fragmentation of the area and the number of wine sorts are the features of Croatian vineyards and wine making. In addition, because of the local wine market and the possible high consumption of local wines through tourism, it is necessary to modernize the already existing capacities for wine production in small family-owned agricultural commerce (family wineries), and entice them to make exclusively recognizable, quality, and premium wine that they can offer at their wineries via rural economy and wine routes. By modernizing the technology of wine production, the cost of manufacturing would decrease as well as the prices of wine on the market, which would attract more visitors to family businesses and contribute to an increase in rural tourism in the Republic of Croatia. At the same time, it is necessary to protect the consumers by quality

and safe products no matter how small the production quantities are, keeping in mind that more and more consumers are educated in recognizing wine standards and quality of the wine that are well-known for their sorts and the area of production from which they originate.

Civil procedure reforms in Central and Eastern Europe: preclusion in the post-socialist countries

I. Introduction

At the beginning of the 1990s, the former socialist countries of Central and Eastern Europe were faced with the same problems in the field of civil justice: a judicial organization that had preserved the traditions of the Stalin era or had just stepped beyond them, and a code of civil procedure that had been codified based on the pattern of the Soviet Code of Civil Procedure of 1923. A common characteristic shared by socialist codes of civil procedure was the ideological content of their basic provisions, which conveyed the message of dictatorship to justice seekers. After the political changes, the outdated structures proved unsuitable to resolve complex cases and handle the increased caseload. Former socialist countries saw a surge in reforms. The establishment of the rule of law and the transition to market economy were accompanied by aspirations to join the European Union. In the past two decades, one has been able to witness some changes in the civil justice of Central and Eastern Europe which, albeit being motivated by different factors and characterized by different processes, altogether, point in one direction. Central and Eastern European countries – which have the same historical tradition and are in a similar social and economic situation – try to overcome the 21st century challenges of civil justice, qualified by Sir Jack Jacob as a three-headed hydra (cost, delays, frustration).

By the turn of the millennium the first new codes of civil procedure had been born in former socialist countries (Latvia 1998, Slovenia 1999, Lithuania 2002). Their common characteristics included breaking with the socialist past and returning to the principles of party control and adversarial hearing. A similar process took place in the other Central European countries as well, where outdated codes of civil procedure were modified by amendment acts (Poland 1996, Hungary 1995/1999, the Czech Republic 2000). While the first reforms aimed to remove

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the antidemocratic elements from the codes, later amendments tried to accelerate the procedure. Some of these attempts failed, some succeeded, but since these countries have a similar historical tradition and are in a similar social and economic situation, their experiences may serve well for further reforms.

II. Delay in the post-socialist civil procedures

Delay in litigation can occur for various reasons, due for example to the overwhelming caseload of the courts, a lack of human and other resources and the inappropriate preparation and concentration of trials. Among the reasons, special attention should be paid to the use of dilatory tactics by the parties and their lawyers which can cause significant delays, even in countries where the average duration of proceedings is satisfactory. In countries where civil proceedings are less vulnerable to dilatory tactics, it can also substantially increase the average duration of proceedings.

The dilatory behavior of parties and their lawyers is independent of age and geographical location, since – in our view – it arises always and everywhere for identical reasons. In our opinion, dilatory tactics are used by the parties and their lawyers only if intent and opportunity meet.¹ In the absence of either, these tactics are not applied. In cases where – although it could be in the power of the parties to delay the proceedings – they are not interested in doing so, they will not use such tactics. This is also the case where the parties or their lawyers are interested in delay, but – because of the lack of appropriate means in that jurisdiction – they are unable to do so. We believe that legal systems are vulnerable to dilatory tactics in different ways and for different reasons. *The reasons which can affect vulnerability* include: the responsibilities of the judge and the parties in advancing the proceedings, the parties' room for maneuver, the existence of adequate sanctions and, finally, the litigation practice of the judge and the parties concerned. In legal systems where the responsibilities are reasonably

¹ G. Czoboly, 'Deterring dilatory tactics in civil litigation', in B. Zs. György, ed., *Studia Iuridica Auctoritate Universitatis Pécs Publicata. Essays of Faculty of Law University of Pécs Yearbook of 2013* (Pécs, Faculty of Law, University of Pécs, 2013) p. 9.

divided and the judge has appropriate devices to manage proceedings, systems are less vulnerable than when this is not the case.

According to Uzelac, socialist – and in some extent post-socialist – civil procedures have some *common features*, such as: ‘deconcentrated proceedings, and a lack of trial in the proper sense; orality as a pure formality; excessive formalism; the pursuit of material truth; lack of planning and procedural discipline’.² In our opinion, deconcentration of proceedings and lack of procedural discipline can be traced back to the excessive responsibility of the judge and the pursuit of material truth. It might look paradoxical in the light of history, because it was exactly the increased responsibility and active role of the judge that was the solution to the problems of the liberal civil procedure. To understand the systematic difference between the procedural models, we have to first examine the sources of their weaknesses.

Kengyel points out that, ‘regardless of historical periods and social arrangements, the determination of the relations of power between the judge and the parties is one of the main questions of the regulation of civil procedure. Basically it determines the practicability of procedural liability’.³

Historically, *different models of civil procedure* were developed which distributed the procedural rights and duties of the judge and the parties in varying ways.⁴ From the perspective of our topic, their *influence on the conduct of the procedure* has great relevance. In cases where the conduct of the procedure depends basically on the parties, they have many possibilities to prolong proceedings. In theory, if their influence is limited and the procedural powers are divided between them and the judge, their potential to cause delay is limited.

In the *liberal civil procedure*, party autonomy prevailed in respect of the conduct of the procedure too, and so the parties had great influence

² A. Uzelac, ‘Survival of the Third Legal Tradition’, 49 *Supreme Court Law Review* (2010) p. 390.

³ M. Kengyel, *A bíróság és a felek közötti felelősségi viszony a polgári perben. (Történeti és összehasonlító elemzés)* (Budapest, Eötvös Lóránd Tudományegyetem Állam- és Jogtudományi Kara 1989) p. 11.

⁴ See M. Kengyel, *A bírói hatalom és a felek rendelkezési joga* [Court’s Power and Party Autonomy in Civil Procedure] (Budapest, Osiris Kiadó 2003).

– which they frequently misused. According to Habscheid, the 19th century codifications, which granted unlimited autonomy to the parties, were built on the axiom that the ‘free play of powers’ must prevail, so the interests of the parties, who fight for their own rights, are the most efficient catalysts to resolve the legal situation as soon as possible.⁵ The error of this assumption is easily recognized if we consider that the disagreement between the parties may be only on the merits of the case, but not the conduct of the procedure. It is possible that both parties are withholding information to gain advantage over the other by submitting a relevant fact or new evidence at the right time. On the other side, we must recognize that the parties are usually represented by lawyers. In this case the ‘free play of powers’ does not appear as clear, due to their own interests and professional solidarity. The weakness of the system was due to the overstretching of the limits and the misuse of rights. Zuckerman notes – in line with the findings of Lord Woolf – that

‘the cause of complexity, delay and cost is due not to the nature of our procedural devices but, rather, to the excessive and disproportionate use and abuse of the procedural tools’.⁶

The conceptual mistake of the liberal civil procedure was that it gave *the responsibilities in advancing the procedure to the parties*, who misused it.

The social civil procedure had evolved at the end of the 19th century in Austria as a response to the anomalies of the liberal civil procedure. It transferred the procedural tools of case-management from the parties to the judge.

‘For the realization of the social function of civil procedure, the role of the court has become crucial. As the opposite of the autonomy of the parties, Klein emphasized the court’s vigorous activity’.⁷

⁵ W.J. Habscheid, ‘A polgári per koncentrálását célzó újabb irányzatok az NSzK-ban, Olaszországban, Franciaországban és Svájcban [Recent trends in the FRG, in Italy and in Switzerland to concentrate civil procedure]’, 26 *Jogtudományi Közlöny* (1971) p. 27. (translated to Hungarian BY Gy. Schelnitz).

⁶ A.A.S. Zuckerman, ‘Reform in the Shadow of Lawyers’ Interests’, in A.A.S. Zuckerman and R. Cranston, eds., *Reform of Civil Procedure, Essays on ‘Access to Justice’* (Oxford, Clarendon Press 1995) p. 62.

⁷ Kengyel, op. cit. n. 4, at p. 105.

Nevertheless this active judicial case management did not restrict the private autonomy of the parties; it only tried to rectify the conceptual mistakes of the liberal civil procedure. Magyary formulated this as follows:

‘[the fact that] the balance between the judge’s and the parties’ dominance in the procedure could be established, was due to two reasons. First, the autonomy of the parties was restricted by appropriate limitations. The party may decide to ask for judicial protection or not, but the decision is not his as to how the procedure will be managed or how long the procedure will take. If the party asks for judicial protection, he will not hinder the judge in uncovering the truth.’⁸

As a result, the parties and their representatives will have less room for maneuver to cause delay. It is, on the one hand, due to *the active case management of the court*, and, on the other, to *the limitation of the autonomy of the parties*. If the judge has an active role in the litigation and has the appropriate procedural tools to realize it, and at the same time, the rules do not provide easy opportunities for the parties to prolong the procedure, then dilatory tactics cannot prevail. However we should see that it is not enough to make the judge’s role more active, it is also necessary to give him adequate procedural tools and to limit the rights of the parties regarding the management of the procedure.

In the socialist model of civil procedure, the task of the court became to ascertain *the material truth*. After the 1950s ‘the direct goal of the soviet civil procedure code of 1923 was to ascertain the objective truth’.⁹ After the communists came to power in Central and Eastern Europe, their procedural codes have been altered modeled on the Soviet. In Poland, the old civil procedure code was changed in 1950 and 1953 by amendments which introduced the principle of objective truth as a ‘golden rule’.¹⁰ During communism, according to the old Romanian civil procedure code¹¹ ‘judges have the duty to insist by all

⁸ G. Magyary, *Magyar polgári perjog* [Hungarian civil procedure] (Budapest, Franklin-Társulat Kiadása 1939) p. 38.

⁹ Kengyel, op. cit. n. 4, at p. 248.

¹⁰ K. Weitz, ‘Das polnische Zivilprozessrecht nach der politischen Wende im Jahre 1989’, 11 *ZZPInt* (2006) p. 91.

¹¹ The Romanian civil procedure code of 1865 was amended several times. During

available legal means to discover the truth and to prevent any mistake in the ascertainment of the facts; they will give the parties an active support in the protection of their rights and interests'.¹² In Hungary 'the task of the court was described as hunting out the material truth'.¹³ According to the original text of § 1 of the Hungarian civil procedure code of 1952, the aim of the present act is to ensure the resolution in court procedures of legal disputes arising in connection with the rights attached to the person and property of the citizens of the state, the state and other legal persons on the basis of material truth.

On the one side, because the socialist civil procedure aimed to find out the objective truth, in reality it *sacrificed the efficient conclusion of the dispute*. Uzelac highlighted that

'[a]t the end of 19th century, Franz Klein wanted to shape a model of civil procedure in which establishing substantive truth, and engaging in efficient case management would be two mutually non-exclusive goals. Yet, in the course of history it was proved that, in the extreme cases, the ideological demand for objective (or even absolute) truth could overshadow all other goals of the procedure'.¹⁴

Since the objective truth was *the ultimate goal* of the procedure, the passivity of the parties could not lead to a decision, which was not on the basis of the material truth. There were no real sanctions to the passivity or abusive behavior of the parties.

'Under the Yugoslav CPA-1976, parties were free to submit new facts and evidence until the end of the last session of the main hearing and except in commercial cases – even during an appeal. It was left entirely

communism, a significant modification took place in 1952.

¹² S.S. Vacarelu, 'Romanian National Report. Legal Culture and Civil Procedure Romania's place among civil procedural systems', in D. Maleshin, ed., *Civil Procedure in Cross-cultural Dialogue: Eurasia Context* (IAPL World Conference on Civil Procedure 18-21 September, 2012, Moscow) (Moscow, Statut Publishing House 2012) p. 292.

¹³ M. Kengyel and V. Harsági, *Civil Justice in Hungary* (Nagoya University Comparative Study of Civil Justice Vol. 4., Tokyo, Jigakusha 2010) p. 8.

¹⁴ A. Uzelac, 'General Report – Goals of Civil Justice', in D. Maleshin, ed., *Civil Procedure in Cross-cultural Dialogue: Eurasia Context*, IAPL World Conference on Civil Procedure 18-21 September, 2012, Moscow, (Moscow, Statut Publishing House 2012) p. 126.

to the parties to decide at what stage of proceedings they wished to present relevant facts and evidence'.¹⁵

Relevant facts and evidence could be submitted even in the appellate procedure and if the appellate court found out that the first instance court did not take the evidence *ex officio* to ascertain the truth, it quashed the judgment. Uzelac has noted that

‘[t]he rare judges who use burden of proof rules in an attempt to speed up the process thereby expose themselves to the risk of having their judgments quashed by the higher courts for «improper fact-finding» [...] Such appeals were therefore remitted to the lower courts for re-examination as often as possible, and, frequently, the only justification that was given was that the first instance court should try harder to look for additional evidence in order to find the ‘material truth’’.¹⁶

On the other side, since *the paternalistic judge* had most of the responsibility to ascertain the truth, *the attorneys get passive* in the procedure and led the judge to find out the truth. Galic highlights that

‘[m]ost importantly, the paternalistic expectation that the judge is required to supplement any insufficient diligence, inactivity, incompetence, or lack of research and analysis of the case by the attorneys led to results which were disastrous not only from the viewpoint of delay, but also from the very viewpoint of pursuing substantive justice. Since attorneys were aware that any insufficient knowledge and research of their client’s case would need to be rectified by the activism of the judge, they increasingly became completely inactive and negligent in the preparation and conduct of their clients’ cases’.¹⁷

And due to the lack of the judge’s power to disregard late facts and evidence, attorneys presented the facts in an abusive manner, either to delay the procedure, or to increase the effect by submitting their

¹⁵ A. Galic, ‘A judge’s power to disregard late facts and evidence and the goals of civil justice’, in V. Nekrosius, et al., eds., *Recent Trends in Economy and Efficiency of Civil Procedure*, Materials of International Conference 9-10 of May 2013 (Vilnius, Vilnius University Press 2013) p. 73.

¹⁶ Uzelac, loc. cit. n. 2, at pp. 392-393.

¹⁷ Galic, loc. cit. n.15, at p. 97.

‘ace in the hole’ in a later stage of the process. Consequently, it led to adjournment of the trial, which at the end

‘resulted in the passivization of judges. It simply did not pay off either for judges to prepare diligently for the hearing, if it was very likely that the parties would put forward new material therein which would shed an entirely different light on the case’¹⁸

Uzelac has summarized the results of the period of socialism to the efficiency of civil justice and the features of the post-socialist procedures

‘in some post-socialist jurisdictions, such as Croatia, the pronounced expectations that the court (and not the parties) actively investigate facts and supply evidence led to several systemic anomalies: to passive and abusive behaviour of the parties, to protracted and de-concentrated style of the proceedings («piecemeal trial»), and to the practice of successive remittals of the judgments based on the argument that the court has to «try harder» and continue to investigate what really happened (even if the parties have not actively contributed to the clarification of disputed facts)’.¹⁹

III. Reforms of civil procedure after the transition

After the political changes in the 1990s, post-socialist countries tried to reform their civil procedure codes to avoid the dilatory attitude of the parties and accelerate proceedings. However, we have to mention that to some extent the reforms started already during the socialist period, for example in Hungary in the 1970s. As Kengyel has noted about the Hungarian civil procedure

‘[t]he four decades of socialist civil procedure cannot be defined as a uniform period because, at the beginning of the 1970s in Hungary, the time was right for reducing the dominance of the judge and the prosecutor. The third amendment to the Code on Civil Procedure (Act XXVI of 1972) restricted the possibility of the initiation of a court action and intervention by prosecutor and took steps to increase the

¹⁸ Galic, loc. cit. n.15, at p. 98.

¹⁹ Uzelac, loc. cit. n. 14, at p. 126.

weight and responsibility of the parties in a legal action, for the sake of improving the efficiency of the procedure'.²⁰

The amendment of 1972 among others re-established the default judgment to the Hungarian civil procedure.

In the transition period, *the first wave of the reforms* aimed to abolish the antidemocratic elements from the codes, and the *second wave* tried to overcome the challenges of civil justice: excessive delay and increased costs. In light of the aforementioned, it might not surprise anybody that the first reaction of the legislators was to reduce the paternalistic character of the judge and strengthen the adversary nature of the procedure. Zoll writes regarding the Polish civil procedure, that '[t]he objectives of the most important first reform after the transition were to increase protection of party autonomy and strengthen the adversary nature of the procedure. The reforms made it necessary to bring down the degree of judicial paternalism'.²¹

Galic noted, that

'[i]t was a widely accepted perception that the goal of acceleration of proceedings should be achieved through a more passive role of the judge and that instruments such as the judge's duty to ask appropriate questions and to promote clarification, the so called 'substantive procedural guidance' (*materielle Prozessleitung*) should be abolished'.²²

He also notes – referring to Rechberger – that it was typical also in other Central-Eastern European ex-socialist countries in the early years of transition.²³ In Hungary as Kengyel observes

'the legislature was not returning to the moderate regulation (the principle of mixed system) applied by the 1911 Code of Civil Procedure, but rather to the model applied by liberal civil procedure in the 19th Century. In line with the fact that the pure principle of party control does not have historical roots in Central Europe, the 1995 amendment

²⁰ Kengyel and Harsági, *op. cit.* n. 13, at p. 8.

²¹ F. Zoll, 'Limits to the Acceleration of Civil Procedure in Poland', in C.H. van Rhee, ed., *The Law's Delay. Essays on Undue Delay in Civil Litigation* (Tilburg, Intersentia 2004) p. 394.

²² Galic, *loc. cit.* n. 15, at p. 85.

²³ *Ibid.*

proved to be inconsistent with the principle because it maintained the court's obligation stated in §3(1) to endeavor to find out the truth'.²⁴

Although this assumption – that the cure for the shortcomings of the socialist civil procedure is to decrease the powers of the court – might seem convincing, it is false. History proved that the *abolishment of judicial activity and the strengthening of the adversary character* of the procedure itself do not make the procedure more efficient. Although the general problem of the socialist civil procedure originates from the pursuit of material truth, the real problem was the passivity and abusive behavior of the parties. The material truth as the main goal of the civil procedure, which overwrote every other goal, was only the *source of the problem*, but not the problem itself. It seems paradoxical, but in this aspect the liberal procedure, which gave almost all responsibility to the parties and the socialist procedure, which gave it – because of the material truth, literally all of it – to the court, lead to the same result. Due to other reasons, but they equally provided the parties with the necessary means to protract the procedure.

IV. Preclusion in the post-socialist countries of Europe

We are convinced that *a well-balanced system can prevent the use of dilatory tactics*, and, as a result, reduce undue delay. It is necessary to give up the goal to ascertain the material truth, which hinders the judge to efficiently manage the procedure. Without the necessary procedural tools, the judge has no means to prevent the use of dilatory tactics of the parties, or to concentrate the procedure. Such an institution is the *preclusion*, which is well known in the German and Austrian civil procedure, as well as in some East European countries. It attempts to ensure the concentration of procedure by excluding those 'attack and defense devices' of the parties which are not submitted in due time,²⁵ and so the violation of the obligation to support the process (*Prozessförderungspflicht*) can lead to the loss of a lawsuit. Leipold also highlights that the risk of losing the lawsuit due to motions being excluded forces the parties to take their obligation to support the process

²⁴ Kengyel and Harsági, op. cit. n. 13, at p. 15.

²⁵ U. Foerste, 'Verfahren bis zum Urteil', in H.J. Musielak, ed., *Kommentar zur Zivilprozessordnung* (München, Verlag Franz Vahlen 2002) p. 712.

seriously.²⁶ By this institution the judge can limit the opportunities of the parties to engage in adversarial maneuvers. This has various impacts on the behavior of the parties. On the one hand, the party who believes that he has the better chance of winning is influenced to submit the facts and evidence in due time, and so his lawyer is compelled to act in accordance with this requirement since, if he does not, his client can lose the lawsuit. In this case, although the lawyer can be interested in causing delay to increase his income, he cannot risk losing the case and so must submit all relevant information to the court in due time – and without ‘dripping’. On the other hand, the party who believes that he has a lesser chance of winning cannot delay the procedure, due to the lack of procedural tools to do so. So it makes the parties active and hinders their abusive behavior at the same time.

After the transition, modeled on the German and Austrian examples, preclusion was introduced in some Eastern European countries. A certain system of preclusions was introduced in *Slovenia by the civil procedure code of 1999*.

‘According to Art. 286, the parties can assert new facts and evidence until (including) the first session of the main hearing (according to the Yugoslav CPA-1976 there was no limitation and parties were free to come out with new facts and evidence till the end of the last session of the main hearing and except in commercial cases even in appeal). At later hearing sessions, the parties shall be allowed to present new facts and new evidence only if at the opening session they were prevented from presenting them by reasons beyond their control’.²⁷

It prevented the parties from using dilatory tactics, but – according to Galic – it remained a ‘half-way’ solution.

‘Besides, a judge now has powers on his or her own initiative to request from the parties (and to impose binding time limits for this purpose) to submit further written observations, comments or clarifications on their

²⁶ D. Leipold, ‘Zurückweisung verspäteten Vorbringens’ in *Stein-Jonas Kommentar zur Zivilprozeßordnung* (Tübingen, J.C.B. Mohr, Paul Siebeck 1985) p. 268.

²⁷ A. Galic, ‘Slovenian National Report. Current Status of Civil Procedure in Slovenia’, in D. Maleshin, ed., *Civil Procedure in Cross-cultural Dialogue: Eurasia Context*, IAPL World Conference on Civil Procedure 18-21 September, 2012, Moscow, (Moscow, Statut Publishing House 2012) p. 391-392.

factual assertions, the evidence offered or already taken, to comment on legal questions or to reflect to submissions, provided by the opponent (Art. 286a/l, CPA). The judge can also put questions and request further clarifications in writing to the parties even before the first session of the main hearing and requests from them to offer further evidence or to supplement their factual assertions (Art. 286.a CPA). If a party does not react, he or she is, unless justified reasons caused the default, precluded from making such submissions in the later stages of the procedure, including the first session of the main hearing.²⁸

The system of preclusion was introduced also in Poland and in the Czech Republic. *In Poland*, the amendment of the civil procedure code of 2000 introduced the institution of preclusion and the amendment of 2011 introduced – the ‘obligation to support the process’ based on German and Austrian examples, which is according to the Polish jurisprudence not an obligation, but a burden of the parties.²⁹ *In 2000, the modification of the Czech civil procedure code* introduced the ‘principle of concentration of procedure’. It distinguishes between the ‘concentration by law’ and the ‘concentration by judge’. The former is applied in special proceedings, where facts and evidence can only be submitted at the first session, after that they are only exceptionally admissible. The concentration by the judge means that the judge can set a date until which new facts and evidence can be submitted.³⁰

In Hungary, the amendment of the Hungarian Code of Civil Procedure of 1995 introduced preclusion into the code. According to the Sections 141(2) and (6) of the HCPC, the court – if so required to ascertain the relevant facts of the case – order the parties to make their pleas and shall perform the taking of evidence procedure. The party shall present the facts, make his pleas and submit any supporting evidence in due time

²⁸ Galic, loc. cit. n. 27, at p. 392.

²⁹ K. Weitz, ‘Reformen des Zivilprozessrechts in der Dritten Polnischen Republik’, in V. Harsági and T. Sutter-Somm, eds., *Die Entwicklung des Zivilprozessrechts in Mitteleuropa um die Jahrtausendwende. Reform und Kodifikation – Tradition und Erneuerung* (Zürich, Schulthess 2012) p. 198.

³⁰ B. Dvorak, ‘Die Entwicklung des tschechischen Zivilprozessrechts seit dem Jahre 1989’, in V. Harsági and T. Sutter-Somm, eds., *Die Entwicklung des Zivilprozessrechts in Mitteleuropa um die Jahrtausendwende. Reform und Kodifikation – Tradition und Erneuerung* (Zürich, Schulthess 2012) p. 130.

and in a timely manner as consistent with and pertaining to the status of case, and as the case progresses. If the taking of evidence cannot be performed in spite of this during the first hearing, the court may adjourn the hearing and order more elaborate preparations for the case [Section 141 (2) of HCPC]. Where either of the parties is in delay in presenting the facts, making his pleas and submitting any supporting evidence – in violation of the [aforementioned] obligation – without just cause, and fails to remedy the situation when so ordered by the court, the court shall adopt a decision in the absence of the parties' presentment, except if the court is of the opinion that waiting for the parties' presentment shall not delay the conclusion of the proceedings [Section 141(6) HCPC].

In small claim cases,³¹ similar rules apply as 'concentration by law' in the Czech Republic, where the law itself sets a time limit to introducing evidence. According to Section 389(2) HCPC, the party shall be able to present his motions for the performance of taking of evidence on or before the first day of the hearing, unless otherwise provided. It seems a very strict rule, however, the law gives several exceptions: with the consent of the other party, or in the case of any change made in the claim, or counterclaim to prove the changed parts of them the party is allowed to present a motion for performance of taking of evidence. And according to Section 389(6) HCPC, the (6) the party shall be entitled to present his request for the performance of taking of evidence before the hearing preceding the giving of judgment in the first instance is adjourned, even if he presents any fact or evidence, or any binding court or other official decision *which he was unaware of before the deadline* normally prescribed for the presentment of such motion without any fault on his part, or if he has learned about the decision becoming definitive after this deadline, and if he is able to produce credible proof to that effect.

The problem with this rule is that it can in practice reintroduce the rigid '*Eventualmaxime*' into the Hungarian civil procedure. The law allows the request for the performance of taking of evidence only (not counting the other exceptions) if the party was 'unaware' about the existence of the fact or evidence before the deadline. In cases where

³¹ Small claim is a claim of a pecuniary nature only, falling within the competence of district courts, for a sum not exceeding one million forints.

the party knew about the fact or evidence, but did not guess its future relevance, he can be trapped. It makes the procedure suitable for *'ambush tactics'*, where the defendant can present his arguments only at the first hearing, where the not sufficiently prepared plaintiff cannot respond to the defendants' evidence with new evidence on his side. In the Slovenian civil procedure, to avoid the negative effects of the *'Eventualmaxime'*, the notion of 'culpability for default' is interpreted with a degree of flexibility. Justified excuses include not only the circumstance that a party only subsequently learned of a certain fact or piece of evidence, but also the circumstance that it was only in the course of ongoing proceedings that certain hitherto not submitted facts and evidence appeared relevant for the case.³²

V. Conclusions

In summary, we can conclude that dilatory tactics are often the main cause of undue delay. To prevent this, legal systems – regardless of time and place – have looked for appropriate solutions. In our opinion, to solve the problem adequately we have to scrutinize and analyze the whole process leading to the use of dilatory tactics in detail. As post-socialist countries in Central and Eastern Europe have similar historical tradition and are in a similar social and economic situation, their solutions and experiences can be most valuable for future reforms.

We are convinced that a well-balanced system of these procedural tools can prevent the use of dilatory tactics, and, as a result, reduce undue delay. However, we also have to regard the natural limits of legal acts. The best procedural rules cannot achieve their goal if they are not properly applied. This falls, primarily, upon judges and only secondarily on the legal culture of the parties and their lawyers. In a system where the judge has the duty and the necessary tools to prevent undue delay, the main responsibility is his. However, this does not mean that we can ignore the responsibilities of the parties and their lawyers. They use dilatory tactics in their own interest. In the absence of intention and conduct, these tactics would not be used and so, to fulfill their responsibility, judges have to use their case management devices and powers.

³² Galic, loc. cit. n. 15, at p. 75.

Igor Gavranović*

Possibilities of the development of border area (Questions and issues concerning the Donji Miholjac area)

I. Introduction

My main focus of this paper will be the Donji Miholjac area, especially projects from the City of Donji Miholjac, and also from Viljevo Municipality. Both are municipalities on the Croatian-Hungarian border, and through history had many relations oriented towards cross border experiences.

1. Historical background of the area

The natural characteristics of Donji Miholjac, like close proximity of the Drava river, a wide flooded area, thick woods, sand-dunes and loess terraces have provided the people of this area with an agreeable living environment since the beginnings of the Paleolithic till today¹. There are many archeological sights that confirm this around and in Donji Miholjac. This area is close connected and shared the same history with Hungary from medieval times. When the Turkish era ended in this area, it meant many changes for the people living in Donji Miholjac. The Austrian imperial court gave away and sold Slavonian manorial estates, mostly to foreigners, and that was the way how the big manorial estates were created. The land, farming land, old woods and all settlements around Valpovo and Donji Miholjac were given to the Austrian baron Hilleprand von Prandau family, and by the end of the XIX. century, the area around Donji Miholjac came under the ownership through a marriage to the Hungarian count Mailáth von Székely family, who were very influential in the Austro-Hungarian Empire.

Those times were the ‘golden age’ for Donji Miholjac for many reasons, and it was reflected even in the visit of the Emperor Francis Joseph to Donji Miholjac between the 12-14 September 1901, when large

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¹ M. Vidaković and S. Wershansky, *Donji Miholjac*, (Osijek, Studio HS Internet, 2008) p. 13.

army maneuvers were held around Donji Miholjac.² A new castle was built in a period of 1903-1906. The building filled with romanticism is considered to be one of the most beautiful castles in Croatia. Its cylindrical towers, numerous windows, chimneys, spacious terraces and balconies with wrought iron railings are the characteristics of this historicist style. The chapel of the castle was built in neo-gothic style. In March of 1914 there was a sermon held in the chapel, which was attended by Prince Francis Ferdinand, heir to the Austrian throne, during his hunting visit to Donji Miholjac. Three months later he was assassinated in Sarajevo, what started the First World War.

After the collapse of Austro-Hungarian Monarchy, Donji Miholjac became the border town in Yugoslavia, and now in the Republic of Croatia. It never gained the importance it had at the beginning of the 20th century, because of its new border position.

II. Preconditions for success

It is important to say a few words about some features that Donji Miholjac has which could be used as ‘fuel’ for economic boom in the future. These are mainly its natural potentials, the bridge, and also its industrial zone with economic activities, that are further explained later in the text.

Protected parts of nature in Donji Miholjac city area are registered in two categories: category of a special reservation: special ornithology reserve ‘Podpanj’, and regional park ‘Mura-Drava’ and category of park architecture monuments: Donji Miholjac Park.

1. Ornithological Reserve ‘Podpanj’

On the surface area of 65.5 hectares west of the fish ponds of Donji Miholjac, a wetland named Podpanj is situated. Its diverse habitats, protected and undisturbed, are suitable for the nesting, feeding and resting of various kinds of birds.

² B. Kovač, et al., *100 godina mosta na rijeci Dravi – Donji Miholjac (100 years of the Bridge on the Drava River – Donji Miholjac)*(Zagreb, Hrvatsko društvo za ceste – Via Vita, 2008) p. 44.

According to available data, 106 species of nesting birds are recorded in Podpanj. Among those nesting there, three of twenty four European species are threatened globally and 27 of the 195 species have an unfavorable conservation status in Europe – of which one is of the 33 facing extinction in Europe, eight are of the 83 endangered in Europe, 17 of the 39 species are such as whose numbers in Europe are in constant decline, and one of 19 in Europe are rare nesting birds. Given the relatively small area, the value of Podpanj is notable as breeding grounds at the European level. The value of Podpanj in Croatia is particularly pronounced. Here, a number of species nest that are otherwise rarely nesting in Croatia. Tens of thousands of birds stay here while moving in autumn to Africa.

Bearing in mind the value of the area, the County Council of Osijek-Baranja County in 1997 adopted a decision on the protection of the area of Podpanj as a special ornithological reserve, and county executives in 2002 adopted a Regulation on the protection of the Special Ornithological Reserve Podpanj.³

2. Mura-Drava Nature Park

On February 10th 2011, the Croatian Government adopted the Regulation on the Proclamation of the Regional Park Mura-Drava.⁴ That regulation states that all river shores of the Mura and the Drava are protected as a regional park. This is also the first regional park in Croatia.

It includes the flooded area formed along the river courses, and includes a transition area from agricultural areas and smaller towns along the river to the mouth of the Drava and the Danube near Aljmaš.

According to the Environmental Protection Act⁵, a Regional Park is a large natural or partly cultivated land and/or sea area with features of international, national or regional importance and landscape values characteristic of the area where it is located.

³ See more on the official website of the Osijek-Baranja County www.obz.hr (10.5.2013).

⁴ Official Gazette 'Narodne novine' No. 22/11

⁵ Official Gazette 'Narodne novine' No. 70/05, 139/08 i 57/11

The Mura-Drava Regional Park stretches through five Croatian counties: Međimurje, Varaždin, Koprivnica-Križevci, Virovitica-Drava and Osijek-Baranja County, with a total area of 87,680.52 hectares. Management of the Regional Park Mura-Drava is performed through coordination of existing county public institutions for management of protected natural resources in a way that every public institution manages part of the regional park that is located within the territory of its counties.

In addition, since the Regional Park Mura-Drava is part of one of the most important European river ecosystems (floodplain river Drava, Mura and Danube), it is therefore part of the largest planned future single river transboundary UNESCO Biosphere Reserve in Europe which will run through several states: Croatia, Austria, Slovenia, Serbia and Hungary.

From all this we can conclude that the Mura and Drava river areas are of exceptional natural value and importance at the regional, national and European level, and form a special area, not just within Croatian territory, but stretching as a transboundary river ecosystem into neighboring countries and in upstream and downstream countries.

Particularly significant are the wetlands that are among the most vulnerable in Europe, and are protected at the national level: riparian forests, wet meadows, dead branches, abandoned riverbed meanders and reefs and steep coast, then the wealth of bird fauna and ichthyofauna and other numerous endangered and rare species at national and European level as well as a valuable landscape.

Settlements in and around the park are an integral part of this category. Their sustainable development should be provided and encouraged in order to stop the downward trend of the population. Human activity has created and preserved a large part of the natural values for which the protection is proposed, and the category of regional park allows economic activity. It opens up new possibilities for the development of new perspectives for sustainable development, such as ecotourism and organic farming.

The particularly strong connection between people and the river has characterized this area by establishing a specific way of life along the

river with numerous recreational and traditional activities. Mura and Drava rivers are a natural support and form part of the cultural identity of the area that stretches through five counties of the Republic of Croatia and into two neighboring countries, the Republic of Slovenia and Hungary.

Aligning management plans and development plans with the needs of nature conservation is to be achieved more effectively by protecting areas that will significantly reduce conflicts in the area related to the sustainable use of natural resources. Various activities, such as channeling streams, exploitation of sand and gravel from river beds, construction of power plants, water pollution, poaching, intensification of agriculture, and some aspects of tourism and recreational activities, if not properly regulated, can threaten natural values in this area. For birds the river with pebbles, sand shoals and islands is very important, the low coastline and steep river banks and further channeling rivers could destroy mentioned habitats and also cause the disappearance of bird species associated within these habitats.

Significant cultural and traditional heritage can be found in the mentioned Regional Park Mura-Drava in the villages along its border. Archaeological sites, immobile objects such as religious, secular or commercial buildings, and ultimately, immaterial forms and spiritual creativity are of great regional and national significance.

No doubt it can be concluded that this area contains outstanding ecological and landscape values of regional, national and international importance. They were largely created and preserved through the efforts of people in this area, and form a single unit with an exceptionally rich cultural and traditional heritage. Therefore, sustainable economic development and prosperity of the village and local communities is a key element for the preservation of this area.

The entire area of the Regional Park Mura-Drava for biodiversity conservation is included in the ecological network of Croatia and most likely in the future will become part of the European Natura 2000 network and the future Biosphere Reserve Mura-Drava-Danube.⁶

⁶ See more on the website <http://www.zastita-prirode-kckzz.hr/zasticena-podrucja/regionalni-park-mura-drava> (10.5.2013).

3. Donji Miholjac Park

With its preserved landscape architecture, urban way of life and cultural sights, the town of Donji Miholjac has all preconditions for the development of sustainable tourism based on the rich natural heritage and legacy.⁷ The oldest historical source that tells us about the appearance of the gardens is the cadastral map from 1862 which confirms that it was a landscape garden that was at the top of European landscape creativity at that time. The gardens are protected as a monument of park architecture since 1961. In the eastern and north-eastern part, the gardens are turned into useful gardens. Among those, the garden east of the castle stands out with its trapezoid shape and inner structure. Along the middle of the gardens there were three buildings made for the gardens, which were demolished before 1885. The description of the gardens made by Adolf Danhelovski confirms this. The gardens were made after 1818, after the building of the old single-story castle. In the middle and at the end of the 19th century, and probably in the time of its construction, its surface was 18 acres and 3423, 6 square meters. The greenhouse, 57, 20 meters long, was built in 1872 in the north part of the trapezoid garden. It was made of steel; its roof was covered by sheet metal in the north side, and by glass in the south side. It had three compartments: the central one for tropical plants and on each side one compartment for storing of flowers, which were placed in containers in the gardens. In the compartment for tropical plants there was a fountain. The octagonal Pavilion and three trimmed gardens between the Pavilion and the castle terrace are preserved in the gardens to this day. Among the numerous species of plants there are two groups in the gardens: autochthonous trees and various imported species (exotics) from the time of the construction of the gardens. Because of its old age and grand appearance *pterocarya* (*Pterocarya faxinifolia*) is the most impressive, along with the swamp cypresses (*Taxodium distichum*). There are 110 species of trees and bushes in the gardens: 20 species of conifers, 90 species of foliaceous and 80 species of meadow plants. The park is a protected area from 1958.

⁷ M. Vidaković and S. Wershansky, op. cit. n. 1, p. 14.

4. The bridge across The Drava River in Donji Miholjac

The bridge was built during the rule of the Austro-Hungarian Monarchy in 1908, several years after the visit of Emperor and King Francis Joseph to Donji Miholjac.⁸ Political and especially economic lobbies decided for the construction of a bridge with road and railway transport systems. At the end, the interested subjects realized that the only safe crossing over the Drava River at Donji Miholjac was the building of a bridge.⁹

At that time it was the biggest bridge in the area of today's Republic of Croatia. The following years were marked by wars and destruction. The bridge survived the First World War. At the beginning of the Second World War, at the time of the Kingdom of Yugoslavia, in fear of the approaching German troops, it was ordered that the bridge be blown up. Thus ended the first part of the bridge's life in Donji Miholjac.¹⁰

The Second World War, the establishment of the Socialist Federal Republic of Yugoslavia, the polarization of Europe into East and West Blocs, the position of the Republic of Croatia in former Yugoslavia very much influenced the creation of a climate for the bridge's reconstruction. From a historical point of view, within a relatively short period in the context of human history, we can recognize the confirmation of the above mentioned idea that the bridge is a peculiar 'human being'. When people wanted to make life by the river better, faster and more beautiful – they built a bridge. When people feared of mutual attacks and hatred, they destroyed the bridge. The consequence of the destruction of the bridge is always inevitably a kind of life regression in the surrounding area. The same thing happened in Donji Miholjac. But just as light and darkness alternate in human history as this is a natural everyday process, better days for the bridge in Donji Miholjac also came. The construction began in 1971 and in 1974 the new bridge was constructed on the same site as the old one from the

⁸ B. Kovač et al., op. cit. n. 2, from the preface by Mirko Dimitrijević and Melita Milković.

⁹ Ibid.

¹⁰ See further and complete analysis of the importance of the bridge's rebuilding on an economy of a wider area of the Slavonia, that is made by the late Ivan Liović, in the magazine *Ceste i mostovi* (nr. 3, 1972).

1908. As expected, Donji Miholjac and the surrounding area entered a whole new dimension. The reconstruction of the bridge as a traffic connection and the discovery of oil and natural gas as the source of financial strength contributed to the strong economic growth of the whole region. Food, agricultural and industrial manufacturing became the epithets of the region. During destructions in the Homeland War, the bridge served as a passage for personal vehicles and passenger traffic, which was of great importance in the period of the establishment of the new Croatian state. The war was followed by the recognition of Croatian sovereignty, access of the Republic of Hungary, and now also the Republic of Croatia to the European Union. The bridge across the River Drava in Donji Miholjac celebrated its 100th birthday in 2008.

5. The economy of Donji Miholjac

The economy of Donji Miholjac has always been developed on the basis of the natural resources of this area.¹¹ Tracing the development of this area's economy, we can ascertain that this area has always rested on two remarkable natural resources: agricultural grounds and the woods. The beginning of organized market production lies in the Miholjac estate of the 19th century. Agricultural products, their processing and marketing are the basis of development of that time. The woods were completely used in the nearby industrial places and saw mills Đurđenovac and Belišće. Family Mailath estate produced various products, some of which were consumed even on the emperor's table. These products were butter, vinegar, rum and cognac with the emblem of the Mailath family.

The building of the bridge on the Drava River and the castle in Donji Miholjac brought to these area different craftsmen from the entire empire, and also from Italy. Their coming to this area gave a strong boost to the development of crafts and the entire economy, which later turned Donji Miholjac into a center of economy, culture, education, and as well as a judicial and administrative center.

The period after the First World War was a period of breaking centuries-long ties with the northern neighbors. The plans of economic

¹¹ M. Vidaković and S. Wershansky, *op. cit.* n. 1, p. 15.

development and traffic communication were not realized within the Austro-Hungarian Empire, which put Donji Miholjac under the surveillance of the new government. Up until 1972 and until the discovery of oil in these parts, the social and economic life of Donji Miholjac stagnated. The first real industrial development in this area happened in the 1970s after the discovery of oil and natural gas in the richest oil fields in Beničanci. The usage of the tax fees for the exploitation of these fields enabled the development of modern industrial facilities.

The economy is also agriculturally based. Industrial development of this area is closely tied to large industrial facilities such as Borovo, IPK Osijek, Analit and DIK Đurđenovac. In the last ten years most of these facilities have shut down, and in this way caused decline in the area of Donji Miholjac as well.

At the turn of the century, these circumstances demanded setting new development goals and measures that would lead to these goals, and are the answers to these questions:

How to boost employment, given that the unemployment rate was as high as 27%?

How to boost opening and development of new trades and companies?

How to create required conditions in order to increase export from 12 million € to 50 million € in five years?

How to attract domestic and foreign investments to this area, especially in the 'greenfield investments', and in that way encourage investment in new technologies?

How to increase the budget and ensure a better social standard of all the citizens?

The way that should enable the realization of these goals is the building of the Industrial zone 'Janjevci' as a place where investors will be provided with a complete infrastructure, which would result in the acceleration of the economic development.

The goals were quite easy to define, but there were a lot of doubts concerning the choice of the correct measures. The experiences of many industrial zones have shown that even though the infrastructure and the equipment were ensured, there were no investors.

The Miholjac Entrepreneurial Center designed the Project for Investment Dynamics in the 'Janjevci' industrial zone. It has been established that the main factors in its realization are: people, infrastructure and a positive attitude towards the investors.

The city chose to use the zone for building industrial facilities. Bearing in mind the natural resources, it has set target industries: food industries, wood-processing industry, and metal and chemical industry facilities.

As far as food industry is concerned, there are the manufacturing facilities of 'Kanaan' Company for potato processing and the 'Plodovi zemlje Matijević' Company. This company deals in production, processing, packaging of fresh vegetables for the big domestic and foreign consumer chains, and provides 'Konzum' with fresh vegetables. The food industry development is based on the development of the basic agricultural production. During the last five years, Donji Miholjac is becoming a center of vegetable production in Slavonia, and its products can be found on the shelves of many consumer chains throughout Croatia.

When it comes to metal industry, the following should be mentioned: the factory of wood stoves formerly owned by the Limex Company, the facility for metal-processing owned by the Brumar trade, the facility for the production of trailers by the BMV-Metal company, Metal servis, which produces parts for agricultural machines, the service of the Autoevropa Company for servicing sugar-beet harvesters, working as a licensed servicer of the Holmer Company, factory of the foreign company Euro-grupe for processing wood and producing parquet floors. Within the facilities of the Entrepreneurial Incubator 'Osvit' in Donji Miholjac, two companies which deal in processing plastics and polyester are preparing to invest into the 'Janjevci' industrial zone.

The total of the direct investments which will be invested in the aforementioned facilities will amount to around 300 million HRK (40 million €). According to the anticipations of the investors, these factories will employ between 350 and 500 workers. The results are already visible in the decreasing rate of unemployment, which is now 19%.

This fast growing zone demands a new race with time and new investors. The 'Janjevci' industrial zone is continuing to grow. The interest of

new investors has grown, which can be seen through daily contacts with domestic and foreign entrepreneurs. New modern technologies and machinery are a part of this production.

The interest of new possible investors shows that the Donji Miholjac industrial zone is on the right path to create a successful story that will provide new possibilities for the development of the region of Donji Miholjac. The result of the food industry business, which finds its raw materials in Slavonia, shows us that this kind of investment is justified. The surprising fact is that there are entrepreneurs who are willing to invest in new manufactures and to rely on the possibilities of domestic raw material markets and at the same time cut through the obstacles towards foreign markets. The good news is that a large number of investors have already sold their manufactures to the foreign market. The goal to increase export to 50 million € on the foreign market is becoming more possible.

Today, the economy on the Donji Miholjac area employs around 4000 workers. That number is almost equal to the number of work active population. Unfortunately, the development of neighboring districts (small municipalities) does not follow the development of Donji Miholjac, so Donji Miholjac is the actual economical center of its sub-region.

Industrial zone 'Janjevci' includes a total of 1.257.480 m², of which 422.856 m² has been built, and the rest of 719.090 m² remains for construction.¹² Currently there are 35 entrepreneurs operating in Industrial zone 'Janjevci'.¹³

Previous construction of Industrial zone 'Janjevci' has been implemented in several stages. The early seventies of the previous century brought about the beginning of an intense construction in the Industrial zone 'Janjevci'. Postwar recession puts the industrial zone in a rest phase of about 10 years. First decisions on continuing the construction of the industrial zone were made in 2002.

¹² See the booklet '*Investment Guide for City of Donji Miholjac*', (Miholjac Entrepreneurial Center Local Development Agency Ltd., Donji Miholjac, 2013).

¹³ See more about the Industrial zone 'Janjevci' on the website: www.zona-janjevci.biz (Croatian and English).

Decisions on continuing the construction in the industrial zone presents the beginning of measures with whom City of Donji Miholjac tries to solve recession problems (e.g. growing unemployment, low standard of living and economic delay).

The second stage of infrastructure construction in the industrial zone started in 2005. Today, the zone operates with 35 business subjects, employing around 650 people.

Currently the third stage is under way, expanding the Industrial zone 'Janjevci' to additional 420.000 m² of construction land. 1.120.000,00 € are allocated for the purpose of communal infrastructure construction, 75% of which is financed by the European Union through the IPA program.

Here are namely some of the local incentives for the investors in Industrial zone 'Janjevci': infrastructurally equipped lots for 3€/m² (possibility even for 1€).

Partial or complete release from: local taxes, communal fee (2 years), municipal contribution (1-10 kn/m²) and connection on water supply and sewage system

Table 1 City benefits for the potential investors

Incentive type	Investor benefits
Greenfield investments	
Construction right contract	3 years contract duration
Sales agreement	after completed construction
Company tax	exemption for 2 years
Construction land cost	with Use Permit within 12 months - 1€/m ² with Use Permit within 24 months - 2€/m ² with Use Permit within 36 months - 3€/m ²
Municipal contributions: calculation per m ³	<1500 m ³ = 10,00 kn/m ³ 1501-2500 m ³ = 9,00 kn/m ³ 2501-4500 m ³ = 7,50 kn/m ³ 4501-6500 m ³ = 6,50 kn/m ³ 6501-8500 m ³ = 5,50 kn/m ³ 8501-10500 m ³ = 4,50 kn/m ³ 10501-13500 m ³ = 3,50 kn/m ³ 13501-16500 m ³ = 2,50 kn/m ³ 16501-19000 m ³ = 1,50 kn/m ³ >19001 m ³ = 1,00 kn/m ³

Source: Miholjac Entrepreneurial Center (exchange rate: 1€ = 7,5 kn), see more on the website <http://www.mpc-miholjac.hr> (15.052013).

For the potential investors, there are also incentives on a state level made by the Government of the Republic of Croatia, that can help entrepreneurs in starting their own business, and are shown in a table below.

Table 2 Government benefits for the potential investors

No.	Incentive measure	Investment assumption	Incentive size	Duration
1.	Micro-entrepreneur incentives	50.000,00 € + 3 new work positions	50% income tax	5 years
		150,000,00 €	50% income tax	3 years
2.	Tax incentives	Up to 1 million € + 5 new work positions	75% income tax	10 years
		1-3 million € + 10 new work positions	75% income tax	10 years
		Over 3 million € + 15 new work positions	100 income tax	10 years
3.	Customs incentives	Equipment	100%	import
4.	Incentives	County unemployment rate up to 10% + opening new work positions in the investment	Up to 10% expenses per new employee – up to 3000 €	5 years
		County unemployment rate up to 20% + opening new work positions in the investment	Up to 20% expenses per new employee – up to 6000 €	5 years
		County unemployment rate up to 30% + opening new working positions in the investment	Up to 30% expenses per new employee – up to 9000 €	5 years
5.	Incentives for justified expenses	Supports in a case of a general specialization	instructor expenses travelling expenses for the instructor and the pupils device depreciation costs with a purpose of specialization specialization participant expenses	Specialization hours

Possibilities of the development of border areas - Questions and issues concerning ...

6.	Incentive measures for development and innovative activities, business support activities and high added value services activities	Development and innovative activities	Up to 20% of new equipment cost	
		Business support activities	750,00 € per employee	
		High added value services activities		
7.	Incentive measures for capital expenditures of the investment project	Investing in long term properties over 5 million € + minimum of 50 new work positions + 10-20% County unemployment rate	10% of real investment expenditure (up to 500.000,00 €)	Factory facility or catering facility, construction machines and equipment
		Investing in long term properties over 5 million € + minimum of 50 new work positions + over 20% County unemployment rate	20% of real investment expenditure (up to 1.000.000,00 €)	Factory, facility or catering facility, construction machines and equipment
8.	Incentive measures for work-intense projects	Investment ensuring employment of at least 100 new workers within 3 years of investment start	750,00 € per new employee	Up to 3 years
		Investment ensuring employment of at least 300 new workers within 3 years of investment start	1.500,00 € per new employee	
		Investment ensuring employment of at least 500 new workers within 3 years of investment start	3.000,00 € per new employee	

Source: Miholjac Entrepreneurial Center, see more on the website <http://www.mpc-miholjac.hr> (15.05.2013).

Those incentives, combined on a state and local level, can help the potential investors/entrepreneurs in establishing healthy and strong companies to make profit in this hard time of recession, and when everyone is scared of investing.

Services that are managed with the Industrial zone ‘Janjevci’ and provide help to entrepreneurs are:

City of Donji Miholjac, Department of Economics, Finances and Social Activities

This department performs activities relating to investment promotion in economy, using spatial capacities owned by the City, incenting entrepreneurship, agriculture, crafts, trade and promotion in order to attract entrepreneurs and investors, and also doing activities relating to securing terms of determining policies for City management of space, City properties management and other activities¹⁴.

Miholjac Entrepreneurial Center – Local Development Agency Ltd.

In 2002, the representatives of the Osijek – Baranja County, the City of Donji Miholjac and Magadenovac Municipality founded the Miholjac Entrepreneurial Center (Miholjački poduzetnički centar – MPC) as a professional help to entrepreneurs, helping them manage quickly in the market match¹⁵. It serves today as the support institution available to all entrepreneurs in creating development and expert documents needed to implement different projects - it is a place working as a ‘One stop shop center’. Preparing documentation for financial market access, especially EU funded resources, became one of the main tasks of the center. There are also overall consulting services when accessing investors and also helping entrepreneurs in overcoming bureaucratic obstacles and implementing investment projects. The MPC is also a local development agency, taking care of creating conditions for successful and positive entrepreneurial surroundings.

Entrepreneurial Incubator ‘Osvit’

Parallel with the founding of the Miholjac Entrepreneurial Center, the Entrepreneurial Incubator ‘Osvit’ was formed, fulfilling the task

¹⁴ See more on the official website of the City of Donji Miholjac: www.donjimiholjac.hr (15.05.2013).

¹⁵ See more on the official website of the Miholjac Entrepreneurial Center: www.mpc-miholjac.hr (15.05.2013).

of ensuring spatial and expert support to novice entrepreneurs and developing entrepreneurs.¹⁶ So far, over 30 companies, crafts and cooperatives have settled in the spaces managed by the Incubator. These days a step further is planned by opening a new core for scientific research, technology transfer and support for innovative creativity.

Technology Park 'Osvit'

This aforementioned 'step further' will be achieved by opening a Technology Park, which will not only satisfy entrepreneurs' need for space, but also provide specialized forms of assistance in the development and application of new technologies in production and services¹⁷. Linking with educational and academic centers is needed for the successful application of new technologies.

The foundations of this future endeavor have already been laid down. The construction of the Technology Park 'Osvit' will be implemented in phases. The total projected area of buildings is approximately 2,000 m² in three buildings. The first phase will be a facility of 300 m² for entrepreneurs and an administrative building of 100 m² which will be an area of common needs and programs for education. The construction of facilities will feature low-energy buildings, which will use integrated renewable energy sources.

The facility will primarily serve entrepreneurs to ensure an integrated management system space, infrastructure and services focused on the development of new economic activities. The incubation program in which entrepreneurs will participate will be a period of 5 years and will be based on new technologies.

The Technology Park will receive businesses that primarily meet the following basic criteria: operate in areas of high technology, electronics and informatics; are engaged in the development of products, technologies and services; extends the technological capabilities of Donji Miholjac; export-oriented; have the potential of growth and development; have a principal place of business in the City, or principal

¹⁶ See more on the official website of the Entrepreneurial Incubator Osvit: www.osvit.biz (15.05.2013).

¹⁷ See more on the official website of the Technology Park Osvit: www.tp.osvit.biz (15.05.2013).

place of business to enter the area in a maximum of 30 days after signing the contract; have created a business plan in the form of a letter of intent which must be presented to the Commission; employ or will employ a number of workers, candidates who offer more employment will be at an advantage; through time using the Technology Park will increase the number of employees.

Among the companies that meet the basic criteria, the following have priority: young entrepreneurs (maximum 30 years old) and female entrepreneurs.

Companies that cannot enter the Technology Park: companies engaged only in trade or representatives of foreign companies; companies with technologies that pollute the environment; companies whose activities (noise, etc.) disrupt the business of other companies in the Technology Park; companies whose activity harms the reputation of the City of Donji Miholjac; companies that do not meet the criteria set out previously and high technology.

III. Examples of projects

I have to mention a few projects that are underway or already finished, which could serve as examples and guidelines for the future, due to the topic of the article. They are the following:

1. Drava Bike Tour

Drava Bike Tour is a project financed by the European Union by an amount of 149.382,77 € (that is 74,70% of the value of the project, total amount of the project cost being 201.922,00 €) with a grant contract No. 2006-0017-971011, signed by the beneficiary of the project, Mayor of Belišće Zvonko Borić on one side, and on the other – for the Contracting Authority – an employee of the Ministry of Finance (Central Finance and Contracting Unit –CFCU) together with a co-signer, the Head of the Delegation of the European Union in Croatia, Vincent Degert. This project was part of the INTERREG IIIA, cross-border cooperation of Slovenia, Hungary and Croatia 2004-2006 as a mirror project on the Croatian side of the Drava River.

This contract has 7 annexes. The description of the Action describes that bike route Donji Miholjac – Belišće – Baranjsko Petrovo Selo is a joint project of the Cities of Donji Miholjac and Belišće, and also Marijanci and Petlovac Municipalities. The specific objective has been the construction and marking of the bike trail that would link cultural-tourist attractions of the area (sacral monuments, castles, protected areas, forests, hunting areas etc.) Direct target groups are the local population and local and foreign tourists, promoting tourism. Indirect target groups are the population and entrepreneurs of Slavonia and Baranja Region who would be able to get additional income sources through the development of tourism (catering services, accommodation, renting and servicing bikes, etc.). The expected results of the project are the following: creation of the bike tour ring around the Drava River from the Croatian and Hungarian side; connection to the existing bike tours network (EUROVELO) and increased number of overnights (individual and group) by 15 %.

The project was oriented towards the construction of the bike paths, clearing forest paths, building bridges, placing of information panels, signs and other equipment on the way.

The other paths of the annexes are: general Conditions – the conditions of the European Union financed grant are contained herein; budget for the action – the costs of the project are all mentioned here, with their financial impact on the project; contract-award process – the regulations under which the EU gives grants and controls expenditures; standard request for payment and financial identification form – bank account data necessary for the transfer of money; model narrative and financial report – reports made on the progress of the project, with financial background and expenditures for the work done – interim and final reports; model report of factual findings and terms of a reference for an expenditure verification of an EU financed grant contract for external actions – final report and revision control of the project.

2. Continued infrastructure construction in Industrial zone ‘Janjevci’

The City of Donji Miholjac and the Central Finance and Contracting Agency (CFCA) signed an agreement on the use of the EU IPA IIIc

program on February 29, 2012. With the signing of this contract, the implementation of the project 'Continued construction of municipal infrastructure in the Industrial zone 'Janjevci' began. This project is implemented by the City of Donji Miholjac in a partnership with Miholjac Entrepreneurial Center – Local Development Agency Ltd. The project has been prepared by the Miholjac Entrepreneurial Center with technical assistance provided by the Ministry of Regional Development in 2009. The project was registered for the competition announced in 2010 by the Central Finance and Contracting Agency (CFCA). Industrial zone 'Janjevci' is located in the eastern part of Donji Miholjac, along the state road Osijek-Slatina. The zone covers an area of 1.257.480 m², of which a total of 422.858 m² has been built. The current project of infrastructure construction takes place in an area of 22.5 hectares and includes 12 building lots.

Activities to be implemented on the construction of infrastructure are as follows: construction and asphalt paving of the sidewalks, bicycle paths and driveways, total area of 5000 m²; construction of roads with asphalt paving and road infrastructure, total area of 14.670 m²; construction of a storm drainage system with a purification separator, total length of 900 m; construction of a sanitary-fecal sewage system and a connection to the eastern industrial collector, total length 1.620 m with two pump stations; construction of a western sanitary-fecal sewage system collector, total length 1.950 m with two pump stations.

The project has secured 1.119.415,99 €, of which 839.561,99 € is provided by the European Union, 26.754,04 € by Miholjac Entrepreneurial Center – LDA Ltd. and 253.099,96 € is provided by the City of Donji Miholjac. The implementation of the project has been planned through 18 months; actual implementation began on March 1st, 2012.

The general objective of the project is to achieve support for the development of entrepreneurship and of small and medium-sized enterprises and job creation through expansion of the existing Industrial zone.

Specific objectives are: ensuring faster development of small and medium-sized enterprises and strengthening the competitive

advantages of the Industrial zone through the development of municipal infrastructure in the zone, but also by enhancing the knowledge and the skill levels of the supporting infrastructure in the City of Donji Miholjac; raising awareness among investors about business opportunities and initiatives provided in Donji Miholjac and Industrial zone 'Janjevci'; expected results are the construction of infrastructure and favorable lots to offer to investors at reasonable conditions that will ensure a positive investment climate and make the area competitive in terms of attracting foreign direct investments. Professional support for entrepreneurship development through a trained 'support team' should enhance the entrepreneurial activity which will later lead to increased revenue for the City, and create new jobs and additional employment; infrastructure construction in Industrial zone 'Janjevci' in Donji Miholjac is an extension of previous projects and represents an expansion to a new urbanistically planned space; raising awareness of business opportunities provided in the City of Donji Miholjac and Industrial zone 'Janjevci' is a complex and challenging campaign which will be implemented in various activities, like: creating a training program for business service providers with the subject of attracting investments; study tour for business service providers, with visits to at least three business areas; implementing training programs for high school students; creation and maintenance of a web page for the zone (www.zona-janjevci.biz); creating a newsletter, and informing a wide range of information users; creating and distributing promotional materials, etc.

3. Projects in the neighbouring Municipality of Viljevo

Municipality of Viljevo is one of the municipalities that were created in 1993 after the dissolution of the bigger territorial unit, the Municipality of Donji Miholjac¹⁸. The former Municipality of Donji Miholjac was split into City of Donji Miholjac, and the municipalities of Viljevo, Podravska Moslavina, Magadenovac and Marijanci. This sub region with its territorial units has altogether about 17.000 people, according to the 2011 census. In the past 20 years, the sub region lost about 4000

¹⁸ See more on the official website of the Municipality of Viljevo <http://www.viljevo.hr> (15.05.2013).

people (about 20%). The main reasons are emigration of younger people, economic reasons, and also the predominantly old population.

3.1. Jendra-Kokinica Touristic Park

This project was made as a joint project of people from both sides of the Drava River in Croatia and Hungary that shared the same vision and the same problems. The project was not realized, due to problems on the Hungarian side over financing and some ownership problems, but has a nice example of how neighboring countries should cooperate in the future.

This project was intended to apply for a grant from the Hungary-Croatia IPA Cross-border Programme 2007-2013, for the construction of a camp resort and multipurpose buildings near the Drava River¹⁹. This touristic park would promote sustainable tourism in the Mura-Drava-Danube River Area. The main beneficiary would be the Municipality of Viljevo (in Croatia), and the partner on the Hungarian side would be the Ormánsági Dolgozók Horgász Egyesülete – ODHE (Ormánság Workers Fishermen's Club), with the support of Cún and Kisszentmárton local communities within Vajszló Municipality.

Viljevo, Vajszló and surrounding settlements are generally poor with a predominantly old population. Younger people seek jobs that cannot be offered there, and that is why they move out. Traditional family businesses in agriculture are collapsing because of the lack of the regulated market of agricultural products, and also because there isn't anyone to inherit the family agricultural estate. On the other hand, it is important to note the beauty of the surrounding area. This area along the Drava River is protected as Danube-Drava National Park (on the Hungarian side) and as a Mura-Drava Nature Park (on the Croatian side). It is also important to say that there is no accommodation in this area, nor restaurants or souvenir shops.

The project intended to create accommodation in small wooden houses, together with a possibility of small wooden boat rental (on the Croatian side of the river), and building a small restaurant and a souvenir shop

¹⁹ All the information about the project was given by the Municipality of Viljevo, which also gave me the application form of the project.

with local products (on the Hungarian side). The project intended to boost the local economy by making a place where local residents could sell their own products, like food and beverages, employ some of the traditional crafts (wooden boat making), promote fishing, hunting, walking, cycling and so on. With time it would also have become necessary to make some bike trails and paths, and there would have been various possibilities to expand this project further.

The financial cost of the project would be a total of 368.389,00 €. The requested EU funding would be 313.130,65 €, Municipality of Viljevo would give 24.846,85 € and the Ormánság Workers Fishermen's Club would have to give 12.500,00 €.

Although this project was aimed at cross-border cooperation, the problems came from the Hungarian side. The Hungarian partner, the Ormánság Workers Fishermen's Club didn't have sufficient budget to cover its part of the project. The other problem emerged when the leaders of Hungarian Municipality of Vajszló did not support the ideas of the Ormánság Workers Fishermen's Club financially, nor gave securities instead, because they also didn't have enough financial capacity. The place where the Hungarian side wanted to make a restaurant presented another problem, as it is the property of the Hungarian government and not the local municipality. That is why this project is still on hold.

3.2. Reconstruction of the dirt roads in the Municipality of Viljevo

This project is aimed at the reconstruction of 4,978 kilometers of dirt roads in the Municipality of Viljevo, and is underway²⁰. The project is financed from the IPARD Programme, and the total cost of the project is 3.642.083,00 kuna (without VAT), which amounts to around 485,611,06 € (at the exchange rate of 1 € = 7,5 kuna).

The project includes site preparation works, earth works, roadway structure, construction process control, rainfall drainage and all other works needed.

Investing in rural infrastructure and improving its condition is important for making agriculture and other industries more profitable. It can

²⁰ Ibid.

increase business activities in rural areas (like building new farms, or building new capacities in the existing ones). Its function is primarily the bettering of life conditions, and erasing differences between urban and rural areas. It can also boost employment, and reduce emigration from the rural areas.

Similar projects of dirt road reconstructions can be found in other municipalities in the area, like Magadenovac and Marijanci.

IV. Conclusion

In the study ‘Programme of the development of The City of Donji Miholjac 2010 – 2014’ that the city ordered from the Miholjac Entrepreneurial Center in 2010, there were few statements that I need to mention here. They are²¹:

‘Historical development of economy in Donji Miholjac has always been based on natural resources: agricultural fields, forest resources, water resources and mineral resources (oil, gas, sand and gravel from the river Drava). Ups of economic growth, stagnation in the development, delay or accelerated development often depend on geography, political situation and organization of the state, and the fact whether Donji Miholjac was located in the border zone or deeper within the state it belonged throughout history (Habsburg Empire, the Ottoman Empire, the Austro-Hungarian Monarchy, the Yugoslav states or independent Croatia) was of crucial importance.

Today, the City of Donji Miholjac is again at the economic turning point, and that means that once again first steps are needed in some areas of economy. The former leaders of economic development, such as footwear, furniture and plastics industries have completely disappeared while the economy has gained some new development frameworks, such as small and medium enterprises, on which the future development of the city lies’.

To summarize the foregoing and as a conclusion of this article, it is important to underline that Donji Miholjac is really again at the turning point of its development. As Croatia is acceding to the European Union,

²¹ See ‘*Programme of the Development of The City of Donji Miholjac 2010-2014*’, (Miholjac Entrepreneurial Center, Donji Miholjac, 2010).

Donji Miholjac will not be a ‘backyard on the border’. It will again be deeper within the territory of a bigger entity (this time European Union). The management and the political leaders of this small border town should always have this in mind, and try to use the advantages of this fact when proposing projects and ideas of cross-border cooperation.

Although there are some business initiatives on a private basis, like the export of wooden cuttings, pellets and straw for the Pécs power plant, the people I have spoken to (City of Donji Miholjac, Miholjac Entrepreneurial Center, Municipality of Viljevo) have all said that there is an institutional problem on the Hungarian side, because they don’t have anyone to talk to. There were also propositions for economic cooperation, especially in agriculture, because Donji Miholjac has big factories that need raw materials – fruit and vegetables. ‘Plodovi Fructus’ works for the biggest trade chain in this part of Europe (Konzum), and always needs more producers that would sell them their products. ‘Kanaan’ from Donji Miholjac is the biggest snack and chips producer in Croatia, and needs potato for their production. ‘Fami’ food industry from the nearby village of Rakitovica needs dried vegetable for their production of all kinds of spices. These companies wanted to make a cluster called ‘Povrće-Zöldség’ (‘Vegetables’), but didn’t find partners on the Hungarian side.

Environmental protection is another opportunity. Just in the last five years, through state contributions and also from the local government, 10 million € have been invested in Donji Miholjac! These investments include modern sanitation of the waste dump in Donji Miholjac, the reconstruction of the town water well, and also a new and modern waste water treatment system.

People from this area occasionally ask: where does polluted water from the Hungarian towns of Harkány and Siklós go to? Where are their facilities for waste water and garbage disposal? Is it in our border river Drava?

We share the same space, and need to help each other in solving many problems. Through cooperation we will both have benefits. Borders are erasing, and we need to work together to solve problems like unemployment, environmental protection, business proposals etc., or

else this area on both sides of Drava River will continue with a decline of population, and unemployment rate and emigration will rise.

Possibilities exist, like some of them shown in this article, and we just have to take advantage of the opportunities that are available to us, especially those connected to sustainable development like ecotourism, to the satisfaction of residents on both sides of the border. Let's hope we will have a success with it!

Ivan Sarić*

Foreign direct investments in Osijek-Baranja County as a prerequisite for regional development

I. Introduction

There are different theories about reasons for foreign direct investments and, according to UNCTAD,¹ there are four main goals a company aims to achieve when investing abroad. The first goal is market seeking – investing in order to expand the company's market. The second one is efficiency seeking – investing in order to increase efficiency. The third goal is resource seeking – investing because of cheap production or, in case of natural resources, investing to get easier access to these natural resources. The fourth goal is asset seeking – investing in order to increase assets.² Prior to deciding where to invest there are different factors that influence the investor's decision. There are factors that positively influence the attraction of foreign direct investments, among which are proximity of the market, educated and relatively cheap labour force, adequate infrastructure (especially in the form of specialized zones), a stable political climate and, most importantly, an investment-friendly environment.³ The Republic of Croatia should make significant changes in order to be able to attract foreign investors and for them to increase their investments, thus changing the structure of FDI. There are a number of institutional and political obstacles and constant legislative changes the impact of which is visible at the local level, all of which have a negative impact on foreign investors. At

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¹ United Nations Conference on Trade and Development, *World Investment Report 2006 – FDI from Developing and Transition Economies: Implication for Development* (New York and Geneva, United Nations 2006) pp. 26-27. The document is available on the official internet site of the United Nations Conference on Trade and Development: http://unctad.org/en/Docs/wir2006_en.pdf (15.04.2013).

² D. Pavlović, et al., 'Razlike u vrednovanju inozemne lokacije za izravna ulaganja' [Differences in Valuing Foreign Locations for Direct Investments], 1 *Ekonomski vjesnik* (2011) p. 63.

³ B. Sisek, 'Strane izravne investicije u Hrvatskoj – uzroci neuspjeha [Foreign Direct Investment in Croatia – Causes of Failure]', 3 *Zbornik Ekonomskog fakulteta u Zagrebu* (2005) p. 95.

the same time, it is clear that investors seek a stable and encouraging environment with a single most significant feature – predictability.⁴ In addition to predictability, potential investors require promptness, legal security and transparency, especially of the state administration. Osijek-Baranja County also strives towards becoming an encouraging environment for foreign direct investments despite the current negative investment climate. This is because FDI can produce positive benefits and contribute to further development of Osijek-Baranja County, thus, of the Republic of Croatia.⁵

The paper emphasizes the effects of foreign direct investments on regional development in Osijek-Baranja County. The role of FDI in Osijek-Baranja County and its economic profile will be the focus of certain parts of the paper. The obstacles and potential to attract foreign direct investments into Osijek-Baranja County will be the key part of the paper which will provide a short overview of the County's and Osijek's potential to attract foreign direct investments. Recommendations for the further development of Osijek-Baranja County in attracting foreign direct investments will be found in the concluding parts of the paper.

II. Review of foreign direct investments

Foreign direct investments encompass in their broadest sense all types of investments made by foreign legal and natural persons into the economy of a given country.⁶ The definition of the International Monetary Fund states that foreign direct investments are all those investments in the domestic business (residents) where the foreign investor (non-resident) acquires ownership of 10% or more in regular shares or the equivalent of voting rights.⁷ Based on their characteristics we can divide foreign direct

⁴ Sisek, loc. cit. n. 3, at p. 107.

⁵ Đ. Borozan and I. Barković, 'Vrednovanje atraktivnosti Osječko-baranjske županije u privlačenju izravnih inozemnih ulaganja [Evaluation of the Attractivity of Osijek-Baranja County regarding Foreign Direct Investment Attraction]', 54 *Ekonomski prehled* (2003) p. 326.

⁶ M. Grgić, et al., *Inozemna strana ulaganja i ekonomski razvoj* [Foreign Direct Investment and Economic Development] (Zagreb, Ekonomski fakultet Zagreb 2012) p. 88.

⁷ International Monetary Fund, *Balance of Payment Manual* (International Monetary Fund 1993), available at <http://www.imf.org/external/pubs/ft/bopman/bopman.pdf> (15.04.2013).

investments into those which create completely new production assets (greenfield investments), those which invest in already existing production assets in order to take over the business (mergers and acquisitions, M&A) and those which increase efficiency or are the result of privatization processes (brownfield investments).⁸ The foreign investments theory⁹ is the result of explaining the motives and behaviour of foreign investors on the one side, and the motives and behaviour of national companies, i.e. the government on the other, including all of their expectations and measures.¹⁰ The following chapters of this paper provide an overview of investments based on the investor's motives. Firstly, there are investments to exploit natural resources. Secondly, there are investments with the purpose of entering new markets which were previously closed systems, thus not allowing import of goods (e.g., banking, telecommunications, etc.). Thirdly, there are investments in order to increase efficiency, which are motivated by efforts to reduce production costs. This form of investments has become the most frequent type of investments by multinational companies in order to organize the production of certain parts in different locations. The fourth type of investment is strategically motivated, aimed at achieving strategic objectives and advantages. The basic objectives are knowledge and skills in new technologies.¹¹

Factors which greatly influence decisions on where to place foreign direct investments are: the location, i.e. the features of the recipient country; economic strength and consumer capacities on the market; development of natural and human resources and infrastructure; a regulated legislative and judicial system including its transparent functioning; economic policy measures by the government which encourage foreign direct investments and develop economic relations with foreign countries.¹² Because of this, the effects of foreign direct

⁸ I. Barković and N. Bosanac, 'Strana izravna ulaganja u Republiku Hrvatsku [Foreign Direct Investment in the Republic of Croatia]', 19 *Pravni vjesnik* (2003) pp. 368-369.

⁹ See more about the phases of development of foreign direct investments in M. Jošić, 'Inozemna izravna ulaganja u funkciji izvoza: Slučaj Hrvatske [Foreign Direct Investment in an export function: The Case of Croatia]', 6 *Zbornik Ekonomskog fakulteta u Zagrebu* (2008) pp.14-15.

¹⁰ Barković and Bosanac, loc. cit. n. 8, at p. 369.

¹¹ Sisek, loc. cit. n. 3, at p. 91.

¹² Barković and Bosanac, loc. cit. n. 8, at p. 370.

investments depend on the level of economic development of the given recipient country.¹³ Direct investments inflow has had a significant role in the growth of the productivity and production, employment and export of Central Europe's transition countries.¹⁴

Foreign direct investments can be encouraged by different means (fiscal, financial and other means), but social benefits have to be greater than social costs.¹⁵ Fiscal measures include subsidized tax measures such as lowering the corporate taxes for FDI ventures, deferring tax payments for a certain time (tax holiday), agreeing on avoiding double taxation, allowing faster amortization, allowing tax deductions for investments and re-investments in the form of FDI, allowing tax base deductions on account of the number of employed local, i.e. resident workers, etc. Financial measures include granting funds in the form of government subsidies up to a certain amount, subsidized state loans, state guarantees and guaranteed export loans etc. for companies to finance foreign direct investments. Other measures include increasing the profitability of investments by non-financial means, such as providing services under favourable conditions in connection with the infrastructure (e.g. low-cost electricity) or subsidizing other services (such as telecommunications) etc.¹⁶ The conclusion that may be drawn based on the experience of advisory bodies (World Bank, FIAS; IFC, OECD)¹⁷ – which is the result of cooperation with multinational companies on one side and public services of FDI recipient countries on the other - is that investors

¹³ I. Velagić, 'Efekti direktnih stranih ulaganja na ekonomiju zemlje domaćina [The Effect of Foreign Direct Investments on the Recipient Country's Economy]', 13 *Tranzicija* (2011) p. 76.

¹⁴ A. Škudar, *Pregled i analiza izravnih ulaganja u Republiku Hrvatsku* [Overview and Analysis of Foreign Investments in the Republic of Croatia] (Zagreb, Hrvatska narodna banka 2004) p. 1. Overview is available at the official internet site of the Croatian National Bank: <http://www.hnb.hr/publikac/pregledi/p-016.pdf> (15.04.2013).

¹⁵ Barković and Bosanac, loc. cit. n. 8, at p. 371.

¹⁶ A. Babić, et al., *Teorija i stvarnost inozemnih izravnih ulaganja u svijetu i u tranzicijskim zemljama s posebnim osvrtom na Hrvatsku* [Theory and Reality of Foreign Direct Investment in the World and Transition Countries with Special Reference to Croatia] (Zagreb, Hrvatska narodna banka 2001) pp. 11-12. Overview is available at <http://www.hnb.hr/publikac/pregledi/p-009.pdf> (15.04.2013).

¹⁷ FIAS (Foreign Investment Advisory Service), IFC (International Finance Corporation), OECD (Organization for Economic Co-operation and Development).

mainly regard the investment environment as a whole. In addition to tax benefits that either decrease production costs or improve chances for long-term profit, important features for attracting investments are a good basic infrastructure, strong economic relations with other countries, political and legislative stability and a stable tax system in the given country.¹⁸ Thus, the expected benefits for the foreign investor are optimisation of his existing portfolio, achieving profit, lower business costs, increase in sales and market shares as well as acquiring other competitive advantages.¹⁹ Recipient countries have direct and indirect benefits from foreign direct investments. Direct benefits are: increased gross investments in the national economy, increased employment and incomes of the domestic work force, increase in corporate taxes which go to the state, positive influence on the balance of payments of the recipient country and transfer of new technologies. Indirect benefits, on the other hand, are the so-called spillover effects influencing the competitiveness and productivity of domestic companies, such as transfer of knowledge and experience in organizing production, higher demands in terms of quality and timely delivery, and an increased demand for raw materials, energy and intermediate goods, as well as the possibility to substitute imported goods with domestic products.²⁰

III. Effects of foreign direct investments on the national economy

It can be concluded from the opinions and analyses of other authors who have written about this topic²¹ that the effects of foreign direct investments can be multiple and that they have an impact on economic growth, employment, foreign trade and they have spillover effects. It

¹⁸ Babić, et al., op. cit. n. 16, at p. 13.

¹⁹ Ž. Martišković, et al., 'Značaj inozemnih izravnih ulaganja u Republiku Hrvatsku [The Importance of Foreign Direct Investments in the Republic of Croatia]', 2 *Zbornik Veleučilišta u Karlovcu* (2012) p. 129.

²⁰ Ibid.

²¹ See V. Bilas and S. Franc, *Uloga inozemnih izravnih ulaganja i načini poticanja* [The Role of Foreign Direct Investment and Forms of Incentives] (Zagreb, Ekonomski fakultet Zagreb 2006). Working paper is available at <http://web.efzg.hr/RePEc/pdf/Clanak%2006-13.pdf> (15.04.2013) and see also K. Bačić, et al., 'The effects of FDI on recipient countries in Central and Eastern Europe', 14 *Privredna kretanja i ekonomska politika* (2004).

is the countries' interest to achieve as good economic pre-requisites as possible and to adopt such incentive measures that would attract the necessary amounts of foreign capital more than competition.²² Furthermore, the interdependency of economic development, total development and foreign direct investments is obvious from the fact that FDI inflow is a significant source of foreign financing and that it induces significant benefits for the national economy with regard to the transfer of manufacturing technologies, innovative capacities, improvement of knowledge and skills, managerial practice, allowing access to foreign markets and accelerating economic growth.²³ But there are also dangers, because the objective of foreign direct investments is not the development of the recipient country, but the profit for the investor as with all other types of investments. Foreign investments are welcome and can be quite useful if the country has a clear perspective how to develop its economic structure (industrial policies) which clearly shows areas designated to foreign investors.²⁴

The Republic of Croatia became attractive to foreign investors as late as the end of the 20th century. Great expectations were directed towards foreign investments which were to help to solve some burning issues of Croatian economy, e.g. the high unemployment rate.²⁵ The first foreign investments were connected with the process of privatization. Most of them related to takeovers of existing companies, the so-called brownfield investments, and the expected results of such investments are significantly worse than those of greenfield investments.²⁶ It is also important to mention that in the Republic of Croatia, the privatization process in the beginning meant re-organizing actions and layoffs of workers, and only later did it provide new employment options,

²² S. Franc, 'Komparativna analiza determinanti inozemnih izravnih ulaganja u Hrvatsku i odabrane zemlje EU [Comparative Analysis of Foreign Direct Investment Determinants in Croatia and Selected EU Countries]', 6 *Zbornik Ekonomskog fakulteta u Zagrebu* (2008) p. 43.

²³ Borozan and Barković, loc. cit. n. 5, at p. 325.

²⁴ Lj. Jurčić, 'Hrvatska – atipičan model gospodarenja [Croatia – an atypical model of management]', 61 *Ekonomski pregled* (2010) p. 872.

²⁵ Barković and Bosanac, loc. cit. n. 8, at p. 375.

²⁶ S. Franc, loc. cit. n 22, at pp. 30-31.

but even then, not in the volume of the previous years.²⁷ In spite of a relatively high level of foreign direct investments in Croatia, the usual positive effects on the domestic economy such as the growth of employment, production and export are absent due to the unfavourable investment structure, since very few foreign investments are greenfield investments.²⁸ Greenfield investments are still not recognized as an attractive FDI area in Croatia, particularly in the export-oriented manufacturing sector.²⁹ In a comparative analysis of Croatia and other transitional countries, there are a small number of foreign investments into production in Croatia. From that derives a logical conclusion: in addition to investments into production activities, the country needs a strategy of relations in order to attract foreign direct investments aimed at export if it has a negative balance of foreign trade and exchange as well as a high foreign debt.³⁰ In other words, the disadvantage is the lack of incentives for export-oriented FDI, which would represent a significant contribution to the re-structuring of Croatian economy.³¹

The lack of the expected effects of foreign direct investments is the result of the unfavourable entrepreneurial climate³² in the Republic of

²⁷ V. Bratić, 'Izravna ulaganja i njihov utjecaj na hrvatsko gospodarstvo [Direct Investment and its Impact on the Croatian Economy]', 29 *Financijska teorija i praksa* (2005) p. 254.

²⁸ Ž. Martišković, et al., 'Značaj inozemnih izravnih ulaganja u Republiku Hrvatsku [The Importance of Foreign Direct Investments in the Republic of Croatia]', 2 *Zbornik Veleučilišta u Karlovcu* (2012) p. 130.

²⁹ J. Poor and Đ. Kontra-Čapo, 'Human Resource Managment in Transition' in A. Mašek, ed., *2nd International Scientific Symposium Economy of Eastern Croatia – Yesterday, Today, Tomorrow* (Osijek, Sveučilište J.J. Strossmayera u Osijeku Ekonomski fakultet u Osijeku 2013) p. 134.

³⁰ G. Marijanović et al., 'Utjecaj inozemnih izravnih ulaganja na robnu razmjenu Republike Hrvatske [Influence of Foreign Direct Investments on the Commodity Exchange of the Republic of Croatia]', 2 *Ekonomski vjesnik* (2009) p. 262.

³¹ Sisek, loc. cit. n 3, at p. 103.

³² The quality of the business environment is low, as indicated by Croatia's unfavorable ranking in international surveys. The low efficiency of the judiciary and a high perception of corruption in public administration are a cause of concern. Enhancing administrative capacity will be particularly important if EU co-financed investments are to be successfully implemented. See European Commission, *Assessment of the 2013 Economic Programme for Croatia* Brussels (European Commission 2013) p. 4. Working document is available at <http://www>.

Croatia, especially the lack of adequate funding sources, the inertness and inefficiency of the judicial system, the high tax load, and frequent changes in the tax system, which affect the profitability of companies, etc. There are also numerous administrative obstacles to investing, such as obtaining a residence and work permit, lack of coordination between the public service bodies, personnel issues, different interpretations of legal regulations, discrepancies within the cadastre and land registry, long and tedious procedures for obtaining a building permit, spatial development plans, etc.³³ The clearer and more transparent the legal surroundings and administrative framework of a country are, the easier it is for the foreign investor to decide to invest.³⁴ It is necessary to create an encouraging environment in which FDI's will be launched. An effective legal system and effective judiciary are important, but there are many other factors that are equally as important. Foreign investors like to have stability in a country and see consistency in government policy.³⁵

Investors come across problems even at the local authority level (large and inefficient administration, corruption at all levels, land registry in chaos, non-tax fees, etc.) which lead to backing out of investments.³⁶ According to the study 'Administrative Obstacles to Investing in Croatia' (Administrativne prepreke za ulaganja u Hrvatskoj)³⁷ the investor comes across 384 obstacles when trying to invest in the Republic of Croatia.³⁸ Because of this, in order to improve the investment climate in Croatia it is necessary to increase the efficiency of administration, combat

vlada.hr/hr/naslovnica/novosti_i_najave/2013/svibanj/objavljeni_komentari_europske_komisije_na_ekonomski_program/assessment_of_the_2013_economic_programme_for_croatia/(view_online)/1 (06.06.2013).

³³ Bratić, loc. cit. n 27, at p. 255.

³⁴ Grgić, et al., op. cit. n. 6, at p. 182.

³⁵ R. Jovančević, 'The Impact of Foreign Investment Flows on Croatian Economy – A Comparative Analysis', 58 *Ekonomski pregled* (2007) p. 844.

³⁶ Ž. Martišković, et al., 'Značaj inozemnih izravnih ulaganja u Republiku Hrvatsku [The Importance of Foreign Direct Investments in the Republic of Croatia]', 2 *Zbornik Veleučilišta u Karlovcu* (2012) p. 134.

³⁷ This study was conducted upon request of the Croatian Ministry of Economy by the American agency FIAS, the IFC and the World Bank. Study is available at <http://siteresources.worldbank.org/INTCROATIA/Resources/fias-croatian.pdf> (15.04.2013).

³⁸ See Barković and Bosanac, loc. cit. n. 8, at p. 378.

corruption and make long-term improvements to the infrastructure as these are the key features considered by investors when deciding upon the location of their investment.³⁹ In addition to this, it is necessary to constantly make efforts to improve policies and laws connected with business and investments as well as to improve the education system, which must develop the country's human resources.⁴⁰

IV. The role of foreign direct investments in regional development

The competition for attracting foreign direct investments is the harshest among neighbouring countries with a similar economic state and factors. There is also a lot of competition among the regions within a single country. This type of competition may have the influence of decreasing regional disproportions.⁴¹ Every foreign direct investment is by definition an interesting mixture of global and local.⁴² Foreign direct investments influence economic growth, contribute to the employment of the local population and the transfer of technology, skills and knowledge.⁴³ The Republic of Croatia is burdened by unbalanced regional development, which could be prevented or reduced by directing foreign direct investments into certain counties.⁴⁴ It is necessary to take into consideration the justification for foreign investments, i.e., simultaneously subsidize the local companies as well so that they can strengthen their capacities to absorb foreign

³⁹ V. Cvijanović and S. Kušić, 'Izravna strana ulaganja kao izvor financiranja investicija: Usporedna analiza tranzicijskih ekonomija s primjerom Republike Hrvatske [Capital Formation through Foreign Direct Investments: Comparative Analysis of Transition Economies through the Example of the Republic of Croatia]', 26 *Financijska teorija i praksa* (2002) p. 889.

⁴⁰ Grgić, et al., op. cit. n. 6, at p. 183.

⁴¹ V. Bilas, 'Poticanje inozemnih izravnih ulaganja i konkurencija među zemljama [Incentives for Foreign Direct investment and Competition among Countries]', 4 *Zbornik Ekonomskog fakulteta u Zagrebu* (2006) p. 95.

⁴² M. Paliaga and Ž. Strunje, 'Uloga urbanog marketinga u funkciji privlačenja direktnih stranih ulaganja u hrvatskim gradovima [The Role of Urban Marketing in Attracting Foreign Direct Investment in Croatian Cities]', *Ekonomska misao i praksa* (2011) p. 47.

⁴³ Paliaga and Strunje, loc. cit. n. 42, at p. 55.

⁴⁴ Barković and Bosanac, loc. cit. n. 8, at p. 375.

technology and skills. Potential spillovers will not be achieved unless local businesses have the ability and motivation to learn from foreign multinational companies and to invest in new technology.⁴⁵

Local communities with fairly limited resources are faced with strong international competition. Local communities have rather limited means at their disposal when it comes to fiscal incentives since it is common for the fiscal policy to be dictated by the State.⁴⁶ Since it is very difficult for the local communities to find investors by themselves, they have a strategic tool at their disposal to emphasize their advantages over their competitors. This tool is urban marketing. From a marketing point of view, foreign investors come to a certain region or city because of certain benefits offered to them. Each responsible local self-government should recognize the needs and advantages of foreign direct investments and direct their own policies and marketing objectives towards them.⁴⁷ The approach to potential foreign investors needs to be direct and based on a clearly defined marketing strategy.⁴⁸

According to the analysis carried out by Sense Consulting⁴⁹, the key aspects in the decision-making process of an investor are the possibility to acquire incentives and an institutional framework that encourages investments, i.e. the willingness of the local, regional and national levels to cooperate with the investor. The analysis points out three areas in Croatia with their advantages in comparison to others: Northwest Croatia, an area well prepared for investors (local and regional self-government, infrastructure), Zagreb County, the area closest to the City of Zagreb (with quality work force) and Slavonia, financially the most favourable area (incentives). As key obstacles, the analysis lists the lack of understanding between the national institutions and as a result of that, the lack of systematic information. What can be concluded is that the counties with a relatively large share of highly educated workforce have

⁴⁵ Bilas, loc. cit. n. 41, at p. 98.

⁴⁶ Paliaga and Strunje, loc. cit. n. 42, at p. 48.

⁴⁷ Ibid.

⁴⁸ M. Paliaga and Ž. Strunje, loc. cit. n. 42, at p. 55.

⁴⁹ Analysis available on the official internet site of Sense Consulting <http://www.senseconsulting.eu/content/uploads/2013/01/usporedba-investicijskog-okruzenja-cro-i-slo.pdf> (15.04.2013).

had more success in attracting foreign investment. Furthermore, foreign investors prefer counties that are more integrated into international trade flows. Finally, the counties that are attractive to foreign investors are, at the same time, attractive to domestic investors.⁵⁰

V. The role of foreign direct investments in the development of Osijek-Baranja County

According to data from the Croatian National Bank, foreign direct investments into Croatia (by and including 2012) amount to 26,75 billion euros, the largest part of which – the amount of 8,77 billion € – related to the financial sector (banks). The investors came mainly from Austria with 6,97 billion €, the Netherlands and Germany both with 4.05 billion € and Hungary with 3.05 billion €. ⁵¹

1. Foreign direct investments into Osijek-Baranja County

Foreign direct investment trends in Osijek-Baranja County follow those at the national level, but are still insignificant (see Table 1). The largest amounts in foreign direct investments were absorbed in 2007 (98.2 million €), out of which a significant part went to the financial sector. Due to the crisis, a decrease in FDI begins in 2008 followed by a significant fall in 2009 (- 332 million €). There is a gradual increase in 2010.⁵² Excessive irregularity and fluctuation are the main characteristics of FDI inflow into the County. Such movements show that there are connections between local and national flows and that there is no consistent policy relating to the promotion or encouragement of investments at the national and local level.⁵³ Osijek-Baranja County

⁵⁰ L. Škuflić and V. Botrić, 'Foreign direct investments in Croatia: regional perspective', 22 *Ekonomska istraživanja* (2009) p. 25.

⁵¹ Statistical data on foreign direct investments according to years, branches and countries of origin, conducted by the Croatian National Bank and available at <http://www.hnb.hr/statistika/hstatistika.htm> (15.04.2013).

⁵² See Knowledge Network d.o.o. and City of Osijek, *Analiza gospodarstva i poslovnog okruženja u Osijeku* [An Analysis of Economy and Business Environment in the City of Osijek] (Osijek, City of Osijek 2012) p. 49. Analysis conducted through the cross-border project FEDREE – Fostering Economic Development of the City of Osijek and County Zala is available at www.osijek.hr/index.php/cro/content/.../Osijek_FEDREE+Analysis.pdf (15.04.2013).

⁵³ Borozan and Barković, loc. cit. n. 5, at p. 335.

has recognized the importance of foreign direct investments and is trying to increase their inflow in order to foster further development of the County's economy. The County's strategy for the period 2011-2013 identifies, in its SWAT analysis, the competition of neighbouring countries as a threat to its own absorption of foreign direct investments.⁵⁴

Table 1 FDI in Osijek-Baranja County, 1993 – 2012 in million €

Year	Total
1993	0.1
1997	0.0
1998	29.8
1999	20.4
2000	0.4
2001	-2.5
2002	27.5
2003	4.7
2004	35.3
2005	52.2
2006	36.7
2007	98.2
2008	5.4
2009	-332.0
2010	32.1
2011	83.8
2012	-38.8
Total	53.5

Source: <http://www.hnb.hr> (15.04.2013).

2. Economic profile of Osijek-Baranja County

Osijek-Baranja County is located in Northeast Croatia and covers 4,155 km². It makes up 7.3% of the total territory of the Republic of Croatia. Out of the County's total territory, 51% is agricultural land and 24% are forests. Since this is a mainly flatland area, it is highly suitable for agriculture and agriculture-based industries.⁵⁵ These

⁵⁴ Osijek-Baranja County, *Županijska razvojna strategija Osječko-baranjske županije 2011.- 2013.* [Development Strategy of Osijek-Baranja County] (Osijek, Osijek-Baranja County 2011) p. 94. Document available at the official internet site of Regional Development Agency Slavonia and Baranja d.o.o.: http://www.slavonija.hr/images/Dokumenti2011/zrs_obz_2011_2013.pdf (15.04.2013).

⁵⁵ Borožan and Barković, loc. cit. n. 5, at p. 327.

industries are the food industry, but also the chemical industry, machine industry, cellulose and paper production, wood and furniture industry, construction material industry and so on. According to the census of 2011, there are 317,802 inhabitants in the County (in 2001 there were 326,446) in 7 towns, 35 municipalities and 263 settlements. The importance of transport infrastructure and connections is high, and at the moment the County is connected with the west of the country through a motorway and Podravska magistrala (state road), and with Hungary and to the south with Bosnia and Herzegovina, in addition to roads, it is also connected by train. The Corridor V/c still needs to be built so that one can realize its importance. By building it, not only the County will get a chance to be linked into Europe's main transport routes and, thus, into the global European economy, but the whole country as well. The rivers Drava and Danube connect the County with the European river network.

According to the Regional Competitiveness Index,⁵⁶ Osijek-Baranja County ranks the 13th according to its competitiveness in comparison with the other 20 Croatian counties and the City of Zagreb. It ranks as the 5th for the quality of its business environment and the 12th for the quality of its business sector. The other neighbouring counties rank even lower. This whole region is considered to be the least developed region of Croatia. The cause of the under-developed economy of Osijek-Baranja County can be found in the following factors (which are the same for the neighbouring Vukovar-Srijem County): lagging economic growth and development in comparison to the other regions and counties; transition into a system of market economy contributing to a rise in unemployment as a result of privatization; the loss of domestic banks; hindered access to loans, especially for small businesses; insufficient investments into the renovation of war-stricken economic capacities; lack of domestic and foreign investors as a result of distrust due to social and economic issues.⁵⁷

⁵⁶ National Competitiveness Council, *Regional Competitiveness Index of Croatia*, (Zagreb, National Competitiveness Council and United Nations Development Programme Croatia 2011) p. 94. Document available at the official internet site of the National Competitiveness Council: <http://konkurentnost.hr/Default.aspx?sec=142> (15.04.2013).

⁵⁷ K. Marosevic and J. Romić, 'Strana izravna ulaganja u funkciji razvitka

The following paragraphs of the paper provide key statistical data for Osijek-Baranja County. In mid-2012 there were 4,271 active companies in Osijek-Baranja County, which made up 3.8% of the total number of active companies in the Republic of Croatia. Negative financial indicators of companies in Osijek-Baranja County were already visible in 2008 (due to the global crisis), but downward tendencies were stopped in 2011. Still, the first three quarters of 2012 again show negative trends in comparison with the same period of the previous year. With regard to economic activities in Osijek-Baranja County, the processing industry makes up 27.1%, which is the biggest percentage of the total revenue, followed by sales with 24%, agriculture with 22.4% and construction with 12.9%. The largest portion of the total revenue of 737 million HRK in 2011 is attributed to the processing industry (24.5%), followed by agriculture (21.2%), sales (16%), science and technology (15.2%), and construction (8.8%).

The total loss was 1.27 billion HRK, out of which the processing industry makes up 41.3%, construction 14.7%, sales 12%, science and technology 10.2%, and agriculture 8.6% etc. Goods trade in Osijek-Baranja County amounted to 1.08 billion USD (or 838 million €) in 2012, which was lower by 5% than in the previous year of 2011. Goods trade in 2011 was, on the other hand, higher by 15.5% in comparison with the year 2010. Export rose by 22.5% and import by 8.5%. Since the export-import ratio is 53.2:46.8, there was a positive balance of 71.7 million USD. In general, the percentage of the County's goods trade in the total goods trade value of the Republic of Croatia was 3.4% in 2011 and 3.3% in 2012.⁵⁸ According to regional directionality, Osijek-Baranja County's economy amounts to 61% of foreign exchange with the European Union. In 2012 goods worth 324 million USD were exported onto the European Union market, while 334 million USD

Vukovarsko-srijemske županije [Foreign Direct Investment in the Development of Vukovar-Srijem County]', *Ekonomski vjesnik* (2011) p. 159.

⁵⁸ See Croatian Chamber of Commerce County Chamber Osijek, *Stanje gospodarstva Osječko-baranjske županije* [Economic Situation in Osijek-Baranja County] (Osijek, Croatian Chamber of Commerce County Chamber Osijek November 2012). Document is available at the official internet site of the Croatian Chamber of Commerce: <http://www.hgk.hr/zk/osijek/stanje-u-gospodarstvu-osjecko-baranjske-zupanije-u-2011-i-1-9-2012> (15.04.2013).

were imported from the European Union markets into Croatia. On the other hand, the CEFTA market represents 23% of the County's foreign exchange (exported goods worth 172 million USD, imported goods 82 million USD).⁵⁹ According to the data of the Croatian Pension Insurance Institute of 31st March 2013, Osijek-Baranja County has a work force of 123,471 able-to-work citizens, out of which 85,250 are employed and 38,221 unemployed. The rate of registered unemployment in the County is increasing and in March 2013 it climbed to 31.0% in comparison with 28.9% in March 2012 and 30.5% in December 2012. The unemployment rate in the Republic of Croatia is 20.5%.⁶⁰

VI. Barriers and opportunities for attracting foreign direct investments in the Osijek-Baranja County

Since foreign direct investment restrictions cover a wide political, administrative and institutional area, their reduction or elimination represents a challenge⁶¹ not only for Croatia, but also for the local government. Key problems in attracting FDI in Osijek-Baranja County are, among others, the unresolved ownership relations, administrative barriers, financial and tax burdens, the lack of a strategy for attracting foreign investments at all levels, the impact of local political events, etc.⁶² The government or local communities must have a strategy⁶³ for

⁵⁹ A. Zrinušić, 'Jačanje gospodarstva Osječko-baranjske županije kao rezultat brojnih ulaganja [Strengthening the Economy of Osijek-Baranja County as a Result of a Number of Investments]', 51 *Bizdirect* (2013) p. 43.

⁶⁰ For more about this, see Croatian Employment Service Regional Office Osijek, *Radna snaga Osječko-baranjske županije* [Workforce in Osijek-Baranja County] (Osijek, Croatian Employment Service Regional Office Osijek April 2013). Document available upon request.

⁶¹ Borožan and Barković, loc. cit. n. 5, at p. 347.

⁶² Tara International Consulting Ltd and CTR – Development Agency of Brod-Posavina County, *Studija izvodljivosti za podizanje učinkovitosti direktnih stranih ulaganja* [Feasibility Study for Increasing Efficiency in Direct Foreign Investments] (Osijek, Croatian Employers' Association 2010) p. 38. Study conducted within the cross-border project CB Business marketing and FDI and available at the official internet site of the Croatian Employers' Association: <http://www.hup.hr/projekti.aspx> (15.04.2013).

⁶³ If attracting FDI is not part of the development strategy of a certain country, it cannot provide the expected results. See Sisek, loc. cit. n 3, at p. 107.

attracting foreign direct investment, as well as make continued efforts to improve the overall business climate.⁶⁴ What is missing in Osijek-Baranja County and the City of Osijek, as the capital of the County, is a strategy for attracting foreign direct investments and strategies called targeted, in which the state or local government may have (or get) sufficient freedom to make offers on their own.⁶⁵

Osijek-Baranja County has made big steps over the past ten years in creating the conditions for the economic and social development of the County. In order to stimulate foreign investments, the County carried out the certification process through the project 'Development of Investment Climate' and was awarded the certificate Croatian Investor Friendly Region. Within this project, the necessary One Stop Service Centre was established, whose main task is to promptly respond to all potential investors' requests. Osijek-Baranja County created a website⁶⁶ which provides information on investment opportunities that could help investors identify the benefits of investing in the County.⁶⁷ The County's resources for investors are reflected in the following: the County's economy is the fourth largest economy in Croatia; about half of the County's export is made by foreign-owned companies; the County has a highly educated workforce and one of the largest universities in the Southeast European region with strong bonds between the economy and the University; traditional food production; very favourable geographic position and traffic, rental spaces for competitive price; special benefits in enterprise zones (the opportunity to build without having to pay fees to the municipalities, lower prices of land plots, etc.).⁶⁸ The local governments have also recognized the importance of encouraging FDI growth as an effective resource for

⁶⁴ This includes improving policies and laws connected with business and investments, improving the education system to develop human resources, decreasing administrative obstacles and corruption. See Grgić et al., op. cit. n. 6, p. 193.

⁶⁵ See Knowledge Network d.o.o. and City of Osijek, *Analiza gospodarstva i poslovnog okruženja u Osijeku* [An Analysis of Economy and Business Environment in the City of Osijek] (Osijek, City of Osijek 2012) p. 52.

⁶⁶ <http://www.obz-invest.hr> (15.04.2013).

⁶⁷ Zrinušić, loc. cit. n. 59, at p. 42.

⁶⁸ Zrinušić, loc. cit. n. 59, at p. 41.

an increased economic growth of the city. A dozen measures have been introduced; several infrastructure investments are currently being implemented, all in an effort to contribute to the creation of a city attractive to investors.⁶⁹ Major investments in business infrastructure were carried out in the city of Osijek. The capacity of Business Zone Tenja, if fully used, amounts to a total surface of 5.62 ha with 441 employees and a total investment of 15,152,216.00 HRK. Industrial Zone Nemetin represents great potential as well, which was categorized in a research by an investment promotion agency in 2010 as the second most important in Croatia.⁷⁰ Similarly, Osijek-Baranja County and the City of Osijek recognized the importance of use of funds from the Cohesion Policy and EU funds. They represent a great opportunity for Osijek-Baranja County, and thus the city of Osijek, since in the pre-accession period it was the first county in the Republic of Croatia from the aspect of the absorption of EU funds (the City of Osijek and Osijek-Baranja County have so far participated in 273 projects worth a total of 126 million €).⁷¹

However, there is still a lack of a strategic approach⁷² and a special focus on the sectors. Most of the financial support and incentives offered by the County and the City are available to all companies and cannot, in this sense, be considered the right support to foreign direct investment. Tourism is emphasized as the key sector and a potential to attract new investment to the County. However, there are obstacles and dangers as well, as the tourism industry is essential to the development of the whole country, while the country's tourism (e.g. eco-tourism,

⁶⁹ See Knowledge Network d.o.o. and City of Osijek, op. cit. n. 65, at p. 50.

⁷⁰ A. Zrnušić, 'Grad Osijek kao nositelj razvoja Osječko-baranjske županije [City of Osijek as a carrier of development of the Osijek-Baranja County]', 51 *Bizdirect* (2013) p. 45.

⁷¹ Ibid.

⁷² An agreement of key stakeholders is necessary at county level about strategic areas of future development and it needs to be created with concrete projects and initiatives. See J. Puljiz, 'Regionalna politika i privlačenje ulaganja' [Regional Policy and Investment Attraction] *Presentation at the 2nd Economic Forum Split-Dalmatia County* (May 2011), available at the official internet site of Public Institution RERA SD for the coordination and development of Split-Dalmatia County: [\(15.04.2013\)](http://www.rera.hr/Portals/0/docs/.../Privlacenje%20ulaganja%202.pptx).

etc.) is insufficiently attractive to foreign direct investors.⁷³ To strategically position Osijek-Baranja County as a desirable destination, it is necessary to develop a marketing plan.⁷⁴ A big obstacle lies in the fact that the Republic of Croatia is a centralized state and the state administration is still inefficient and corrupt, the judicial system is slow and thus the protection of property rights is insufficient and the legislative framework for the promotion of investment thus leaves plenty of room for discretionary measures. All of this increases uncertainty for potential investors.⁷⁵ Regardless of the fact that the legal framework⁷⁶ has changed recently and the incentives⁷⁷ are much higher compared to the previous years, there are still no foreign direct investments to enable one to assess the impact of the new legislative framework on them. We must make sure to encourage only those foreign direct investments that have growth potential. In other words, we need to encourage investments that will enable the achievement not only of short-term, but also of long-term benefits, i.e., those that will not distort the natural balance, pollute the environment, reduce

⁷³ See Tara International Consulting Ltd and CTR – Development Agency of Brod-Posavina County, op. cit. n. 62, at p. 41.

⁷⁴ See Tara International Consulting Ltd and CTR – Development Agency of Brod-Posavina County, op. cit. n. 62, at p. 10.

⁷⁵ G. Vukšić, 'Utjecaj izravnih stranih ulaganja na izvoz hrvatske prerađivačke industrije [Impact of Foreign Direct Investment on Croatian Manufacturing Exports]', 29 *Financijska teorija i praksa* (2005) p. 170.

⁷⁶ Zakon o poticanju investicija i unaprjeđenju investicijskog okruženja [Act on investment promotion and development of investment climate], Narodne novine, NN 111/12, 28/13.

⁷⁷ The measures refer to investment projects in production activities, development and innovation activities, business support, high added value services. The measures are intended for micro-entrepreneurs and include tax incentives, customs incentives, justified costs for new work places connected with the investment project, incentives for capital costs of investment projects, incentives for justifiable costs for professional development connected with the investment and incentives for labor-intensive investments. The incentive measures can be used by entrepreneurs registered in the Republic of Croatia who invest a minimum of 50,000 € into long-term assets and create at least 3 new jobs (for micro-entrepreneurs) or invest 150,000 € into long-term assets and create at least 5 new jobs (for small, medium and large enterprises). See more on the official internet site of the Agency for Investments and Competitiveness: www.aik-invest.hr (15.04.2013).

the regenerative capabilities and capacity of the County's renewable resources and irreversibly degrade its non-renewable resources.⁷⁸

VII. Recommendations as final remarks

The unfavourable entrepreneurial and investment climate in Croatia undoubtedly influences the development of Osijek-Baranja County. Foreign direct investments are needed more than ever at the national as well as the local level. Regardless of its advantages and disadvantages, Osijek-Baranja County needs to find the ways to make its competitive advantages more appealing to potential investors. Here follow some recommendations for attracting foreign direct investment as concluding thoughts.

First, in the future development strategy of Osijek-Baranja County, especially in the one for the period between 2014 and 2020, it is necessary to develop concrete programmes and measures and to devise an action plan to attract foreign direct investment into the County. It is necessary to create a marketing plan to attract investment which would lean on that strategy. Marketing needs to be targeted and it is necessary to provide answers to some of the following questions: Who do we turn to and why? Who monitors the investment trends? Who addresses the investors? In this sense, it is advisable to use previous analyses and studies made in different EU cross-border projects. Furthermore, it is advisable to make an analysis of satisfaction, positive and negative past experiences of investors in the County, and create the necessary strategic documents and approaches based on given indicators.

Secondly, a great contribution to the excellent results in absorbing pre-accession funds of the European Union which Osijek-Baranja County achieved together with other entities from the County was the opening of an office in Brussels. However, the potential of this office needs to be utilised to present Osijek-Baranja County in the European Union and to extend its role to lobbying to attract foreign investments. Its purpose needs to be to promote the County abroad, to representatives of embassies, economic diplomacy in Croatia and abroad, in order to familiarize them as potential investors with the County's advantages.

⁷⁸ Borožan and Barković, loc. cit. n. 5, at p. 352.

This can be done, for example, by organizing Investors' Days modelled on the Open Days. It is necessary to use good relations of the County with partner institutions for entrepreneurial support (Croatian Chamber of Economy, Croatian Chamber of Crafts, the Croatian Employers' Association), and to promote the County abroad together with them. Also, it is important to avoid mistakes like the one made by the current Croatian government when it presented a new investment cycle called Proinvest to domestic institutions, employers and other stakeholders, while leaving out the representatives of embassies, economic diplomacy, etc., and, at the same time, presenting it to potential overseas investors from developing economies.

Thirdly, it is necessary to attempt to solve or, at least, reduce the adverse effects of the administration, since it is mentioned as an important cause that deters potential investors and adversely affects the investment climate. Since a One Stop Service Centre in the County has recently been established, through it and together with partner organizations, all the necessary assistance and lobbying for a faster and more transparent procedure in administration can be provided (e.g. obtaining necessary approvals and permits at the HEP d.d., etc.). However, there are risks as well. The recently established One Stop Service Centre actually mystifies the work behind it, so it is unclear who is responsible for what. It is necessary to appoint a certain County department with a specific person in charge, based on the system of the Agency for investments and competitiveness.

Fourthly, it is necessary to continue branding and positioning the County's other industrial zones as in the case of Industrial Zone Nemetin (called a green zone), and strive towards specialization of zones, according to the concepts of smart specialization.

These are just some of the recommendations – offered as concluding thoughts. However, to address this complex issue and to achieve better results, it is necessary to involve all relevant County stakeholders, not only in the process of creation of strategic documents, but also in the process of targeting potential investors. This would certainly result in positive effects not only for the development of Osijek-Baranja County, but the whole country.

Jadranka Stantić*

Developing regional development capacities in cross border area through innovative network

I. Introduction

Due to the political collapse in Central and Eastern Europe at the end of 20th century, economic crises in European Union at the beginning of 21st century and the continuing enlargement of the European Union cross-border regions have grown considerably in number and importance in the last years.

European Union in 2000 in Lisbon adopted development strategy known as Lisbon strategy, with strategic objective EU till 2010 to become the most competitive and dynamic economy in the world, based on knowledge, capable to achieve the sustainable growth with higher number of quality work places and stronger social cohesion.¹ The time has shown that Europe did not succeed to transform itself into the most competitive and dynamic economy in the world, however in spite of all that the objectives of the Lisbon strategy are not to be interpreted as false and surpassed, rather they are initial base for the elaboration of the Strategy 2000. Among the member states and regions there are enormous structural differences, as well as the differences in the degree of the development and structural cohesion. Europe proactively moves towards problems solving and continues its way towards formation of knowledge based society, and that process up to now has resulted with the European Commission document: Europe 2020 A strategy for smart, sustainable and inclusive growth.² Europe 2020 tends to transform European Union into smarter, more sustainable and more inclusive economy, resulting with higher degree of employment, social cohesion, productivity and more developed social capital.

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¹ Strategy is available at http://www.eroparl.europa.eu/summits/lis1_en.htm (26.12.2011).

² European Commission, EUROPE 2020 A strategy for smart, sustainable and inclusive growth, COM(2010)2020 final, Brussels, 3.3.2010, <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF> (26.12.2011).

Europe is oriented towards three mutually connected priorities: smart growth – the development of economy based on knowledge and innovation (scientific-technological research and development, innovation, education and digital society); sustainable growth – simultaneously gives and incentive to competitiveness and production which more efficiently refers towards resources, promotes more efficient use of resources, greener and more competitive economy; inclusive growth – better participation in labor market, struggle against poverty and social cohesion.

In the light of great economic crisis ravaging the global economy and threatening to Europe and to regions of the European rim, it is indispensable to find an adequate model which could mitigate menaces to economy. Which are the reasons that Europe and regions of Osijek-Baranja County in Croatia and Baranya County in Hungary did not succeed to attain the sustainable development and the growth of economy? To which extent there is an impact of the fact that knowledge from research and development and educational institutions is slowly and inadequately transferred to economy? Why Europe in average lags behind its major competitors on the market, America and East Asia? How to organize cooperation of scientific and research institution with the economy in order this region not to stay behind at the hinterland of integration processes?

The first step is to review the regional capacities of Osijek-Baranja County in Croatia and Baranya County in Hungary.

II. Regional development

Regional development is observed as the integral process, whereby physical environment, economic, social and cultural resources are used for the benefit of people in a way to sustain comparative advantages offered by and based on inherently and geographically different characteristics of the particular area.

‘The concept that regional economic development operates, in some arenas, according to a model of network governance is not novel. Bellini, for instance, see an ‘intertwining of decision-making between national and sub-national actors according to patterns that can be

defined as basically not-hierarchical, network-like, based on inter-institutional bargaining and political exchange' (Bellini, 1996:66). Cappellin argues that we should expect a shift in regional development strategy that 'coincides with the shift from the hierarchy model of government to the network model, based on partnership' (1997:122). Hart, Haugton, and Peck (1996) argue that English local governance has changed from 'the hierarchical, closed, top-down decision-making processes once typical of central-local government, to more porous power and resource-sharing systems of network and alliances.' And Van den Berg, Braun, and Van der Meer (1997) have noted the importance of 'strategic networks' as forms of metropolitan governance in Europe. Most explicitly, Cooke and Morgan (1993) have developed a 'network paradigm' to describe a regional development strategy of promoting cooperation and partnership among regional firms'.³

1. Regional Capacities of Osijek-Baranya County

Based on the analysis of the development of Croatian counties, Osijek – Baranja County (hereinafter OBC) belongs to category I. With the development index 53,88% in regard to national average. According to the competitiveness index, OBC holds 14th place out of 21 in total.⁴ According to the analysis of indicators on the level of OBC, the unemployment varies from 10 to 35%. With the level over 20%, OBC takes 10th place in Croatia.

'In 2009 in OBC there were 3.379 active enterprises with 44.125 employed. The participation of small enterprises was 96%, medium 3%, while large amounted to 1%. Total revenue of all registered enterprises in OBC in 2009 amounted to 23.4 bil. kn. Consolidated financial result was negative, i.e. enterprises generated losses in the amount of 385 thousands kn. The consolidated financial result of all enterprises in OBC for the period 1996-2004 was negative in spite to the increase of number of

³ C. Ansell, 'The networked polity: Regional Development in Western Europe' *3 Governance: An international Journal of Policy and Administration* (2000) p. 311.

⁴ National Council for Competitiveness – Regional Index of Competitiveness of Croatia for 2007, available at <http://www.konkurentnost.hr/Default.aspx> (10.05.2013).

enterprises, revenue and employed. The period 2005-2008 characterized positive financial results, which again became negative in 2009'.⁵

Entrepreneurship support infrastructure in the region of OBC is considered as rather developed. There is list of institutions which belong to 'entrepreneurship support infrastructure':

Administrative Department for Agriculture and Economy of Osijek-Baranja County;⁶ Slavonia and Baranja Regional Development Agency Ltd.;⁷ Administrative Department for Investments of Osijek-Baranja County;⁸ State Administration Office of Osijek-Baranja County – Office for Economy;⁹ State Administration Office of Osijek-Baranja County, Beli Manastir Branch Office, Economy Service;¹⁰ State Administration Office of Osijek-Baranja County, Donji Miholjac Branch Office, Economy Service;¹¹ State Administration Office of Osijek-Baranja County, Đakovo Branch Office, Economy Service;¹² State Administration Office of Osijek-Baranja County, Našice Branch Office, Economy Service;¹³ State Administration Office of Osijek-Baranja County, Valpovo Branch Office;¹⁴ Economy Service City of Osijek, Administrative Department for Economy;¹⁵ Town of Beli Manastir, Administrative Department for Economy, Budget, Finance and Social Activities;¹⁶ Town of Belišće, Administrative Department

⁵ FINA, elaborated by Croatia Chamber of Economy Osijek in 2010. Data received in RDA Osijek, 25.04.2013.

⁶ <http://www.obz.hr/hr/index.php?tekst=79> (20.04.2013).

⁷ <http://www.slavonija.hr/> (20.04.2013).

⁸ <http://www.obz.hr/hr/index.php?tekst=208> (20.04.2013).

⁹ <http://www.udu-obz.hr/> (20.04.2013).

¹⁰ <http://www.portor.hr/osjeckobaranjska.htm> (20.04.2013).

¹¹ <http://www.portor.hr/osjeckobaranjska.htm> (20.04.2013).

¹² <http://www.portor.hr/osjeckobaranjska.htm> (20.04.2013).

¹³ <http://www.portor.hr/osjeckobaranjska.htm> (20.04.2013).

¹⁴ <http://www.portor.hr/osjeckobaranjska.htm> (20.04.2013).

¹⁵ <http://www.osijek.hr/index.php/cro/Gradska-uprava/Gradski-uredi-odjeli-i-sluzbe/Upravni-odjel-za-gospodarstvo> (21.04.2013).

¹⁶ http://www.obz-invest.hr/index.php?option=com_content&view=article&id=207 (21.04.2013).

for Economy and Physical Planning;¹⁷ Town of Donji Miholjac, Administrative Department for Economy, Entrepreneurship, Social Activities and Finance;¹⁸ Town of Našice, Administrative Department for Economy and EU integrations;¹⁹ Croatian Chamber of Commerce, County Chamber Osijek;²⁰ Croatian Chamber of Trades and Crafts, Chamber of Trades and Crafts of Osijek-Baranja County with Crafts Association Baranja, Crafts Association Donji Miholjac, Crafts Association Đakovo, Crafts Association Našice, Crafts Association Osijek and Crafts Association Valpovo;²¹ Centre for Entrepreneurship Osijek;²² Donji Miholjac Enterprise Centre Ltd.;²³ Beli Manastir Enterprise Centre Ltd;²⁴ Entrepreneurship and Development Centre of Erdut Municipality Ltd;²⁵ Valpovo Enterprise Centre;²⁶ 'Zadruga poduzetnička mreža' [Entrepreneurs' Network Cooperative];²⁷ 'Poduzetnički inkubator BIOS d.o.o.' (Business Incubator BIOS Ltd.);²⁸ 'Poduzetnički inkubator OSVIT' [Business Incubator OSVIT];²⁹ 'Tera tehnopolis d.o.o.';³⁰ Croatian Bureau of Employment, Regional Service Osijek;³¹ Croatian Institute for Agricultural Advisory

¹⁷ http://www.obz-invest.hr/index.php?option=com_content&view=article&id=208 (21.04.2013).

¹⁸ http://www.obz-invest.hr/index.php?option=com_content&view=article&id=209 (21.04.2013).

¹⁹ http://www.obz-invest.hr/index.php?option=com_content&view=article&id=210 (21.04.2013).

²⁰ <http://www.hgk.hr/category/zk/osijek> (21.04.2013).

²¹ <http://www.obz.hr/hr/index.php?tekst=474> (21.04.2013).

²² <http://www.poduzetnistvo.org/centar/> (21.04.2013).

²³ <http://www.mpc-miholjac.hr/> (21.04.2013).

²⁴ <http://www.pcbm.hr/> (21.04.2013).

²⁵ <http://porc.opcina-erdut.hr/> (21.04.2013).

²⁶ <http://www.valpoc.hr/> (21.04.2013).

²⁷ <http://www.zpm.hr/> (21.04.2013).

²⁸ <http://inkubator.hr/> (21.04.2013).

²⁹ <http://www.osvit.biz/> (21.04.2013).

³⁰ <http://www.tera.unios.hr/> (21.04.2013).

³¹ <http://www.hzz.hr/default.aspx?id=4089&proiz=1100> (22.04.2013).

Service;³² Croatian Employers' Association, Regional Office Osijek;³³ Agricultural Institute Osijek.³⁴

'The following institutions provide day to day support to entrepreneurs in OBC: entrepreneurial centers, Regional development agency, and entrepreneurial incubators. In the OBC there are 75 entrepreneurial zones. There are 21 entrepreneurial zones in realization and 54 in the process of preparation. Entrepreneurial zones in realization (21) can be found in Osijek, Đakovo, Našice, Beli Manastir, Valpovo, Belišće, Donji Miholjac, Bizovac, Đurđenovac, Koška, Marijanci, Petrijevci, Semeljci and Viljevo. Total size of entrepreneurial zones in realization is 645 ha (6.469.439 m²). The largest one is the Free zone in Osijek, 135 ha. In entrepreneurial zones in OBC there are 310 companies which employ 6,189 people. The total value of zones is estimated at HRK 578.5 mil, while total investments until 2009 are estimated at HRK 508.3 mil. Average investment per zone hectare is 79 thousand HRK. Average number of companies per zone is 15, while the average number of employees per zone is 295. The smallest zone has 2 companies and 4 employees, and the largest one has 101 companies and 1,700 employees (entrepreneurial zone Osijek; Storage and servicing zone). Twelve of the total numbers of zones in realization are fully equipped (or 57%). However, as large number of zones is not fully utilized, rationalization of potential new/zones in preparation should be considered. Zones should be fully utilized and funds to invest into preparation of zones should be obtained from other sources, such as EU funds and national and foreign investors'.³⁵

As it could be seen, oversized is the number of support institutions. It is disposable various and rich material infrastructure as well, which using adequate human resources should be able to attract needed investments and substantially increase the production and exports. The trend of GDP, however, does not confirm such tendency.³⁶ GDP in OBC in 2007

³² <http://www.savjetodavna.hr/> (22.04.2013).

³³ <http://www.hup.hr/osijek.aspx> (22.04.2013).

³⁴ <http://www.poljinos.hr/> (22.04.2013).

³⁵ Administrative Department Development Agency of OBC, *Regional analysis of the Osječko-baranjska county* (Osijek 2011) pp. 71-72.

³⁶ http://www.dzs.hr/Hrv_Eng/publication/2012/12-01-02_01_2012.htm (22.04.2013)

amounts 2.538 million EUR,³⁷ while GDP in 2009 on the level of OBC amounted 2.590 million EUR. So, there is insubstantial growth during that period, while having in mind the drop of GDP in Croatia thereafter, that trend can be attributed to OBC too.

2. Regional Capacities in Baranya County in Hungary

‘In the year 2006 from the 108.765 court registered enterprises only 60.432 (55,6 %) were active. This is a result of their vulnerability deriving from the inappropriate business services and from the unfavourable operating environment (administrative procedures, etc.), not forgetting the difficulties to attract or have an access to finance. Less new enterprises were established in South Transdanubia (whose integral part is Baranya County) over the past decade than the national average. Despite the slower growth rate, the density of enterprises is high. The proportion of medium and large sized enterprises is lower than the national average on the basis of the number of employees. In 2009 there were 40 enterprises in the region employing more than 250 employees, which is 4,61 % of the country’s medium and large sized enterprises. The proportion of individual enterprises exceeds the Hungarian average; these are mostly self-employed micro-enterprises. [...], the enterprises of the Region are typically micro enterprises, with less than 10 employees.’³⁸

‘Cluster organisation activities have begun in the region in both traditional and new industries: automotive cluster centred around Szekszárd, healthcare cluster in Pécs and Dombóvár, shoe production cluster in the area of Bonyhád, and the activity of the Pannon Timber and Furniture Industry Cluster also partly extends to the Region. The reinforcement of the active initiatives is a fundamental necessity,

³⁷ See Osijek baranjska county – Investicijski vodič [Investment Guide of Osijek Baranja county] p. 8., available at http://www.google.rs/url?sa=t&rct=j&q=&esrc=s&source=web&cd=9&ved=0CHMQFjAI&url=http%3A%2F%2Fwww.logincee.org%2Ffile%2F19822%2Flibrary&ei=wHOYUeONO6TX4ASkwIEQ&usg=AFQjCNFpe1mhA3dGqz8zpLkoRFBDXpsM1Q&sig2=G0-hUB2ziEA3xW_fjLgQ2A&bvm=bv.46751780,d.bGE (22.04.2013).

³⁸ Administrative Department South Transdanubian Regional Innovation Agency, *Regional analysis of the South Transdanubian Region* (Osijek, Administrative Department of Development Agency of OBC 2011) p. 22.

along with supporting additional, co-operation activities that are just in the start-up phase. 181 industrial parks have been established in the country, 19 of which can be found in the region.³⁹

‘Business incubators were established in several places around the region over the past years, but their operation fails to reach a service standard that could be expected of incubators in many places, even though they should become a significant instrument for strengthening start-up SMEs. Besides these, enterprise zones were developed in Mohács and Barcs. The enterprise zones are not competitive among investors with their existing infrastructure, as they fail to provide complex services, and the institution system necessary for their efficient operation has not been established either. Consulting and training programmes to assist start-up enterprises, giving them sufficient support for laying the bases for profitable commercial activity are missing. It is necessary to filling already established incubators and enterprise zones with real service content, along with the creation and efficient operation of the necessary institution system. This entails the development of services by means of which businesses will have access to the information, know-how, as well as the professional, entrepreneurial and management skills which are necessary for the successful management of their enterprise, for increasing their adaptability to market and labour market processes, and for developing their attitude and approach. The logistics centre functions of the region are weak. [...] The survey of brown-field sites identified 152 facilities (over an area of nearly 2 000 hectares), 65% of which has industrial origin, 20% are former military facilities, and 15% are areas connected to agriculture. The majority of brown-field lands are connected to urban areas, and more than half of them are completely unutilized. With respect to attracting foreign capital, the situation in this Hungarian region can be considered the least favourable among all the regions of Hungary. This is where 4, 4% of businesses with foreign participation operated, and the amount of foreign direct investment – as a result of continuous decrease – only represented 1% of the national total in 2009. The amount of foreign invested capital per inhabitant 604 EUR in 2009 was the lowest among the Hungarian regions.’⁴⁰

³⁹ Ibid., p. 24.

⁴⁰ Ibid., p. 25.

3. Innovation, Research and Development in the Region

‘Hungary is regarded to be strong in productivity and market and company innovation, but is relatively weak in terms of the open innovation processes, research of excellence, company co-operations, intellectual potential. There is a strong increase in community patents and in new products, whilst a downward trend in the foreign direct investment. In the analyzed Hungarian region the importance of research and development activity lags far behind similar data from the more developed regions. The region’s increasing competitive disadvantage is the most severe with respect to its research and development expenditure. It is not only the corporate sector’s potential for innovation that needs to be reinforced, but the funding uptake capability of research locations as well. The number of applications for industrial copyright protection is the lowest in this Region in the ranking of Hungary’s regions. The weakness of innovation potential among local enterprises will become an obstacle for competitiveness in the longer run. Cultural and creative industry, healthcare related innovation and food research is of high importance, utilizing the capacities of Pécs University. Croatia had a Research and Development intensity of 0.84% in 2009, a value which is considerably lower than the EU average of 2.01%. R&D intensity in Croatia has fluctuated from 2004 to 2009 before decreasing to 0.84%. These fluctuations are mirrored by fluctuations in the R&D intensity of both private and public sector (Government plus Higher Education Institutions) over the same period. Scenario presented in the Innovation Union Competitiveness report 2011 implies that Croatia would still be below the EU average in 2020, at an R&D intensity level of 0.68%. Compared to the EU, the main weaknesses are the business enterprise expenditure on R&D and the license and patent intensity and revenues. According to the latest ‘Innovation Union’s performance scoreboard for Research and Innovation’, published in 2011, Croatia is qualified as one of the moderate innovators with a below average performance (being at the 38th place, whilst Hungary at the 41st). Relative strengths are in human resources, finance and support, innovators and economic effects. The weakest points are Croatian scientific system and intellectual property validation and protection. [...]. In Osijek-Baranja County the Josip-Juraj Strossmayer University has incentives to work closely with other

relevant stakeholders and SMEs in the form of different EU/UNDP funded projects.⁴¹

As from the above could be seen, there are numerous institutions of development support in OBC, Croatia and in Baranya County in Hungary. On their results related to the economic development, which supposes innovativeness and competitiveness, i.e. adequate linkage of educational-developmental institutions with the economy, having in mind data on economic development of these regions, cannot be drawn positive evaluation. One of key reasons for that can be use of inadequate model of support to their cooperation.

III. Models of cooperation of scientific institutions with economy in order to transfer knowledge and innovative development of regions

Knowledge as the system of information suitable for use in practice is created through scientific work. Scientific work in its largest part is concentrated in scientific institutions. On the other hand, the use of knowledge for development purposes occurs in the sector of economy, i.e. in institutions that support economic development (public sector including). To develop regions faster and in an innovative way, i.e. with new created knowledge, it is necessary to realize efficient cooperation of scientific institutions and sector of economy. In order that process not to take place chaotically and randomly, it is needed to determine the model of cooperation of scientific institutions and economy sector, which will enable it to occur in an optimal way. This will be achieved by overview of the existing models of cooperation, analyzing of key problems by particular models in practice, and finally reviewing and comparing all the inputs it can be identified the optimal model of cooperation of scientific institutions and sector of economy, which will lead to the innovative development of the region.

⁴¹ Ibid., pp. 52-53.

1. Linear Model

1.1. Definition and characteristics of the linear model

Characteristics of the linear model are that it departs from innovation as linear process, which starts with the scientific discovery, passes through the phase of invention, engineering and production activity, and ends with sale of new product or process (commercialization). This is one-way model, without feed-back, rigid in significant measure and empirically determined that it can relate on on relatively simple products.

‘Linear model assumes that research and creativity lead to innovation and creation of new value and wealth ‘linearly’ and that this is one-way process.’⁴²

Figure 1 Linear model



1.2. Overview of the linear model and changes in environment in the world

First forms of practical application of the model of liner cooperation were established between Stanford administration and universities that have financed set up of companies by the end of 19. century, taking the role of business angels, ensuring simultaneously financing of governmental funds, transforming this way universities and industry into double helix cooperation. The process of transfer of scientific results into economic activities was the motive, and by lapse of time it became visible due to its results. The cooperation of the government and scientists was developed during the war, where the government was the purchaser and main financier of the whole scientific-research work. The following phase was the creation and appearance of clusters. Clusters arise by entrepreneurial activity. These activities intrigued

⁴² M. Levi-Jakšić, *Strateški menadžment tehnologije-inovacije, menadžment i preduzetništvo* [Strategic management of technology-innovation, management and entrepreneurship] (Beograd, FON 2001) p. 496.

researchers and they started to neglect roles of scientific institutions and government.

‘Entrepreneurial spirit has strengthened in USA, and myth was created on spontaneous generation of high-tech economy which has developed through individualistic entrepreneurship, elision of partners and structural support to new created enterprises. The image was created that success came out from entrepreneurial culture, which created healthy climate, and thereby was sent simplified message to other regions, not emphasizing the significance of scientific acceleration of idea. It is deemed that entrepreneurship was crucial for starting a new wave of products, however generative power itself could not arise only from entrepreneurship but in substantial part of incentives coming from academic community, i.e. scientific institutions. Entrepreneurship is a key for generation of companies, which gave their full contribution in ‘Silicon valley’, however the success of these companies would be disabled without participation of science and foundation in knowledge based economy’.⁴³

‘Silicon Valley and Route 128 derived from a confluence of public, private and academic interests that provided a breeding ground for organizational innovation. These regions are not unique developments, since the sources of high-tech conurbation can be identified and recreated through collaborative policy initiatives’.⁴⁴

1.3. Three basic functions of linear model

Observing the model of linear cooperation of economy and scientific-research institutions three basic functions are noticed. Functions of linear model are identification of new fields of research and needed financial assets, actual research and development (R & D), and commercialization.

In traditional process of cooperation i.e., model of linear cooperation, need for new knowledge and innovation can initiate any of the following units: academia, government, or economy. Usually, the unit which

⁴³ H. Etzkowitz, ‘The new visible hand: An Assisted Linear Model of Science and Innovation Policy’, 5 *Science and Public Policy* (2006) pp. 310-320.

⁴⁴ Etzkowitz, loc. cit. n. 43, at p. 320.

identify need, initiates efforts in order to include the other two units in an un-integrative sectoral independent process of cooperation and create commercialized innovation, what leads to ad hoc cooperation.

1.4. The essence of linear model of cooperation⁴⁵

‘Generally, academia and industry tend to invest in collaborative processes in accordance with the expected returns of those processes. Hence, academia and industry attempt to spread the cost of efforts to create new knowledge, technology, or products and services to the remaining sectors. Academic institutions usually possess the human and physical capital required to conduct R&D. In addition, it has been argued that students in academic environments are a good source of new, innovative ideas. Consequently, in traditionally collaborative processes, academic institutions are often selected to undertake the R&D (discovery) processes that lead to the creation or realization of new knowledge, technology, or products and services’.⁴⁶ Knowledge in itself without any practical application cannot in a long run justify its existence and development. Therefore, the work and results of scientific-research institutions need to be evaluated on the market, by its inclusion in economy. The expected revenue from sale motivates the economy to include itself into linear process of cooperation.

Government, on the other hand, which has a responsibility to resolve market failures and to produce social benefits, is generally more willing to bear the cost of these efforts when the latter are expected to produce significant increases in the social good.

The first step in analysis of problems of the linear model, mirrors itself in recognition that publishing of the results of scientific-research activities was not sufficient to ensure use of results in short term and midterm period. This gulf is named ‘death valley’ noticing inabilities of the entrepreneur to overcome impediments and valorize results of scientists on the market, by new technologies. It was necessary to

⁴⁵ B. Godin, *The linear model of Innovation: The Historical Construction of an Analytical Framework, Project on History and Sociology of S&T Statistics* (Monteral, 2005) p. 30, available at http://www.csiic.ca/PDF/Godin_30.pdf (10.06.2013).

⁴⁶ J. Leigh, *Taxonomy of Triple Helix Innovation*, available at www.triplehelixinstitute.org (10.06.2013) p. 2.

establish interdisciplinary groups of scientists, which dispose with knowledge and equipment that should motivate scientists to help scientific institutions and universities in various assignments, from acquisition of assets for research to training of PhD candidates.

It is characteristic for this kind of cooperation that the roles among participants are established on production of knowledge and innovation, while the process of cooperation is conducted without integration and virtually independently.

Considering different interests and perspectives in linear model, it is crystallized view that long run sustainable strength creates by mutual cooperation and not by initiatives that are realized through individual development resources.

2. Triple Helix Model

Identification of gaps on the market and possibilities for the development of new niches of products and services can be replaced through creative adaptation of imported mechanisms. ‘Novelties, like science cities linking academic research groups and enterprises, can be understood by analysing the advantages and disadvantages. The old Visible Hand, the corporation’s integrative role in marshalling people and resources to achieve a business objective through a bureaucratic and hierarchical process (Chandler, 1993),⁴⁷ is superseded by an interactive lateral strategy to create triple helices.’

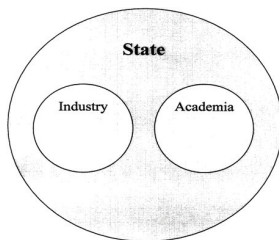
2.1. Configurations of Triple Helix

Triple Helix (hereinafter TH) model has been developed in three different development phases. In TH I, three helixes are defined institutionally. ‘In this configuration the nation state encompasses academia and industry and directs the relations between them. The strong version of this model could be found in the former Soviet Union and in Eastern European countries

⁴⁷ See A. Chandler, *The Visible Hand: the Managerial Revolution in American Business* (Cambridge MA, Harvard University Press 1993). ‘The old Visible Hand, the corporation’s integrative role in marshalling people and resources to achieve a business objective through a bureaucratic and hierarchical process (Chandler, 1993), is superseded by an interactive lateral strategy to create triple helices: the ‘new visible hand’.’

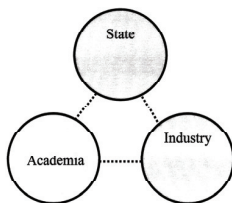
under 'existing socialism'. Weaker versions were formulated in the policies of many Latin American countries and to some extent in European countries such as Norway.⁴⁸

Figure 2 An etatistic model of university-industry-government relations



'A second policy model consists of separate institutional spheres with strong borders dividing them and highly circumscribed relations among the spheres, exemplified in Sweden [...].'⁴⁹

Figure 3 'Laissez-faire' model of university-industry-government relations



'TH III is hybrid organization of university, government and industry. TH III is generating a knowledge infrastructure of overlapping institutional spheres, with each taking the role of the other and with hybrid organizations emerging at the interfaces'.⁵⁰ By this configuration it is formed knowledge society, in which universities and other

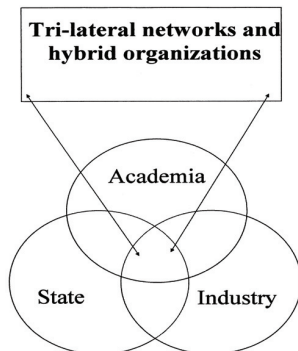
⁴⁸ H. Etzkowitz, L., Leydesdorff, 'The dynamics of innovation: from National Systems and 'Mode 2' to a Triple Helix of university-industry-government relations', 29 *Research Policy* (2000) p. 111, available at <http://www.chss.uqam.ca/Portals/0/docs/sts8020/%2820%29Etk-Leides.Triple.Helix.pdf> (10.06.2013).

⁴⁹ Ibid.

⁵⁰ Ibid.

institution creating knowledge have significant role, leading this model in partnership with economy and government.

Figure 4 TH of university-industry-government relations



Majority of states and regions in 90-ties tried to apply some type of TH III model. Common objective was to establish and realize innovative environment, which consists of spin-off companies created at the universities, by trilateral initiatives for economic development based on knowledge, strategic alliances of small and large enterprises, (doing business in various fields/different level of development of technology), government owned laboratories and academic research groups. These arrangements support governments setting up new ‘rules of the game’ through direct or indirect financial aid.

In model TH I, three helices are defined institutionally. In TH II more attention is paid to communication system and various knowledge systems. TH III is focused on hybrid organization of science, government and economy.

2.2. Triple Helix and the regional development

TH is formulated as a model, focused on common objective – economy based on knowledge and social development. The result is tripartite model, with intermediary mechanism, which integrates two traditional origins of scientific and technology policies: state and economy, with new element – universities. ‘Government intervention is also essential, on the one hand by encouraging the development of entrepreneurial

universities, with the organizational capacity to take leadership roles in their regions, and on the other, by setting the rules of the game, for example by structuring intellectual property, regulatory and tax systems to foster new enterprises. Establishing agencies, like Sweden's VINNOVA, to encourage universities, industry and regional authorities to promote growth projects',⁵¹ which will contribute to recovery and growth of economy, as the significant step in set up of developed innovative region.

2.3. Triple Helix innovation

'TH model is not expected to be stable and it is characterized by interaction of three factors (science – government – economy), that can be expected to develop an emerging overlay of communications, networks, and organizations among the helices'.⁵² This model generates 'puzzle' in form of helices for participants, who need to harmonize and develop the image of the region which is developed through innovations. 'Interactive sub-dynamics continuously recognize and valorise on the market specific operations, like technology innovation, for example internet. Particularly, when knowledge is increasingly utilized as a resource for the production and distribution system, reconstruction may come to prevail as a mode of 'creative destruction'⁵³ Potentials of the science contribute to economic development, which is the source of regional and international competitiveness. Regions that were earlier less science intensive, realized that the science applied to local resources is the base for development of future potentials of economic and social development. New technologies are born from new discipline. They develop through synthesis of practical and theoretical cognition. So, IT originates from elements of 'old' disciplines like electronics, engineering, psychology, philosophy and machinery. The

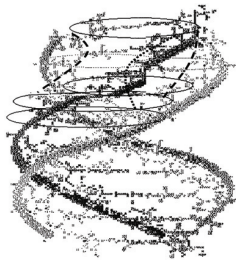
⁵¹ H. Etzkowitz., M. Ranga, A Triple Helix System for Knowledge-based Regional Development: From 'Spheres' to 'Spaces', p. 3, available at http://www.leydesdorff.net/th8/TRIPLE%20HELIX%20-%20%20VIII%20CONFERENCE/PROCEEDINGS/0000_A%20Triple%20Helix%20System%20for%20Knowledgebased%20Regional%20From%20_Spheres_%20to%20_Spaces/A%20Triple%20Helix%20System%20for%20Knowledge-based%20Regional%20From%20_Spheres_%20to%20_Spaces_.pdf (15.04.2013).

⁵² Etzkowitz, Leydesdorff, loc. cit. n. 48, at p. 112, see also at <http://www.chss.uqam.ca/Portals/0/docs/sts8020/%2820%29Etk-Leides.Triple.Helix.pdf> (20.04.2013).

⁵³ Etzkowitz, Leydesdorff, loc. cit. n. 48, at p.113.

university can remain the core institution of the knowledge sector as long as it retains its original educational mission.⁵⁴ Education process is comparative advantage of university, in particular when linked with research and economic development. Students are also potential inventors. They represent dynamic flow of ‘human capital’ in academic research groups unlike rather static industrial laboratories and research institutes.

Figure 5 The overlay of communications and expectations at the network level guides the reconstruction of institutional arrangements



‘The university may be compared to other recently proposed contenders for knowledge leadership, such as the consulting firm. A consulting company draws together widely dispersed personnel for individual projects and then disperses them again after a project, solving a client’s particular problem is completed. Such firms lack the organizational ability to pursue a cumulative research program as a matter of course. The university’s unique comparative advantage is that it combines continuity with change, organizational and research memory with new persons and new ideas, through the passage of student generations. When there is a break in the generations, typically caused by a loss of research funding, one academic research group disappears and can be replaced by another. [...] Companies often draw upon personnel in their research units, as well as external consultants, to do some of the teaching in their corporate universities.’⁵⁵

⁵⁴ Etzkowitz, Leydesdorff, loc. cit. n. 48, at p.117.

⁵⁵ Etzkowitz, Leydesdorff, loc. cit. n. 48, at p. 118.

Still are not established systematic common research and training within unique frame. Universities are transformed of education institutions into combined institutions of science and research, creating base of knowledge for restructuring economic development through the development of entrepreneurial units and programs for entrepreneurs. The policy of government should recognize that academic and scientific inputs need to be supported by the government, through triple helix relations, whereby would be created essential accelerator of continuous economic development. Often the role of science and government becomes visible during period of crisis, which is necessary periodically to update regional technologic capacities and encourage establishment of new relations within TH model cooperation between science – academy – government, which will in interaction create new ways and models for contribution to science - economy – society.

2.4. The essence of Triple Helix Model⁵⁶

Section of the triple helix of relatively independent institutional spheres, generates hybrid organizations, like offices for technology transfer on universities, companies, governmental research laboratories, institutions for support to business and financing, like ‘angel networks’ and entrepreneurial capital new technologies based companies, which are more and more developed throughout the world.

TH helps in solution of problems like:

How to strengthen the role of universities in regional economic and social development?

How can government of all levels encourage citizens to undertake active role in promotion of innovation and vice versa, how citizens can encourage their governments?

How can economic subjects mutually cooperate as well as with universities and governments in order to become innovative?

Which are key elements and challenges in achievements of those objectives?

⁵⁶ P. Tumbas, *Modelovanje mreže za inovativni razvoj* [Model in Network for Innovative Development] (Ekonomski Fakultet, Subotica 2011) p. 36.

Advantages for economy (business): expand long run and risky research activities on experts from these fields; ensure technologies with license agreements; strong financing through adequate approved projects; research laboratories that cooperate represent the resource of new employed.

Advantages for Academy (universities): source of financing with burden division with economy and government; financing enables more efficient research; training of highly qualified staff in industrial research, significant for the placement of businesses; helps in removal of stigma 'ivy covered walls'; research mainly based on strategic needs and with benefits of high significance for the community.

Advantages for government: new industries and new products can lead higher employment; financial benefit from taxes and contributions (other obligations); helps with support to initiatives for strategic research and development; many products have their impact on citizens in rendering better life style.

Advantages for TH: new technologies and products which come from university research; training of professionals of high quality (HQP) in support to research and development; licensing of revenue to universities; opening of new work places; products which lead to higher standard of living; enables to academy and industry competition on global level.

Traps (risks) of triple helix are very successful project can lead to difficulties in technology transfer; there are very few financing opportunities by the government, in particular if the economy is not ready to participate more than 50%, and the economy can lack in resources for commercialization of technology.

The new way of production of knowledge creates infinite transitions, which continuously redefine new research frontiers.

3. Quadruple helix model

In innovative approach and innovative policy the instrument of TH model has its limits. Etzkowitz studied TH on regional level and stated that relatively few regions are exposed to 'self-renewable capability' which creates developed TH model. According to Yawson, this model

lacks fourth essential part, which is the public. Creation of knowledge under present conditions has interdisciplinary character and not linear, it is complex and hybrid. ‘Furthermore, inclusion of the fourth helix becomes critical since scientific knowledge is increasingly evaluated by its social robustness and inclusivity. Public interest is important in this regard. The fourth helix highlights new discoveries and innovations that improve social welfare, e.g. eco-innovation. It helps to create linkages between science, scientists and education strategies’.⁵⁷

3.1. Quadruple Helix model oriented towards innovations

It was observed that by increase of the global competitiveness and cheaper sources of high-tech solutions, companies can no more base their competitive advantages on traditional ‘bearers’, like price and quality. Companies need to be oriented towards alternative sources of competitiveness, and thereby undertake big transformations in innovative processes and economic models, with the objective to create products and services with added values on the market.

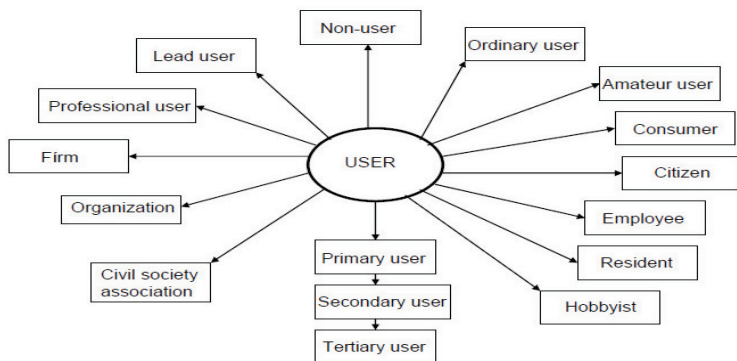
Quadruple Helix model (hereinafter QH) of innovative activities renders wider range of innovations in relation to TH model. TH model is focused on the production of high-tech innovation based on brand new technology and research knowledge. TH is applicable on science based high-tech companies, and less on other forms of the economy. QH model is focused on the production of wider range of innovation and applies existing technologies, research knowledge and observes knowledge and needs of public – users. This model enables to the sector of small and medium enterprises (hereinafter SME) opening of new possibilities for inclusion into innovative activities, even innovations based on scientific base. QH model can help SME to shorten the period of incubation and minimizes risks by development of new products and services. Development abilities of SME sector much depend on possibility of their inclusion into innovative processes.

⁵⁷ R. Arnkil, et al., *Exploring Quadruple Helix – Outlining user-oriented innovation models* (Työraportteja, VINNOVA Agency 2010) p. 14.

3.2. Definition of users (consumer) – public, fourth helix – QH

Depending on the context, users can be ordinary or amateur users, professional users, consumers, employees, residents, citizens, hobbyists, businesses, organizations, or civil society associations (see figure 6).⁵⁸

Figure 6 Various groups of users



Eason distinguishes three groups of users: 1) primary users, those who often use the established system; 2) secondary users: those who use the system via mediators; 3) tertiary users, those on whom the establishment of the system has impact or who will impact the sale. We can also distinguish non-users, who actively decide to limit, fully or partly to use certain products or services in their homes and private life.

QH model is deemed to be the model of future, which will be fully implemented in high developed states of northern Europe, which beside the developed economy have highly developed living standard, simultaneously respecting basic human rights and liberties, what contributes to creation of highly developed, responsible and sustainable system.

⁵⁸ Arnkil, et al., op. cit. n. 57, at p. 17.

4. Networking

Modern business more and more moves the borders of business processes outside the organization and seeks the space in networks. Observed from the economic aspect, the assignment of the network is to organize economic activities, in such a way to facilitate to network members to surpass problems that appear on the market, which are not possible to be resolved through other forms of cooperation among organizations.

The realization of innovative network, which will fulfill expectations and prove its potential in innovative development, must previously satisfy few key conditions:

Consistency of values and focus of network. It is very important the innovative network to possess common objective and purpose, and that its values, on which it is based, are well recognized and accepted by all members in its structure.

Clear structure of the network. Effective innovative networks are well organized networks, with clear and precise operative procedures and rules, i.e. mechanisms for ensurance of the maximal participation of all members in its structure, and they enable inclusion of potential members.

Knowledge as the purpose of network. Basic purpose of innovative network is to create, use and distribute knowledge in support to innovative process. Such knowledge should be based on proofs and be the subject of robust procedures of quality control.

Stimulation of membership in networks. Members of innovative network are needed to feel that they belong to network and that their participation in network is useful. The award for membership in network is usually by encouragement of members in their professional development and by encouraging the process of their permanent learning. Effective innovative networks intensively invest into development of human resources.

Dispersion of management and training in network. Highly effective innovative networks gather skillful persons, who very successfully cooperate and work together.

Adequate network resources. Innovative networks should be adequately equipped, in particular in the sense of time, finance, human capital, and to set up flexibility of deployment of resources.⁵⁹

Networks have key role in support to innovation and development; hence they represent the structure for support to innovative organizations. Networks do that not only by dissemination of best practices, but also surpassing isolation of organization and traditional hierarchic systematic structure. Networks not only facilitate innovation: they can also be innovation themselves by offering opportunities for new way of working.

‘Networks offer potential for recomposition of mezo level promoting various forms of cooperation, linkage and multifunctional partnership, which is often named ‘crossover structure’. In that sense, network enables actors to realize connections and synergize activities around common priorities. The emphasis of the system is not in control, but rather in utilization of interactive capabilities of system of strengths. Networks have the role in all phases of changes. During the phase of initialization of the network it is encouraged: common devotedness and property; leadership on various levels; external facilitations; clear focus on objectives and purposes. During the phase of implementation networks encourage: understanding of learning and management with changes; much more flexible and creative use of space, time, structure of communications and people; social and technical support; early success. During the phase of institutionalization networks encourage: spreaded common way of work; planning for ‘scaling up’; redefining and adaptation of idea using records, internally, feedback of useful data and externally, useful evaluation.’⁶⁰

IV. Conclusion

Future of entrepreneurship in global economy depends on innovations and capability to increase productivity through innovative processes. Innovations depend on creativity, application and diffusion of new knowledge. Science and advanced economy can compete on global

⁵⁹ Tumbas, op. cit. n. 56, at p. 34.

⁶⁰ Ibid., p. 38.

market by creation of new products and technologies, creation and diffusion of knowledge that represent the basis of further development and the most important factor of enhancement of competitiveness.

The significant part of knowledge is created within academia. New knowledge and idea generated as 'work of art' are economically worthless. In the form of research achievement they can have the result in scientific reputation; however for economic system they are irrelevant. In global world and economy, state financing of the science is chronically insufficient, so universities cannot ignore this aspect and stay separated from the sector of economy. Therefore are needed fundamental changes in attitudes, as well as new schemes of cooperation, which would be attractive for entrepreneurship. The production of new knowledge must be integrated into key economic resources. This requires structural linkage of universities with economic system of the society. In European Union a lot of efforts are invested to implement this in practice. In this work it is proposed the establishment of innovative network for cooperation of scientific institutions with the sector of economy, with their coordinated interaction, without hierarchy.

The conclusion is that the economies of OBC in Croatia and Baranya County in Hungary despite a number of institutions supporting development do not record progress. One of reasons is that it is not used optimal model of linkage of the government, academia and economy. The conclusion is also that there is no adequate communication between the sector of economy and academic community, in particular there is no permanent project based cooperation supported by public sector. These communities are closed in themselves and nonconfidential to each other.

Having in mind weaknesses of the linear model, which starts from creation of knowledge in academic circles, independently of interaction with the economy or development support institutions, and therefore is insufficiently integrated with the economy and public sectors, it cannot be recommended as the optimal. Systematic development and innovativeness cannot be based on sporadic initiatives from scientific circles, it rather needs to be developed together with those who define in sector of economy its needs and decision makers in public sector.

TH model represents progress, as it integrates scientific circles, government and economy in their common search for innovation. However, it is rigid, as in all three of its variants sets up hierarchy, whereby etatistic model in contemporary environment is outdated, 'laissez faire' model of hybrid organization is instable, while model of the relationship university-economy-government is in search for 'the rules of the game' still to be established to know which is the sequence of action and interaction. Problems with it emerge when observed communication matrix and expectations within it. It corresponds only with high-tech companies, so its applicability in our regions is limited.

QH model includes additional spiral - public through non-governmental sector and all organizations which from the point of view of the society encourage innovativeness and development. This model is focused on a wider range of innovation and application of current technologies, i.e. knowledge in general, reviewing needs of public, whereby is enabled spreading of innovation in SME sector, i.e. outside high-tech companies. However, by introduction of the additional spiral, it further complicates the control of its functioning in practice and requires investment of significant resources and high standard of living, which will give to participants from non-governmental sector time and resources for active and quality participation in the process. And exactly therefore it cannot be recommended as optimal for our two analyzed cross-border regions.

Networking model, as the combination of TH and QH models carries into it elasticity and stability in interaction, and can be evaluated as optimal for our regions. Therefore, in conclusive considerations it needs to be emphasized in particular the importance of regional innovative networks which link together public sector (government, local and regional self-governments), academic community and the economy, because they promote the significance of innovation on local/regional/national levels; enhance abilities for international cooperation between innovative organizations; promote cooperation between innovative organizations on local/regional/national level; initiate common projects; construct institutional basis for the development of innovation; sets up communication channels; organize courses, seminars, workshops and initiate common work in order to resolve problems; form and maintain

data base on innovative organization (structure, contacts, experts, courses, projects, etc.).

It is concluded that optimal model is linkage of public sector, science and economy via innovative network of formal character, which would be realized through the form of consortium agreement. That agreement should define objectives and assignments of consortium members. It is essential for the efficient network for innovative development to have a common vision, to be composed of top experts of various profiles, who are trained for team work and who know basics of cooperation within TH model.

As related to innovative development, the *acquis* of the EU does not consist of its legal documents only, determining frames, strategies, principles, standards and measures. It comprises concrete experience in linking to support innovative development, like networks based on TH model. Innovative development in analyzed regions can be supported in a best way through successful models of establishment of networks of scientific-research institutions and representatives of the sector of economy, with adequate support of public sector. To achieve this, we need to adopt legal *acquis*, knowledge and experience of EU members states for the formation of networks for innovative development, supporting efficient cooperation academia-economy for faster and more efficient development of regions.

The role of human capital in regional development

I. Introduction

National economies place (regional) economic growth and development in the centre of their interests and policies, and regions are viewed through the prism of units facing the same common goal. Human capital is being increasingly recognised by modern developed economies as an important driver for (regional) economic growth and development. There are many scientists whose focus is directed towards the aforementioned issues.¹ The role of human capital in economic development is significant, and one way of assessing the level of development of human capital is based upon the level of educational attainment of the population in question. According to Guisan & Neira (2006)², development can also be achieved for less developed countries by virtue of human capital in international cooperation. Creating a high level of human capital leads to an accelerated increase in educated population and the growth potential of a specific population.

Developed economies base their development on policies aimed at knowledge – *knowledge-based economy* (OECD, 2006), and by the development of *knowledge-based capital* investments are shifted from

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¹ See more: J. Benhabib and M. M. Spiegel, 'The role of human capital in economic development: evidence from aggregate cross-country data', *34 Journal of Monetary Economics*, No. 2 (1994) pp. 143-173, available at <http://www.sciencedirect.com/science/article/pii/0304393294900477> (15.02.2013); P. Cooke and L. Leydesdorff, 'Regional development in the knowledge-based economy: The construction of advantage', *The Journal of Technology Transfer* (2006), available at <http://link.springer.com/article/10.1007%2Fs10961-005-5009-3?LI=true#page-1> (15.02.2013); M. - C. Guisan and I. Neira, 'Direct and Indirect Effects of Human Capital on World Development, 1960-2004', *6 Applied Econometrics and International Development*, No. 1 (2006) pp. 17-34, Available at SSRN <http://ssrn.com/abstract=1240318> (15.02.2013).

² M. - C. Guisan and I. Neira, 'Direct and Indirect Effects of Human Capital on World Development, 1960-2004', *6 Applied Econometrics and International Development*, No. 1 (2006) pp. 17-34, Available at SSRN <http://ssrn.com/abstract=1240318> (15.02.2013).

physical (e.g. plants, equipment and buildings) to human capital. The investment concept in which the central place is given to human capital is at odds with the policies in which physical capital and investments are the main carriers of long-term economic growth (OECD, 2012).³

In addition to education, human capital is built on many other factors which significantly influence regional development achievement (geographic, institutional, cultural). De la Fuente & Ciccone (2002)⁴ stress the importance of the return rate on earlier schooling resources invested in education, where the personal (private) rate of return and the social rate of return on investment are to be distinguished. The private rate of return refers to resources invested by those involved in education (opportunity cost, as well as direct costs) and private benefits of education, while the social rate of return refers to the cost of public education. Although the social cost relates to the return on total investment in education (private and public), it is almost always associated exclusively with private benefits of education, without taking into account generated externalities. Ideally, the social rate of return to education would combine all resources invested in education with all benefits of education.

Specific data concerning individual and social benefits of the return of participation in tertiary education have been recorded. More than 25 OECD countries recorded a long-term economic benefit for an individual if he/she participated in tertiary education, which is over \$ 175,000 and over \$ 110,000 for men and women, respectively (Education Indicators in Focus, OECD, 2012).⁵ The average private return rate for men and women from participating in tertiary education in Europe is more than 12%, and the country with the highest return rate is the United Kingdom (17.3%), whereas the return rate for women

³ OECD (2012), <http://www.oecd.org/sti/inno/newsourcesofgrowthknowledge-basedcapital.htm>, (15.11.2013).

⁴ A. De la Fuente and A. Ciccone 'Human capital in a global and knowledge-based economy', Final Report (2002), available at <http://www.eaea.org/doc/resources/Capital.pdf> (15.11.2013).

⁵ Education Indicators in Focus, OECD, (2012). <http://www.oecd.org/edu/skills-beyond-school/Education%20Indicators%20in%20Focus%206%20June%202012.pdf> (15.11.2013).

is slightly lower (15.3%). Social return rates are somewhat lower than the private rates of return from participation in education.⁶

The prominent impact of human capital on regional development is also confirmed by an investigation of the impact of various factors on regional development. According to Gennaioli et al. (2011)⁷, the impact of human capital is represented by data on education. There are data referring to the education of workers, entrepreneurs/managers and externalities generated during the process of education. The authors introduce the concept of regional education as a critical determinant in distinguishing the areas of regional development through presentation of data from more than 1,500 regions of the world on the determinants of regional income and labour productivity. With respect to data referring to several thousands of businesses located in specific regions, regional education influences regional development through education of professionals, education of entrepreneurs and regional externalities, which is to be credited primarily to the level of education evident in the quality of human capital in the region, and not the quantitative proportion of the population with a certain level of education.

The level of development of the national economy and the level of human capital of a specific economy on the one hand, and the level of regional development and human capital of a specific region on the other hand, do not necessarily have to match during their development.⁸ Thus, the category of regional development does not necessarily yield results identical to those relating to the achieved level of development of the national economy. Neither does the quantity of the population itself guarantee high levels and quality of human capital. Accordingly, the size of a given economy is certainly not the key determinant in determining the level of human capital development of the economy.

⁶ A. De la Fuente and A. Ciccone 'Human capital in a global and knowledge-based economy', Final Report (2002), available at <http://www.eaea.org/doc/resources/Capital.pdf> (15.11.2013); according to according to OECD, 2001b

⁷ N. Gennaioli, R. La Porta, F. Lopez-de-Silanes, A. Shleifer, 'Human Capital and Regional Development', NBER Working Paper No. 17158 (2011), Available at <http://www.nber.org/papers/w17158> (10.01.2013).

⁸ A. Faggian and P. McCann, 'Human capital and regional development', in R. Capello and P. Nijkamp, eds., *Handbook of Regional Growth and Development Theories* (Edward Elgar Publishing Limited, 2009).

On the contrary, even small open economies can use their human capital as the primary means of achieving long-term national and regional economic growth and development.

The aim of the paper is to analyse and review theoretical literature on the relationship between human capital and (regional) economic growth and development. The quality level of human capital is shown by the achieved level of education, while the achieved level of economic (regional) development is shown by the GDP growth rate. In addition to the level of education, this paper will also present other factors that influence human capital formation in a given economy. It is also the goal of the paper to answer the question as to the current impact of investments in education at national and regional level and the extent to which they will provide benefits and advantages to specific national economies and regions.

The paper consists of five chapters. The introductory part of the paper primarily provides an extensive review of literature on the impacts of human capital on regional development and definitions of human capital and regional development. At the same time, the theoretical importance of the paper and knowledge gained on the above issues are also highlighted. The central part of the paper is aimed at showing the dynamics and trends in regional development and human capital in the world and selected EU Member States. The situation of human capital and regional development in Croatia is shown by using certain secondary data in empirical research. The final chapter draws some basic conclusions relating to human capital and regional development.

II. Human capital and regional development: definition and importance

As an administrative unit, region is defined as an *administrative division of the economy*. But, a region can represent any other *spatially large, undefined space or area or unit established for certain geographical, functional, social or cultural reasons* (Cooke & Leydesdorff, 2006).⁹

⁹ P. Cooke and L. Leydesdorff, 'Regional development in the knowledge-based economy: The construction of advantage', *The Journal of Technology Transfer* (2006), available at <http://link.springer.com/article/10.1007%2Fs10961-005-5009-3?LI=true#page-1> (15.02.2013).

This definition is one of many that define the term region. According to Cooke & Leydesdorff (2006)¹⁰, a specific example of regional division occurs when there is no administrative division into regions in an economy, but segments of regional development are also discussed within the framework of different divisions of the economy (the nation state or local government). According to Pike et al. (2006)¹¹, besides quantitative indicators, understanding regional development is also, directed towards qualitative indicators. Hence, instead of the exclusive use of numerical indicators, the quality of life is also taken into account as a non-numeric indicator.

Development of national economies and regions is largely determined by the quality of human capital. Human capital is often mixed up with a component of human resources. Human resources include both quantitative and qualitative dimensions. The quantitative dimension refers to demographic resources and their potential is largely determined by: i) negative demographic trends in previous years, which can be seen through workforce reduction, ii) migrations and population ageing, which have a direct negative impact on regional competitiveness, iii) population structure by age and level of education, which affects regional dynamics to promote the entrepreneurial spirit, iv) human capital expressed through human resources, preferences and the ability to manage the existing customisable technological capacities and create new ones, while the qualitative dimension refers exclusively to human capital.¹²

An increased interest in and focus on human resources development also include consideration of the term *knowledge-based economy*, because economic development increases the need to create knowledge and convert it for commercial purposes. The non-competitive nature of knowledge is a ground for distinguishing it from natural resources.

¹⁰ Ibid.

¹¹ A. Pike, A. Rodriguez-Pose, J. Tomaney, *Local and Regional Development*, (Routledge, Oxon/New York, 2006).

¹² D. G. Cristina, D. Mihai and I. Bogdan, 'Regional Competitiveness Development Based on Human Resources', *2 Annals of Faculty of Economics*, No. 1 (2009) pp. 645-653, available at <http://ideas.repec.org/a/ora/journl/v2y2009i1p645-653.html> (15.04.2013).

Lack of competitiveness of knowledge is manifested through the possibility of its use by a company or a person so that it would in no way diminish the possibility of its use by someone else. Also, once created, knowledge can never be exhausted as other resources, but it rather contributes to the current level of knowledge. Economic growth achieved based upon the principles of knowledge initiates economic effects visible in the applicability of new knowledge and new ideas that can further be incorporated into improved products or production processes. In case the primary activity is shifted towards creating knowledge, the economy will be increasingly benefiting from the continuous increase in the existing level of knowledge. It can be said that the key to economic growth lies in the continuous development of high-order human capital, and progress in Western Europe is based on knowledge, which is accompanied by constant progress in the existing research projects. Due to rapid technological development, what should be promoted is the development of highly skilled human capital in order to avoid outdated resources. The development of highly skilled human capital refers not only to education and training that will enhance individual abilities but it also includes the development of *knowledge workers* in a broad range of economic activities related to various organisational functions, research and development, manufacture, marketing, sales and other functions, as well as their external partners, suppliers, customers, universities, research institutes, government organisations and others.¹³ According to Mathur (1999)¹⁴, human capital should be taken into account along with other elements (entrepreneurship training in the workplace, capital accumulation, investment in research and development, innovation, technology and technological cycles) when creating long-term economic growth. In terms of regional focus, economic policy should therefore be directed towards regional economic policies and accord with economic

¹³ H. Izushi and R. Huggins, 'Empirical analysis of human capital development and economic growth in European regions', in P. Descy and M. Tessaring, eds., *'Impact of education and training'*, Third report on vocational research in Europe: background report (Luxembourg: Office for Official Publications of the European Communities, 2004).

¹⁴ V. K. Mathur, 'Human Capital-Based Strategy for Regional Economic Development', *13 Economic Development Quarterly*, (1999) pp. 203-216, available at <http://edq.sagepub.com/content/13/3/203.abstract> (15.11.2013).

principles. However, instances of how economic policy is tailored to the principles of political considerations are frequently recorded.

III. Human capital and regional development: review of literature and EU trends

Globalisation requirements of modern economies involve significant differences in national economies as well as between some regions of national economies, a potential cause of which can be found in both unevenly developed skills and human capital. There is extensive economic literature focused on the issues and research of the mutual influence of human capital and regional development. Studying the concept of regional development and human capital is reflected in the theoretical and applicative terms at the level of economic policy makers. On the other hand, human capital development exploits the development potential of society.

The rule that human capital development ensures exploitation of the development potential of society is applicable throughout Europe and the world. The differences in development within nations and regions that belong to peripheral areas of the EU are particularly stressed, and these areas also record large deficits in human capital. Thus, although the importance of human capital in achieving economic development is unquestionable, it is difficult to perform specific measurements and determine a degree of impact.¹⁵ According to Stolarick et al. (2012)¹⁶ the location of human capital (in/around the city centre) is an important determinant of the impact on the level of regional economic development, so that different effects are created due to the location of human capital in the suburbs or the city centres. The survey confirmed that human capital of suburban areas has a greater effect on regional economic performance in small and medium-sized cities, while human capital in metropolitan areas has a relatively greater effect on economic

¹⁵ A. Rodríguez-Pose and M. Vilalta-Bufi, 'Education, migration, and job satisfaction: The regional returns of human capital in the EU', Bruges European Economic Research Papers (2004).

¹⁶ K. Stolarick, C. Mellander and R. Florida, 'Human Capital in Cities and Suburbs', CESIS Electronic Working Paper Series, Paper No. 264 (2012), available at <http://www.kth.se/dokument/itm/cesis/CESISWP264.pdf> (15.03.2013).

performance in regions with over a million of people. According to Ramos et al. (2012)¹⁷, the economic performance of European regions is associated with high rates of overeducated people. Measures of educational mismatch are associated with regional economic performance much more than other traditional measures of human capital.

One of the ways in which it is possible to measure the level of human capital development is through participation in tertiary education and qualifications acquired through tertiary education. According to Izushi & Huggins (2004)¹⁸, individual investments into human capital usually follow a pre-determined course of action, and empirical analysis shows that European regions with higher levels of investment in tertiary education have a higher concentration of ICT sectors and R&D departments. Bearing this in mind, it generally holds that a high degree of individual investments aimed at tertiary education is found in high-tech industries and high-order corporate functions, e.g. R&D. Thus, the level of the existing stock of human and physical capital is not a determinant of economic growth, but the rate of economic growth is determined by human and physical capital accumulation.

Given that the main carriers of tertiary education are universities, it is necessary to investigate the impact of universities on the increase in the level of human capital in certain regions. According to Abel & Deitz (2011)¹⁹, there is a slight positive correlation between the production in metropolitan areas and the level of human capital, whereas one must not ignore the role of migration as a way of the geographical distribution of human capital. In addition, the academic role of research and development activities raises the level of the existing local human capital, taking into account that the effects of such activities may

¹⁷ R. Ramos, J. Surinach and M. Artis, 'Regional Economic Growth and Human Capital: the Role of Overeducation', 46 *Regional Studies*, (2012) pp. 1389-1400.

¹⁸ H. Izushi and R. Huggins, 'Empirical analysis of human capital development and economic growth in European regions', in P. Descy and M. Tessaring, eds., *'Impact of education and training'*, Third report on vocational research in Europe: background report (Luxembourg: Office for Official Publications of the European Communities, 2004).

¹⁹ J. R. Abel and R. Deitz, 'Do Colleges and Universities Increase Their Region's Human Capital?', Federal Reserve Bank of New York, Staff Report, (2011).

increase the demand for human capital. An increase in the level of human capital can be achieved through policies of expansion of local universities, which would lead to harmonisation of supply and demand in the local labour market and retain and attract human capital.

It is clear that most of the economic literature does not offer a unified framework to define human capital. The same problems are associated with the definitions of regions and regional development and the links between human capital and regional development. There are various criteria with regard to regions. A review of the research conducted by Rodríguez-Pose & Vilalta-Bufi (2004)²⁰ offers four basic distinctive regional groups (in the time period from 1994 to 2000, taking into account the national average GDP per capita in 1994 and growth between 1994 and 2000). Regional groups comprise: i) *catching-up regions*, which refer to regions with low initial levels of GDP/capita compared to the national average, but with a higher economic performance compared with the average; ii) *winning regions*, in which the GDP/capita and the economic growth rate are higher than the national average; iii) *losing regions*, in which the initial GDP/capita and the economic growth rate are below the national average, and iv) *falling behind regions*, which include regions in which the initial level of GDP/capita is above the national average, but economic performance is below average. The first two groups are classified as dynamic categories, while the categories of losing regions and falling behind regions are defined as less dynamic. However, from a descriptive perspective, the relationship between human capital and economic growth is much more clearly defined for winning and losing regions than for the remaining two groups. Regions like Brussels, South East England, Madrid, Athens, Lisbon, as well as regions that include the areas of important urban agglomerations, such as Milan, Munich, or the Ruhr, are listed among the winning regions, whereas catching-up regions include the Portuguese archipelago and several regions of western France. Furthermore, losing regions are the largest group and comprise a series of regions of industrial decline, such as the North, the North West, Yorkshire and Humberside in

²⁰ A. Rodríguez-Pose and M. Vilalta-Bufi, 'Education, migration, and job satisfaction: The regional returns of human capital in the EU', Bruges European Economic Research Papers (2004).

England, Wallonia in Belgium, and many peripheral regions such as Calabria, Campania and Sicily in Italy, Southern, Central and Northwest Spain, and Northern and Central Portugal. A limited number of regions belong to the category of falling behind regions. Winning regions have a large proportion of highly educated population, a higher percentage of the population participates in full time education, and through migration they attract a highly skilled workforce. Losing regions are characterised by a weak stock of human capital, evidence of mismatch between educational supply and labour demand, and lower than average migration. Catching-up regions usually attract skilled workers from other areas and have a fairly high percentage of employees who perform work related to their education, but there is still a lack of human capital and a high percentage of unemployed young persons. Furthermore, regardless of the existence of an average level of educated people in falling behind regions, there is a lack of highly specialised jobs and a relative lack of people in full time education. Lassen & Lilleør (2008)²¹ consider ensuring economic growth through the perspective of investment in human capital created through education of the individual. All developed countries provide primary school education free of charge or at very low costs. On the other hand, the financial burden of education in less developed countries is usually placed on the parents of children who participate in the education process. Investment in education does not guarantee any return on investment, and in relation to other forms of investment it is much riskier.

In addition to the gap that occurs in the levels of actual human capital, a burning issue of modern economies arises also from differences in the development of individual regions. Examples of recent EU accession countries, i.e. countries of Central and Eastern Europe, support the hypothesis about the differences and the creation of an additional gap between the regions, and the average economic growth rates of the EU recorded a decline after the latest rounds of EU enlargement. There are many factors that influence changes in the individual regions.

²¹ D. D. Lassen and H. B. Lilleør, 'Informal Institutions and Intergenerational Contracts: Evidence from Schooling and Remittances in Rural Tanzania', Centre for Applied Microeconometrics, University of Copenhagen (2008), available at <http://www.econ.ku.dk/cam/Files/workingpapers/2008/2008-03.pdf> (15.03.2013).

The ratio of centralised powers in a particular economy (management from one or more centres) can also be a determinant that will affect the regional gap. Slovenia and Poland exemplify decentralised environments, while the Czech Republic and Hungary are examples for intensified action of the main centre with exceptionally high activity and impact of the capital. The process of growing regional disparities is characterized by very pronounced differences in urban and rural areas, a division into the centre and the periphery, into a western part that is more developed and an eastern part that is less developed. Furthermore, development difficulties arise in areas designated specifically as traditional industrial areas.²² Italy is an example that also confirms the hypothesis that significant differences may occur in a particular economy. Gagliardi & Percoco (2011)²³ consider human capital a factor that has a positive impact on the level of productivity and the growth rate of productivity. Although the study encompassed a much earlier period (19th century), it is clear that this period is also characterised by a significant impact of the segment of traditional education and human capital development on regional development. Thus, there is a significant correlation between the differences in education and various development trends in the north and the south of Italy. In addition to monitoring human capital in terms of the level of classical education achieved, investment in education and the creation of high quality human capital can also be reflected in the competitiveness of certain regions. Cristina et al. (2009)²⁴ present a case study conducted in eight Romanian regions on the interaction of human capital and regional development, where the educational level of the workforce is considered the key element of increasing competitiveness of Romanian regions, and the achieved value was measured by gross value added.

²² J. Puljiz, Čimbenici regionalnog razvoja i regionalnih nejednakosti u Republici Hrvatskoj [Factors of regional development and regional disparities in Croatia], PhD dissertation (Split, 2009).

²³ L. Gagliardi and M. Percoco, 'Regional disparities in Italy over the long run: The role of human capital and trade policy', *Région et Développement* (2011) pp. 81-105.

²⁴ D. G. Cristina, D. Mihai and I. Bogdan, 'Regional Competitiveness Development Based on Human Resources', *2 Annals of Faculty of Economics* (2009) pp. 645-653, available at <http://ideas.repec.org/a/ora/journal/v2y2009i1p645-653.html> (15.04.2013).

Therefore, this study included both demographic factors and the employment rate. Demographic dependency has a negative impact on labour productivity increase, and the high educational level of the population and investments have a positive effect on it.

Quantitative measurement of the level of education of a certain economy is often recorded by the Human Development Index (hereinafter referred to as: HDI), where data referring to the achieved level of human capital range between 0.001 and 1. In addition to educational attainment, measurements include life expectancy and income, and countries are ranked based on points, where the countries with a human development index greater than 0.8 are considered to be countries in the category of very high human development. In addition to the aforementioned group, according to the HDI classification, countries may belong to a category of high, medium or low human development. According to the 2010 Human Development Report²⁵, the category of a very high HDI includes some Eastern European countries which became EU Member States, such as the Czech Republic, Slovenia, Slovakia, Malta, Estonia, and Hungary, while most of the remaining Eastern European countries are within the category of high human development. In addition to the HDI, there are also other aspects used for assessing the human capital level (adult literacy rate, education index, expected years of schooling, GDP in 2005 PPP, inequality-adjusted education index, percentage loss due to inequality in education, mean years of schooling of adults expressed in years, public expenditure on education as a percentage), and it is possible to link the data collected on the level of human capital development to the achieved level of regional development in a particular economy (Table 1).

²⁵ Human Development Report, 2010, <http://hdr.undp.org/en/media/PR9-HDR10-RegECIS-Erev5-sm.pdf> (15.07.2012).

The role of human capital in regional development

Table 1 Selected indicators of the HDI in selected countries in 2000 and 2011

		Austria		Bulgaria		Croatia		EU 27
Adult literacy rate, both sexes (% aged 15 and above)	2000		99.8
	2011
Education index	2000	0.785		0.742		0.704		0.803
	2011	0.858		0.802		0.778		0.869
Expected years of schooling (of children) (years)	2000	15.3		13.0		12.2		15.3
	2011	15.3	¹	13.7	¹	13.9	¹	16.0
GDP per capita in PPP terms (constant 2005 international \$)	2000	31,697		7,213		12,368		..
	2011
Human Development Index (HDI) value	2000	0.839		0.715		0.748		0.830
	2011	0.885		0.771		0.796		0.871
Inequality-adjusted education index	2000
	2011	0.838		0.754		0.697		0.821
Loss due to inequality in education (%)	2000
	2011	2.4		5.9		10.4		5.6
Mean years of schooling (of adults) (years)	2000	9.1		9.5		9.2		9.5
	2011	10.8	^{2 1}	10.6	^{2 1}	9.8	^{2 1}	10.6
Population, total both sexes (thousands)	2000	8,004.700		8,006.200		4,505.500		481,464.800
	2011	8,413.400		7,446.100		4,395.600		501,915.300
Public expenditure on education (% of GDP) (%)	2000	5.8		..		4.2		5.0
	2011
		Germany		Hungary		Slovenia		EU-27
Adult literacy rate, both sexes (% aged 15 and above)	2000		99.8
	2011
Education index	2000	0.860		0.783		0.816		0.803
	2011	0.928		0.933		0.866		0.869
Expected years of schooling (of children) (years)	2000	15.9		14.7		14.2		15.3
	2011	15.9	¹	16.9	¹	15.3	¹	16.0
GDP per capita in PPP terms (constant 2005 international \$)	2000	30,543		19,722		13,583		..
	2011

Human Development Index (HDI) value	2000	0.864		0.805		0.775		0.830
	2011	0.905		0.884		0.816		0.871
Inequality-adjusted education index	2000
	2011	0.911		0.904		0.831		0.821
Loss due to inequality in education (%)	2000
	2011	1.8		3.1		4.0		5.6
Mean years of schooling (of adults) (years)	2000	10.5		9.4		10.1		9.5
	2011	12.2	²¹	11.6	²¹	11.1	²¹	10.6
Population, total both sexes (thousands)	2000	82,349,000		1,985,400		10,210,500		481,464,800
	2011	82,162,500		2,035,000		9,966,100		501,915,300
Public expenditure on education (% of GDP) (%)	2000		4.8		5.0
	2011

Source: International Human Development Indicators, <http://hdrstats.undp.org/en/tables/> (7.03.2013).

⁽¹⁾ Data refer to 2011 or the most recent year available.

⁽²⁾ Updated by HDRO based on UNESCO (2011) data.

There are several criteria based on which the specific countries (Austria, Bulgaria, Croatia, Hungary, Germany, and Slovenia) in Table 1 were selected. In addition to these countries, the table also includes data on the average of EU-27 Member States. Austria and Germany are classified into the category of developed countries and long-time EU members, and according to the data shown in the table, values presented for Austria and Germany support the category of developed countries. In addition, the table provides information on surrounding countries (Bulgaria, Hungary, and Slovenia) that are also new EU members, thus, indicators of other countries in the table can provide an insight into the *de facto* situation in Croatia regarding values attained in the domain of human capital.

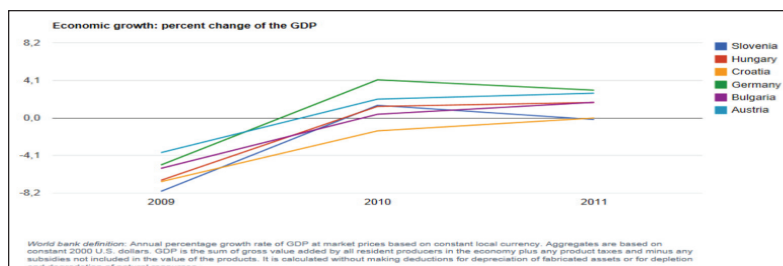
Table 1 displays data on the factors that determine the level of human capital development. It presents the adult literacy rate for both sexes for persons older than 15 years, which was 99.8% in the EU in 2000. Unfortunately, no individual rates for the selected countries were recorded, but there is an extremely high EU average rate for the year 2000. Furthermore, the education index for Germany and Hungary was significantly higher than the EU-27 average of 2011, while in

other selected countries it was below the EU-27 average. Expected years of schooling of children remained unchanged for the developed EU countries (Germany, Austria), while the EU-27 average increased slightly, just like the expected years of schooling of children in the new EU Member States (Bulgaria, Hungary, Slovenia). An increasing trend in the expected years of schooling was also noticed in Croatia, growing from 12.2 in 2000 to 13.9 in 2011.

The HDI value was also recorded. In all selected countries, higher rates of the human development index were recorded in 2011 in comparison with 2000. The maximum value of HDI in the year 2011 was recorded in Germany (0.905), while in the EU-27 countries it was 0.871. Another important indicator of the level of human capital is the inequality-adjusted education index. Inequality in education is estimated by inequality in the years of schooling of the adult population. Estimates of inequality in education are based on the distribution of years of schooling for a given population, formulated on the basis of the national household survey. Compared to selected countries, the inequality-adjusted education index is the highest in Germany (0.911) and the lowest in Croatia (0.697), while the EU-27 index is (0.821).

Inequality in education led to losses amounting to 5.6% in the EU-27 in 2011, and the biggest loss with respect to selected countries was suffered in Croatia (10.4%), whose rate is much higher than the average rate. The lowest rate among the selected countries was recorded in Germany (1.8), which illustrates the extent of the loss recorded by the Croatian economy compared to the German economy. Another very significant factor in determining the level of human capital is public expenditure on education expressed as a percentage of the GDP. In 2000, 5% of the EU-27 public expenditure was allocated to education, whereas in the same period a somewhat smaller percentage of public expenditure was allocated to education in Croatia (4.2%) and Slovenia (4.8%), while with a total of 5.8% Austria spent more on education than the EU-27 average. Based upon data on human capital (Table 1), Graph 1 shows economic growth expressed in the percent change in GDP from 2009 to 2011.

Graph 1 Economic growth, percent change of the GDP from 2009 to 2011 in selected countries



Source: The global economy, <http://www.theglobaleconomy.com/compare-countries/#> (11.03.2013).

Economic growth is expressed as a quantitative value of the economic situation in the selected country. In the initial year of observation, i.e. 2009, all selected countries recorded an upward trend, with different percentages of GDP. Since 2010 the trend of the percent change in the GDP value has recorded significantly lower amplitudes compared to the changes that occurred from 2009 to 2010. Among the selected countries, a negative percentage change in the GDP value was recorded in 2011 only in Slovenia, while in other countries higher or lower rates of real economic growth were recorded. During the study period, Germany recorded the highest economic growth rates (Graph 1). With respect to earlier data on the human capital assessment for selected countries, it was also Germany that recorded the highest HDI value (Table 1). Although only by examining secondary data it is not possible to claim that there is a relationship between economic growth and human capital, it is also impossible to completely exclude and reject the hypothesis of a connection between these two indicators.

IV. Human capital and regional development: Croatia vs. Hungary

With regard to human capital, Croatia is faced with identical issues and challenges as most of Western and Central European countries. The problems are usually associated with the qualitative demographic segmentation of the population leading to a reduction in population size and population ageing as well as employment stagnation and high

unemployment. Population size reduction and population ageing are associated with changes in the population structure and have a direct impact on the workforce. Components of the demographic structure, employment rate, unemployment, the number of social assistance beneficiaries, the level of poverty and social exclusion, can be used in defining the level of human capital. However, educational level is a determinant considered in this paper as a key determinant of human capital development.

In Croatia, the level of education is below the international average (National Strategic Reference Framework 2012-2013, 2010).²⁶ Human capital will be surveyed in the Republic of Croatia from the aspect of territorial organisation. In terms of territorial division, Croatia is divided into counties, which were monitored by the end of 2011. Population size and population density, as well as the number of cities, municipalities and settlements are given. The available data are provided by counties, and quantitative indicators of the population, population size and population density are monitored (Table 2).²⁷ Furthermore, changes in the GDP in the Republic of Croatia in the period from 2007 to 2011 will be presented in order to get a general insight into the state of the economy (Table 3), and when the situation of human capital is shown, data on the number of residents who are part of the tertiary education system will be taken into account, i.e. these are students who graduated from polytechnics/universities in the period from 2008 to 2011 (Table 4).

²⁶ Nacionalni strateški referentni okvir 2012.-2013. [National Strategic Reference Framework] (2010). Available at http://web.efzg.hr/dok/UMS//Nacionalni_strateski_referentni_okvir_2012__2013.pdf (15.06.2013).

²⁷ DZS, available at http://www.dzs.hr/Hrv_Eng/ljetopis/2012/sljh2012.pdf (15.06.2013).

Table 2 The territorial organisation of Croatia on 31 December 2011 (counties, area, population, cities, municipalities and settlements)

County	Area, in km ²	Population size in 2011	Population density (people per km ²)	Number of cities	Number of municipalities	Number of settlements
Republic of Croatia	56,594	4,284,889	75.7	127	429	6,755
Zagreb	3,060	317,606	103.8	9	25	694
Krapina-Zagorje	1,229	132,892	108.1	7	25	422
Sisak-Moslavina	4,468	172,439	38.6	6	13	456
Karlovac	3,626	128,899	35.5	5	17	649
Varaždin	1,262	175,951	139.4	6	22	302
Koprivnica-Križevci	1,748	115,584	66.1	4	22	264
Bjelovar-Bilogora	2,640	119,764	45.4	5	18	323
Primorje-Gorski kotar	3,588	296,195	82.6	14	22	510
Lika-Senj	5,353	50,927	9.5	4	8	255
Virovitica-Podravina	2,024	84,836	41.9	3	13	188
Požega-Slavonia	1,823	78,034	42.8	5	5	277
Brod-Posavina	2,030	158,575	78.1	2	26	185
Zadar	3,646	170,017	46.6	6	28	229
Osijek-Baranja	4,155	305,032	73.4	7	35	263
Šibenik-Knin	2,984	109,375	36.7	5	15	199
Vukovar-Srijem	2,454	179,521	73.2	5	26	85
Split-Dalmatia	4,540	454,798	100.2	16	39	368
Istria	2,813	208,055	74.0	10	31	655
Dubrovnik-Neretva	1,781	122,568	68.8	5	17	230
Međimurje	729	113,804	156.1	3	22	131
City of Zagreb	641	790,017	1,232.5	1	-	70

1) Data provided by the State Geodetic Directorate calculated from the graphical database of the official records of spatial units, on 31 December 2002 refer to the land area.

2) The 2011 Census of Population, Households and Dwellings

Source: DZS, http://www.dzs.hr/Hrv_Eng/ljetopis/2012/sljh2012.pdf (06.03.2013)

These quantitative indicators and the given territorial organisation of Croatia are important because they represent not only the potential of human capital in Croatia, but also the potential in the territorial units according to which the division is made, according to counties (Table 2). The potential human capital observed in relation to the total number of population (and its division by counties) is significant when persons participating in tertiary education are taken into consideration. Relevant data are presented by regional centres in Croatia (Table 4).

Table 3 Gross domestic product, annual accounts

	2007	2008	2009	2010	2011
GDP, market prices ¹⁾²⁾	318,308	343,412	328,672	326,980	333,956
Average annual exchange rate HRK/EUR ³⁾	7.336019	7.223178	7.339554	7.286230	7.434204
Mid-year population estimates, in thousands	4,436	4,434	4,429	4,418	4,402 ⁴⁾
GDP, market prices (current), in mil EUR ¹⁾²⁾	43,390	47,543	44,781	44,876	44,922
GDP per capita, EUR ¹⁾²⁾	9,781	10,722	10,111	10,158	10,205
Growth rates (%) ¹⁾²⁾	5.1	2.1	-6.9	-1.4	0.0
Implicit GDP deflators ¹⁾²⁾	104.1	105.7	102.9	100.9	102.1

1) Data for the years 2007-2009 are final, while data for the years 2010 and 2011 are temporary (calculated as a sum of four quarters).

2) Data have been revised according to the statistical revision of the GDP on the basis of new and improved data sources and calculation methods.

3) Source: http://www.hnb.hr/publikac/bilten/statistički_pregled/h9.xls

4) Mid-2011 population estimates, preliminary results (Source: MSI No. 4/2012).

Source: DZS, http://www.dzs.hr/Hrv_Eng/ljetopis/2012/sljh2012.pdf (06.03.2013).

Table 3 provides an overview of the economic situation in Croatia in the period from 2007 to 2011 on the basis of several criteria, on an annual basis.

Table 4 Students who graduated from professional and university study programmes (NSKO¹)

	Total					
	2008	2009	2010	2011		
				total	men	women
Institutions of higher education	25,573	30,156	32,378	36,448	15,134	21,354
Polytechnics	3,447	3,226	3,310	4,558	2,278	2,280
Schools of professional higher education	1,371	1,937	1,768	2,146	1,137	1,009
Faculties	20,389	24,527	26,662	29,089	11,448	17,641
Zagreb				13,989		
Split				2,753		
Osijek				2,699		
Rijeka				2,805		
Professional study	5,429	4,742	4,621	4,449	1,629	2,820
University study	14,950	19,785	22,041	24,640	9,819	14,821
Academies of Arts	366	466	638	695	271	424

Source: Author, according to the DZS, http://www.dzs.hr/Hrv_Eng/ljetopis/2012/sljh2012.pdf, http://www.dzs.hr/Hrv_Eng/publication/2012/08-01-06_01_2012.htm (06.03.2013)

1) The National Standard Classification of Education - NSKO (Official Gazette, No. 105/2001) is used in education statistics at the national level and is completely comparable with the International Standard Classification of Education - ISCED 97. NSKO 5 – tertiary education, undergraduate, graduate and postgraduate education (Master's studies), corresponding to level 5 ISCED 97; NSKO 5.1. – university and postgraduate education (Master's studies), corresponding to sublevel 5A ISCED 97; NSKO 5.2. - non-university education and professional studies, corresponding to sublevel 5B ISCED 97; NSKO 6 - doctorate degree (PhD), corresponding to level 6 ISCED 97.

The international average level of education is higher than the average in Croatia, and the data were compiled based on the 2011 census. According to the given list referring to Croatia, 2.9% of the population over the age of 15 years have not completed any form of education, and 15.7% have not completed primary school education. According to the same list, 4.08% participated in tertiary education and completed two-year non-university education and 7.8% of the population completed university undergraduate, graduate or postgraduate education (National Strategic Reference Framework 2012-2013, 2010).²⁸ Regardless

²⁸ Nacionalni strateški referentni okvir 2012.-2013. [National Strategic Reference Framework] (2010). Available at http://web.efzg.hr/dok/UMS/Nacionalni_strateski_referentni_okvir_2012__2013.pdf (15.6.2013).

of a somewhat lower average achieved in Croatia compared to the international average, according to the human capital index, with a level of 0.767 Croatia belongs to the category of high human development and in 2010 it occupied the 51st place in the overall ranking (Human Development Statistical Tables, 2010).²⁹

Overall economic development is also affected by the achieved level of cooperation with the EU, so that alignment of Croatian programmes and goals with the EU is presented in detail. Given that Croatia is currently adjusting its legislative frameworks and conditions to those prevailing in the EU, the same should also be done in the field of human capital and regional development. The key strategic document presented by the Croatian Government is the *Strategic Development Framework 2006-2013*, which represents the basis for the *Strategy of Government Programmes*, which determines the main priority areas on a three-year basis through which the objectives of the *Strategic Development Framework* are to be achieved. Emphasis is placed on improving national competitiveness and openness of the economy, increasing the employment level, improving social inclusion and justice, and the willingness of the Republic of Croatia to become a member of the EU, and the aforementioned tasks will be carried out through a number of strategic areas, which include: i) people and knowledge, ii) science, technology, and ICT, iii) social cohesion and social justice, iv) transport and energy, v) space, nature and the environment and regional development, vi) macroeconomic stability and economic openness, vii) finance and capital, viii) entrepreneurial climate, ix) privatisation and restructuring, x) a new role of the State. Since Croatia is currently in its pre-accession period, it is a beneficiary of the Instrument for Pre-Accession Assistance (IPA), which focuses on five components: i) transition assistance and institution building, ii) cross-border cooperation, iii) regional development, iv) human resources development, v) rural development, and the *Strategy Coherence Framework* (2007-2013) represents the main strategic document for IPA Component iii), which refers to regional development, and Component iv), which refers to human resources development, the priorities of which are further elaborated in the *Operational Programmes* (National Strategic

²⁹ Human Development Statistical Tables, http://hdr.undp.org/en/media/HDR_2010_EN_Tables_reprint.pdf (15.07.2013).

Reference Framework 2012-2013). Conditions for development of human resources in Croatia are created and implemented in order to ensure continuity in increasing the rate of employment, sustainable development and improving the potential of economic convergence and social cohesion, and all this is funded through the European Social Fund. It is structured according to four important fundamental goals and several specific goals related to the primary objective of the Programme as well as the European Employment Strategy and the Lisbon Strategy. The main objectives directed towards a general strategy include: i) attracting and retaining more people in employment by increasing investment in human capital, by merging and promoting adaptability of entrepreneurs and workers, ii) promotion of social and professional integration of people with limited abilities, iii) support for development of reforms in the fields of education and organised training systems. All these objectives are supported by the Ministry of Economy, Labour and Entrepreneurship (Operational Programme, 2010).³⁰ As of 2007, the IPA (Instrument for Pre-Accession Assistance)³¹ replaced a number of other programmes and financial instruments (PHARE, PHARE CBC, ISPA, SAPARD, CARDS). In addition to the essential components monitored by the IPA and promoting regional development and human resources, IPA also includes components oriented towards transition assistance and institution building, cross-border cooperation with Member States and other countries eligible for the IPA Programme and rural development. The beneficiary countries are divided into two categories: i) EU candidate countries capable of all IPA components, including Croatia, Turkey and Macedonia, and ii) potential candidate countries of the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo), which are able to use certain components that do not include regional development and human resources (IPA, 2012).³²

³⁰ Operational Programme (2010). Human Resources Development 2012-2013, *Summary of the draft working document of May 2010*, available at http://www.mrrfeu.hr/UserDocsImages/EU%20fondovi/partnerske%20konzultacije/Summary_OP_Human_Resources_Development.pdf (15.02.2013).

³¹ National Strategic Reference Framework 2012-2013, http://web.efzg.hr/dok/UMS//Nacionalni_strateski_referentni_okvir_2012___2013.pdf (15.08.2013).

³² Instrument for Pre-Accession Assistance, IPA (2012). Available at http://ec.europa.eu/regional_policy/thefunds/ipa/index_en.cfm (15.03.2013).

According to the level and dynamics of the GDP per capita, regional disparities can be explained by analysing fundamental factors labelled as macro-factors of regional development related to productivity and employment, investment, export orientation and education.³³ There is an increase in regional disparities when economic growth is expected to take place or when it takes place in the national economy and there is a decrease in cases of stagnation. The reason for this is that the growth rate of the national economy is generally characterised by the growth of a specific centralised part of the economy in question, which automatically causes a greater gap in relation to other areas of the same economy. The effect of growth in relation to national economy rates naturally initiates positive impacts, but the result of such situation can lead to discrepancies in the development of a particular economy.

Human capital has a significant impact on economic growth and development, but it can also be a determining condition of the estimates of investment projects in the country. Workforce characteristics observed through the segment of human capital (efficiency, innovation, multilingualism) are the basis of successful business operations. According to estimates by investment agencies, regardless of the previously established lower level of education compared to the international average, the Agency for Investment and Competitiveness (2012)³⁴ assessed Croatia as a potentially commercially successful country. This is justified by the fact that Croatia pays much attention to the quality of education and the tradition of a network of educational institutions.

Policy implementation in Hungary is quite similar to regional policy implementation in Croatia. Emphasis is placed on several components and objectives of the Cohesion Policy with its framework orientation towards the national and overall European Union policy, achieving more successful economic growth and real convergence and reducing the central role of capital through the provision of rapid regional development by promoting the unused development potential (European

³³ Puljiz, op. cit. n. 22, at p. 120

³⁴ Agency for Investment and Competitiveness (2012). <http://www.aik-invest.hr/en/why-croatia/human-capital/> (15.10.2013).

Union, Hungary, 2007).³⁵ Hungary is a country that has recognised the importance of investment in human capital and this can be seen through the investments of the European Investment Bank, which support human capital development and scientific research. Improving human resources will affect economic development and acceleration of economic growth, as well as improvement of competitiveness of the economy, the labour market and better capacity and innovation of the manufacturing sector. These benefits cause the Hungarian economy to cope better with daily challenges. Besides benefits in the field of education, the effects will be extended to health care services, acceleration of political reforms, lifelong learning, social inclusion and employment (European Investment Bank, 2012).³⁶

The contribution of human capital to regional development in Hungary as a small transition economy differs from the results and benefits in the developed countries. New categories of creative professions can ensure an increase in the degree of regional educational levels, and significant effects may be exerted by students with international or national experience. Graduates with extensive international experience have a lower tendency to stay in the capital compared to students whose education is more embedded into the national context (Lengyel & Ságvári, 2011)³⁷. Human capital has been recognised as a resource whose role is increasingly important in affecting the territorial processes, but since human capital is a component of human resources, study of this area by Hungarian regional research centres has been under-researched and neglected. The complexity of studying the concept of human resources is due to the complexity of factors they are composed of. The analysis is most frequently based on demographic

³⁵ European Union, Hungary, (2007). http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/negotiation/country_hu_en.pdf (15.03.2013).

³⁶ European Investment Bank, <http://www.bei.europa.eu/projects/press/2012/2012-189-eib-supports-human-capital-development-and-scientific-research-in-hungary.htm> (15.09.2013).

³⁷ B. Lengyel and B. Ságvári 'Creative occupations and regional development in Hungary: mobility of talent in a one-centred transition economy' 19 European Planning Studies, No 12 (2011) pp. 2073-2093, available at <http://blengyel.wordpress.com/2011/12/10/creative-occupations-and-regional-development-in-hungary/> (10.10.2013).

factors. However, causes of arising regional disparities may be found not exclusively in human resources, but also in other effects, e.g. the concentration of large centres.³⁸

According to the official results of the *CENTROPE Regional Development Monitoring Report*³⁹ for the year 2011, regional development of Central Europe was not as strongly affected by the crisis as was the case with the remaining EU-27 Member States. As part of Central Europe, Hungary maintained a higher than average growth rate, a high level of competitiveness and undiminished economic convergence, but there remained other challenges related to accelerated population ageing with a direct impact on the reduction of labour productivity. Also, the university system in the region of Central Europe is one of the main advantages compared to other EU regions, which is reflected in the quantitative indicator of the proportion of the university population in the total population, which is 1% higher in the region of Central Europe than the EU average, as well as the progressively increasing number of students.

According to Eurostat data (2013)⁴⁰, the proportion of persons in tertiary education in Hungary in 2011 amounted to 28.1%, while the proportion of persons in tertiary education in the same year in the EU-27 was 34.6%. The minimum target value of persons who participate in tertiary education or have already completed the level of education equivalent to the tertiary level of education in the age 30-34 years for Hungary is 30.3%, while the EU-27 value is 40%.

³⁸ J. Rechnitzer and M. Smaho, *Regional Characteristics of the Human Resources in Hungary During the Transitory Period (2006)*, Available at <http://ideas.repec.org/p/wiw/wiwsa/ersa06p434.html#author> (15.10.2013).

³⁹ CENTROPE is the agency that monitors regional development of Central Europe, for more details, see <http://www.centrope.com/en/newsletter-4-2012/focus-human-capital> (15.10.2013).

⁴⁰ Eurostat (2013), http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators (15.10.2013).

Table 5 The proportion of the population (aged 30-34) with completed tertiary education in selected countries (%)

Country	2009	2010	2011	2012	Targeted rate
EU-27	32.2	33.5	34.6	35.5 ^e	40 ⁱ
Germany	29.4	29.8	30.7	:	42 ⁱ
Hungary	23.9	25.7	28.1	29.5 ^e	30,3
Austria	23.5	23.5	23.8	26.1 ^e	38 ⁱ
Slovenia	31.6	34.8	37.9	39.4 ^e	40
Croatia	20.6	24.3	24.5	23.7 ^e	:

Source: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/refreshTable.Action.do?tab=table&plugin=1&pcode=t2020_41&language=en (10.03.2013).

Key:

: =not available; e=estimated; i=see metadata; b=break in time series;
p=provisional; u=low reliability

As an additional indicator of the actual level of human capital, the HDI revealed a growing trend in the observed period (2005-2011). In 2011, Hungary occupied the 38th place in the overall country ranking, thereby achieving the category of very high human development. Public funds allocated for education amount to 5.2% of the actual GDP and the literacy rate of adults over 15 years for both sexes is 99.4%, while the average years of schooling of adults is 11.1 years. The total population of Hungary in 2011 was 9,966,100, of which the share of urban population is 68.5% (International Human Development Indicators, Hungary, 2011).⁴¹ Not only many similarities but also many differences can be highlighted if we take into account certain criteria of economic growth and human capital indicators of Croatia and Hungary (Table 6). In addition to quantitative indicators of the population, population size (there are twice as many Hungarians as Croats), there is also a difference in terms of assistance expressed as a percentage of the GDP (in Hungary it is 0.6%, i.e. double the amount of Croatia), research and development investment (it is 0.5% higher in Croatia and amounts to 1.2%), and education expenditures expressed as a percentage of total government expenditure (in Croatia, expenditures expressed in percentage are lower compared to Hungary where they amount to 5.5%).

⁴¹ International Human Development Indicators, Hungary (2011), available at <http://hdrstats.undp.org/en/countries/profiles/HUN.html> (10.03.2013).

The role of human capital in regional development

Table 6 Comparison of Croatian and Hungarian economies by selected criteria on economic growth and human capital indicators (within the calculation there is no base year for all criteria)

	Croatia	Hungary
Total population	4,494,749	9,981,334
Urbanisation	58%	65%
Expected urbanisation in 2015	64.4%	69.4%
Assistance expressed in % of the GDP ¹	0.3%	0.6%
Income categories	upper middle income	upper middle income
Poverty (share of poor people)	0.01% of the world's poorest countries	0.02% of the world's poorest countries
Investment in research and development	1.2%	0.7%
Expenditure on education (% of the GDP)	4.5%	5.5%
Expenditure on education (% of total government expenditure)	10%	14.1%
Public spending on education, total (% of government expenditure)	9.99%	10.25%
Expected years of schooling (total)	11.4 years	13.6 years
Duration of compulsory education	8 years	10 years
Duration of education – primary level	4 years	4 years
Duration of education – secondary level	8 years	8 years

Source: Nation Master, <http://www.nationmaster.com/compare/Croatia/Hungary/Education> <http://www.nationmaster.com/compare/Croatia/Hungary/Economy> (11.03.2013)

1) Official Development Assistance (ODA) received as a % of Gross Domestic Product (GDP)

V. Conclusion

Human capital has emerged as an increasingly important determinant of both economic growth and development and regional development. Extensive literature in economics and other social sciences is focused on the study of regional disparities and differences in the respective rates of human capital. According to the OECD (2006), in order to drive economic growth and development, developed economies are directing their policies towards knowledge-based policies.

In this paper, for the purpose of showing an objective indicator of the level of human capital in Croatia, we made use of data relating to the proportion of population participating in tertiary education (an absolute indicator of students who graduated from the professional and university study programmes, as well as a relative indicator of the population expressed as a percentage, age group 30-34, who completed tertiary education) and by virtue of the above indicator a comparative approach was used to present a *de facto situation* in Croatia and Hungary. Furthermore, the level of real economic growth is expressed by the value of the real GDP, whereby a detailed insight into the dynamics of individual economic indicators (GDP at market prices, the average annual exchange rate of HRK/EUR, GDP/capita, achieved growth rates in %, implicit GDP deflator) is provided for Croatia. According to Guisan & Neira (2006), the population potential of a certain economy can be increased by creating a high level of human capital and rapid growth of educated population, and the development of less developed countries can be promoted by means of human capital in international trade. The potential of human capital is not explicitly identified only by the quantitative indicator of the population size and in small economies human capital can be a potential to launch long-term economic growth and development.

High levels of human capital and national economic indicators do not necessarily have to imply that the economy suffers from regional disproportions. Regional disparities can be significantly reduced due to the improvement and advancement of human capital. When monitoring regional disparities, instead of the exclusive use of numerical indicators, it is necessary to include non-numeric indicators, such as the quality of life. In addition to the rate of participation of people in tertiary education, monitoring the level of human capital development can also be covered by other indicators (adult literacy rate, the index of education, expected years of schooling of children, etc.).

Except at the national level, economic policy should certainly be focused on the specific needs of the regional economy in order to contribute more to the reduction of the existing regional disparities and to achieving economic growth and positive development rates.

Kornelija Mlinarević*

Is regional development just an abstract EU policy, or does it live on the regional and local level?

Experiences of the key regional stakeholders in the cross-border region of Croatia and Hungary

In the period of accession to the European Union, the Republic of Croatia was adopting various EU policies, including the regional policy, in the given EU framework but in a specifically determined manner and dynamics. In recent years, these processes of change and customization geared towards the planning and functioning system of the European Union take place at the same time when the crisis with its effect of policy budget reductions and saving and cost-cutting at all levels seriously restrains investment opportunities. From the perspective of the public sector at the local and regional level, the possibility of financing development projects through funding programs of the European Union is neither guaranteed nor an easy option. The reason for this is that the lack of leadership and vision which is present at all levels of governance, followed by the lack of awareness on the utmost importance of strategic planning and consensus on development priorities, leads to fragmented, non-coordinated and parallel running processes - instead of a synergic effort to clearly mark the goals through public dialogue and take the necessary steps to achieve these goals.

In particular, this means that although the European Union had already brought in the Instrument for Pre-Accession assistance (IPA) many opportunities for ‘coaching’ a strategic approach, governmental bodies and agencies have not taken any systematic actions aimed at strengthening human and financial capacities at local and regional level which are necessary for the preparation and implementation of development projects. Insufficient fiscal capacities make investment in the necessary preparatory documentation for the application of development projects impossible, and a significant deficit of human resources within the government, institutions and companies will be the most likely reason for not using EU funds to the extent that the Republic of Croatia would

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achieve stronger economic development by using the opportunities of EU membership.

This paper highlights the need for strengthening the capacity of key actors at local and regional level, assuming that the national structure of regional development management will become effective in the shortest notice, and also refers to ways and forms of cooperation in the Croatian-Hungarian border region which, given the most important defined outlines of Europe's 2020 strategy, present a realistic ground for the development of the region based on knowledge and innovation.

Joining the European Union is viewed primarily as an opportunity for economic development in the endogenous growth theory (or New Growth Theory) which considers knowledge and ideas as an inexhaustible source of economic growth, and one of its derivatives, the theory of intellectual capital, within which there is a clear distinction between knowledge and human capital. As defined by P. Sullivan, one of the most prominent authors of the theory of intellectual capital, 'intellectual capital is knowledge that can be converted into a profit'¹; which reminds us that not all knowledge is productive knowledge², and not all knowledge has growth potential in terms of economic development. P. Drucker envisioned in 1981 that 'the Next Economics may again have a Theory of Value. It may proclaim that productivity – that is, knowledge applied to resources through human work– is the source of all economic value'. As a contribution to the thesis that human capital is the most powerful element of territorial capital, and as a contribution to continuous discussion on how investments in human capital have to be structured and supported in due to induce the production of new knowledge which will then create new goods and services, the cross-border cooperation of R&D sector, HEIs and businesses is considered as a good path towards the creation of new values in the cross-border region of Croatia and Hungary.

¹ P. Sullivan, *Profiting from Intellectual Capital: Extracting Value from Innovation* (John Wiley & Sons, 1998) p.4.

P. Sullivan in his work also considers the role and influence of all disposable tangible and intangible assets, supporting infrastructure, protection of intellectual rights, relations between different actors in business venture, etc.

² Peter Drucker, *Toward the next economics, and other essays* (Harper & Row edition, 1981) p.20.

I. Definitions of regional policy and regional development

1. What does ‘regional’ usually mean?

When interpreting the term ‘regional’, which became more noted in Croatia with the start of adoption of the EU policies in the process of pre-accession, one has to first define the general meaning of ‘regional’, going from the wide definition to the narrower, EU-policy meaning definition. Leaving out from the very beginning any political connotations, the adjective ‘regional’ can be interpreted from ‘pertaining to a small geographical area’³, to ‘pertaining to a region of considerable extent; not merely local’⁴, providing primarily diverse territorial (geographical) definition. The term cannot be explained without territorial dimension; moreover, as an adjective it usually relates to characteristics of a region, e.g. ‘*regional and local needs*’⁵. ‘Local’ and ‘regional’ are considered as a one term in this paper: local is taken as the ultimate part and input for regional, although territorially it is ‘local’ which always means sub-regional i.e. municipalities, villages, provinces, valleys, islands, inner cities, etc.⁶ Although underlining the ‘space’ attribute is too narrow, ‘regional’ IS about territory, but the territory is ‘comes to life’ via the people and communities and is determined by correlations of the natural features, past and present socio-economic context, and the dynamism of economic ventures and political entities.

2. What is regional policy?

Regional policy is ‘one of the most complex areas of government policy making to define’⁷, and ‘a policy, adopted by government, aimed at redressing uneven development within a country’⁸. Governments’ dealing

³ Definition by the <http://www.businessdictionary.com> (15.03.2013).

⁴ Random House Kernerman Webster’s College Dictionary (K Dictionaries Ltd. Copyright 2005).

⁵ Definition available at <http://oxforddictionaries.com> (15.03.2013).

⁶ Cohesion policy support for local development: Best practice and future policy options, Study commissioned by Directorate General for Regional Policy, European Commission (2010).

⁷ European Policies Research Centre, University of Strathclyde, Where is regional policy going? Changing concepts of regional policy (2001) p.1.

⁸ Oxford Dictionary of Geography

with uneven or unfair distribution of income, employment and prosperity in general – remains the core of every regional policy in last fifty years. Definition of the regional policy considerably depends on who defines it, where, and when. But the EU has been promoting the term manifestly!

3. What is regional development?

Inseparable from regional policy, regional development ‘can be seen as a general effort to reduce regional disparities by supporting (employment and wealth-generating) economic activities in regions’⁹. While regional development is commonly associated with assistance to less developed regions, regional economy is more associated with globalization and race for competitiveness. Many authors affirm the thesis that ‘the process of globalisation is progressively increasing the importance of regional processes’¹⁰ and OECD research¹¹ provides strong evidence that the region-specific assets such as specialized knowledge, skills, and innovation capacity remain powerful tools for regions to compete in the global era. It also suggests that policy makers are responsible to retain key investments and attract new ones, and that the strengthening of links between R&D institutions becomes very important as R&D is increasingly internationalized.

A vision of regional economic growth is crucial in strategic planning and developing a competitive region. However, some authors had already identified the lack of vision in the context of regional development in Croatia and other EU candidate countries.¹²

⁹ <http://www.oecd.org/gov/regional-policy/regionaldevelopment.htm> (15.03.2013).

¹⁰ Regional Economic Development: A Review, A. Ascani, R. Crescenzi, S. Iammarino, Department of Geography and Environment, London School of Economics and Political Science (2012).

¹¹ Directorate for Public Governance and Territorial Development, Globalisation and Regional Economies: Can OECD Regions Compete in Global Industries?, (2007): ‘Despite concern about the negative impacts of globalisation on the economies of OECD regions, notably the loss of manufacturing jobs and enterprise relocation, this report presents evidence that region-specific advantages – embedded in specialised firms, skilled labour and innovation capacity – remain a significant source of productivity gain for firms, even for the largest multinational enterprises.

¹² *Investing in Regional Development: Policies and Practices in EU Candidate Countries Local Government and Public Service Reform Initiative* (First published in 2003 by Local Government and Public Service Reform Initiative, Open Society Institute–Budapest) p. 8.

II. Regional policy and regional development in the EU

1. What is EU regional policy?

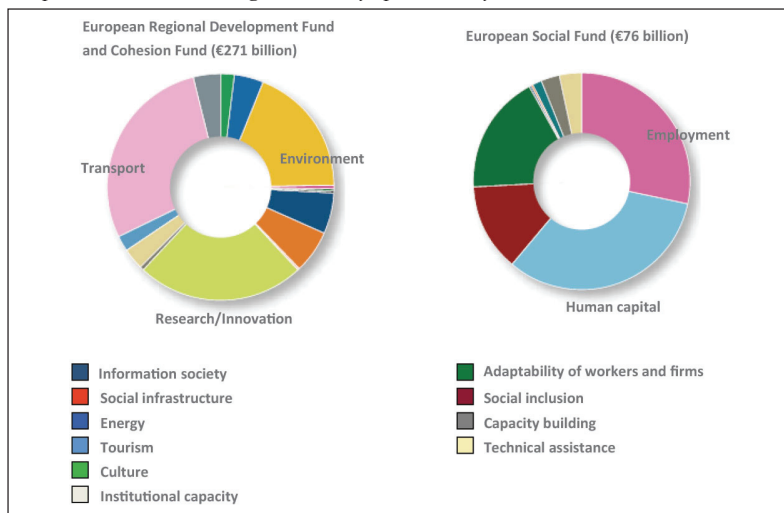
Although the EU is definitely one of the richest parts of the world, there are significant differences among its member states and their regions. The wealthiest country, Luxembourg, is more than seven times richer than Romania, and in terms of regions some regions of the United Kingdom, Germany and France are over thirteen times richer than regions of Romania and Bulgaria. The highest ratio between the highest and lowest values within one country is recorded in an 'old member state', the United Kingdom, making 4.3:1 in the between Inner London and West Wales and the Valleys. As regional disparities are also generally high across Italy, Hungary, Slovakia and the United Kingdom, it becomes obvious why the European Union needed to design a policy for the stimulation of economic and social cohesion, trying to scale down differences in development between regions and among member states. Therefore the Regional policy of the EU (also known as 'Cohesion' or 'Structural' Policy) was primarily built upon the effort to reduce economic disparities between regions and support development of undeveloped regions through redistribution of EU budget funds.

In addition to the aim to reduce economic, social and territorial disparities across the EU, the regional policy of the EU aspires to make regions more competitive, foster economic growth and create new jobs. How seriously the EU has to reconsider its attempts to smoothen and balance economic-social disparities and other differences (including cultural ones) between Member States and regions was shown in the case of the Greek crisis. Ignoring the differences could seriously undermine some of the fundamentals of the EU, such as a single market and its currency, the euro. Therefore, the objectives of the Cohesion Policy must respond to the major problems of the European Union. The three priority objectives are: 1. Convergence – aid directed to the poorest regions for reducing gaps between them and other regions; 2. Regional competitiveness and employment – support to areas of economic and social transformations and 3. European Territorial Cooperation – strengthening cooperation at the cross-border, transnational and interregional level.

Regional Policy uses a variety of financing instruments for reaching its goals, mainly the Structural Funds and the Cohesion Fund. For the period 2007-2013, the European Union's regional policy is the EU's second largest budget item, with an allocation of 348 billion €. All European regions are eligible for funding under the Policy's various funds and programs, although regions across the EU fall in different categories (so-called 'objectives'), depending mostly on their economic situation and providing most of the support to the poorest regions.

The Structural Funds are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Together with the Common Agricultural Policy (CAP), the Structural Funds and the Cohesion Fund spend most of the total EU spending. Figure nr. 1 shows the thematic distribution of EU Regional policy funding.

Graph 1 What does the Regional Policy spend money on?



Source: DG Regional Policy, European Commission

Apart from Cohesion policy funds, a few other funds also contribute to the regional development, funds under the CAP: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD), and the European Fisheries Fund (EFF) established for the programming period 2007-2013.

2. Connecting regional policy and the endogenous growth theory

Considering the theoretical framework of the Regional Policy, the underlying economic theory was the neoclassical growth theory¹³, and during the 80's there was a shift towards the endogenous growth theory, also as an attempt to answer questions and challenges of economic changes in the European Union and on global level.

Regions are involved in the globalization process to a different extent depending on their competitiveness. Reaching such level as to be able to compete in a global environment opens up an old debate whether regional growth can be the result of exogenous factors (primarily national factors and FDI) that boost local economy, or of internal forces and the endogenous capacity of a region to grow, taking into account that the 'role of exogenous and endogenous factors highly depends on the development stage of the economies'.¹⁴

Endogenous growth theory holds that economic growth is primarily the result of endogenous and not external forces.¹⁵ The endogenous approach emphasizes the role of human capital: qualified labor, knowledge (particularly technical knowledge) and know-how are recognized as main resources 'to restructure and upgrade production structures to promote innovation complexes and create new clusters of comparative advantage'.¹⁶ P. Romer as one of the most influential authors of the Endogenous growth theory advocates investment into graduate studies of science and engineering rather than massive

¹³ An economic theory (also known as 'exogenous growth theory') that considers three key driving factors (labor, capital and technology) in achieving steady economic growth. The main authors: R. M. Solow, 'A Contribution to the Theory of Economic Growth' (1956); and T.W. Swan, 'Economic Growth and Capital Accumulation' (1956).

¹⁴ R. Capello and U. Fratesi, *Globalization and Endogenous Regional Growth* (Heidelberg Geography, Institutions and Regional Economic Performance, Advances in Spatial Science, Springer-Verlag Berlin, 2013) p.18.

¹⁵ P. M. Romer, 'The Origins of Endogenous Growth', 8 *The Journal of Economic Perspectives* (1994).

¹⁶ J. Bachtler and D. Yuill, Policies and strategies for regional development: A shift in paradigm, *Regional and Industrial Policy Research Paper* Nr. 46, (European Policies Research Centre, University of Strathclyde, United Kingdom, 2001) p.10.

subsidizing of large high-technology projects¹⁷. Within the context of EU Regional Policy, in many countries of the EU, especially in the lagging areas of the East and South of Europe, the Regional Policy is the main source of funding for Research and Innovation policies, and the new Europe 2020 flagship initiative ‘Innovation Union’ aims at strengthening and further developing the role of EU funds to support innovation. This paper favors the idea that in the cross-border territory of Croatia and Hungary there is a key asset within the territorial capital - human capital, with potential for the creation of productive knowledge, innovation and technological changes. Due to the new EU Regional Policy and the Europe 2020 strategy, innovation is the ultimate focus, foreseen as the main driving force of economic growth.

Does the human capital of the region have enough innovative potential to induce new economic activities and production of new values?

3. Strategy Europe 2020 and new regional policy

Under the umbrella of the main strategy of the European Union, regional policy aims to deliver the Europe 2020 strategy objectives: smart, sustainable and inclusive growth. The Policy’s ambition is also to play an important role in relation to universal challenges, including globalization, climate change and energy supply.

3.1. Effects of the regional policy of the EU

There is an enormous number of papers and reports on the effects of the regional policy of the EU; however, remains inconclusive due to variety of standpoints, measuring models (including testing of validity of two growth theory models), changes of objectives over time, and also due to the prevailing number of studies that look at the effects of the regional policy isolated from other policies with a regional dimension.

Due to numerous evidence that past policies have not been able to reduce regional disparities significantly and to help lagging regions to catch up despite the allocation of significant public funding, redistribution and subsidies for lagging regions are changed over time into measures to improve competitiveness of all regions.

¹⁷ The Wall Street Journal interview with the P. M. Romer (January 21, 1997).

A report to the European Commission Directorate, 'Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-2013' brought the following conclusions by synthesizing national reports: there were adjustments recommended (both in relation to the allocation of funding and implementation procedures), primarily due to the impact of the economic crisis; in spite of proclaimed devotion to transformations towards a knowledge society, reinforcement of basic infrastructure and improved well-being in the less advanced regions - programs mainly need to cope with the reduced availability of public and private co-financing. The main problems of implementation and the reasons why programs do not produce more effective outcomes are the following: 'problems related to bureaucratic procedures and the limited capabilities of implementing bodies (lack of know-how and/or of personnel, inadequate organisation, poor use of information technology and so on); problems related to decision-making procedures and policy design (as regards, e.g. selection criteria and the extent of involvement of final beneficiaries); and problems related to inadequate coordination between different authorities, especially between those at central level and those at regional or local level.'¹⁸

As many of the abovementioned key obstacles for successful implementation of EU funded programs have also been recognized in Croatia during the implementation of the Instrument for Pre-Accession Assistance (IPA), it is to be expected that Croatia will experience the same problems in implementation of programs financed by the Structural and Investment Fund.

3.2. New EU regional policy – new opportunities for regions

The EU cohesion policy 2014-2020 focuses the largest part of investments on the key areas for growth and jobs, fitting into a small number of themes outlined by the Europe 2020. New important elements of regional policy compared to previous periods are:

- concentration on 'Europe 2020': Partnership Agreements, agreed between the Commission and Member States will set out the commitments to concrete actions to deliver Europe 2020 objectives;

¹⁸ Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-2013 (Synthesis of National Reports 2012, 2013) p. 58.

better coordination of various EU actions within single European frame for coordination between the funds and other EU instruments in the Common Strategic Framework; Member States will be allowed to combine ERDF, ESF and Cohesion Fund in 'multi-fund' programs according to their growth strategies (to improve coordination on the ground and achieve integrated development); Strong focus on results: EU funding will offer strong incentives to deliver Europe 2020 objectives. An 'ex-ante' conditionality requests number of conditions to be in place before the funds are disbursed (including the proper functioning of public procurement systems); progress will be closely monitored and measured against a set of milestones agreed as part of a performance framework; sound macro-fiscal environment: Commission proposes measures to ensure that the effectiveness of the funds is not undermined by unsound macro-fiscal policies (meaning also that programs financed by the Funds can be adapted to changing economic circumstances); Reinforcing territorial cooperation: Territorial cooperation among regions (cross-border, transnational and interregional) is reinforced, since it offers clear EU added value.; Territorial cohesion: clear focus on sustainable urban development with at least 5% of the ERDF resources allocated for 'integrated actions' managed by cities in this field by each Member State (with particular attention to outermost regions and sparsely populated areas); Further simplification of the policy, together with simplified rules and procedures. The co-financing rates after 2014 remain at maximum 50% for the most developed regions, maximum 85% for the less developed regions and maximum 85% for the Cohesion Fund.

As all Member States will draw up a partnership agreement by the end of 2013 defining their priorities for delivering on the Europe 2020 strategy, the Partnership Agreement has to have: selected thematic objectives out of 11 thematic objectives of the 'Europe 2020' strategy with the main measures and expected results; a review of whether the necessary framework conditions at national level are in place (ex ante conditionalities); mechanisms to ensure the functioning of performance framework; and a summary of actions planned to achieve the reduction in the administrative burden for beneficiaries.

Croatia has defined the following priorities for funding: 1. Strengthening the competitiveness of the economy; 2. Increasing labor

market participation, ensuring better education and skills and reducing poverty taking into account regional differences; 3. Preserving and maintaining a healthy environment and protecting the natural resources and heritage, and adapting to climate change; and 4. Strengthening the administrative capacity, enhancing an efficient public administration and increasing the involvement of civil society and social partners¹⁹. In this document the importance of R&D investments and the need for smart specializations have been identified within thematic priorities, as well as a need for an integrated bottom up approach in response to complex territorial and local challenges through the involvement of local communities in the functional context of future regional policy.

III. Regional policy and regional development in the Republic of Croatia within the context of Croatian accession to the EU

Formally, regional development in Croatia has been structured and regulated by law and the National Strategy for Regional Development since 2010, but unfortunately over the years it has become quite obvious that the lack of vision and poor understanding of both national and EU experiences of regional development failed to provide a solid basis of regional development. As well as other policies in Croatia, regional policy is also marked with discontinuity, high level of politicization and inter-ministerial confusion. Although strongly conditioned and pressured by the accession process, the impression is that most of the ‘structure’ of the Croatian regional policy still exists only on paper.

1. Croatian framework of regional development

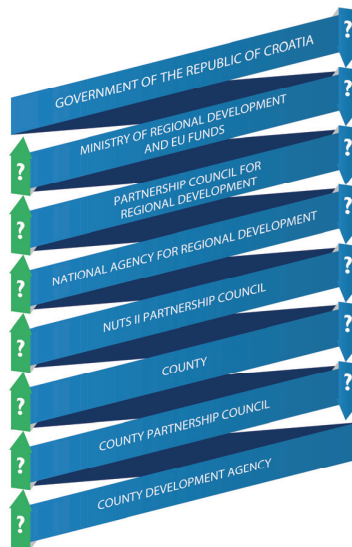
If regional development had been thought out and coordinated from ministries and government bodies through a joint process of long-term planning and involvement of all levels of governance, the result would probably be a more efficient regional development structure. However, from poor communication and lack of coordination on national level to lack of dialogue and absence of mobilization of regional and local stakeholders, the structuring of regional development is right now in a hectic period of very important processes with very close deadlines

¹⁹ Position of the Commission Services on the development of Partnership Agreement and programmes in the Republic of Croatia for the period 2014-2020.

overlapping and hurrying towards finalization of operative programs and accreditation of relevant institutions.

Below is Figure 1 which shows the institutional framework of regional policy in Croatia, including the main national stakeholders of regional development on the top of the ‘ladder’.

Figure 1 Institutional framework of regional policy in Croatia: what else is in place except institutions?



Source: [http://www.efos.unios.hr/repec/osi/eecyt/pdf/EconomyofeasternCroatia yesterdaytodaytomorrow01/eecytt0116.pdf](http://www.efos.unios.hr/repec/osi/eecyt/pdf/EconomyofeasternCroatia%20yesterdaytodaytomorrow01/eecytt0116.pdf) (15.05.2013).

In the Strategy of Regional Development of the Republic of Croatia, the first strategic goal is the development of the county and statistical regions, based upon the need to better connect the development priorities of the central government to the needs of statistical regions and local and regional governments in the Republic of Croatia to available funding spent in order to achieve national, regional and local development objectives in a coherent and integrated manner. Local and regional participants are meant to be actors of the development process as those who are at the center of the development of their areas, involved in the County Partnership Council and the Partnership Council

Is regional development just an abstract EU policy, or does it live on the regional ...

of statistical regions, which will cooperate with the representatives of the central government in identifying priority needs of their county's or statistical regions and proposing joint strategic solutions²⁰. Partnership councils are not performing the planned tasks which on operational level represents a key missing link in bringing local and regional needs and interests from one side, and national ones from the other side.

The National Strategic Reference Framework (NSRF) is a strategic document presenting a way in which every Member State intends to use resources from the Structural Funds and the Cohesion Fund in order to achieve the objectives of the EU Regional Policy. The programming of the NSRF in Croatia for the period 2010-2020 is on-going together with the accompanying Operational Programs which should answer regional development needs in the area of environment, transportation, human resources development, rural development and regional competitiveness. It is questionable how the NSRF and accompanying Operational Programs will meet key regional requirements without the process of partnership discussions that is supposed to take place at the regional level.

The main legislative document is a law on regional development – the revised law is expected until the end of 2013. This law sets out the objectives and principles of Croatian regional development, planning documents, the body responsible for the management of regional development, assessment of degree of development of local and territorial (regional) self-government, and reporting on the implementation of regional development policy. The practice of partnership as the basic method in the modeling of regional development was anticipated by the law but that practice had never been realized.

2. The main stakeholders of the regional development

Stakeholders that play an important role in regional development are all interested parties with capacities to envision, participate in, create and influence the development of the region, and already have a record in preparation and implementation of either strategic documents of relevance for regional development, or have references in EU funded projects.

²⁰ Ministry of regional development, forestry and water management, Croatia, Strategy on regional development of the Republic of Croatia 2011-2013 (2010).

Key stakeholders in regional development in Croatia on the municipal, county and regional level are the following:

Counties as regional administrative units and institutions started to build and strengthen capacities for preparation and implementation of EU funded projects on time;

County Development Agencies, operative entities of regional development ‘who serve as a link between public, private and civil sector in building up of strategic partnerships in application and implementation of projects that contribute to raising of life standard’²¹;

Business support organizations often operate as ‘local development agencies’, providing technical assistance in project preparation – primarily (but not exclusively) to entrepreneurs;

Cities and most of *municipalities* have staff working on development issues at both planning and project levels, but generally their capacities are insufficient. The current level of decentralization is often an obstacle to the involvement of local and regional governments into large projects;

Local Action Groups (LAG) implement rural development strategies at micro-regional level, not yet fully operational in Croatia due to the fact that the LEADER approach is implemented only after Croatia becomes the Member State of the EU;

Non-governmental organizations (NGOs) were from the very beginning among the most active ones participating in EU programs;

Some *public companies, public institutions and institutes* are already deeply involved in the process but there is a huge difference in their readiness for participation and cooperation with other stakeholders;

Higher education institutions are much more involved in Community programs than in other EU programs but they are becoming a very important stakeholder in projects connecting research and development programs with the business sector;

The business sector is not to be forgotten although there has not been much direct funding for them, but indirectly they could benefit from EU projects through delivery of work, goods and services. The business sector should be much more involved in programming – some thematic

²¹ www.slavonija.hr amended ‘vision’ of the Regional Development Agency of Slavonia and Baranja

working groups for programming missed to recognize the crucial role of the business sector (e.g. the group for thematic objective: innovation, research and development).

In general, the level of strategic planning capacities has more room for improvement as this could be the decisive factor in the process of effective withdrawal of the EU in order to achieve more significant developmental effects. Regardless of the sector or type of stakeholder, a lack of staff and financial resources could have implications for the future absorptive capacity regarding EU funding. Building strategic cross-sector partnerships and capacities of key stakeholders at local and regional level is possibly the best investment option for regions but that process requires radical changes in way of planning and operation of government at all levels. The role of regional development agencies (RDAs) as accredited coordinators of regional development is a difficult task due to the number and specificities of stakeholders who (and whose activities) need to be coordinated, and the volume of work beside the 'core business' (preparation and implementation of development projects) which grows on daily basis through delegation by ministries. RDAs are important initiators and performers in the process of raising the capacity of local stakeholders for preparation and implementation of development projects, but for RDAs' performance the lack of employees-professionals with specific knowledge becomes a limiting factor. Communication of national governmental bodies with stakeholders at the regional and local level is discontinuous and uncoordinated, rarely providing clear guidelines and objectives. Although 'investment in local and regional capacity' was recognized as key factor for successful regional development by the Strategy of Regional Development, no systematic effort has been made in the past five years in terms of building the partners' relations and dialogue, or the transparent and accurate delivery of information – and especially not via training or education. Notwithstanding the above, what is possible to do at the regional and local level is the following: to adopt the principles of partnership, teamwork and project methodology; to work on strategic planning and policy documents with consideration of specific, local context and local resources; to strengthen human and fiscal capacities at the county and municipal level (development agencies, 'project managers', administrative departments of local /

regional authorities, public companies, institutions); to develop the inter-sector, inter-municipal and inter-county partnerships; to gain both experts' and political consensus in the defining of development priorities at the regional level; to build project pipelines (not just the database of project ideas!) and to build upon the experiences of Croatian neighbors – EU member states.

IV. Territorial cooperation and its importance for cross-border region of Croatia and Hungary

1. Territorial cooperation as part of the Regional Policy of the EU

The European Territorial Cooperation objective consists of three components: cross-border cooperation programs along internal EU borders, transnational cooperation programs in larger areas of cooperation, and the interregional cooperation programs and networking programs. Although financially the smallest objective of the Regional Policy, territorial cooperation programs have many positive impacts on regional development in terms of integration, joint planning, safety issues, social and economic opening, etc. Programs of cross-border, transnational and interregional cooperation have shown the effectiveness of the regional and local level in Croatia, since the regional and local governments as well as regional development agencies were largely involved in design, preparation and implementation of projects. In the new financial perspective of the EU, Objective 3 (Territorial Cooperation) will increase by 30%.

1.1. Danube strategy: macro-strategy - many micro initiatives

The Danube Strategy is a macro-regional strategy developed by the Commission, together with the Danube Region countries and stakeholders, in order to create synergies and coordination between existing policies and initiatives taking place across the Danube Region.

The Danube Strategy envelopes Hungary and Croatia together with other countries connected by the Danube into the common territory facing several challenges such as environmental threats (water pollution, floods, climate change), untapped shipping potential and lack of road and rail transport connections, insufficient energy

connections, uneven socio-economic development, uncoordinated education, research and innovation systems, and shortcomings in safety and security. Through participation in transnational (the South East Europe program) and cross-border projects, many stakeholders from Croatia and Hungary already work together on reaching the Danube Strategy goals such as: having a better environment with cleaner water, protected biodiversity and cross-border disaster prevention, a safer region for citizens, building a prosperous region through educational activities, research and innovation, social inclusion, and becoming an attractive tourism and cultural territory with jointly developed and marketed destinations. Linked to the idea of Danube macro strategy there are countless uncoordinated micro initiatives which occurred as response to the opportunity that opens up with the forthcoming realization of the macro-strategy. In Croatia, coordinators on thematic areas are only representatives of ministries, and the awareness of the need of involvement of stakeholders (primarily counties, university, development agencies, businesses, etc.) from the Croatian Danube region does not exist. Many puzzle pieces of the Danube Strategy as foreseen by Croatian authorities are missing; it is still rather blurry if the entire territory of Croatia is included in the Danube Strategy or not, what are the criteria for defining the 'flagship' project in the Danube Strategy, etc.

The success of the Danube Strategy implementation in Croatia will directly depend on early involvement of regional and local stakeholders, taking into account their participation in a series of 'Danube projects' in the last five years and the input they had provided in relation to the Action Plan for the Danube Strategy in Croatia.

2. Cross-border cooperation of Croatia and Hungary

2.1. Benefits and best practices of the cross-border cooperation

The Hungary-Croatia IPA Cross-border Cooperation Program 2007-2013 promotes cross-border cooperation and territorial development between Hungary and Croatia, having strategic objectives such as EU accession and integration and also practical social, economic and environmental goals. The main actors involved are public: local and regional authorities and their institutions and companies, state-owned

companies (water management companies in particular), universities, development agencies, NGOs. Looking back to the beginning of the IPA CBC program Hungary-Croatia, some benefits are pretty obvious: building the absorption capacity of the cross-border region and increased dynamics of socio-economic life of the cross-border territory through joint project activities of various stakeholders.

Europe's leading role in institutionalized cross-border cooperation is very welcome in this case, as this program looks like an excellent 'path towards increased micro-integration and thus EU integration in general'.²²

As the main actors in the whole 'abstract EU story' are people, when trying to identify what are the benefits of cross-border cooperation, the conclusion is that within commonly developed and conducted projects most of the benefits can be found in: sharing: opportunities, interests, concerns, knowledge, skills, experiences, heritage,..., life; cooperation: multi-stakeholders, cross-sector cooperation in the cross-border environment; communication: ensures smooth project management in spite of the language barrier; good relations: we are neighbours and partners!; broadening the vision - through new contacts, insights, etc.; awareness of the region and its territorial capital; and humanity: CBC contributes to opening up and being less exclusive and self-interested.

2.2. Knowledge and cooperation as common ground for building the learning region with EU funding support

In the rich collection of cooperation examples consisting of all approved projects of three calls of IPA cross-border cooperation Hungary-Croatia (IPA CBC HU-CRO), there is a significant share of cooperation visible with the engagement of universities, particularly few faculties and institutes who performed activities such as acquiring of new knowledge, knowledge transfer, joint research, joint curriculum creation and educational activities. In line with the findings of many studies researching the impact of regional policy throughout the EU, in the Research, Technological Development and Innovation Evaluations (RTDI) it has been pointed out that that field records 'positive results in respect of RTDI interventions which generated a critical mass

²² C. Ricq, *Handbook of transfrontier cooperation* (Council of Europe, 2006).

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which enabled a leap forward in national or regional R&D activity (in Lithuania, R&D expenditure is estimated to have a multiplier effect of 2.3 on GDP, higher than that of other interventions)²³. The same evaluation report stresses the overall positive results of support for RTDI, especially in helping to create links between the public and private sector.

Based upon the official statistics of the CBC program and interviews conducted with some of the CBC actors, this paper promotes the idea that in the field of 4 specific measures in IPA CBC HU-CRO (without trying to deflate the importance of all other measures), which are joint research, development and innovation, joint cross-border education and other training projects between educational institutions, cross-border labor market mobility promotion services and cross-border business partner finding, there is huge potential in terms of development opportunities for the region. Figure 2. provides data on a number of projects and financial allocations contracted for each measure in three calls of the Program.

Figure 2 What individual measures in CBC HU-CRO tell us:



Source: <http://hu-hr-ipa.com> (15.05.2013).

²³ A report to the European Commission Directorate-General for Regional and Urban Policy, Expert evaluation network delivering policy analysis on the performance of Cohesion policy 2007-2013 (European Union, 2012) p. 9

With over 5 million EUR was disbursed into joint research, development and innovation, utilized mainly by universities of the CBC region, and with over 3 million EUR shared for joint cross-border education and other training projects between educational institutions, leads to the reasonable conclusion that there exists a tremendous environment of linkages, networks, shared informations and knowledge habits in the region. If the region is observed as a network of interdependent stakeholders within the context of regional development, many authors understand and uphold linkages and networks distinctively important in creation of learning and innovative regions, as ‘the globalization of markets and production increases the necessity for all participants in innovation and the region as a whole of improved networking’²⁴. Lundvall and Borrás identify policy and public players and their forms of partnership with businesses as very important for the ‘innovative milieu’²⁵, regarding the ‘establishment of innovation networks as an essential policy instrument to enhance the technological capacities of less favored regions’²⁶, considering three ways of how networks help in building regional innovation systems: by exploiting the learning potential of human resources in building the ‘social capital’ in the region, by expanding weak institutional capacities of the region, enhancing partnerships between public and private sector players in the region, and devising collective strategies.²⁷

²⁴ R. Sternberg, *Innovation Networks and Regional Development—Evidence from the European Regional Innovation Survey (ERIS): Theoretical Concepts, Methodological Approach, Empirical Basis and Introduction to the Theme* (Taylor & Francis Ltd., 2000) p. 391.

²⁵ Concept originally developed by GREMI (Groupe de Recherche Européen sur les Milieux Innovateurs) European school of regional economic research associated with author Aydalot and Camagni and their fellow workers. Derived from the ‘collective learning’ concept (*Camagni, Lorenz*). Although the concept was originally developed for the case of strong new industrial regions, characterized by wide synergies among local actors accelerating innovation processes, the concept was reaffirmed towards the understanding of *innovative milieu in the context of potential of lagging regions* too.

²⁶ B. A. Lundvall et S. Borrás, *Report based on contributions from seven projects under the TSER programme DG XII* (Commission of the European Union, 1997) p. 106.

²⁷ *Ibid.*, pp. 106-107.

Examining the particular IPA CBC program and selected measures to back up the thesis that there is a potential within the region for growth in direction as thought by the endogenous growth theory with its derivative concepts, policies, strategies,²⁸ leaving aside all complexity of the supranational dimension of cross-border cooperation in general, there is a strong thematic grouping of potential and actors who will probably play a more important role in the forthcoming period. Apparent thematic clusterization proves once again that at first place the common needs and interests initialize the integrated regional space with functional and practical potential. If we know that the thematic fields which are identified within those 4 program measures (but some other too) are medicine (cancerous and autoimmune diseases, immunodiagnostics, occupational health and ergonomics, biotechnology, aging and regenerative medicine), agriculture and food production, environmental protection, revitalization of eco-systems and management of natural resources, energy efficiency and renewable energy resources (as multidisciplinary field it is exploited by various stakeholders), field of construction and construction material production and recycling, hydrography, risk assessment and disaster prevention, etc. These fields with teams of researchers, their knowledge and networks present the contingent of drivers of commercialization and new economic activities. Beside basic and applied research, studies and the establishing of research centers in the abovementioned fields, there are a number of learning modules (including distance learning) developed for undergraduate and postgraduate students, jointly accredited programs, training materials, analyses, handbooks, procedures and protocols, and of course provision of equipment for laboratories which enables sustainability and upgrade for those activities. It is important to mention that the FDI potential and the innovative potential of the region was already elaborated by projects and strong cooperation of law faculties which seek an upgrade in linking up with the practice and the business sector, as well as networking of businesses in the area of environmental protection and renewable energy which already resulted in new business activities towards specialization.²⁹

²⁸ Such as Regional (national) innovation policy (strategy, system), etc.

²⁹ Example of business zone in Nemetin, Osijek, which is branded as a 'green zone', targeting investors in the field of energy efficiency and renewable energy resources.

V. Conclusions and open questions

As concluded in many researches on effects of EU funded programs in the framework of outlined objectives - including territorial cooperation, in spite of evident results of CBC projects, it is quite difficult to assess the actual effects of programs and projects, their synergistic and multiplier effect and whether they can be taken and basis or a strong component in building a learning region. 'Each location has to shape its own competitive advantage on the basis of functional and effective interactions between local economic agents and socio-institutional forces'.³⁰ In the light of Croatia's accession to the EU which is seen as an exceptional opportunity for the stimulation of economic growth, previously explained set-up of stakeholders, their capacities and their state of interaction may play a decisive role in initiating events that will shape the future of the cross-border region.

As F. Barca recommends, 'the role attributed to regional social and institutional forces by bottom-up policies is very close to the importance that the system of innovation approach gives to the same elements as catalysts of the regional capacity to learn, absorb and create knowledge as well as to translate such an economic valuable knowledge into economic growth'³¹. At the time when Croatia is in the process of creating a national innovation strategy, with an already existing basis for smart specialization, the issue of recognizing the unique opportunity lies in the reconciliation of standpoints and interests of the national and regional and local authorities: the national level must involve and mobilize the regional and local expertise - and local and regional actors should not miss out on the opportunity to influence policy and to establish a platform for public debate on development priorities. Adequate formal and informal networks are needed to facilitate the process. If we have a neighboring country that has already gone through many critical moments in an attempt to make use of the EU funds for to wake and grow the economy and living standard

³⁰ A. Ascani, R. Crescenzi, S. Iammarino, *Regional Economic Development: A Review* (London School of Economics and Political Science, 2012) p. 8.

³¹ F. Barca, P. McCann and A. Rodríguez-Pose, The case for regional development intervention: Place based versus place - neutral approaches, Working Paper in *Economics and Social Sciences*, No. 15, IMDEA Social Sciences (Madrid, 2011).

in general – why not use Hungarian examples of good practice and learn from their achievements and failures? Within the regional policy framework and its territorial cooperation objective, cooperation in the cross-border region of Hungary and Croatia affirms its values within many joint projects, proving that local and regional stakeholders chose the knowledge and skills exchange, capacity-building and cooperation as the best long-term investment for their future, creating patterns for the region to be imagined as a ‘learning region’.

‘For the advocates from the school of innovative milieux, innovations and innovative businesses are the result of a collective, dynamic process of numerous players in a region creating a network of synergy-promoting linkages. Therefore, the milieu develops from the interaction of businesses, political decision-makers, institutions and the workforce, who work to reduce the uncertainties of technological change through joint and cooperative learning’.³²

Thus I advocate this idea, and building upon the thesis of the regional potential from the previous chapter, I ask when these actions will start? Position papers, policies and strategies are under construction and open for debate, the structure is drawn, relevant stakeholders and their capacities are known, the business sector yearns for positive changes in the entrepreneurial climate and new types of incentives, and the academia looks for a new ways of action (the importance and potential of universities is unrecognized and undervalued) – all these can be seen as a perfect juncture to try and make a better plan for the region.

The next round of cohesion policy announced is focusing on domains where investments will make the biggest change forward to smart, sustainable and inclusive growth under umbrella of the Europe 2020 Strategy. Regional and local stakeholders can make the key contribution to the Strategy but the question for Croatia is whether all preconditions will be in place in time so that regional and local stakeholders can make the best of the given opportunities, and whether they will be prepared and connected well enough to use it. The questions that remain open are: *How to stimulate the constructive dialogue between different governance levels?*

³² Sternberg, op. cit. n. 24, p. 392.

How to mobilize local and regional stakeholders to be more proactive towards the national authority? How to expand capacities of stakeholders, especially in strategic planning and project preparation and management? How to make the universities more flexible, dynamic and open towards other sectors? How to embed the local knowledge and local specificities ownership into the regional economy growth? How to create productive knowledge effects in the region based upon the disposable knowledge and external assistance? And finally: How to build the trust and strategic partnerships locally, regionally, nationally and across administrative borders in order to become networks of trust and cooperation – and a learning region?

Kristina Glumac*

Strengthening small and medium sized enterprises and institutional entrepreneurship support in the cross-border area through the IPA fund

I. Introduction

Small and medium sized enterprises (SMEs) have a central role in the economy of the European Union, often referred to as its backbone. Europe's 2020 strategy and Europe's economy heavily rely on SMEs achieving their potential. For 2012, it has been estimated that 23 million SMEs employ 67% of the private sector workforce.¹ The Small Business Act (SBA) presents the EU policy framework aimed at strengthening SMEs so that they can grow and create employment while the Competitiveness and Innovation Framework Programme (CIP) supports innovation activities, provides better access to finance for SMEs and delivers business support services in the EU regions. Nevertheless, the EU secures funding for strengthening SMEs in candidate countries and potential candidates through IPA component II Cross-border cooperation. It is the purpose of this paper to examine how the pre-accession assistance of the European Union was used in the cross-border cooperation of eastern Croatia and Bosnia and Herzegovina to strengthen SMEs and institutional entrepreneurship support. This will be examined by analyzing the results of implemented projects. Firstly, an outline of the IPA fund will be given, followed by a short overview of Croatian relations with the EU and an overview of EU financial assistance through IPA. Afterwards, the Cross-border Programme between Croatia and Bosnia and Herzegovina will be analyzed, focusing on projects aimed at strengthening small and medium sized enterprises and entrepreneurial institutional support.

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¹ European Commission. Enterprise and Industry: Small Business Act for Europe [online] Available at http://ec.europa.eu/enterprise/policies/sme/small-business-act/index_en.htm (10.07.2013).

The Instrument for Pre-Accession Assistance (IPA) presents a single financial instrument for the pre-accession process in the European Union (EU) and covers the period from 2007 to 2013.² Financial assistance is provided to beneficiary countries divided into three categories based on their candidacy: accession country: Croatia³ candidate countries: Iceland, Montenegro, Serbia, the Former Yugoslav Republic of Macedonia and Turkey, and potential candidates: Albania, Bosnia and Herzegovina, Kosovo.

Assistance is provided depending on their progress and needs, as defined in the evaluation (progress report) and strategic papers of the European Commission. Nevertheless, the IPA's main aim is to support⁴ institution-building and the rule of law, human rights including fundamental freedoms, minority rights, gender equality and non-discrimination, administrative and economic reforms, economic and social development, reconciliation and reconstruction, regional and cross-border cooperation. It has replaced several European Union programs - PHARE,⁵ ISPA,⁶ SAPARD,⁷ CARDS⁸ and the financial instrument for Turkey.⁹ The legal framework for this financial

² *Instrument pretristupne pomoći (IPA)* [Instrument for Pre-Accession Assistance] (Zagreb, Središnji državni ured za razvojnu strategiju i koordinaciju fondova Europske unije) p. 4

³ Member state from 1 July 2013.

⁴ European Union, Summaries of EU legislations; Instrument for Pre-Accession Assistance (IPA) [online] Available at http://europa.eu/legislation_summaries/agriculture/enlargement/e50020_en.htm (15.7.2013).

⁵ Support for institution building measures and associated investment in candidate countries, including measures that promote economic and social cohesion and cross border cooperation.

⁶ Support to large-scale environmental and transport infrastructure projects in candidate countries.

⁷ Aimed at agricultural and rural development in candidate countries.

⁸ Financial instrument for the Western Balkan countries, with the main objective of supporting participation of the Western Balkans in the Stabilisation and Association Process (SAP). The SAP presented cornerstone of the EU's policy towards the region, aiming to promote stability in the region, whilst facilitating closer association with the EU.

⁹ Turkish pre-accession instrument, separate instrument with separate budget lines and procedures then pre-accession programs.

instrument was established under Council Regulation (EC) 1085/2006 of 17 July 2006 and its implementation provisions in Commission Regulation (EC) 718/2007, as amended by Commission Regulation (EC) 80/2010 and Commission Regulation (EC) 1292/2011.¹⁰

Financing under IPA is provided through five components:

Transition Assistance and Institution Building - aimed at financing capacity-building and institution-building;

Cross-Border Co-operation - support to the beneficiary countries in the area of cross-border cooperation between themselves or with the EU Member States;

Regional Development - including transport, environment, infrastructure, enhancement of competitiveness and regional disparities reduction, with focus on preparation for the implementation of the Community's cohesion policy (European Regional Development Fund and the Cohesion Fund);

Human Resources Development – aimed at strengthening human capital and the fight against exclusion, preparation for the European Social Fund;

Rural Development (IPARD) – preparing beneficiary countries for the common agricultural policy and the European Agricultural Fund for Rural Development.

Components I and II are open to all beneficiary countries. On the contrary, components III, IV and V are not open to the potential candidates. However, Iceland and Montenegro also remain outside the scope of component III. IPA components III, IV and V are designed to closely mirror structural, cohesion and rural development funds what enables beneficiaries to prepare themselves for successful management of funds and participation in EU cohesion policy after accession. The intention is to assist the beneficiary countries in absorbing EU cohesion funding more effectively when it becomes accessible.

¹⁰ European Commission. Regional Policy; Instrument for Pre-Accession Assistance (IPA). [online] Available at http://ec.europa.eu/regional_policy/the_funds/ipa/works_en.cfm (15.07.2013).

II. IPA in Croatia

The first formal step in institutionalizing the relationship of Croatia with the EU was the signing of the Stabilization and Association Agreement (SAA) on the 29 October 2001.¹¹ Croatia applied for membership in the European Union on 21 February 2003 and, based on a positive opinion by the European Commission, Croatia was granted the status of candidate country for membership on 18 June 2004. The negotiations with the European Union lasted from 3 October 2005 to 30 June 2011. The Accession Treaty was signed on 9 December 2011 and the Croatian Parliament ratified it on 9 March 2012.¹² Following the ratification procedure in all EU Member States, Croatia became a member of the EU on 1 July 2013.

The EU provided financial assistance to Croatia through various instruments.¹³ Through the CARDS program, Croatia received around 278.8 million euro for the period 2000-2004. In 2005 and 2006, a total of 252 million € was available from the PHARE, ISPA and SAPARD funds. After these funds were replaced with the integrated instrument IPA in 2007, the Republic of Croatia became a beneficiary of all five components of this program. In the period 2007-2012, 904,13 million € were allocated to Croatia in the IPA program, and for the current year 93,52 million € as shown in table 1.¹⁴

¹¹ K. Brigljević, et al., *Hrvatska na putu u Europsku uniju: od kandidature do članstva*, šesto izdanje [Croatia on its way to the European Union: From Candidacy to Membership, 6th edition] (Zagreb, Ministry of Foreign and European Affairs 2012) p. 34-56.

¹² Delegation of the European Union to Croatia. Overview of Croatia – EU relations. [online] Available at <http://www.delhrv.ec.europa.eu/?lang=en&content=62> (13.07.2013).

¹³ Delegation of the European Union to Croatia. Overview of EU financial assistance [online] Available at <http://www.delhrv.ec.europa.eu/?lang=en&content=68> (13.07.2013).

¹⁴ Ministry of Regional development and EU funds. Financijska vrijednost IPA-e [Financial value of IPA-e] [online] Available at <http://www.mrrfeu.hr/default.aspx?id=612> (10.07.2013).

Table 1 Financial allocation of IPA for the Republic of Croatia in the period 2007-2013 (million €)

IPA component	2007	2008	2009	2010	2011	2012	2013
Transition Assistance and Institution Building	49,61	45,37	45,60	39,48	39,96	39,97	17,44
Cross-Border Co-operation	9,69	14,73	15,90	15,60	15,87	16,44	9,75
Regional Development	45,05	47,60	49,70	56,80	58,20	57,45	30,09
Human Resources Development	11,38	12,70	14,20	15,70	16,00	15,90	8,55
Rural Development	25,50	25,60	25,80	26,00	26,50	25,82	27,70
Total	141,23	146,00	151,20	153,58	156,53	155,59	93,52

Source: Ministry of Regional Development and EU Funds

The core activity under IPA component II is Cross-border Cooperation. IPA 2007 and 2008 programs support cooperation of the Republic of Croatia with bordering Member States (Hungary, Italy and Slovenia) but also includes a new generation of cross border-programs (Bosnia and Herzegovina, Montenegro and Serbia) as well as participation of Croatia in the European Territorial Co-operation transnational programs: ‘South-East Europe’ and ‘Mediterranean’.¹⁵

1. Cross-border Programme between Croatia and Bosnia & Herzegovina

The key strategic document that defines the cross-border program between Croatia and Bosnia & Herzegovina for the period 2007-2013 is ‘Instrument for Pre-Accession (IPA) Cross-Border Programme Croatia – Bosnia and Herzegovina 2007-2013’¹⁶ and is based on the joint planning effort of the Croatian and Bosnian parties. The Programme targets areas of the common border of Croatia and Bosnia and Herzegovina. On the Croatian side, it includes 9 eligible counties

¹⁵ European Commission. Enlargement; Croatia – financial assistance [online] Available at http://ec.europa.eu/enlargement/instruments/funding-by-country/croatia/index_en.htm (16.07.2013).

¹⁶ Available online http://ec.europa.eu/enlargement/pdf/croatia/ipa/cro-bih_final_crossborderprogramme_2007-_c20075934_of_10122007_en.pdf (16.07.2013).

on the border: Vukovarsko-srijemska, Brodsko-posavska, Sisačko-moslavačka, Karlovačka, Ličko-senjska, Zadarska, Šibensko-kninska, Splitsko-dalmatinska and Dubrovačko-neretvanska, covering 30,882 km² of territory and 1,623,886 inhabitants. On the Bosnian side, 95 municipalities are eligible to take part in the Programme, covering 38.022 km² of territory with 2.770.945 inhabitants. Some territories have been proposed for adjacent regions: Osječko-baranjska, Požeško-slavonska, Bjelovarsko-bilogorska, Zagrebačka and Primorsko-goranska counties. The proposed adjacent territories cover 15.266 km² and have 854.926 inhabitants. The overall level of economic development of the programming area is very low compared with the EU-27 average. Main characteristics of the area are low GDP, the predominance of the agricultural sector, the lack of investments and the undercapitalization of local businesses. Consequently, the main objectives of the cross-border program between Croatia and Bosnia and Herzegovina, as defined in the key strategic document of the Programme, are: to encourage the creation of cross-border networks and partnerships and the development of joint cross-border actions with a view to revitalizing the economy, protecting the nature and the environment and increasing social cohesion of the programming area; to build the capacity of local, regional and national institutions to manage EU programs and to prepare them to manage future cross-border programs. These objectives are planned to be achieved through the implementation of actions under the following set of Programme priorities and measures:

Table 2 Priorities and measures of the Cross-border Programme between Croatia and Bosnia & Herzegovina

Priority 1	Priority 2	Priority 3
Creation of a Joint Economic Space	Improved Quality of Life and Social Cohesion	Technical assistance
Measure 1.1: Joint development of tourism offer	Measure 2.1: Protection of nature and environment	Measure 3.1: Support to Programme Administration and Implementation
Measure 1.2: Promotion of entrepreneurship	Measure 2.2: Improved accessibility of community based services in the border area	Measure 3.2: Support to Programme Information, Publicity and Evaluation
Horizontal Theme: Cross-Border Capacity Building		

Source: Instrument for Pre-Accession (IPA) Cross-Border Programme Croatia – Bosnia and Herzegovina 2007-2013.

2. Creation of a joint economic space through promotion of entrepreneurship

Priority 1 of the Programme, *Creation of a Joint Economic Space* is a response to the difficult economic situation on both sides of the border. Situation analysis for the Programme has shown that the majorities of SMEs in the target area are very small and lack professional support and services as assistance to build up performance and strengthen competitiveness. The problems of insufficient assistance and support to entrepreneurship include administrative barriers in various phases of an enterprise life cycle, absence of education for entrepreneurs, lack of business support institutions (i.e. business centers, business incubator, technological parks), inconsistency in implementation of education/training for entrepreneurship needs, lack of coordination between government policies in creation of supportive environment for entrepreneurial activities, underdevelopment of financial market for fulfilling needs of the SME sector and insufficiently developed

institutional support on regional level for entrepreneurship development.¹⁷ However, the analysis has also shown that significant growth potential lies with the SMEs. Potential which remains to be realized fully as there is a number of weaknesses obstructing the creation and growth of SMEs (particularly knowledge-based SMEs that contribute most to regional competitiveness). As defined in the key strategic document of the Programme, the promotion of entrepreneurship and the support to SME is essential to improve the economic prospect of border areas. More frequent contacts between SMEs will create new opportunities for cooperation. Joint support to the SMEs will help improve the competitiveness of existing SMEs and encourage the setting-up of new companies.¹⁸

Based on everything written, the Programme has set the following overall objective of the Priority 1- *Creation of joint economic space*: 'To contribute to the integration of the economy in border areas by encouraging cooperation in the field of tourism and SME support and entrepreneurship promotion.' It will be implemented through two measures:

Measure 1.1: Development of joint tourist offer;

Measure 1.2: Promotion of entrepreneurship.

It is expected that the measure 1.2 will strengthen connections between Croatian and Bosnian and Herzegovinian enterprises and achieve higher involvement of regional development agencies and business support institutions in SME development activities. It will foster a common understanding of cross-border regional economic opportunities. It will also promote entrepreneurship in border regions and support initiatives that promote up-to-date technology, export orientation, innovativeness and partnership between SMEs and R&D organizations to commercialize scientific innovation. It will stimulate regular interaction between businesses located on both sides

¹⁷ European Commission. Instrument for Pre-Accession (IPA) Cross-Border Programme Croatia – Bosnia and Herzegovina 2007-2013 (2007) p.17 Available online at <http://www.delhrv.ec.europa.eu/?lang=en&content=62> (16.07.2013).

¹⁸ Cross border programme Croatia – Bosnia and Herzegovina. Priority 1: Creation of Joint Economic Space. [online] Available at <http://www.cbc-cro-bih.net/en/item/17.html> (14.07.2013).

of the border via the following: business-to-business networks and clustering; development of SME support services and joint access to these; joint marketing & promotion on domestic & EU markets; exchange of know-how; selected investments in small-scale business related infrastructure.

Types of actions eligible under measure 1.2 *Promotion of entrepreneurship* are: development and implementation of training and educational activities for SMEs; support to development of innovation and research and development especially involving partnerships between SMEs, universities, R&D institutions; networking of SMEs and establishment of cross-border clusters; planning and development of cross-border business related infrastructure (industrial areas and business zones); development of joint business support institutions (business centers, business incubators, technology transfer centers, start-up centers); development of services to assist SMEs in the development of related business activities (general advice and training, joint marketing of SMEs, awareness rising about market conditions, etc.).

Achievement of the measure will be evaluated on the basis of the output and result indicators, as follows:¹⁹

Output indicators are number of business support centers created; number of supported knowledge transfer projects; number of projects encouraging the development of cross-border business cooperation, networks and clusters; number of implemented joint cooperation projects on development of skills and knowledge; number of SMEs/science/R&D networks established; number of promotional events and trade fairs for local/regional products; number of SMEs involved in/benefit of cross-border projects.

Result indicators are increase in the number of SMEs located within programming area; increase in number of new jobs creation; increased number of permanent business contacts; increased number of common

¹⁹ Cross border programme Croatia – Bosnia and Hercegovina. Priority 1: Creation of Joint Economic Space. [online] Available at <http://www.cbc-cro-bih.net/en/item/17.html> (14.07.2013).

strategies and plans; increased level of business innovation through transfer of technology via university and R&D institutions to SMEs.

Under the IPA Cross-border Programme Croatia – Bosnia and Herzegovina, 2 calls for project proposal submission have been published so far: first on 17 September 2009, and second on 5 September 2011.²⁰ The third call is planned for autumn 2013. Within the first call, following project have been selected and granted with EU funding (maximum EU grant available was 85% of the amount or 300.000,00 €): Una – Spring of Life; Public Energy Management; InECO; Sava Navigo; Revival of cross border partnership trough rural development; ABCDE Posavina; Joint Effort for Innovative Environment; STONE; VIOR - Vinkovci and Orašje Heritage Tourism Project; Volunteering for Cross-Border Community Development; Lake 2 lake; The Una River - Unique Resource for Sustainable Development; Bicycle for Tourism without Frontiers; Moving towards successful public participation in the Sava River Basin water management.

Within the second call, projects are currently in the first months of the implementation period. Therefore, this paper is focused on projects that are finished and have reported achieved outputs and results to the contracting body: the Agency for Regional Development of the Republic of Croatia.

3. Analysis of implemented EU cross-border projects in measure 1.2.

In the first call for proposals, out of 13 selected and funded projects of cross border cooperation between Croatia and Bosnia and Herzegovina, three projects have been selected for EU funding under priority 1, measure 1.2 (*Promotion of entrepreneurship*). Those are: Joint Effort for Innovative Environment, Innovative Networking and Economic Collaboration of Tuzla and Vukovar Regions (both targeting the eastern part of Croatia and Bosnia and Herzegovina border) and project STONE. In the following paragraph, two projects targeting the

²⁰ European Commission. Call for proposals & Procurement notices. [online] Available at <https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?ADSSChck=1375198517037&do=publi.welcome> (14.07.2013).

eastern part of the Croatian and Bosnian and Herzegovinian border will be analyzed.

Project 'Joint Effort for Innovative Environment' The main objective of this project was to improve the competitiveness of small and medium-sized enterprises in the area of Posavina (BiH) and Vukovar-Srijem County (CRO), and to create conditions for long-term and sustainable cooperation of the institutions that support entrepreneurs in the border area.²¹ Project beneficiaries (partners) were the Independent Office for Development (BiH) and the Vukovar-Srijem County Development Agency HRAST Ltd. (Croatia). The project targeted the Posavina area, north-east Bosnia and Herzegovina, Vukovar-Srijem County.

The Project started in December 2010 and has lasted for 14 months. Its value was 228.593,44 € while the core activities were: analysis of capacity of small and medium enterprises in the border area; educational activities (4 trainings with topics selected through interviews with SMEs) and building of market linkages through 2 business-to-business (B2B) meetings with 88 participants; individual advice to 10 SMEs based on the analyses (recognized specific SME needs) and recommendations from B2B meetings (focused on SMEs with potential to increase innovation and exchange their knowledge); development of policies for SME development through working groups; activities strengthening entrepreneurial infrastructure : six joint trainings of development agencies employees, two joint trainings of partnering organizations (Odžak Municipality, Vukovar-Srijem County and City of Vinkovci), attended by 22 participants in total.

The target groups of the Project were associations of entrepreneurs (4 in BiH, 3 in Croatia), business support institutions (4 in BiH, 3 in Croatia), municipalities (6 in BiH, 2 in Croatia) and SMEs (11 in BiH and 10 in CRO), while final beneficiaries are SMEs in the cross-border regions and especially the ones in the areas of the municipalities of Modriča, Vukosavlje, Odžak (BiH) and the City of Vinkovci (Croatia). Through implemented project activities, as per the indicator table

²¹ Agencija za razvoj Vukovarsko-srijemske županije HRAST d.o.o. Zajedničkim snagama do inovativnog okruženje. [online] Available at <http://www.ar-hrast.hr/default.aspx?id=168> (15.07.2013).

submitted by the Beneficiaries to the Contracting Authority in the Project Final report, the innovative capacity of the areas has been increased, 10 agreements on cooperation were signed, 2 new cross border cooperation project were created and have been submitted to open call for proposal and 3 new services for SMEs were developed. Detailed, innovative capacities of SMEs have been improved through 10 advisory meetings and 4 trainings that have been held based on 101 interviews with SMEs, 2 round tables and produced analysis of capacity of small and medium enterprises in the border area. The capacity of development agencies has been increased through 15 meetings of the working groups, 50 days of technical assistance and 10 plans for development of business support infrastructure which were created, including cross border cooperation projects. Also, 3 new services for SMEs were introduced, 20 employees from development institutions completed 6 trainings. Furthermore, cooperation between SMEs in the cross border region has been improved. On B2B meetings, 60 contacts have been established, and within project activities, SMEs with potential for cooperation were identified. The project activities also created conditions for long-term development and cooperation; 10 employees of partnering organizations completed trainings and created 2 development projects for SMEs as a result of their training.

Project indicators achievement was as follows: number of cross-border initiatives designed to strengthen businesses, SMEs or entrepreneurs: target 19 - achieved 23; number of cross-border events designed to strengthen businesses, SMEs or entrepreneurs: target 85 - achieved 84; number of organisations involved in or benefiting from projects finance: target 48 - achieved 144; number of formal links between business/SMEs/entrepreneurs, with R&D institutions after the EU grant has finished: target 40 - achieved 46.

Number of people in receipt of training/education: target 100 - achieved 177.

Project 'Innovative Networking and Economic Collaboration of Tuzla and Vukovar Regions' The main aim of this project was to strengthen interrelations of institutional and economic collaboration between two cities - Vukovar and Tuzla, focused on the development of economic systems of two regions and development of SMEs network

in quoted areas. Specific objectives of the Project were: to strengthen competitiveness of SMEs in cross-border area in the area of ICT, innovation and export orientation; to network SMEs and institutions that provides development of existing and support to establishment of new SMEs in targeted regions; to empower instructional capacities for provision of support to development of existing and support to new SMEs.

Project beneficiaries (project partners) were Tuzla Municipality (BiH) and City of Vukovar (CRO) and project implementation period was from 15 March 2011 to 14 March 2013. Total value of the project was 317.151,99 €. Project target areas were in Bosnia and Herzegovina: Tuzla and Posavina Cantons, Municipality Tuzla, indirectly municipalities Srebrenik, Gračanica, Gradačac and Orašje; in Croatia: Vukovar and Srijem County, City of Vukovar and indirectly cities Vinkovci, Otok, Županja and Ilok.

Final beneficiaries were local SMEs in the target areas, local business support service providers and representatives of business support infrastructure, indirectly population in targeted areas. Main activities of the Project were divided into three categories:

Activities I: production of ‘Analysis of existing capacities of support institutions for small and medium entrepreneurship in the region of Vukovar-Srijem County and the City of Vukovar’, and ‘Analysis of available capacities for providing support for small and medium enterprises and entrepreneurship in the area of Tuzla Municipality’, workshops/trainings for SMEs, unemployed persons and students.

Activities II: formation of web based database on SMEs in the areas of Tuzla and Vukovar, production of SMEs catalogues (1000 pieces), containing general and contact information on SMEs in the areas of Tuzla and Vukovar, project website with all information and news about the Project, organization of 4 business meetings for entrepreneurs and business support institutions from Vukovar and Tuzla areas (two business meetings were held in Tuzla and two in Vukovar),

Activities III: 3 study tours with the purpose of exchanging experiences and visiting examples of good practice in local economic development (Tuzla, Vukovar and AREA Science Park in Trieste, Italy), production

of manuals (10 in total, 5000 copies) for the purposes of training for representatives of SMEs, unemployed persons and students, production of technical documentation for the Business Incubator (BIC) Vukovar and renovation of 160 m² of the Development and Entrepreneurship Centre 'Lipnica' in Tuzla. In general, project results were established cooperation between SMEs in the areas of Tuzla and Vukovar; establishment of virtual cluster of institutions providing business support in the cross-border region; two centers which provide support for business in the cross-border region were strategically strengthened; the overall services of business support for SMEs in both regions were identified and presented; capacities and business skills of SMEs in the target areas were strengthened.

Project indicators achievement are number of SMEs/science/R&D networks established: 1 non-formal network established for business service providers (30 providers signed a Memorandum of understanding) compared to planned network of at least 20 institutions of business support services; number of promotional events and trade fairs for local/regional products: 4 out of 4 planned mutual meetings of SMEs and business service providers organized; number of SMEs involved in and benefiting from cross-border projects: Directly, 363 SMEs participated on mutual business meetings, 380 participants attended training for SMEs trainings. The planned target number was lower (300 participants on 10 trainings in Vukovar and 10 trainings in Tuzla); number of permanent business contacts increased: 69 contacts through SMEs web based data base established; 273 direct business contacts on mutual meetings (compared to planned target number of 100 business linkages); number of business support centers created: technical documentation for business incubator in Vukovar produced.

The outcomes of the project for both final beneficiaries and the target group were: empowered capacities and business skills of SMEs in target areas, established effective contacts among SMEs from Tuzla and Vukovar regions, established virtual cluster of collaboration of business support service providers and business infrastructure, strategically strengthened 2 centers for provision of support services in cross-border cooperation (RPC Lipnica in Tuzla and VURA Vukovar)

and identified and presented entire service support to SMEs in both regions.

III. Conclusion

Based on the output and result indicators that are defined as measure of achievement of implemented project in the key strategic document for cross-border programme of cooperation between Croatia and Bosnia & Herzegovina for the period 2007-2013 (Instrument for Pre-Accession (IPA) Cross-Border Programme Croatia - Bosnia and Herzegovina 2007-2013') two projects have been analyzed and evaluated in order to define in what way the financial assistance of the EU was used to support entrepreneurship. Projects were 100% successful in achieving planned outputs and results. Therefore it can be concluded that those projects have, under the measure promotion of entrepreneurship, strengthen connections between Croatian and Bosnian and Herzegovinian enterprises and have achieved higher involvement of regional development agencies and business support institutions in SME development activities. The projects have strengthened innovativeness and partnership between SMEs and business support institutions and have further developed support services for SMEs. The result is a positive impact and the fostering of the economic progress of the concerned area: improvement of the economic prospect of border areas, creation of new opportunities for cooperation, joint support to SMEs, improvement of competitiveness of existing SMEs and encouraging the setting-up of new companies.

Mario Marolin*

Renewable sources of energy financed by EU funds as an opportunity for regional development

I. Introduction

For the last few years, renewable energy was and still is one of the most popular subjects on a global scale in both life and science. The increased need for energy produced from fossil fuels has rapidly manufactured CO₂ emission and pollution of air pushing our planet to the limits of endurance. Regarding these reasons as well as the need for sustainable growth, the European Union decided to raise awareness on this issue, especially of the EU citizens, by encouraging them to be rational in the usage of energy, as well as to motivate them to invest in energy production obtained from renewable sources. The EU strategy which refers to these measures is entitled Europe 2020. The main goal of this Strategy is to achieve a 20 percent increase in electricity production from renewable energy sources, to reduce CO₂ emissions by 20 percent and to increase efficient use of electricity by 20 percent - all until the year 2020.¹

The Republic of Croatia as an EU member state has an obligation to implement the Europe 2020 strategy as well. This means that the Croatian government needs to create efficient measures which will motivate citizens and the business sector to invest in renewable energy. Unfortunately, Croatia has a difficult task in carrying out this strategy because the current status of usage of renewable energy resources is at a very low level despite numerous natural options. My opinion is that there are many potential solutions for these issues which can encourage growth and development of the region through investments in renewable energy and therefore I decided to write down my idea as ‘Renewable source of energy financed by EU funds as opportunity for regional development’. My focus will be on solar energy because any region can produce energy from this source. And before I explain my

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¹ Europe 2020 - a European strategy for smart, sustainable and inclusive growth, available at <http://ec.europa.eu/eu2020/pdf/> (15.03.2013).

model and opportunity for regional development through renewable sources of energy financed by EU funds, I will present current country models regarding investment stimulation in solar energy infrastructure. This information will be very important because it will reopen new possibilities and explore new opportunities suitable for using EU funds which are financing these kinds of ideas, especially if they are coming from undeveloped regions. But why is the EU dealing with these kinds of projects and why is the EU helping undeveloped regions?

Equal development of all regions in the EU is one of the main priorities and objectives of the Union. The European Commission and the European Committee of the Regions of the EU have the primary task to suggest and create policy documents which will be supported by financial perspectives for periods of seven years. This policy needs to create financial opportunities for steady growth and development of regions whose GDP is far behind developed regions of the EU. Croatia is also one of the countries with low GDP and economically unevenly developed regions in its territory. This was one of the main reasons why the EU has provided Croatia with a substantial amount of resources for development and growth. The EU has granted Croatia more than half a billion euros and this amount will be much higher when Croatia becomes an EU member state. Projects which can be applicable must satisfy certain criteria including sustainability of economy and life in accordance with EU values. And why is this relevant for our subject?

Croatia is currently facing problems with stagnation, high centralization and big regional development differences. If we compare the GDP standard of Zagreb, capital of Croatia with other parts such as Slavonia, Baranja, Dalmatia, there are big differences in development and wealth between them. But in this paper I will not focus on problems which are causing this inequality. The purpose of this paper is to show potentially good solutions for this problem.

Typical for all regions is that they have a large amount of infrastructure which is not used properly and adequately (especially if we look at their energy consumption). But if we turn these objects into economic opportunity with improved energy efficiency, reduced costs and for production of electricity from renewable resource, we can maybe start regional growth and prosperity. Energy is a resource which provides

life and economic growth. If renewable resources of energy can be used in a certain region, it will not only be beneficial for the regional economy, but it is also environment friendly which is very important for tourism and agriculture. My theory is that every undeveloped region can build a sustainable economy with mini solar power plants on roofs in the region and in that way provide renewable energy, new jobs and better life. As an ideal example of this potential development I will present the potential example of Osijek-aranja County as a relevant example of an underdeveloped region in which there is a large amount of buildings with roofs that are unused and can be used for various development purposes and profit realization.

Therefore, in this work I will present my vision on how a region can provide sustainable development respecting the EU strategy on sustainable development and environmental protection in a way to make use of the existing infrastructure to build solar power plants on the roofs and facades of buildings creating in that way energy independence and opening new possibilities for investors and economic growth. How is it possible? Will the investment be ultimately cost-effective? Regarding these and many other questions I will give you answers and try to support my idea of economic recovery of underdeveloped regions in case this idea is ultimately implemented.

II. Development and environmental sustainability using solar energy

1. Strategy to encourage investment in building solar power plants in Europe

Today's economy and thus the modern way of life depends heavily on fossil fuels and also on the price of these products on the world market. Changes and large fluctuation that occur in this area affect the entire world population. On the other hand, the potential of renewable energy sources is underused and one of the main reasons that actually go in favor of this fact is expensive technology. Because of that expensiveness neither countries nor regions decide to invest in the use of renewable energy sources. For this reason nowadays large organizations and the international community are providing a major contribution. Programs that serve as legal and financial stimulus had

been started and organized. These programs should encourage the reduction of emissions and investing in renewable energy. One of these programs designed by the EU, notably the Europe 2020 strategy, which besides development goals, has the goal to reduce emissions in the EU by 20 percent, and to increase generating electrical power from renewable energy sources by the same percentage, as well as more rational energy consumption by households and industry. All EU member states as well as Croatia have committed to realize the same program. The problem that lies ahead in dealing with specific issues is mostly connected to a lack of funding. Because of these problems, some countries have devised a way to encourage citizens and businesses to invest in the construction of various renewable energy sources. As the Sun is the most available renewable energy source and because I consider that solar energy is the best source of energy for the future, I shall put special emphasis on solar power plants in this paper. I will elaborate why I consider them to be a great potential for growth and development of every region that invests in the construction of this kind of energy plants. Among the first countries with clear strategies of stimulating their citizens to generate electric and heating energy using the solar energy was Germany. The strategy included co-financing the building materials as a kind of stimulus for citizens and entrepreneurs in order to build solar power plants on their houses and other objects. That model of co-financing has attracted a great number of citizens who have not only increased the value of their real estate property by building power plants on them and ensured free electrical and heating energy, but also earned a great deal of money selling the redundant electrical energy. The state has on the other hand reduced the import of electric energy, increased the share of getting electric energy from renewable energy sources, protected the environment and educated the citizens about the rational usage of energy. Besides that, it has given an extra uplift to German production if we consider that they have opened numerous businesses needed to build power plants. Because of that, German companies are nowadays the strongest and the most sophisticated companies in the world when it comes to solar panels and solar power plants. That model has induced the opening of new employment positions in every business segment, from the workers hired to set up and build the power plants to the scientist who worked

on new research and innovations. A similar model and the German example of generating electricity can be used for regional growth and development of any region in the world, as well as regions in Croatia.

But before I present the model of regional development through building solar power plants which are sustainable and similar to the above-mentioned example, I feel I need to mention some poor examples of strategies of stimulating citizens to put up and invest into renewable sources of energy, specifically solar power plants. One of the worse cases of that kind of investment, in my opinion, took place in Spain.

This country, instead of deciding to co-finance the equipment and material needed to build solar power plants, decided to give subventions for repurchasing electric energy at values that were higher than sale prices. These state companies which repurchased high value energy were put in an unfavorable place on the market. Also, property values grew higher which made entrepreneurs build up debt in order to get larger areas of land to build power plants. This system soon led to financial breakdown. The state itself could not bear the burden of such subsidized purchase due to the economic crisis that has resulted in making the subsidies significantly reduced or completely eliminated, which led ultimately to the collapse of many businesses and thus a disturbance in the economy.

2. Croatian strategy for encouraging investment in solar power plants

Unfortunately, Croatia has embarked on a similar model as Spain. In order to reach the levels prescribed by the Europe 2020 strategy and to encourage citizens to invest in the construction of renewable energy sources, Croatia has adopted the Law on the Electricity Market and Tariff System for the Production of Electricity from Renewable Sources and Cogeneration Regulation, and also the Regulation on Fees for Encouraging the Production of Electric Energy from Renewable Sources. Under these laws, the Republic of Croatia is obliged to repurchase the entire electricity produced and, in order to encourage citizens to do the same, a model has been designed to stimulate citizens and business owners to decide to construct a plant that will produce electric energy from renewable energy sources. A typical example

of this is a solar power plant that could initially be built both on infrastructure and on bare land.

Given that Croatia is a relatively cheap country and given the lack of awareness of citizens in business opportunities and possibilities, large corporations as well as foreign investors, especially those from Germany, tried to take advantage of this. With the help of agents in Croatia they started to buy land all over Croatia and invested in the construction of power plants for a small amount of money. As Germany has still been stimulating the purchase of infrastructure to build plants until 2012, Croatia has on the other hand stimulated the repurchase of electric energy in Croatia. It can clearly be seen why there was so much interest from foreign investors in such investments in Croatia. Investments in Croatia would mean short-term employment and earnings for Croatia and its citizens and at the same time it would be a long-term commitment and debt for Croatia because it would have to buy electricity produced on its fields that were sold for little money in the first place.

Although at first many did not realize the real issue at stake, one of the best steps forward during the mandate of former Deputy Prime Minister Radimir Cacic was the recognition of possible scenarios with negative outcomes. That is why in May 2012, the tariff system for repurchasing electric energy was amended. The subsidized repurchase of electricity by the manufacturer who had solar power plants on non-integrated systems (or in other words in the field, land, etc.) was eliminated, and the option of subsidized purchase of electric energy from power manufacturers who had solar power plants on legally constructed buildings.

These power plants could be up to 30 kWp, and in this way they tried to persuade families with homes to build a small power plant on their roofs. Many have disputed the passing of this bill as harmful and that it is not going to attract new investments but if we look at the pros and cons, we can clearly determine that such an amendment was necessary if the legislator aimed to reduce the pressure that this kind of subsidized repurchase has on the Croatian state budget. Unfortunately, even this solution is not good enough for future sustainable growth and development or for the current state monopolist HEP who will

continue to be trapped by contracted repurchase prices and values, and it is not good for the state budget that will have to carry the burden of subsidized repurchases. Before joining the EU, Croatia had no other serious producer and distributor of electric energy besides HEP. No wonder that this big company became lazy and did not invest in its competitiveness. The state has with such strategy further reduced the potential market competitiveness of HEP, since the HEP was bound by contract to all the manufacturers and was required to offer the same basis for the repurchase price of electric energy, regardless of fluctuations in the future that will happen in the electricity market. In 2013 (just before the Croatian accession to the EU), several companies have already showed interest in entering the Croatian market with an offer that will be significantly more favorable than the current offer by HEP.

It is clear that the competition will have a decisive impact on the future of the company and therefore the Croatian influence on the price of electric energy in its territory. While the arrival of competition is going to substantially contribute to better position of the citizens and the economy, I must emphasize that this will indirectly have a major impact on the budget of the Republic of Croatia as well as the number of the employees of HEP. If the company does not undergo serious changes and becomes competitive, it will surely suffer the same fate as many other companies that did not adjust to market competition. Because of this reason, the problem of contracting a fixed repurchase price of electric energy and the strategy of the Government to subsidize the repurchase of electric energy is going to be an additional weight for HEP and the budget.

With this short section, I made an introduction to potential opportunities and problems of different strategies of European countries in the matter of attracting domestic investors (individuals and businesses) to invest in solar power plants. In the following sections of the text I am going to explain the potential for development of regions through renewable energy sources with the possibilities of co-financing through various EU funds that were created just for the purpose of developing underdeveloped regions, environmental protection, better energy efficiency and improvement of living standards of all citizens of the EU.

III. Underdeveloped regions and their opportunities in the field of renewable energy sources

One of the main goals of the EU is to encourage the growth and development of underdeveloped regions. Strategy Europe 2020 is dealing with the purpose of equal development. In order to achieve visible and effective results in this field, the EU has provided for those regions additional financial resources through financing EU grants (funds). The reason why I am mentioning this is because the potential and opportunity of this idea of investing in solar power as renewable energy is coming to life with co-financing from EU funds and in that way encourages the growth and development of these regions. The first thing needed for implementing this type of project is an insight into the energy consumption which individual regions exercise during the year.

Preparation for this kind of project requires collecting information. Contacting and gathering information about electricity network is the first step. The next step is to develop a strategy based on potentials of that particular region. Specifically, the regions own a large amount of buildings, the roofs of which are unused. For this reason, the solar power plant will not have to be posted on the ground and thus prevent further processing which is environmentally friendly. On the other hand, if the region does not have sufficient facilities for the construction of solar power plants in the amount necessary to compensate for consumption, the whole project can include citizens, which will be in favor of the Europe 2020 achievement. Regions and civil initiatives could create an energy-economic symbiosis in which the region will fund the construction of plants on the roofs owned by citizens and enable citizens who agree to that free electricity or electricity at a substantially reduced price (depending on the size of the installed power plant), while on the other hand, the citizens would give their roof into unlimited easement (subject to certain construction requirements). Citizens would thus get free energy (both electrical and thermal) and increase the value of their own property at the same time, and the region would utilize its own physical capacities. The next step is to address the financial structure of such a large project: As it depends on the amount which varies from region size and energy consumption, it is not easy now to give an estimate how much financial

resources are going to be necessary for a particular region to meet the energy needs of the citizens and the economy of the region. Because of this reason, I will present this model on the particular example of Osijek-Baranja County as one of the less developed European regions with the potential of implementation of this idea.

The financing of the project is based on substantial co-financing by EU funds, which should cover up to 50 percent of the cost. Since all formal legal and also economic and environmental conditions are met, which is evident by comparison with the Europe 2020 strategy, I think this project is ideal for financing through EU funds. By calculation I came to the conclusion that through the funding only one third of the production capacity of electric energy derived from the sun (this ratio is consistent with the ratio of electric energy consumed in the region) and the 50 percentage co-funded through EU funds, regions could after eight years pay the financing of the other two thirds of solar power plants by themselves.

This would mean that the region would within 24 years reach 100 percent of electricity from renewable energy sources and that the same project could constantly be refunded through investment in replacing consumables. As the expectancy of a solar power plant to accumulate a minimum of 90 percent of electric energy is 24 years, further sustainability of the project will be provided through a replacement of one third of the plants that were installed in the first phase of the project and they would be financed entirely by all the plants that are active in that region

With this project, the region will ensure energy independence, which is the goal of the EU because it depends heavily on energy imports from Russia and the Middle East, but will also enable attracting new investors, economic growth and new employment. Specifically, the regions that decide to take this kind of investment will have the ability to attract investors with favorable prices of electric energy since it will be possible to set terms of selling or transferring free usage of the same energy. As the price of energy is one of the most important factors for each company, surely such possibility of cooperation will attract new investors to open their manufacturing facilities in these regions.

On the other hand, it is going to be possible to set up a new plant on newly constructed buildings, and since we are talking about a free zone, whose land is already available for free usage of investors, the condition for such cooperation will certainly dictate the possibility of contracting easement on the roofs of the new investors. This process will accumulate new economic activities, employment, and physical capacity to build a new power plant which is ultimately a win-win situation for all.

The possibility that certain producers which pass on public tenders open production in the region and thus improve employment rate in this project is very positive. The project will involve the opening of other small crafts that will be responsible for the maintenance of power plants and thus provide new jobs. In the long term. the project will itself become a perpetuum mobile because it will be self-financing and the only potential failure could be the great cataclysm and the lack of solar energy which would then clearly produce economic collapse in the rest of the world. As you can see the possibilities are many and one of the biggest prospects in which I personally see a chance for long-term success of the Croatian regions, while respecting the orientation towards tourism and agriculture, is investing in the development of environmental protection, transport infrastructure and energy. The highest current perspective of all of the above I see particularly in the development of energy because I consider that that could potentially solve the problem of competitiveness and economic dependence of Croatian regions in relation to other countries.

Given today's energy dependence of the entire world and economy, investing in energy and generating energy from clean sources is ideal as a step forward for all regions that have a long-term strategy for growth and development. The biggest problem in the initial phase of the investment cycle is of a financial nature because regions do not have the money to finance such projects. I stated earlier that the strategy and all measures in accordance with this and the EU have a primary focus on the development of underdeveloped areas in this sector of the economy, so this will ease the achievement of important goals that the EU strives to attain. Precisely for this reason I will hereafter give an overview of the possible uses of financial assistance that are available

to ensure the competitiveness and sustainability of the region through the branches of the economy that are of particular interest to the EU, and that is the development of energy independence and efficiency and environmental protection which are financed through grants and EU funds.

IV. Regional development through energy potentials with special reference to Osijek-Baranja County

For the purposes of presenting the idea of regional development through energy potentials and trough building solar power plants I am going to present a concrete example of the underdeveloped regions. As a prime example I took the Osijek-Baranja County, which is one of the least developed regions of the country, and which today has 319,245 inhabitants according to the census of population of 2011².

For the purpose of this project I will show some more of the important data. According to the same census in Osijek-Baranja County there are more than 110,000 households. In order to get a complete picture and further clarify the importance of this project I contacted HEP's distribution center in Osijek. According to data from HEP for Osijek-Baranja County³, I got information that the population and households of Osijek-Baranja County in the year 2012 spent 915.7000.000 kWh of electric energy.⁴ The average consumption of electricity on annual basis in Osijek-Baranja County in the last few years has been about 916 million kWh.

Besides, I got information which states that the production of electric energy from renewable energy sources in Osijek-Baranja County in 2012 totaled at 35.6 million kWh, which is 3.8 percent of the total electric energy used in 2012. This state of utilization of renewable energy sources is approximately the same in other regions of the

² Census of population Households and Dwellings 2011 (Statistical report, Zagreb 2011) p.74.

³ Mail correspondence with a representative of HEP distribution Osijek, Viktor Klarić, 26.03.2013.

⁴ The total energy consumption OBC is included and consumption of Municipalities Orahovice and Čačinci that are not part of Osijek-Baranja county, but because the previous structure they stayed part of the network.

Republic of Croatia, which will lead Croatia into an unenviable situation by the year 2020 if it does not fulfill the given expectations, especially because in this case we will have to pay some penalties. According to unofficial data from Osijek-Baranja County, the local government itself is the owner of some 500 objects⁵. Each of these objects could have the potential for setting up solar power plants with a minimum energy of 10 kWh.

The focus is actually on schools, health and administrative institutions and other types of objects that are characterized by a bigger capacity and thus larger unused roofs. If we take that it is possible to install an average construction of 30 kWp, we get a solar power plant with a capacity of over 15,000 kWp. According to data from HEP⁶, one 10kwp solar power plant produces in total 10,400 kWh annually in Osijek-Baranja County. This would mean that the power plants with the intensity of 15,000 kwp at facilities owned by Osijek-Baranja County could produce 156 million kWh per year, i. e., slightly more than 17 percent of the total energy consumed in Osijek-Baranja County.

If we consider that in Osijek-Baranja County, 3.8 percent of the total electric energy consumed by the County is already being produced from renewable energy sources, and if we add to this calculation that more than 17 percent energy produced from renewable sources placed on the roofs of buildings owned by Osijek-Baranja County, we will get a total production of electric energy from renewable energy sources over 20 percent.

Financial factors play a major role in the project. The price of a power plant of 10 kWp is around an average 120,000 kuna, which means that the price of one 15,000 kWp power plant will be about 1.8 billion kuna. This price is approximate and is likely to be much lower due to the amount of equipment that will be ordered (probably up to 20 percent less).

The price of 1 kWh electric energy (without subsidies) is between 1.10 KN and 2 KN.

⁵ Most of the counties in Croatia still does not have clearly regulated legal relations related to the ownership and co-ownership of certain facilities.

⁶ How to become eligible producer of Solar energy (Hep Esco d.o.o.) p.2.

If we take the average amount of 1.50 kuna and multiply that with 156.000.0000 kWh we got from 15,000 kWp intensity of solar power, we will get a total annual income of 234 million kuna. If the EU would fund half of the investment worth one billion eight hundred million and would invest 50 percent (nine hundred million kuna), Osijek-Baranja County could return the remaining amount in less than 8 years (further prolongation of payment of this amount relates to the payment of interest, inflation, eventual decrease of sunshine hours and maintenance costs).

For the production of one third of electric energy in Osijek-Baranja County, it is necessary to set up 28,000 kWp solar power plants. The investment would automatically increase, but the repayment period for the investment would be shorter. 13,000 kWp solar power plants would be set to facilities of private houses and businesses which would cede their roofs to easement. If the first phase of the investment goes well, the remaining share of solar power plants of 56,000 kWp will be contracted in the next period of time from the moment when a third of the plant fully refunded. It is important to stress that the purchase price of electric energy is not subsidized and therefore is not an expense of the State Budget.

With such financial dynamics the other two thirds of the required kWp of electric energy in Osijek-Baranja County could be financed through the other two phases of eight years (a total of additional 16 years). This project in Osijek-Baranja County would not only ensure energy independence, but will also create a profitable business that will ensure a good life for many households in the area. The project would be self-sustainable in the future and the only thing that could overshadow it is a more favorable technology in electric energy production based on renewable sources of electricity and heat. The only problem is the large solar power energy production throughout the day and summer toward winter period and at night. But it would be very easy to make an agreement about compensation with the main distributor because in the financial implementation of the project it wouldn't matter for the Osijek-Baranja County budget.

Thanks to EU policy and adopted Europe 2020 strategy that encourages the Member States to reduce emissions by 20 percent by the year

2020 with respect to 1990 and achieve 20 percent increase in energy production from renewable energy sources and that way saves 20 percent of energy consumption⁷ project of implementing solar power plants on the roofs of buildings is more than likely. Especially because such a strategy would save on future penalties which each state would have to pay if it fails to comply what is signed and agreed upon, in this case the share of electric energy generated from renewable sources.

What is also important to point out is the financial perspective that follows the strategy Europe 2020. In fact, sustainable development, growth and development of underdeveloped regions and energy are activities that are accompanied by the financial perspective of 2007-2013 and is being followed by the new financial perspective that will last until 2020. It is clear that in doing so, underdeveloped regions are in a better position because they will have better access to European funds to invest in development and environmental sustainability, and it makes clear that this is an ideal opportunity for Osijek-Baranja County to take advantage of its potential and at the same time it doesn't violate agriculture and the rural tourism focus.

Why is this information relevant? In fact, this is a clear opportunity for the less developed regions to focus their projects on the realization of such possibilities, so they would get a product which is worthwhile. On the other hand, because it is a highly sophisticated technology, entrepreneurs will have the opportunity to learn the specific know-how, and in this way they will become more competitive. This project will guarantee the employment of people through business expansion to other regions. The important fact is that the demand for energy is constantly increasing and without sufficient amounts of affordable energy provided for the economy, there will be no progress. Investments in new renewable energy sources will soon begin to solve the problems of employment, development and energy security.

Because of this, the implementation of the Europe 2020 strategy in underdeveloped regions will not only provide energy stability, which is necessary for the growth and development of the economy, but will also open new businesses for entrepreneurs, and give the unemployed

⁷ Renewable energy technology roadmap – 20% by 2020 (EREC, 2000) p. 4-7.

the possibility of retraining in occupations that are presently in short supply and expected to be needed in the future and it will also give a new perspective to the region that generates additional revenue by selling excess energy from renewable sources.

The need for energy is growing, and because of this it is necessary to ensure the adequate new sources of energy and more efficient ways to ensure the sustainability and economic prosperity. Numerous manufacturers of solar power have long been present on the Croatian market. Young people are being trained for the installation of such systems in Osijek, which clearly indicates that Croatia and Osijek-Baranja County have the potential to develop human capacity to meet the challenges of such a large project. The only question that remains open is how and where to find funds to co-finance this project. I am going to discuss that further in the present paper.

1. Willingness of local and regional communities in Croatia to meet specified needs

Croatia has had the possibility to obtain funds from the pre-accession programs for the last 10 years. In order to show as simple as possible that Croatia has experience in this area, I decided to display the human, financial and infrastructural capacity on the regional level. I must emphasize that I am going to take this opportunity to show again the example of Osijek-Baranja County.

The first prerequisite to obtain as much funding as possible is that the citizens are well informed about the potential and opportunities which are being offered to them. Another segment that is necessary is to train teams of experts who will know how to write and apply for projects in accordance with the previously established model. Osijek-Baranja county is, thanks to qualified teams of experts, applying and implementing projects in different areas, and in different statuses - as applicant, co-applicant, national partner, cross-border partner, etc.

Projects that have so far been implemented in Osijek-Baranja County are funded through various programs of the European Union. Based on evidence that is available to www.slavonija.hr, private and public entities from Osijek-Baranja County have so far actively participated

in 171 projects and 63 projects are currently in the implementation phase of the overall value of 105,628,740.16 Euro.⁸

The largest part of the projects relates to IPA cross-border cooperation with the Republic of Hungary, IPA cross-border cooperation with the Republic of Serbia IPA IIIc Regional Development - Regional competitiveness and components IPA Human Resources Development and the IPARD program.

One of the most important programs for Osijek-Baranja County is exactly the cross-border cooperation with Serbia. For the similar projects it was necessary to allocate a maximum of 20 percent of the total cost of the project. Such projects were stimulated by the European Commission in a way that they pre-paid a larger amount of funds, which was not the case with other projects and programs.

With this emphasis on the human capacity and capability of Osijek-Baranja County I clearly wanted to prove that Osijek-Baranja County, as one of the less developed Croatian regions, has the ability to obtain sufficient funds to achieve the Europe 2020 strategy and specific ideas to achieve regional development through energy opportunities funded by EU programs. This is supported by the County Development Strategy of Osijek-Baranja County, which has a strategic objective for sustainable development and in point 1.5.1. it predicts increasing the share of renewable energy.⁹

The problem that the citizens of Osijek-Baranja County and other underdeveloped regions will meet from year 2013 will be closely related to the increase of costs of living due to the problems associated with the liberalization of the energy market and the increase of energy prices. This is why the ability to stimulate the development and construction of facilities for generating energy from renewable sources is a very desirable and promising solution to create energy independence and

⁸ Information about participation of Osijek-Baranja county in the European Union programs Agency of Osijek-Baranja County and Regional Development Agency of Slavonia and Baranja (Osijek, October 2012).

⁹ County development strategy of Osijek-Baranja County, 2011 - 2013, (January 2011) p. 113.

it is a better foundation for enterprise development, the reduction of unemployment and economic growth.

As we have already established, legal requirements are fulfilled and professional human resources that meet all the criteria and that have the ability to meet all the pre-existing requirements are available, the next step is to find financial resources in achieving our goal of energy independence and strengthening the economy.

2. Investing in energy through EU funds and programs that are currently available to regions in the Republic of Croatia

I have already explained what EU funds are, how to use them, and who may apply for them. In this part of the paper I will show which possibilities are there to use the same funds designed for the development of energy and all goals prescribed by the Europe 2020 strategy. Given that in the previous part of the article I used the region of Osijek-Baranja County as an example, I will continue to use the same examples of this underdeveloped county so I can point to the opportunities that are offered and the solutions that can be used for this and other underdeveloped regions. IPA is currently the largest fund which Osijek-Baranja County can use for its purposes and projects.

Although I have previously noted the existence of the five components within the IPA program for investment in energy and in energy efficiency and renewable energy financed by IPA, only components intended to help in the transition can be used. Components listed under eligible activities include reforming the statistical system that is responsible for the recording energy consumption. The second IPA component that can be used to obtain grants to finance projects in the energy is component of the Cross Border Cooperation.

Eligible activities include measures to improve energy efficiency, regional planning, environmental air quality and supply of equipment to collect data on energy consumption. Within the components relevant for cross-border cooperation the Transnational Programme South East Europe (SEE) also needs to be mentioned, priorities of which also contain environmental protection and facilitating innovation and entrepreneurship and it is essential because it allows the collaboration of 16 countries. The value of grants that can be withdrawn is between

20,000 and 300,000 euros given that the maximum of the grant share is 85 percent of the project value.

Another possibility to obtain grants is offered by Community Programmes. I have already pointed out that the pre-accession funds for each country need to be contracted and agreed with the European Commission, but with the Community Programmes this is not the case. They are intended for all EU member states and associated states that accede to the program through the Memorandum of Understanding and pay a membership fee to participate in the program. I will use this particular occasion to discuss the opportunities that are offered through Community Programmes because it is very important for future investments in the energy sector to choose programs from which we will be able to obtain grants for these kind of projects.

Croatia has so far participated in the energy sector in the Competitiveness and Innovation Programme (CIP) and the Seventh Framework Programme (FP7). For these programs both private and public entities can apply. The Competitiveness and Innovation Programme contains three operational programs. Given that for the field of energy i only the Intelligent Energy for Europe Programme, s relevant (which is located within the CIP), I will say a few words about the program, which is available from 2013 with 730 million euros. The goal of this program is to promote new and renewable energy sources, rational use of energy resources, the increasing of energy efficiency, diversity of energy sources, and the use of new and renewable energy sources in transport. Each objective has been included in four different sub-programs within the IEE. To improve energy efficiency, there is the SAVE sub-program with two priority areas: investment in the energy efficiency of buildings and energy efficiency of industrial plants.

The priorities of this sub-program are investments in gaining electric energy from renewable energy sources, heating and cooling from renewable energy sources, biofuels, as well as investment in renewable energy households. The sub-program STEER has the priority of investment in alternative fuels and clean vehicles and investing in energy-efficient transport. The last (fourth) sub-program of the IEE refers to Integrated Activities. Their priorities are assistance in

establishment of local and regional energy agencies, and different types of initiatives that those agencies are responsible for.¹⁰

The main program that helps to create cohesion between universities, companies and research centers is the Seventh Framework Programme (FP7). It is a program that will last until 2013 and primarily funds scientific research and development. There are four categories under FP7: cooperation and support to international cooperation in research aimed at strengthening the competitiveness of European manufacturing, innovation support, support for further education and mobility as well as support for the strengthening and optimal use of research and innovation capacities throughout Europe.

An especially important sub-program within FP7 for this review is the CONCERTO program. The aim of this sub-program is to encourage local and regional self-governments, as well as the communities which live and work within these regions, to implement activities related to energy efficiency and renewable energy.

It is important to stress that this sub-program can finance some projects up to 100 percent of direct costs. Eligible activities within the Concerto are building eco houses and biomass boilers, integrated use of renewable energy within the existing system, more efficient power management and storage of the same energy.

This sub-program has already had great success in the field of reducing the production of greenhouse gases, as well as informing and educating citizens and in the field of development of the competitiveness of enterprises and educational institutions and has also strengthened their energy independence.¹¹

3. Investing in energy through EU funds and programs that will be available to regions in the RH when Croatia becomes a full member of the EU

Croatia will, once it becomes a full member of the EU, have access to structural, cohesion and community programs. I have already mentioned

¹⁰ Competitiveness and Innovation Framework Programme (CIP) available at http://ec.europa.eu/enterprise/policies/finance/cip-financial-instruments/index_en.htm (10.10.2012).

¹¹ FP7, available at http://ec.europa.eu/research/fp7/index_en.cfm (10.07.2012).

them before and now I will discuss possibilities that the Republic of Croatia and its regions will have in the field of energy and funds dealing with renewable energy once Croatia is a full member of EU.

EU cohesion policy has three main funds: The European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). Croatia will have resources of about one billion euro or even more available from these funds than in the pre-accession period. This will only be a continuation of the process that has already resulted in new opportunities of growth and development, particularly for those units of local and regional governments that are underdeveloped. For entrepreneurs and ventures in the field of energy, the most useful tool is going to be the European Regional Development Fund, the name of which name already suggests which its key priorities are.

If the region opts for large-scale infrastructure and investment programs, the Cohesion Fund will definitely help and the European Social Fund will be excellent for counseling, educating and informing people regarding energy efficiency. It will provide competitive and independent constant fluctuations in energy prices as the main engine for growth and development of the economy will no longer be considered to be fossil fuels.

Because the European Regional Development Fund is the most interesting program for underdeveloped regions, and as the same fund is the foundation's effort and program policy, the ERDF contains several assisting funds and sub-programs.

While all of subprograms have the same goal, the difference is primarily due to the conditions which the applicants need to fulfill.

For the development of local and regional communities in the field of energy efficiency through the reconstruction of cities and easier gaining additional funds from the EIB, the CEB and other banks, the Initiative of the European Commission for Sustainable Development and Reconstruction urban areas (JESSICA)¹² is suitable (it expires in 2013).

¹² JESSICA: Joint European Support for Sustainable Investment in City Areas, available at http://ec.europa.eu/regional_policy/the_funds/instruments/jessica_en.cfm (10.10.2012).

JASPERS (Technical assistance for projects of European Regions)¹³ offers technical assistance in the area of energy efficiency as well as improving transport infrastructure, public-private partnerships and a cleaner urban public transport offers The service of technical assistance that is available exclusively for the development of construction projects are energy efficiency and attract more investment in local governments is called ELENA.¹⁴ A key condition for the use of this technical assistance is a proven reduction in CO₂, the construction of efficient and environmentally friendly heating and cooling, the development of public transport and cleaner and energy sustainable construction. In addition to local and regional government, there are initiatives to help small and medium enterprises. One of them is the JEREMIE¹⁵ program that originates from the need to strengthen small and medium enterprises because they make up the backbone of innovation and economic development.

This initiative offers the possibility of technical assistance, favorable financing conditions, and subsidies when taking a loan which clearly opens up opportunities for the development of regional entrepreneurship and empowers them to be more competitive in the market

4. Other opportunities for regional development through investment in energy

The European Bank for Reconstruction and Development also made a contribution to the development of energy opportunities in 2008 by starting the WeBSEDF, ¹⁶ which aims to finance projects of energy sustainable development in the countries of the Western Balkans (Western Balkans Sustainable Energy Direct Financing Facility).

¹³ JASPERS (Joint Assistance to Support Projects in European Regions), available at <http://www.jaspers-europa-info.org/> (10.10.2012).

¹⁴ The Intelligent Energy – Europe programme (IEE), available at http://ec.europa.eu/energy/intelligent/getting-funds/elena-financing-facilities/index_en.htm (10.10.2012).

¹⁵ JEREMIE - Joint European Resources for Micro to Medium Enterprises, available at http://www.eif.org/what_we_do/jeremie/index.htm (10.10.2012).

¹⁶ Western Balkans Sustainable Energy Direct Financing Facility, available at <http://www.websedff.com/> (10.10.2012).

Loans that are given are placed through local banks that cooperate with the mentioned fund and incentives depend on the achievement in reducing CO₂. Two groups are being credited: a) Renewable energy sources which include solar systems, biomass, and other renewable systems and b) groups that have energy efficiency in the industry. The main criterion is 20 percent efficiency, which is linked to the objectives of the Europe 2020 Strategy

Another fund has been opened for South Eastern Europe that is closely related to the financing of projects related to energy efficiency and renewable energy. This is an Open Regional Fund for South East Europe, which has been formed by a German organization for technical cooperation in the year 2007, and which consists of four sub-programs, one of them being the Open Regional Fund for Energy Efficiency and Renewable Energy for South East Europe. The main objective of this sub-program is funding projects which secure energy supply in Southeastern Europe through more efficient use of energy due to the growing use of energy and which organize more efficient use of renewable energy sources. Projects must be international and have to have a minimum of two or three South-East European partner countries participating in them.

In addition to funds, other modalities are available that can enable the development of the energy sector in each region. I am talking about public-private partnership and the ESCO model. Public-private partnerships are perfect for projects driven by local and regional governments. They are especially suitable for local and regional governments, as it means no extra debt because as the partner in the project is from the private sector or a company that commits to the development and implementation of the project and then uses the facility for a certain period of time.

A similar model applied in the field of energy is called the ESCO model. This is a concept in which an investor invests in the construction of new systems for producing electric energy or invests in improving energy efficiency and reducing the cost of operation and maintenance costs with the installation of more efficient and more advanced technologies. In return, the investor appropriates the income over a set period, or he pays the price difference before and after the savings. The advantage

of this system is that private entities are partners to public and other private entities and that they all have multiple benefits from this type of business cooperation, especially because a large number of private and public entities do not have the financial resources to invest in such projects. Currently the only ESCO company in Croatia is HEP ESCO, but it is planned to open more ESCO companies after the opening of the market with Croatia joining the EU¹⁷.

The so-called revolving funds issued by banks can also serve as an investment in energy. It is a financial mechanism to finance certain types of projects that have sustainability and which are of course considered profitable. In this field, collaboration between the government and banks is particularly important, and one bank has a special place in this article that uses the slogan „Regional development opportunities funded through energy funds and programs of the EU.” This is the Croatian Bank for Reconstruction and Development (HBOR) whose capital is directly related to and dependent on the budget and budgetary possibilities of Croatia. This is a bank that in 2004 got the task to invest in environmental projects, energy efficiency and renewable energy. Everyone could benefit from this special opportunity – the private and public sectors and even individuals. The HBOR went a step further and provided funds for projects that passed on bidding for EU funds. Because generally resources must be provided in order to obtain a nonrefundable grant, the HBOR played an important role there and facilitated public and private entities.

In the end, I have to mention the Fund for Environmental Protection and Energy Efficiency. This is a fund that was established as a legal entity but contains public properties and aims to fund projects related to reducing environmental pollution. Users of this fund can be local governments, companies and other legal entities, sole proprietors and individuals.

¹⁷ Escos model, available at <http://www.ee.undp.hr/financiranje-ee-projekata/esco-model>, (10.09.2012).

V. Conclusion

Throughout this paper I have tried to give an insight into the opportunities of underdeveloped regions regarding their future growth and development. My opinion is that possibility in usage of renewable energy can be the best investment for future economic growth of the region, which I have also showed through the example of Osijek-Baranja County. Through calculation I have shown that if a region invests in only 1/3 of the necessary energy production capacity of the region, supported of course with 50 percent of EU fund resources, after only eight years the region will be financially ready for new energy investment without help from external funds. This means that the region can manage to create sustainable, self-repayable and independent energy production and it can be the best potential for economic growth without a negative impact on environment. The best thing is that the region will comply with EU environmental programs and strategy and in that way use funds for the project. Regions in Croatia have in that way a big opportunity to achieve sustainable economic growth and they set an example for any other county and region of the EU or for those who are preparing to become a part of this organization. Also, I have pointed out which funds can be used for this project and in that way explained all the possibilities of using them. I hope that regions will recognize this opportunity and start with all preparations which are necessary for this big project. This will help not only the local and regional government, it will also be beneficial for citizens and entrepreneurs by providing cheaper energy resources and better life conditions.

Marko Šostar*

Regional development of Hungary and Croatia: the importance of EU Structural Funds

I. Introduction

The key to a sustainable and balanced development of each country's regional policy must be implemented in the strategic documents. Regional policies of the European Union have had to address these various issues in attempting to both establish a mechanism for common recording and measuring of regional change and targeting policy interventions. Disparities in development may exist between different regions and within different geographical areas within a country. These countries have an obligation to neutralize or try to reduce these disparities as much as possible. In order to succeed, national policy must be in line with EU policy. In this way, each country can absorb considerable resources to encourage its development. Structural funds available to the EU in the service of development and the degree of utilization depend on each country. Structural funds are intended to facilitate structural adjustment of specific sectors, regions, or combinations of both in the European Union. The Structural Funds and the Cohesion Fund are financial tools set up to implement the regional policy of the European Union. They aim to reduce regional disparities in terms of income, wealth and opportunities. Europe's poorer regions receive most of the support, but all European regions are eligible for funding under the policy's various funds and programs. The current Regional Policy framework is set for a period of seven years, from 2007 to 2013 and the next one is for the period of 2014 to 2020. The Structural Funds are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Together with the Common Agricultural Policy (CAP), the Structural Funds and the Cohesion Fund make up the great bulk of EU funding, and the majority of total EU spending. To increase the rate of utilization of funds in each

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country, it is important to invest in human and material resources on all levels, and thus invest in the right projects at the right time.

II. Conceptual definition of regional development

Regional development is the launch of economic processes and encouraging the use of resources in less developed regions in order to achieve overall sustainable economic development of the region, in accordance with the values and expectations of businesses, citizens and visitors. Regional Development discusses geographical prosperity and its evolution.¹ Regional development is an objective process of socio-economic change in the structure of the region and their relation to other regions. Regional economic policy contributes to improving the welfare of the region and the country as a whole. Characterized by a coherent system of relations that direct regional development based on the evaluation of regional economic resources and stimulate the development process and improve economic region.² The definition offered by Ponikowski emphasizes the relationship between border regions and their environments. This approach stems from the administrative division, which plays a major role in the way that regional phenomena may contribute to the concentration of or artificially reduce the actual intensity of both phenomena.³

Table 1 Matrix of regional economic development

	Quantitative Input / output	Qualitative Input / output
Regional economic development politics planning analysis strategy use of resources		

¹ P. Nijkamp and M. Abreu, 'Regional development theory' (2009), available at <http://zappa.uvu.vu.nl/20090029.pdf> (15.05.2013).

² A. Bogunović, *Regionalna ekonomika*, (Zagreb, Narodne novine 1991) p. 119.

³ H. Ponikowski, 'About Properties of Regional Phenomena Space' In: *Local and Regional Economy in Theory and Practice* (Wrocław, Prace Naukowe Akademii Ekonomicznej we Wrocławiu 2006).

Regional economic product employment prosperity investments infrastructure standard of life		
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Source: R.J. Stimson, R.R. Stough, B.H. Roberts, *Regional Economic Analysis and Planning Strategy* (Berlin – Heideberg, Springer 2006) p. 7.

This table shows a matrix of regional economic development as a matrix of qualitative and quantitative variables and the development of processes and products. Stimson, Stough and Roberts point out that regional economic development can be defined through the use of economic processes and resources available in a particular region, resulting in the sustainable development of the region, producing the desired results.

In order to stimulate regional development of individual regions it is essential to plan in time. Regional planning regulates the timing and sequence of execution of specific projects and programs, as well as connecting them with projects of national importance. Thus, it can help to bridge the gap between the ‘national development’ in terms of ‘goals’ and the impact on the ‘community’ in terms of ‘real’ development.⁴

The main areas to promote regional development are transfer of technology, innovation and information; training, further education and employment creation support for specific groups of entrepreneurs, promotion of cooperation between the companies with horizontal and vertical integration and sectoral clustering; promotion of domestic investment.⁵

Different levels of economic development are reflected in the inequality of individual regions, which have many causes. These inequalities are expressed in many inequalities between people. The most general

⁴ I. Ahmad, U.I. Bajwa, ‘Regional development planning: Issues and realities’, 41st ISoCaRP Congress (2005), available at http://www.isocarp.net/Data/case_studies/649.pdf (13.09.2012).

⁵ M. Keune, ‘Regions, regional institutions and regional development’, International Labour Office Geneva, *Seed working paper, No. 16* (2001), available at http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/@ifp_seed/documents/publication/wcms_117717.pdf (28.10.2012).

form of social inequalities occur in production and reproduction, and in the area of domination, division of labor and social distribution of resources and achievements of civilization and cultural values.⁶ In the social sectors, particularly extreme economic inequalities that can be defined as larger, systemic and structural distortions that occur in the available resources (resources), the distribution of income and gross domestic product compared to the amount and intensity of used factors of production.⁷

Regions need four essential ingredients that have gained a competitive advantage in the global economy: strategy, management, innovation and entrepreneurship. These four forms constitute the self-empowering system aimed at producing prosperity in the region. Regions are facing two major challenges in defining strategy. The first is a general lack of knowledge and tools to identify their competitive advantage. The second is a shortage of tools that provide analytical insights into the competitive advantages of the region.⁸

Normally it is considered that there is a 'regional problem' when a region deviates from the 'national average' in some important issues such as: high and persistent unemployment; low and slow GDP growth per capita; a high degree of dependence on a narrow industrial base; a sudden drop in production; inadequate infrastructure equipment; large migration out of the region, etc.⁹

Regional development depends on the political and economic autonomy of the regions. However, the financial and fiscal autonomy of the region can generate a monopolistic market structure, leading to a dichotomy of regional and national interest. The region is part of

⁶ S. Vrcan, *Društvene nejednakosti i moderno društvo* [Social inequality and modern society] (Zagreb, Školska knjiga 1974) p. 18.

⁷ M. Grgić, *Koncepcija i mehanizmi politike strukturalnog prilagođavanja* [The concept and mechanisms of structural adjustment policies] (Zagreb, Ekonomski institut 1988) p. 13.

⁸ M. Drabenstott, 'Why is targeted regional economic development important in today's policy setting?' (RUPRI Center for regional competitiveness, University of Missouri-Columbia 2007), available at <http://nercrd.psu.edu/TRED/DrabenstottChapter.pdf> (22.09.2012).

⁹ A. Griffiths, S. Wall, *Applied Economics* (New York, Pearson Education 1999) p. 62.

a group and is closely related to other regions so its coordination in relation to the general development is very important.¹⁰

Governments' role in regional development is very important, especially when we talk about regional planning and coordinating. Coordinating regional development in order to optimize development in the areas of regional units and the optimization of development in general includes the following elements: a system of regional planning; implementation of regionalization; determining the general criteria and principles for the distribution of productive forces; a system of controlling the development of underdeveloped areas; directing the development of cities.¹¹

Local authorities are crucial for local economic development. In many ways they can be actively involved in supporting the local economy by providing physical and other infrastructure incentives for the creation of new entities, help in securing favorable funding, tax incentives, grants in the field of education and training, etc. Local authorities also control a number of regulatory mechanisms, such as the issuance of various permits for businesses or helping them in securing a higher level of investments, etc. In addition, local authorities are the key actors in the organization of various forms of local partnerships and in building coalitions. In addition to local authorities, local actors of regional development are local civil society organizations as well as local businesses and their associations.¹²

III. European Union regional policy

EU regional policy is designed to reduce economic and social disparities between the Member States by assisting regional development. When

¹⁰ M. Bazler-Madžar, (1987) 'Regionalno planiranje: Neki teorijski i institucionalni aspekti' 2 *Ekonomist* (1987) p. 133.

¹¹ B. Kubović, *Metode usmjeravanja regionalnog razvitka* [Methods of Directing Regional Development] (Zagreb, Ekonomski institut 1975) p. 389.

¹² J. Puljiz, *Kako potaknuti razvoj na lokalnoj razini: Priručnik s primjerima najbolje prakse iz Jugoistočne Europe; Gospodarski razvoj i lokalni akteri* [How to stimulate development on local level: manual with examples of best practice from South East Europe, local development and local actors] (Zagreb, Friedrich Ebert Stiftung, 2005) p. 10.

we talk about the EU regional policy, it should be remembered that it is not only on regional development in the narrow sense of the word, but rather an effort to obtain a connection to the level of the European Union by reducing the existing differences in the level of development between the regions. Although there is a difference between the European Union regional policy and national regional policy, EU regional policy has enabled identification of the regional dimension of the national institutions, making the region a sort of joint institutional reference point, despite the fact that a common European concept of 'region' still does not exist.¹³

Regional policy aims at promoting the conditions for sustainable regional development in Europe, helping weaker economies to compensate their shortcomings and catch up with the more developed regions. Good examples of regional initiatives are the development of network infrastructure, promotion of entrepreneurship, investing in education, research and development activities as well as environmental protection.¹⁴

Regional problems facing the European Union are related to inherited differences in the level of income, the rate of GDP and employment, which by its very nature causes economic disparities between regions within the European Union. Regional Policy conducts state that their intervention aims to reduction of socio-economic disparities between different areas in order to accelerate the overall progress of the country.¹⁵ According to GDP per capita, the most developed regions are in the urban areas of London, Brussels and Hamburg. The richest country is Luxembourg, about seven times richer than the poorest countries, i.e. Romania and Bulgaria. The objective of regional policy

¹³ O. Mirić, *Regionalna politika Europske unije kao motor ekonomskog razvoja* [Regional Policy of European Union as a Motor of Economic Development] (Beograd, Europski pokret u Srbiji 2009) pp. 19-26.

¹⁴ F. Busillo, et al., *Measuring the Effects of European Regional Policy on Economic Growth: A Regression Discontinuity Approach* (Ministero dello Sviluppo Economico 2004), available at http://www.dps.tesoro.it/documentazione/snv/seminario_snv_10051920/Muval20_european_regional_policy_new.pdf (22.01.2012).

¹⁵ V. Bilas, S. Franc, A Cota, 'Prepristupni fondovi Europske unije i Republika Hrvatska' [Pre-accession Funds of European Union and Republic of Croatia] 1 *Ekonomska Misao i Praksa* (2011).

is to reduce these differences. Ireland's best example shows that it is possible. When Ireland became a member of the EU, its GDP was 64% lower than the EU average, and today it is among the highest in the EU.¹⁶

Regional differences of the EU are determined according to the following indicators: GDP per capita, the level of unemployment, employment in the agriculture, fisheries and industry, density, and level of education.¹⁷

1. Implementation of EU regional policy

Structural funds and the Cohesion Fund are the 'engines' of policy of economy and social cohesion of the EU and are available only to member states. The resources of these funds are used to reduce the differences in development between regions of the Union and to reduce disparities in the standard of living of their inhabitants. In the period of 2007-2013, further structural funds were available for the financing of development policy: the European Regional Development Fund (hereinafter ERDF, the aim of which is to eliminate regional differences and to promote stable and sustainable development; the European Social Fund (hereinafter ESF), the aim of which is human resources development and employment; financial Instrument for Fisheries Guidance (hereinafter FIFG), the aim of which is balanced human resources development and competitive structures; European Agricultural Guidance and Guarantees Fund – (hereinafter EAGGF), the aim of which is to support the Common Agricultural Policy and the development of agricultural structures and rural development.¹⁸

The role of the Cohesion Fund is similar to the role of the structural funds, but the immediate cause of its foundation was adjusting of the national economies of countries that decided to introduce a common currency (i. e., the meeting of the so-called convergence criteria) and, to some extent, to relieve national budgets of the poorer member states.

¹⁶ K. M. Škreb, *Regionalna politika Europske unije* [Regional Policy of European Union] 33/1 *Financijska teorija i praksa* (2009) pp. 103-105.

¹⁷ T. Reisinger, *Uvod u strukturne i kohezijske fondove* [Introduction in Structural and Cohesion Funds] (Požega, Superma 2012).

¹⁸ Mirić, op. cit. n. 14, at pp. 19-26.

Projects in the field of environmental protection and the development of transport infrastructure were financed from this fund, particularly the construction of communications which connects several member states. The main difference in comparison to the structural funds is that its funds are awarded based on the degree of development of the member states, and not regions. A key criterion for the grant is GNP per capita lower than 90% of the EU average.

General objectives of EU Regional Policy is to: to achieve economic and social cohesion in Europe; ensuring that regional issues are adequately taken into account in other public policies of the Union; coordination of regional policies of member countries; providing generous financial instruments to encourage the development of less developed areas.¹⁹

In the financial perspective of the EU for 2014 -2020, the emphasis is on smart growth which encourages knowledge, innovation, education and digital society, on sustainable development, by which the production will become more effective in resource utilization while increasing competitiveness and on inclusive growth through increased participation in the labor market, acquiring of skills and fight against poverty.²⁰

2. Regional development agencies as the initiator of the regional development

Regional development agencies are specific organizations which define the overall development of the region they cover as their main objective. Their purpose is to promote the economic development of the region and coordinate between the plans and strategies of the regional development policy to be adopted at the national level and their implementation onto the lower levels. Development agencies operate within the boundaries of the region as a wider area, which is similar in their geographic, economic, demographic, cultural and historical characteristics (not necessarily of the county). The existence of a development agency

¹⁹ Reisinger, op. cit. n. 18., at p. 22.

²⁰ Europska Komisija, *Europa 2020: Europska strategija za pametan, održiv i uključiv rast* [Europe 2020: European Strategy for Smart, Sustainable and Inclusive Development] (Europska Komisija 2011), available at http://www.mobilnost.hr/prilozi/05_1300804774_Europa_2020.pdf (21.08.2012).

in the region is a prerequisite for the distribution of funds from the EU structural funds. Development agencies may be of state, private or mixed ownership; they are mostly funded by the Government and the municipalities of the region. In the future, their actions will become the pillar and initiating force of the development of each region. The role of a regional development agency is: identification of a new development opportunity, defining the regional strategy, regional marketing, support to the development of entrepreneurship and business consulting, establishing enterprise zones, incubators, technology parks, attracting FDI, participation in the EU financial assistance programmes, rural areas development, tourism, etc. The regional development agency is the key factor in communication between the local population and the relevant ministries and the institutions of the European Union. Any potential idea is filtered thru a development agency; it is processed and marketed towards the same.

Development agencies and other entities, whose founders are counties, represent important participants in the overall system of utilization of development funds from the European Union. Apart from the role in the preparation and implementation of a project, counties also have an important coordinating and supporting role towards other participants in their area who also prepare projects for EU funds. Today we witness a number of projects already implemented or under implementation and whose founders are county institutions, as well as many others where county institutions were involved to a lesser or greater extent in the preparation phase.²¹ There is no single standard model for regional development agencies. Just like most organizations, the regional development agency is an institutional response to a specific problem, challenge or opportunity.²²

Regional development agencies hold a great role in promotion of investments at the level of each region such as: education of all

²¹ IMO, *Analiza regionalnih kapaciteta za korištenje EU fondova na županijskoj razini* (Zagreb, Institut za međunarodne odnose 2011), available at <http://www.imo.hr/files/regionalni-kapaciteti.pdf> (05.07.2012).

²² M. J. Stamer, 'Designing a Regional Development Agency: Options and Choices', *Mesopartner Working Paper* No 10 (2007), available at http://www.mesopartner.com/fileadmin/user_files/working_papers/mp-wp10_RDA_e.pdf (12.03.2012).

stakeholders; recognition of the regional 'product' and the needs of an investor of a zone – only one of the elements; permanent focus on the development of 'the product'; setting the objectives and measurements of the results; image building of a region; investment promotion; investment facilitation; organization of site visits in the region for the investors; after care services for investors; ensuring the necessary budget.²³

Regional development agencies determine general development problems, elaborate options and solutions and support projects arising from these solutions.²⁴ Development agencies are also involved in monitoring development outside their borders and supporting regional development dynamics transferring that development to the regional level.²⁵

Regional development experts agree on the fact that development agencies are necessary and that their function is crucial in implementation of regional policies at the national and regional level. However, expert opinions do not have to necessarily coincide with those of the public. Due to this, a research was conducted to determine the public perception of the regional development agencies and their role in the regional development. The research was conducted through a questionnaire on 130 randomly selected people.

²³ I. Savjetovanje, *Uloga i ključne funkcije regionalne razvojne agencije u promociji investicija i benchmarking regije* [Role and key functions of regional development agencies in investments and benchmarking of an region] (Mostar, 2010), available at http://www.ric.redah.ba/pdf/poslovezone/proces-uspostavezone/2_Benchmarking_regije.pdf (13.02.2012).

²⁴ B. H. Kantarci, 'The Contribution of the Regional Development Agencies to the Improvement in Underdeveloped Areas' 1 *Journal of Information Technology and Economic Development* (2010) p. 42.

²⁵ T. F. Emini, M. Görün, 'Regional Development Agencies as Local Actors of Development Policies and the Case of Turkey' 1 *European Journal of Social Sciences* (2010) p. 124.

Table 2 Public perception of RDAs

Perception survey, sample: 130 persons; 10 questions				
		Yes	No	Other
1	Do you think that development agencies contribute to the overall regional development of the country?	97	21	12
2	Do you think that development agencies should contribute more to regional development of the country?	105	9	16
3	Do you believe that people are well informed about the work of development agencies?	24	92	14
4	Do you feel that you are well informed about the possibilities of application projects on EU funds?	34	75	21
5	Do you know of a project financed by EU funds?	8	115	7
6	Did you know that the EU grants funds?	22	78	30
7	Do you think that development agencies transparent enough?	12	112	6
8	Do you think there is a need to educate people to prepare projects that can be financed from the EU funds?	118	4	8
9	Do you think that the development agency is promoted enough?	14	81	35
10	Do you think that development agencies employ competent people?	5	121	4

Source: author, 2012

The results of the research are very indicative and show a lack of synergy between development agencies, local residents, businesses, local and regional authorities as well as NGOs. Most respondents (75%) think that the key factor of development is agency for regional development, while 81% of respondents think that development agencies should contribute more to regional development. Also, 71% of respondents think that people are not sufficiently informed about the work of development agencies, while 58% of respondents thought that the problem is lack of information about opportunities for submitting projects to EU funds. Furthermore, 87% of respondents believe that development agencies are not sufficiently transparent, while 62% think that they are not promoted enough. A large percentage of respondents (91%) believe that the development agencies do not employ enough quality personnel. All these mentioned problems are on the national, regional and local levels and that are the challenges that they must face

in order to maximize the impact of development agencies on regional development.

3. Significance of EU funds for regional development

EU funds represent one of the main wheels of the regional development of each region. The ability of a region to adapt to the requirements of the competition depends on its development and the prosperity of its inhabitants. High quality ideas transferred into high quality projects are a prerequisite for the absorption of the EU funds aimed at sustainable regional development.

Nominal benefits from the project are primarily those easily measurable benefits resulting from the implementation of financial assets that beneficiaries of the project implement in the framework of its project activities, such as the number of trained users, surfaces of a newly built object and the like. Real or actual benefits or damages that a project generates are the ones that are much more difficult to be measured, and that is because it is difficult to separate them from other indicators or due to the results of the multiplying effects of the project, which last longer after the project is implemented. If we talk about the benefits, and also about the possible damages that a certain project brings, and if we bring the same in relation with the stakeholders affected by the project, we can distinguish between two types of stakeholders; those directly impacted by the project and those indirectly impacted by the project. The fact that should always be taken into account is that there is no absolute interest in each project, i.e. there is not a project that generates the benefit to all, on the contrary, conducted high quality stakeholder analysis and stakeholder analysis will reveal that there is always a group of stakeholders or at least a stakeholder individual with whose interest a certain project is in opposition or contradiction.²⁶

It does not necessarily mean that the greater absorptive power of a state or a region also means a greater regional development. It is possible that countries with less attracted funds from the structural and cohesion funds achieve a greater degree of regional development. The reason is

²⁶ A. Devčić, M. Šostar, 'Modeli mjerenja realnih učinaka fondova Europske unije na gospodarski razvoj [Models of Measuring Real Effects of EU Funds on Economic Development]', 1 *Ekonomski vjesnik* (2012) pp. 133-146.

more efficient and effective transfer of these funds into projects that achieve greater effects in a particular region. One of the authors that confirm this thesis is Ederveen, who researched the impact of EU funds on 13 EU countries (EU-15 except Luxembourg and Germany). The results of his research indicate that EU funds have not such a big impact on the regional development of an individual beneficiary country. He believes that the support is far more effective if the resources are aimed at the right institutions that will work in order to increase the competitiveness of the region, high quality governance and reducing corruption.²⁷ Availability of funds for regional development depends on the stage of EU membership each country is. Therefore, there are funds for countries that are in the process of accession to the European Union, while the EU member states use other types of funds. However, the procedure of the allocation of resources is not always automatically determined and transparent. This is the result of political negotiations between the EU member states which often affect the planning of the EU budget.²⁸

Throughout the period of 2007-2013, the EU has provided substantial financial resources to fund projects that ‘serve’ the development of each beneficiary country. The financial resources are shown below.

Table 3 Financial allocation of funds 2007-2013

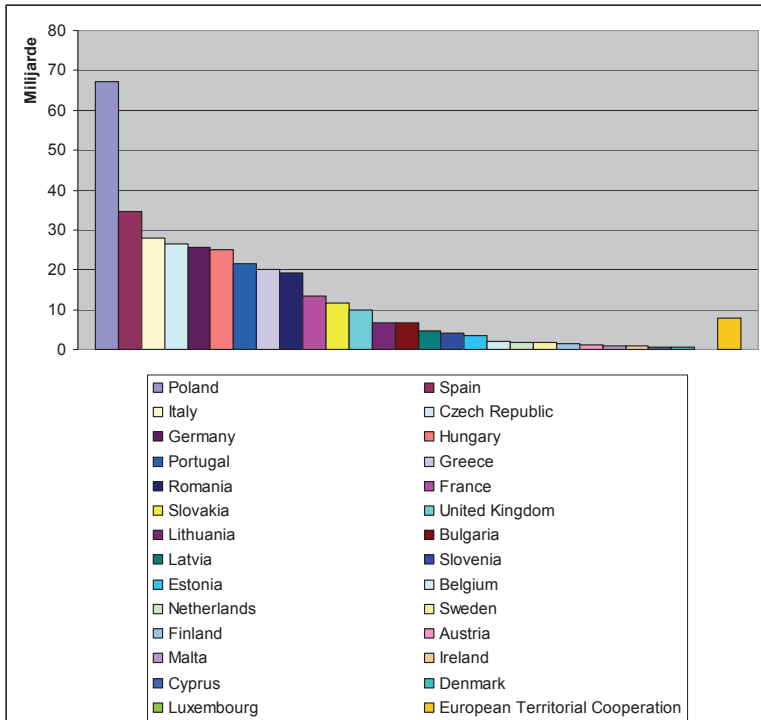
EU Funds	Allocation (billion EUR)
European Regional Development Fund (ERDF)	201
European Social Fund (ESF)	76
Cohesion Fund (CF)	70
Total	347

Source: European Commission, *Financial allocation of EU funds to member states 2007-2013*, available at http://ec.europa.eu/regional_policy/the_funds/funding/index_en.cfm (01.03.2013).

²⁷ S. Ederveen, et al., ‘The Economics of European Cohesion Policy’, *European Network of Economic Policy Research Institutes, Occasional Paper No. 03* (2003).

²⁸ Busillo, op. cit. n. 15.

Graph 1 Financial allocation of EU funds to member states 2007-2013



Source: European Commission, *Financial allocation of EU funds to member states 2007-2013*, available at http://ec.europa.eu/regional_policy/the_funds/funding/index_en.cfm (01.03.2013).

Graph 1 shows the financial allocation for each EU member state under the Operational Plan for the period from 2007 to 2013. It also includes European territorial cooperation. The graph shows the allocation of funds from the European Regional Development Fund, the Cohesion Fund and the European Social Fund. It is evident that most allocated funds are for Poland, which is a result of their successful preparation for EU accession and adaption to the conditions that are relevant in the EU.

Table 4 Allocated EU funds in total GDP in Central and Eastern Europe

Countries	No. population (mil)	Yearly GDP (billion EUR)	EU funds (2007-2013) (billion EUR)	EU fund per GDP (%)
Bulgaria	7.6	36.0	6.7	2.6
Czech	10.5	145.9	26.3	2.6
Estonia	1.3	14.5	3.4	3.4
Hungary	10.0	98.4	24.9	3.6
Latvia	2.2	18.0	4.5	3.6
Lithuania	3.3	27.4	6.8	3.6
Poland	38.2	353.7	65.3	2.6
Romania	21.5	121.9	19.2	2.3
Slovakia	5.4	65.9	11.4	2.5
Slovenia	2.0	36.1	4.1	1.6
Total CEE countries	102.1	917.9	172.6	2.7

Source: KPMG, *EU Funds in Central and Eastern Europe (Progress report 2007-2010, 2011)*, available at http://www.kpmg.com/RO/en/IssuesAndInsights/ArticlesPublications/Press-releases/Documents/EU%20Funds%20in%20CEE%202011_KPMG.pdf (01.04.2012)

The table shows the ratio of the EU funds within the total GDP in the countries of Central and Eastern Europe, where it is evident that in the period of 2007-2013 most of the allocation is intended for Poland, while the least for Estonia.

In the period of 2014-2020, the member states will have available 376 billion EUR through the funds: European Regional Development Fund (ERDF); European Social Fund (ESF); Cohesion Fund (CF); European Agriculture Fund for Rural Development (EARDF); European Maritime and Fisheries Fund (EMFF).²⁹

²⁹ Reisinger, op. cit. n. 18.

4. Absorption of EU funds

When we talk about the capacities necessary to attract and use EU funds, they should be divided into three categories: administrative capacity, financial capacity, macroeconomic capacity.³⁰

Administrative capacity is primarily related to the ability of stakeholders individually, but even more on the ability of the system as a whole, to perform tasks related to the preparation and implementation of all planned and delegated procedures that are related to EU funds. Financial capacity is related to the ability of stakeholders and systems to fully settle and finance procedures. Macroeconomic capacity refers to the limit, by which a country is limited in the size of the absorption of funds from the Structural Funds.³¹

Regarding the absorption capacity for effective use of EU funds, some individual authors observe through the aspect of the necessary capacity, and therefore state the following determinants of the efficiency of absorption: financial preparedness, institutional readiness, willingness of staff, statutory and legal readiness, documentation readiness.³²

³⁰ G. Zaman, G. Georgescu, 'Structural fund absorption: A new challenge for Romania?', 1 *Romanian journal of economic forecasting* (2009).

³¹ Devčić, Šostar, op. cit. n. 27, at pp. 133-146.

³² A. Daszuta, 'The problem of the so-called readiness as the determinant of the effective absorption of Structural funds, based on example of the Podlaskie region in Poland', available at http://www.nispa.org/conf_papers_list.php?cid=2 (30.08.2011).

Table 5 Contracted and paid EU funds to the countries of Central and Eastern Europe

Country	Available budget 2007-2013 (billion EUR)	Contracted funds 2007-2010 (billion EUR)	Paid funds 2007-2010 (billion EUR)	Contracted (%)	Paid (%)
Bulgaria	8.0	3.0	0.8	37	10
Czech	31.0	17.2	8.1	55	26
Estonia	4.1	2.5	0.9	60	21
Hungary	29.3	15.0	4.8	51	16
Latvia	5.0	3.7	1.5	76	30
Lithuania	7.3	5.0	2.1	68	29
Poland	82.1	43.5	13.1	53	16
Romania	23.3	10.4	1.5	45	7
Slovakia	1.4	7.6	2.3	57	17
Slovenia	4.8	2.3	1.3	48	27
Total CEE	208.2	110.2	36.3	53	17

Source: KPMG, *EU Funds in Central and Eastern Europe (Progress report 2007-2010, 2011)*, available at http://www.kpmg.com/RO/en/IssuesAndInsights/ArticlesPublications/Press-releases/Documents/EU%20Funds%20in%20CEE%202011_KPMG.pdf (01.04.2012)

The figure shows that in the period from 2007-2010, the most contracted funds were in Poland, and Slovenia had the lowest rate, but if we look at paid funds the first place is also Poland, while the last place goes to Bulgaria. If we talk about the percentage of contracted funds the first place is occupied by Latvia, and the last place is occupied by Bulgaria. Romania has the lowest percentage of funds disbursed, while the highest percentage goes to Latvia and Lithuania.

The European Association of Regions conducted a study to see what the highest limits in the region are in attracting EU funds and the application to the available funds. The study was conducted among 35 people from 14 countries that represents 23 regions (France, Sweden, Austria, Germany, Polish, Romania, Spain, UK, Croatian, Finland, Greece, Italy, the Netherlands and Slovakia). Five major problems had been identified as major challenges: complex and bureaucratic process of project applications (86% of respondents); excessive and disproportionate control and audit process (71% of respondents); strict and inflexible administrative procedures and reporting (68% of

respondents); absence of sufficient resources within the organization (50% of respondents); difficulty in approving projects for funding (39%).³³

Based on the same survey, respondents gave suggestions in order to improve the availability of EU funds. It was pointed out five main recommendations: harmonization of regulations through EU programs (69% of respondents); increased payments of lump sums and flat rates (57% of respondents); greater autonomy for regions to manage EU programs (54% of respondents); proportional requirements during audits (49% of respondents); unique web source for all available EU funds (34% of respondents).³⁴

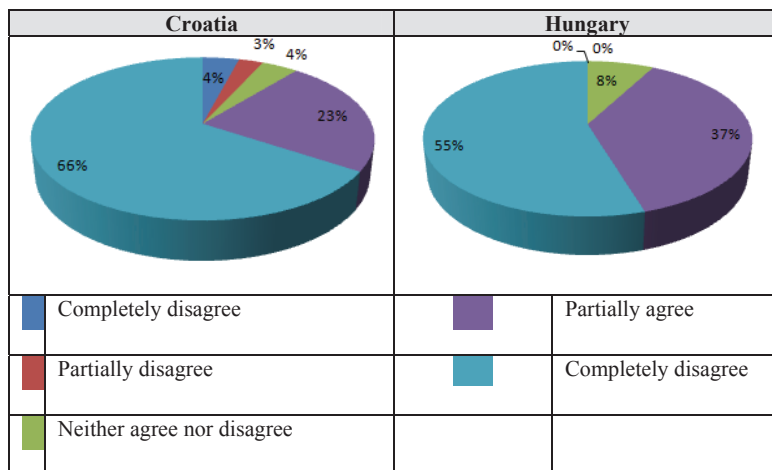
5. Impact of EU funds on regional development

Graph 2 shows that there is a need for increasing education in preparation of projects for EU funds in Croatia and Hungary. Perception in these countries is that the majority of respondents agreed with the statement that it is necessary to increase education in Croatia (89% of respondents), and in Hungary (92% of responders).

³³ AER, *European Regions and European Funding: Improving access, efficiency, and value for money*, available at http://www.aer.eu/fileadmin/user_upload/Commissions/InstitutionalAffairs/EventsAndMeetings/2010/Black_Sea_2011/2011_02_02_Funding_Survey_Report_EN_Final.pdf (12.08.2012).

³⁴ Ibid.

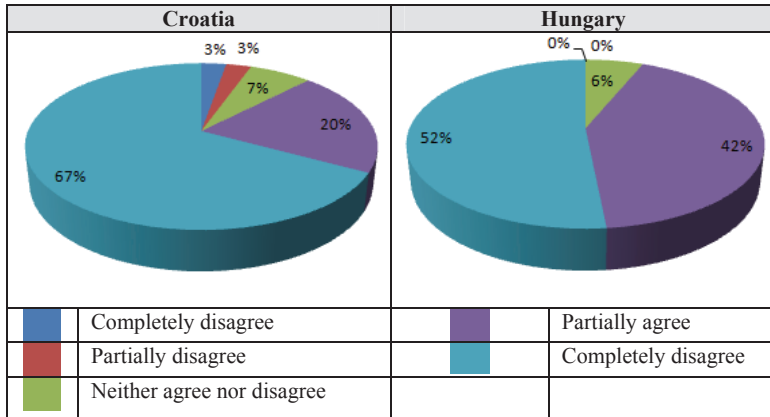
Graph 2 There is a need for increasing education in preparation of projects for EU funds



Source: author, 2013

Graph 3 shows that there is a need for increasing the number of trained professionals in preparation of projects for EU funds in Croatia and Hungary. Perception in these countries is that the majority agrees with the statement that there is a need for increasing the number of trained professionals for preparation of projects for EU funds (in Croatia 87% of respondents and in Hungary 97% of respondents).

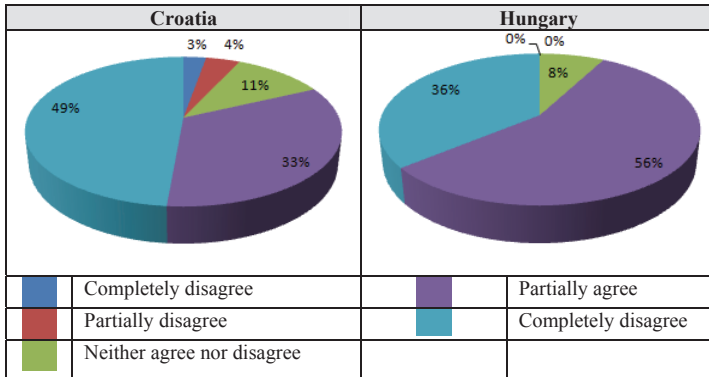
Graph 3 There is a need for increasing the number of trained professionals in preparation of projects for EU funds



Source: author, 2013

Graph 4 shows that there is a need for encouraging the creativity of persons involved in the preparation of projects for EU funds in Croatia and Hungary. The perception in these countries is that the majority agrees with the statement that there is a need for encouraging the creativity of persons involved in the preparation of projects for EU funds (in Croatia 82% and in Hungary 92% of respondents).

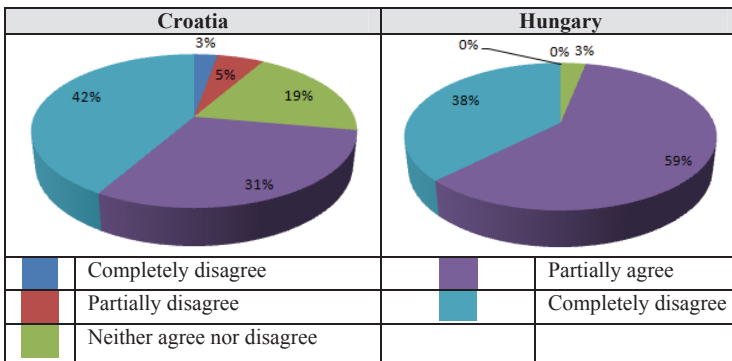
Graph 4 There is a need for encouraging the creativity of persons involved in the preparation of projects for EU funds



Source: author, 2013

Graph 5 shows that there is a need to increase the motivation of a person involved in the preparation of projects for EU funds in Croatia and Hungary. Perception in these countries is that the majority agrees with the statement that there is a need for increasing the motivation of the person involved in the preparation of projects for EU funds (in Croatia 73% of respondents and in Hungary 97% of respondents).

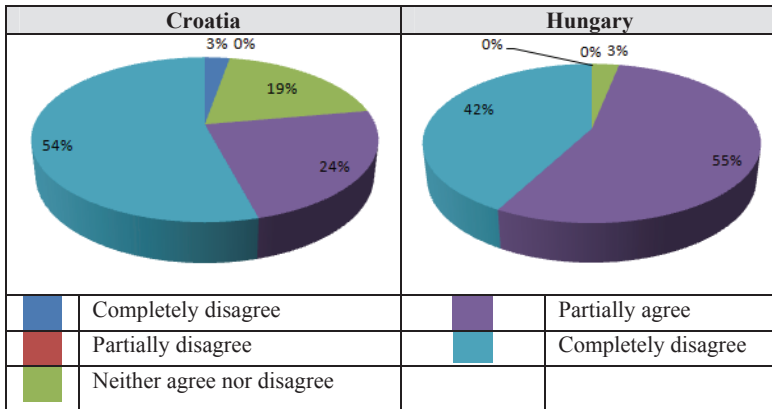
Graph 5 There is a need to increase the level of motivation of employees who participate in the preparation of projects for EU funds



Source: author, 2013

Graph 6 shows the claim that there is a need for increase teamwork in the preparation of projects for EU funds in Croatia and Hungary. The perception in these countries is that the majority agrees with the statement that there is a need for increasing teamwork in preparation of projects for EU funds (in Croatia 78% of respondents and in Hungary 97% of respondents).

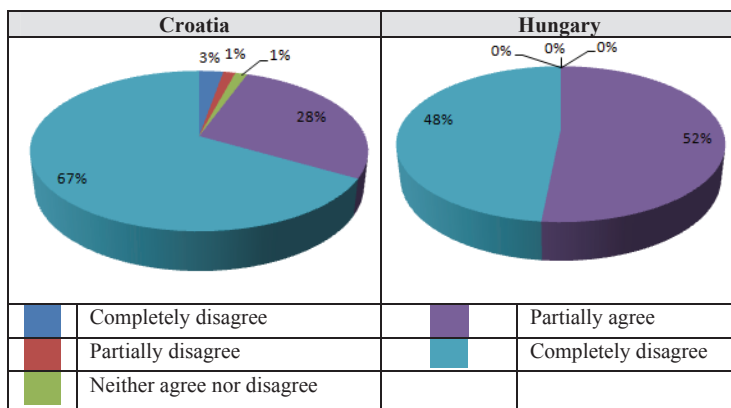
Graph 6 There is a need for increasing teamwork in the preparation of projects for EU funds



Source: author, 2013

Graph 7 shows that there is a need for increasing the financial capacity of potential applicants of EU funds in Croatia and Hungary. The perception in these countries is that the majority agrees with the statement that there is a need for increasing the financial capacity of potential applicants on EU funds (in Croatia 95% of respondents and in Hungary 100% of respondents).

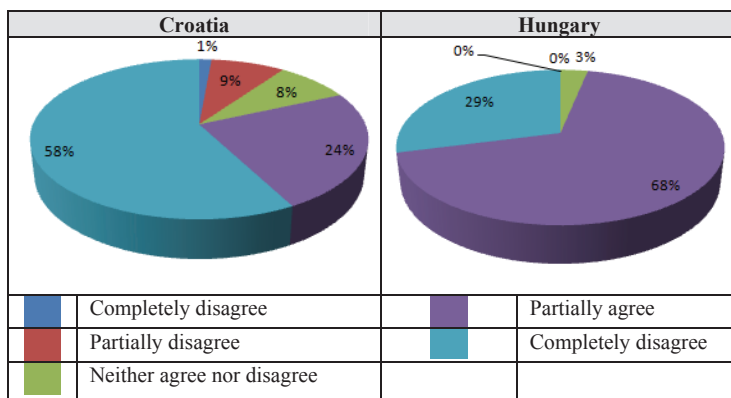
Graph 7 There is a need for increasing the financial capacity of potential applicants of EU funds



Source: author, 2013

Graph 8 shows that there is a need for harmonization of strategic documents with the development needs of individual regions in Croatia and Hungary. The majority of respondents believe that there is a need for harmonization of strategic documents with the development needs of individual regions (82% of Croatia and Hungary 97% of respondents).

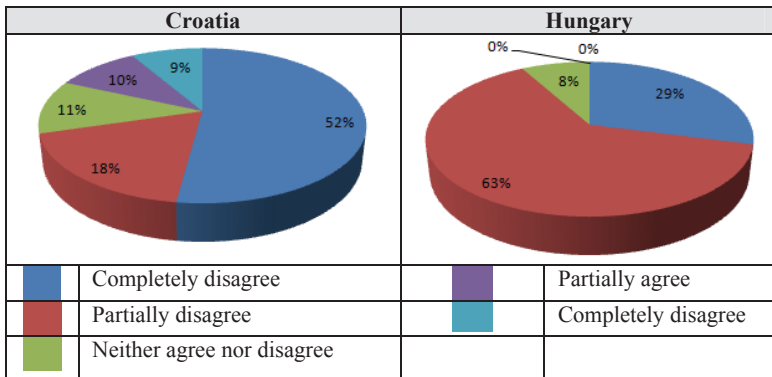
Graph 8 There is a need for harmonization of strategic documents with the development needs of individual regions



Source: author, 2013

Graph 9 shows that the implementation of strategic documents is crucial for the development of individual regions in Croatia and Hungary. The majority of respondents believe that there is a need for implementation of strategic documents in developing regions (Croatia 70% and in Hungary 92% of respondents).

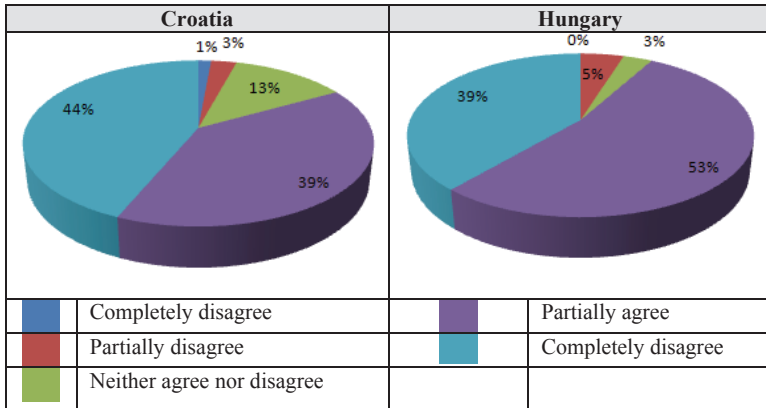
Graph 9 Implementation of strategic documents is crucial for the development of individual regions



Source: author, 2013

Graph 10 shows that there is a need for increasing the level of technological readiness potential applicants for EU funds in Croatia and Hungary. The perception in these countries is that the majority agrees with the statement that there is a need for increasing the level of technological readiness potential applicants to EU funds (in Croatia 83% of respondents and in Hungary 92% of respondents).

Graph 10 There is a need for increasing the level of technological readiness of potential applicants for EU funds



Source: author, 2013

IV. Conclusion

EU regional policy seeks to reduce structural disparities between EU regions, to foster balanced development throughout the EU and to promote real equal opportunities for all. Based on the concepts of solidarity and economic and social cohesion, it achieves this in practical terms by means of a variety of financing operations, principally through the Structural Funds and the Cohesion Fund. Regional policy aims to reduce the significant economic, social and territorial disparities that still exist between Europe's regions.

The EU may be one of the richest parts of the world, but there are large differences in prosperity levels both between and within EU countries. The wealthiest country, Luxembourg, is more than seven times richer than Romania and Bulgaria, the poorest and newest EU members. EU regional policy aims to help each region achieve its full potential, improve competitiveness and employment at regional level by investing in areas of high growth potential, and to bring living standards in the countries that have joined the EU since 2004 up to the EU average as quickly as possible. Regional inequalities can be due to many things, including: longstanding handicaps imposed by geographic remoteness,

more recent social and economic change, the legacy of formerly centrally-planned economic systems, and the combinations of these and other factors. The impact of these disadvantages is frequently evident in: social deprivation, poor quality of schools, higher unemployment, and inadequate infrastructure. The aim of reducing regional disparities in the European Union is enshrined in the EU Treaty. An important aspect that takes center stage in discussions on the EU's so-called cohesion policy is the ranking of the Union's many regions in terms of their levels of prosperity. This ranking largely determines whether and by how much a region will be supported from the general budget. Structural funds have a great role in helping regions to be more competitive and to reduce regional differences.

Every European region has to invest in project development to apply their quality ideas towards available European funds which are the key of its development. It is proved by the case of Poland that the economies attracting a huge percentage of available funds do not have critical problems when Europe is affected by a financial crisis. Investing in human and material resources is the key to success of every region, but investing in people when we think regional, is critical and desperate needed. Educated, experienced and well informed people are a good background for project development.

We can conclude that funds are available, access to those funds can be modified and be made more accessible, but the main problem is insufficient investment in human resources. Many quality ideas are waiting to be put to paper, but there aren't enough good consultants who can guide the applicant to the stage of collecting non-refundable funds.

Péter Fülöp*

Is it possible to digitize the institution of higher education?

I. Higher education under transformation

Owing to changes over the last few years in higher education – in the world's more developed parts – the education and the theories of the aims of upbringing transformed considerably worldwide. Even though the changes affected the entire educational sphere, these changes can mainly be seen in the sphere of higher education.

From the significant changes in higher education – which all of us can consider and feel – the following should be emphasized: a) the society's increasing need for higher education, b) because of this, the increase of mass-education and the staff number of tutors, c) and the structural changes which are necessarily coherent with this, d) the novel trends of higher education policy – most typically: the Bologna-process. One of the effects of these changes is the psychological changes, which determine the everyday life of 'higher educators'. And this change is based on the modification of the role of higher education as a social subsystem.¹

The adoption of Act CCIV of 2011 (hereinafter Nftv.) on National Higher Education means a huge challenge for higher education. The productive operation, which accomplishes the government's objectives, entails the reconsideration of the civil service, and the reconsideration of the organizational system of higher education. The development of the related strategies, laws, decrees and the transformation of higher education are still ongoing processes.

There is a renewal competition in the world. The countries which will not be able to introduce reforms will be the losers of the transformations. Reform in this case means that we organize our lives on the basis of new scales and we do not just initiate the processes, but we are also

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¹ Kocsis Miklós, 'A felsőoktatási autonómia értelmezési tartományai' [Interpretative domains of autonomy of higher education] 3 *Jogelméleti szemle* 2010.

able to finish them. However, no nation can be competitive if it does not consider the upbringing of the new elite significant.²

Understandably we cannot find a specific reference among the reasons of the higher education's reconditioning for the optimization of the higher education institutions' operation. In my opinion, the rearranging higher educational market will soon discover that in the competition among various institutions it will be indispensable to decrease the costs of operation. One of the possible solutions is the widespread use of 21st century informational technologies. Besides stabilizing the economic situation, the majority of the institutions has to satisfy the advanced needs of the recipients of services, the expectations of internal organizational units, cope with the more and more difficult tasks of management, and they need specialized knowledge. It requires responsiveness to the new challenges of the smart tools: the information society.

II. What is information society?

In order to understand the topic easier, it is necessary to give an overview of the definition of information society.

There is no universally accepted and exact theory or notion for what can be called information society and what cannot. However, the majority agrees that we see a kind of transformation, which started somewhere between the 70's and nowadays, and which changes the basic manners of the operation of societies.

In literature there are many ideas about what do we actually call information society; these are the theories of knowledge/information economy,³ the post-industrial society,⁴ and the network

² This is the accepted and negotiated version of the legal concept of the Hungarian government on national higher education, which was launched on 11th of September 2011.

³ Fritz Machlup introduced the notion of 'knowledge-industry'. He differentiated five segments within the sector of knowledge: education, research and development, mass-media, information technologies and information services. Fritz Machlup, *The Production and Distribution of Knowledge in the United States* (Princeton, Princeton University Press 1962).

⁴ Alain Touraine talked already in 1971 about the post-industrial society. 'The

society,⁵ etc. All this shows that it is an important sociological question, what kind of society are we living in and what kind of role technology and information plays in our society

Examining the different interpretations and summarizing them, we can emphasize the following:

The information society can be considered a kind of economic, political and cultural action, where, within the society, the production, distribution, share, usage and handling of information can be realized by the maximal utilization of the opportunities provided by information technology.

Informatics supports domestic and international connections and collaborations, and even improves and promotes distance learning. Despite the fact that opportunities provided by informatics are huge, most of the institutions do not really take advantage of it.

For the sake of the institutional improvements, before taking the first steps, it is absolutely necessary to sum up the actual level of development, to discover on which territories developments took place, and how fragmented but well-operating solutions can be connected. For the sake of continuing the development process efficiently, in my esteem it is necessary to work out an institutional-level mid- and long term e-administration strategy, in which it is expedient to define

transition to the post-industrial society will happen, when the investments into symbolic goods which change values, needs, and explanations will transcend significantly the material goods or «services». The industrial society transformed the production's definition, and the post-industrial society transforms the production's result, this is culture [...] It's a determining element that in the post-industrial society, the whole economical system is the object of the social intervention. We call it programmed society, because this term catches the chances of making ruling, producing, organizing, distributing and consuming models, and a society like that appears on its every operational level as a result of its own activity and not as a result of natural law and cultural norms.' Alain Touraine, *Return of the Actor* (Minneapolis, University of Minnesota Press 1988).

⁵ Jan Van Dijk describes the network society as 'sociable information with social- and media networks, which make a front-ranking organization possible for themselves on every potential level (individual, organizational or social)'. Furthermore these networks connect to this formation and all of its units in an increasing scale. In Van Dijk's point of view the networks became the nervous system of the society. Jan Van Dijk, *The Network Society* (London, Sage 2006).

the timetable of developments and appoint realistic deadlines for implementation.

III. The status of e-governance in Hungary

To define the information society, it is indispensable to shortly summarize the domestic trends of e-governance, just like it was necessary for the overview of the offered developments for higher education. It seems important to note that the European Union deals with the development of e-governance and a service provider society.

Beside the coordinated strategic guideline built on the national experiences and the share of the best techniques of the different countries it is necessary for every Member State, including Hungary to find its individual way to deal with all the new challenges.

The governments of the 21st century rely upon new technological results more than ever according to their intentions of modernization. Modern info-communicational results became the most efficient system of assets for the realization of political aims. In the long term, these technologies may facilitate the democratization of the governing processes, and the birth of an 'ultramodern' service-provider society. For modern governments, digital literacy is strategically important, and so does the increase of the need for e-governance services. For instance in Denmark, using e-governmental services requires a certain individual responsibility.⁶ Beside many others, the obligatory electronic tax return in Hungary is an example worth mentioning. However, none of the modern technologies is able to transform the civil service, and the civil service is unable to become more client oriented in order to satisfy the citizens' needs if it does not rely on technology. In the last few years, due to the results of technological programs, the main units of e-governance infrastructure, and the digitization of client-service started to operate. The abovementioned results naturally cannot function efficiently without an adequate legal background. In Hungary, Act CXL of 2004 coming into force in November 2005 laid down common rules of the executive magisterial policy and service and made use of electronic administration possible.

⁶ With an official assistance, they require citizens to create an account, through which financial transactions to governmental institutions can be fulfilled.

Nevertheless, a successful e-governance system cannot be conceivable without the advanced digital literacy of citizens and companies, and without relevant experience and practice. That is why there is a need for strategic programs which could develop the information-society and companies and enterprises.

The main goal is to provide complex government services to citizens and companies online. The European Union realized the importance of the development of e-governance services to follow the revolutionary changes on the internet, in which process the users are becoming more and more content-providers.

For the utilization of new technologies, and for enabling to react to the new challenges, the EU and the domestic propelling force, the civil services, require a transformation, one which makes the civil service able to fit into the requirements of a customer-centric approach used in the private sphere. The aim is to enable the civil service to provide easily accessible services of a better quality and operate on a reasonable and sustainable financial ground. The decreasing of the seemingly spreading bureaucracy as well as the rationalization of administrative systems' processes with IT equipment is indispensable, so as to assure the mutual accessibility of databases, especially when keeping in mind the principles of simplicity and transparency.

IV. Is higher education a service?

Let me emphasize once again: if the institutions of higher education want to get a competitive edge over their competitors, similarly to states, they need to reconsider their functions and operation soon. The complex realization of an institutional e-administration system could ensure an increase of competitiveness, it could boost internal task-providing efficiency, it could increase the quality of services, thereby the satisfaction of the 'users', i.e., students, lecturers, administrative workers would increase, and what is more, external perception of the institution would become significantly better.

In my point of view, we have to consider higher education as a service. We cannot disregard the fact that the higher education service is the biggest provision system of Hungary, and at least half a million people participate in the realization of its activities, and at least two-thirds

of them are public or civil servants. This service system's operational costs exceed a thousand-billion Forints annually.⁷ Consequently, as also Miklós Kocsis emphasizes, it is a requirement to provide a demanding and high-quality service in the sphere of higher education.⁸

As I have mentioned above there are significant structural and constructive changes in progress in Hungarian higher education. In my opinion only those institutions are able to become stronger in this competition which have the (qualification based) legal basis and provide high-quality. Development of the quality of services in the 21st century cannot be imagined without using, *inter alia*, the development possibilities provided by the information society. Following the installation of the institutional e-administration, savings can be spent on supporting IT of undergrad services.

V. The configuration of e-administration in the institution

During the e-administration project the developments which aim to establish the basis of the service provider university, the following elements seems to be necessary and feasible: significant development of informational systems, the configuration and utilization of integrated systems, the modernization of info-communicational resources, the assurance of the opportunity of a wider internet accessibility, and the upgrading of the officers and IT specialists.

It's useful to divide the installation of e-administration into some sections, which are also able to create individual units inside the complex project. Every result of the e-administration project has to be put into a well-defined and coherent record system in which the controlling, technical, developing, and quality assuring partial results are separated and well traceable.

For the construction of the institute's whole e-administration, it is necessary to precisely define the goals of development with

⁷ Szüdi János, 'Előszó' in Szüdi János, szerk., *Az oktatás nagy kézikönyve* [Great manual of instruction] (Budapest, Complex Kiadó 2006) p. 8.

⁸ Kocsis Miklós, *A felsőoktatási autonómia közjogi keretei Magyarországon* [Public law frameworks of autonomy of higher education in Hungary] (Budapest, Topbalaton 2011) pp. 25-29.

the involvement of different departments, and in this process it is indispensable to take into consideration the assessment of the following goals: utilization of an integrated controlling system which realizes widespread functionality, the development of online administration services, and the administration-management which serves them, and IT-development of other fields; achievement of a service provider institutional administration, the 'client oriented' administration; the necessary modernization of the establishments' info-communicational resources; replacing already operating fragmented information systems with modern, global and integrated systems; discovering opportunities for decreasing information systems' operating costs and for decreasing financing needs; supporting IT development of the departments; providing e-support for the management and the relevant administrative processes; data- and information exchange, just as the betterment of quality.

VI. The phases of preparation

1. In the interest of the project's success, and for the fulfillment of the requirements of efficiency and result-oriented operation, it is necessary to define a structural framework (to appoint a responsible body) and competences, and to inform the executives of the departments. It is also needed to acquire some resources and infrastructure in order to support the working group in the beginning, and later, when planning the budget.
2. After the body is assembled, it is necessary to review the actual existing level of development in order to ascertain the fields where development already took place, and to determine how the fragmented but well-operating solutions can be connected.
3. IT specialists should be involved and it is necessary to check utilizable opportunities, and map out the connectivity of the IT systems in the institution. It is necessary to discover which are the territories where a clearer, simple and more budget-saving operation is possible via quick decisions, with little supply-expenditure, using e-solutions.
4. The involvement of an economist expert is also needed, and it is necessary to do financial calculations checking how much it costs to

realize these developments, and how much these developments will save in the mid- and long term. It would be useful to examine what kind of resources could be involved in the project.

5. For utilizing the surveys' results for the aim of efficient improvement, it is necessary to elaborate the institute's mid- and long term e-administration concept, in which – to avoid the resistance of the concept, which can be experienced many times – it is expedient to define the timetable of developments, appointing responsible persons, and setting realistic deadlines for the realization of the goals. When defining the relevant territories in the first stage, it is worth considering in which territories some steps have already been taken towards an electronic administration (e. g., electronic document-handling).

To install e-administration it is required that all the participants of the project (top managers and executives) collaborate with each other. For the sake of efficiency, it's useful to create a working group, and when creating it, qualifications and personal features of the member need to be taken into consideration. It is necessary to define competences, power limits, and task distribution in the working group.

For the aim of success it is important to involve a person responsible for IT development operation and realization, and it's also indispensable to involve an economic expert.

The working group can be successful if the leaders of the institution are committed to development and if the necessity of collaboration is clear for the heads of each department.

The preparation for installing an institutional e-administration is basically made up of an analysis of existing resources, application environment of the expected results, and the summaries of the needs of target group(s).

VII. The expected effects of using e-administration

1. Providing information and quality

With the spreading of digital systems, there is no need for the tiresome task of converting paper based data; the data is issued already in electronic form. Managing digital information is also easier, and what is

more, they are comparable and the different data lines can be combined. With the permeability of data bases and information-sharing among different departments, the information provision changes significantly, and there is no need for announcing different data over and over again.

2. Decreasing time

Digitizing information does not only have qualitative advantages. The electronic publication of information is quicker, thus data can be shared more quickly (and usually in a more up-to-date form). Storing information in electronic form can speed up certain decision-making processes, as well.

3. Decreasing administrative burdens

The changes give chance to decrease superfluous administration. It is enough for the users to review the form generated from their already existing data, which they can finalize with the click of a button.

4. Decreasing costs

We cannot leave out one of the most important advantages, namely, modifying cost-effectiveness. The main elements of cost-effectiveness are less working hours and smaller labor strength, and electronic communication can also be cheaper than the conventional way.

5. Services of enhanced quality

The services mentioned in this title can be realized by more flexibility, more transparency and better treatment of individual cases. Permanent accessibility (background information, and various forms can be downloaded anytime) means an opportunity for better dealing with financial transactions. Regarding flexibility, the assurance of multichannel accessibility (paper, internet, CD-ROM, call-center, SMS, smartphones) is important – so that the user can contact the institution in the form most adequate for him. In relation to transparency, the possibility to follow up on pending administrative cases and to ‘monitor’ information (e.g. the stage of progress of a certain case or an accurate display of mailing history) is also a benefit.

VIII. Potential advantages for the institutions – a summary

If we wish to summarize the potential advantages of using IT tool at higher education institutions, we could enumerate the following: increasing competitiveness; exemplary development opportunities; the increase of the quality of services; increasing internal institutional satisfaction; creating less expensive communicational channels (with the institution's employees and undergrads as well); increasing efficiency – mainly due to information sharing; time saving – quickly available services; non-stop accessibility – comfort; the handiness of information; chance for self-service; better provision of information – increasing knowledge and consciousness; simple administration – with interactions between the institution and the users/workers; more transparent operation.

Sanja Ivanović*

A young individual as the key element of the regional capacity development

I. A young individual as the crucial element for cross-border regional capacity development

1. Capacity building

The UK's Department for Social Development describes capacity building as 'the process of supporting individuals and community organizations to help them better identify and meet the needs of their areas. It involves building on the existing skills, providing opportunities for people to learn through experience and increasing people's awareness and confidence to enable them to participate more fully in society'.¹ They emphasize the importance of the following components: people who are willing to be involved, skills, knowledge and abilities, motivation and the experiences to carry out initiatives, community organizations, supportive institutions and physical resources, economic and financial resources and finally, enabling policies and systems.

The United Nations Development Programme (UNDP) defines capacity development as 'the process through which individuals, organizations, and societies obtain, strengthen, and maintain the capabilities to set and achieve their own development objectives over time'.²

2. A young individual

Individuals represent 'the first layer of capacity'.³ For societies to grow, develop and transform, the skills, knowledge and experience of young

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¹ UK Department for Social Development. Capacity Building. Available at <http://www.dsdni.gov.uk/vcni-community-capacity-building.pdf> (18.05.2013).

² United Nations Development Programme. Capacity Development. Available at <http://www.undp.org/content/undp/en/home/ourwork/capacitybuilding/overview.html> (18.05.2013).

³ Capacity Development. Wikipedia. Available at http://en.wikipedia.org/wiki/Capacity_development (17.01.2013).

individuals are of essential importance. Investing in young people's capacity is, therefore, the first step towards any kind of progress and direct investment in the future.

In Scotland, they have identified three national priorities for community learning and development. These aim to contribute to overall priorities of improving public services and promoting community regeneration, social justice, lifelong learning and active citizenship. One of the priorities is achievement through learning for young people. This means 'engaging with young people to facilitate their personal, social and educational development and enable them to gain a voice, influence and place in society'.⁴

The Scottish Government's short definition of community capacity building is: 'enabling individuals, groups and communities to develop the confidence, understanding and skills required for influencing decision making and service delivery'.⁵

Their underlying principles are: empowerment – increasing the ability of individuals and groups to influence issues that affect them and their communities; participation – supporting people to take part in decision making; inclusion, equality of opportunity and anti-discrimination – recognizing that some people may need additional support to overcome the barriers they face; self-determination – driven by the principle that communities themselves drive capacity building activity, and people are supported to make their own choices; partnership – recognizing that many agencies can contribute.⁶

The principles above listed are extremely important for anyone who deals with youth and should be taken into account when developing youth strategies.

⁴ Scottish Executive Guidance for Community Learning and Development. Available at <http://www.scotland.gov.uk/Publications/2004/02/18793/32161> (20.05.2013).

⁵ Community Learning and Development in Scotland. Available at <http://www.educationscotland.gov.uk/communitylearninganddevelopment/communitycapacitybuilding/aboutccb/whatisccb.asp> (20.05.2013).

⁶ Community Learning and Development in Scotland. Available at <http://www.educationscotland.gov.uk/communitylearninganddevelopment/communitycapacitybuilding/aboutccb/whatisccb.asp> (20.05.2013).

3. An example of a good school curriculum from Scotland

In order to be able to take action and initiative, one has to be properly educated and schools do not suffice anymore as the place where young people should gain skills and knowledge needed in a globalized world. Young people should develop skills for tackling issues, making decisions, becoming engaged in public spheres, and especially hands on experience, which schools usually lack. This kind of education is usually not offered in the traditional curriculum within traditional educational framework, and it is of essential importance in today's world.

A great example of a contemporary progressive curriculum is the Scottish. The purpose of the curriculum is encapsulated in the 'four capacities – to enable each child or young person to be a successful learner, a confident individual, a responsible citizen and an effective contributor'.⁷ The curriculum aims to ensure that 'all children and young people in Scotland develop the knowledge, skills and attributes they will need if they are to flourish in life, learning and work, now and in the future'.⁸ The attributes and capabilities of the four capacities are outlined below:

⁷ Community Learning and Development in Scotland. Available at <http://www.educationscotland.gov.uk/communitylearninganddevelopment/communitycapacitybuilding/aboutccb/whatisccb.asp> (20.05.2013).

⁸ Scottish School Curriculum. Available at <http://www.educationscotland.gov.uk/thecurriculum/whatiscurriculumforexcellence/thepurposeofthecurriculum/index.asp> (20.05.2013).

Table 1. Scottish School Curriculum for Excellence

successful learners	confident individuals	responsible citizens	effective contributors
<p>attributes</p> <ul style="list-style-type: none"> enthusiasm and motivation for learning determination to reach high standards of achievement openness to new thinking and ideas <p>capabilities</p> <ul style="list-style-type: none"> use literacy, communication and numeracy skills use technology for learning think creatively and independently learn independently and as part of a group make reasoned evaluations link and apply different kinds of learning in new situations. 	<p>attributes</p> <ul style="list-style-type: none"> self-respect a sense of physical, mental and emotional well-being secure values and beliefs ambition <p>capabilities</p> <ul style="list-style-type: none"> relate to others and manage themselves pursue a healthy and active lifestyle be self-aware develop and communicate their own beliefs and view of the world live as independently as they can assess risk and make informed decisions achieve success in different areas of activity. 	<p>attributes</p> <ul style="list-style-type: none"> respect for others commitment to participate responsibly in political, economic, social and cultural life <p>capabilities</p> <ul style="list-style-type: none"> develop knowledge and understanding of the world and Scotland's place in it understand different beliefs and cultures make informed choices and decisions evaluate environmental, scientific and technological issues develop informed, ethical views of complex issues. 	<p>attributes</p> <ul style="list-style-type: none"> an enterprising attitude resilience self-reliance <p>capabilities</p> <ul style="list-style-type: none"> communicate in different ways and in different settings work in partnership and in teams take the initiative and lead apply critical thinking in new contexts create and develop solve problems

Source: Scottish School Curriculum, available at <http://www.educationscotland.gov.uk/thecurriculum/whatiscurriculumforexcellence/thepurposeofthecurriculum/index.asp> (20.05.2013).

However, all the great capabilities listed above are not that easy to achieve through the traditional educational framework. The types of qualities like understanding other cultures, understanding your own culture, thinking creatively and independently, taking the initiative and lead, partner world and communication are best achieved when travelling abroad and learning outside the classroom. The easiest way for the youngest is to experience activities in the cross-border area by meeting and interacting with their neighbors.

3. Europeanization of regional policy – cross-border activities

Capacity development starts at the individual level and so does regional development. In the last two decades we have had an omnipresent Europeanization of regional policy in Croatia. According to Trnski (2009), the Europeanization of regional and local development is the process of construction, diffusion and institutionalization of formal and informal rules. Furthermore, Trnski (2009) argues that the EU's regional policy does not „fit ‘ into any national model or experience

because it represents an addition to existing national regional policies rather than being a substitute for national policies. It adds a European dimension and level to already existing regional development policies. In order to have a successful regional policy, there are ‘four aspects that are important in structuring institutional response to the dictates of regional policy’.⁹ These are institution building, institutional capacity, administrative capacity, and finally, multi-level and multi-subject governance.

In this context, the institutional capacity is of greater interest. It is important because it means ‘the increase in the ability of existing institutions to undertake new functions’.¹⁰

In the Slavonian context, the first step towards full Europeanization is cross-border collaboration with the neighboring Hungary, and for Osijek, with its partner city Pécs. Our cross-border experience has been valuable but there is far more potential to it, especially when it comes to motivating larger groups of young people into taking part in some sort of cross-border activities. The institutional capacity should be helpful and enable all the stakeholders to easily access and succeed in all kinds of cross-border projects.

A present-day European citizen should be cross-border oriented and engaged in friendly dialogue with their neighbors. In order to enhance cross-border youth thinking, young people need to be involved in the activities which address their needs, interests and preferences and shape their orientation towards openness to their peers across the border and at the same time all around Europe. The routing of the young individual towards cooperation with their European neighbors, especially in the region, is the key factor for Croatia’s full integration and development in the new EU context and the crucial step towards effective regional capacity development.

⁹ M. Trnski, ‘No Policy on the Horizon? Europeanization and Regional Policy in Croatia’, *Politička misao*, Vol. 46, No. 5 (2009) p. 181.

¹⁰ M. Trnski, ‘No Policy on the Horizon? Europeanization and Regional Policy in Croatia’, *Politička misao*, Vol. 46, No. 5 (2009) p. 182.

II. Youth on the Move initiative

The newest EU strategy Europe 2020 has recognized the importance of empowering youth for an active role in societies and thus placed the young individual in the central position throughout the EU's newest initiative *Youth on the Move*. The EU supports the vital role young people ought to play in the EU's future. Therefore, the EU offers and funds numerous ways for young individuals to take part in cross-border activities according to their preferences, interests and needs. It has been concluded that nowadays in Europe, although many young people take part in Erasmus or Comenius, there is still a large number of young people that are being left out when it comes to personal, 'outside-classroom' development and that are still too many school drop-outs, youth at risk and those who never go to higher education. In order to change the statistics, the EU has improved the offer, i.e., the *Youth on the Move* initiative created a pallet of fully funded cross-border activities young people should find alluring: volunteering, democracy projects, various types of outside-classroom activities, seminars, workshops, mentoring, coaching, youth exchanges, youth initiatives and youth enterprise.

This strategy offers four types of both formal and non-formal knowledge and skills acquisition. Young people can study, learn, train or work in Europe. When it comes to studying, the European Union offers grants for students, teaching professionals and staff to study or work abroad. (These are the well-known Erasmus and Erasmus Mundus programmes.) One can also gain work experience in another country and add an extra dimension to their CV. (The Leonardo Da Vinci, Erasmus, Comenius and Marie Curie programs can help young people gain the skills and qualifications they need to improve their employability.) Through the *Youth on the Move* initiative, young people can also find a job in Europe.

In this paper, however, the accent is going to be on the non-formal knowledge acquisition in the context of *Youth on the Move* initiative because it offers a variety of possibilities to encompass larger groups of young people, especially the non-traditional learners.

According to the new EU's strategy, learning is not limited to schools. Plenty of learning happens outside the classroom, and everyone who has experienced this sort of learning will undoubtedly confirm that such experiences are probably the most valuable ones. Therefore, this chapter will briefly describe all the activities.

The so called *Youth in Action Programme* offers 'funding for young people to go abroad and acquire new skills within and beyond the EU's borders. The programme is addressed to all young people, regardless of their educational, social and cultural background.' Here are the sub-programs listed from a) to e).

a) *Youth for Europe*: 'Encourages young people's active citizenship, participation and creativity through youth exchanges, youth initiatives and youth democracy projects.

Youth Exchanges aim to get together groups of young people from different countries so they can explore their social and cultural differences and similarities. Youth Exchanges are targeted at young people between the age of 13 and 25 (up to 20% of participants may be aged between 25 and 30). Each exchange must have a theme that is relevant to the daily experiences of the young people involved but also has a clear European dimension.

Youth Initiatives are projects entirely devised, planned and implemented by young people themselves at local, regional or national level. The goal is to stimulate young people's creativity, enterprise and initiative. Youth Initiatives are aimed primarily at 18-30 year olds, but 15-18 year olds can take part if accompanied by a coach or youth worker.

Youth Democracy Projects are aimed at boosting young people's involvement in the democratic process at local, regional and European level. The objective is to provide young people (13-30 year olds) with experiences and ideas about democracy, to spark new national and transnational networks and exchanges of good practice. Youth Democracy Projects improve young people's understanding of how democracy works, helping them to make the most of their right to participate in the decision-making structures of a democratic society.

b) *European Voluntary Service (EVS)*: Funds young people to volunteer for up to 12 months in another country. Participation is free for the volunteers (except for a possible contribution of a maximum of 10% of

the travel costs) and they also get board and lodging, insurance cover and an allowance for the duration of the project. Beyond benefiting local communities, volunteers develop new skills and languages and therefore improve their personal, educational and professional development. An EVS project can focus on a variety of themes, such as culture, youth, sports, social care, cultural heritage, arts, civil protection, environment or development cooperation.

c) Youth in the World: Provides young people and youth workers from Europe with the opportunity to take part in exchanges and other non-formal education activities with their peers living outside the European Union. This Action supports exchanges, training, networking and cooperation with EU Partner Countries, with a special focus on its neighboring regions – Eastern Europe and Caucasus, the Mediterranean region, and South-East Europe.

d) Youth support systems: Provide youth workers and organizations with opportunities to develop co-operation and partnerships, to exchange youth work good practice, as well as to receive training in order to develop quality activities for young people.

Civil society, youth workers and other actors involved in youth work can apply for a whole range of activities such as job shadowing, feasibility visits, evaluation meetings, study visits and seminars, training courses, as well as partnership building and networking activities.

Financial support is also provided to European NGOs active at European level in the field of youth and to the European Youth Forum.

e) European Cooperation in the Youth Field: Promotes the development of youth policy cooperation at European level. Three sub-actions have been created to achieve this goal:

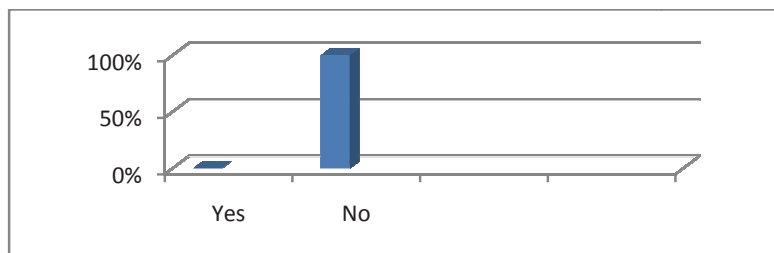
National and transnational youth seminars: co-funding grants can be given to the setting up of meetings between young people and those responsible for youth policy. Targeted at young people aged 15-30, these meetings can take place either at national or transnational level. They should aim at promoting the exchange of good practice and ideas in relation to important topics in the field of European youth policy or the priority themes of the Youth in Action programme and structured dialogue.

Improving knowledge and understanding of youth: support for activities to bring about better knowledge of the youth field.

Cooperation with international organizations: the Commission works closely with the Council of Europe, the United Nations or its specialized institutions, in order to develop a framework for co-operation in the youth field. Within this partnership a large variety of joint activities are implemented, including training, conferences, workshops, seminars, as well as the management of the European Knowledge Centre for Youth Policy, a research database for youth policy across Europe'.¹¹

For the purposes of this paper a survey has been conducted. The research objectives set out were to show the level of information among Croatian high-school pupils and their willingness to participate in such activities. The survey was paper-based and 108 pupils aged 16 and 17 from Language High School Osijek participated (24 boys and 84 girls).

Grarf 1 *Question 1: Have you heard of the EU's Youth on the Move initiative?*



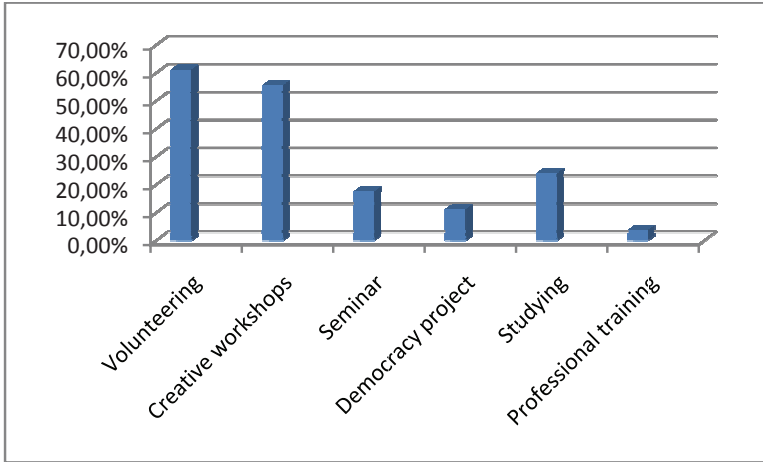
All the 108 students have specified 'no' as their answer. However, we have to keep in mind that at the time of the survey, the promotion of the *Youth on the Move* initiative has not yet taken place in Croatia. The official presentation of the initiative took place in Zagreb a month later.

In the second question of the conducted survey, *If you have, what do you know about it*, some of the respondents wrote that now they know at least something.

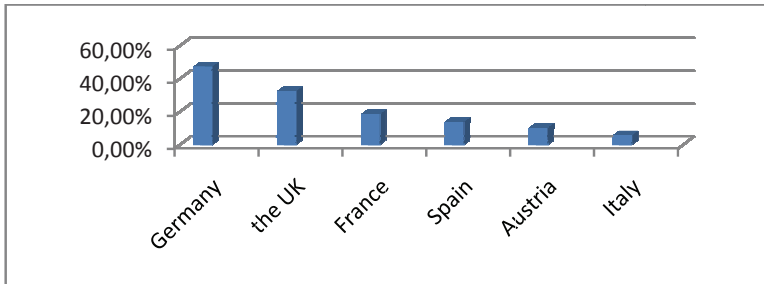
Some wrote that now they know at least something.

¹¹ All the information is taken from the official website *Youth on the Move* http://ec.europa.eu/youthonthemove/index_en.htm (20.01.2013).

Grpf 2 Question 3: *If you had the opportunity to take part in some of the following activities in one of the EU countries, which activities would you choose? (It is possible to circle as many answers as you wish.)*



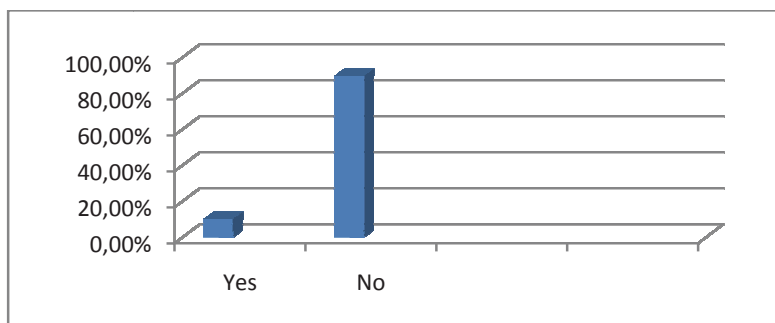
Grpf 3 Question 4: *In which EU countries would you preferably perform the activities from the previous question?*



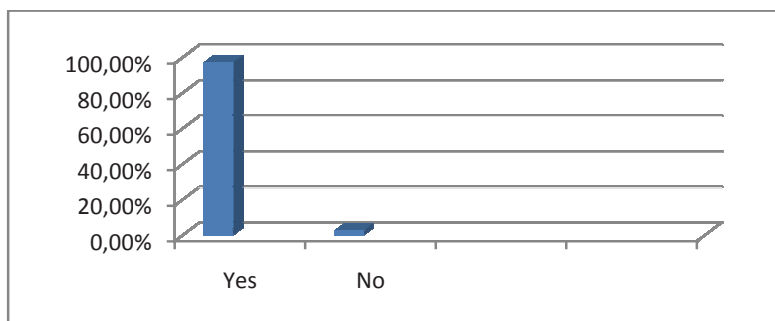
Third and fourth question was an open type of question and the participants were allowed to write as many answers as they wanted. The most popular countries were Germany (47,3%), the UK (32,4%), France (18,5%), Spain (13,9%), Austria (10, 2%) and Italy (5,6%). Besides these countries, Sweden (4,6%), the Netherlands (3,7%), Belgium (2,8%), Slovenia and Greece (1,9%), Portugal, Norway, Ireland and Czech Republic (0,9%) were also named as desirable

destinations. Why? The participants prefer Germany because they think it is a very developed country, because they already learn the language and want to perfect it, but also because of the general good living standard. The UK is desirable because they speak the language and love English culture. France is popular because of the culture and their beautiful language. Presumably, a possible reason for choosing these countries could be the annual school trips that the school where the survey was conducted organizes. Many students have visited Germany, the UK and Austria and have already gotten acquainted with these countries.

Grarf 4 Question 5: Do you know that the EU funds such activities for young people?

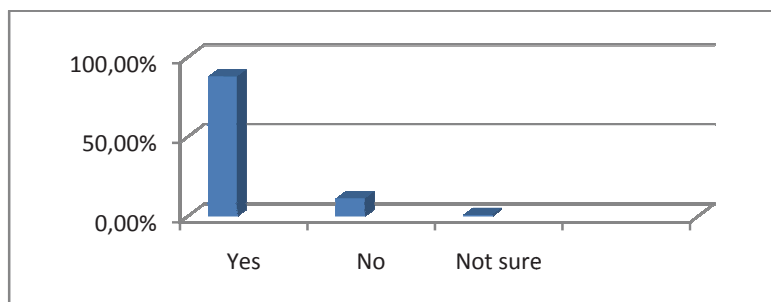


Grarf 5 Question 6: Do you think that this type of experience would be useful for your personal and professional development, as well as acquiring precious skills (language, communication skills)?



The participants mostly reckon that this type of experience would be a great opportunity to meet people from different cultures, to perfect or learn a foreign language and acquire new skills and knowledge. They also say that learning outside the classroom is the best way to learn and that this type of experience would make them more independent and more self-conscious. The low percent of those who said 'no' wrote that they have no intention to leave Croatia, or that they are simply not interested in that type of education.

Graf 6 Question 7: Would you like to apply for some of these activities if you had the opportunity?



Because it is a great experience, they can learn many new things, they like to travel, meet new cultures, see how people live in other countries and meet new friends. Some think it would complete them as persons and broaden their horizons. Many of them said that this kind of adventure would make it easier to find a job later on in the future.

The ones who said 'no' assume that they already have e.g. communication skills and are simply not interested.

The findings of the survey have generally shown that this group of participants is highly interested in the types of activities offered by the EU, but are not adequately informed about all the possibilities they actually have.

The first step would be informing young people, besides the official presentation in Zagreb, the presentations could be organized in all bigger cities, mostly in schools.

III. The potential of Osijek and Pécs

The precondition for a successful collaboration is the human and institutional potential. When it comes to human resources, a basic element for cooperation is a common language. In terms of language, young people nowadays, learn at least one foreign language both in Croatia and Hungary. Therefore, communication in either English or German should not be a challenge for young people. In addition to that, Croatian and Hungarian minorities also play an important role in terms of communication and exchanging information. The Department for Hungarian Language and Literature, which was founded in Osijek a few years ago, could also be a partner in cross-border activities. Also, the Educational and Cultural Center of Hungarians in Croatia, the Hungarian Cultural Society *Népkör*, and the Hungarian Democratic Community, all located in Osijek, are potential partners. Besides these institutions, there are other, both governmental and non-governmental organizations that could facilitate such activities, e.g., the Regional Development Agency of Slavonia and Baranja or the Local Democracy Agency Osijek.

Croatia and Hungary, as well as partner cities of Osijek and Pécs, have always had strong friendly bonds and have developed collaboration on all levels and in all fields. Thus, enlarging the collaboration to further fields that would involve a large number of young people should not be too difficult.

Osijek and Pécs have had a long tradition of cultural, athletic and educational collaboration. The major activities and most positive examples in terms of connecting young people from cross-border areas were performed by the primary school Vijenac, Osijek and the Croatian school 'Miroslav Krleža' in Pécs, and the secondary Electrotechnical and Traffic schools of Osijek and Pécs. Furthermore, summer vacation was organized for children from Osijek and Pécs. There was also a collaboration of teachers for children with special needs (Ivan Štark Osijek and Éltés Mátyás from Pécs.)

When we take the Europe 2020 strategy into consideration, which emphasizes, among other things, smart and inclusive growth, which includes lifelong learning, validation of non-formal and formal

learning, apprenticeship-type vocational training and traineeships, we can see that the local example has far more potential and needs to be updated. ‘Youth on the Move will support the aspiration that by 2020 all young people in Europe should have the possibility to spend a part of their educational pathway abroad, including via workplace-based training’¹² Why not use this great opportunity to motivate young people to become actively engaged in their local and cross-border area, and by doing so, develop their personal potential and consequently improving cross-border capacities. The positive examples set by the schools from Pécs and Osijek mentioned before should be performed by more schools, organizations, NGOs, and all bodies active in the youth field. By doing that they ought to adequately address the issue of successfully involving a large number of young people in acquiring new skills, inspiring active European citizenship, solidarity and tolerance among young people.

IV. Conclusion

An active young citizen is in the focus of the Europe 2020 strategy, which places him in a central position. The EU has developed an initiative and ensured funds for a successful implementation of youth activities. The goal of the *Youth on the Move* initiative is to stimulate young people’s creativity, enterprise, skills and cross-border thinking through all kinds of formal and non-formal educational activities. The importance of giving young people the opportunity to get involved in shaping of the Union’s future has been recognized by the EU by giving them the opportunity to travel abroad and acquire new skills which they will certainly use in the future. ‘Europe’s future prosperity depends on its young people’.¹³ These goals can only be met by making

¹² European Commission: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. *Youth on the Move: An initiative to unleash the potential of young people to achieve smart, sustainable and inclusive growth in the European Union*. Brussels, 15. 9. 2010, p. 3. available at http://ec.europa.eu/education/yom/com_en.pdf (10.01.2013).

¹³ European Commission: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. *Youth on the Move: An initiative to unleash the*

education and training more relevant to young people's needs, on local, regional, cross-border and cross-national level.

The cities of Osijek and Pécs have had a successful tradition of cross-border collaboration on all levels and in all fields, cultural, political, athletic and educational. However, as in all things, there is always room for further updating and new strategies. In the light of the latest goals of the EU, the cities of Osijek and Pécs ought to make their collaboration more up-to-date with the present EU needs and address the issue of importance of enhancing young people's capacity for cross-border thinking and accordingly more successful cross-border development. The survey conducted in the Language High School in Osijek among the first and second graders (15, 16 and 17 years old) has shown that this group of young individuals is highly interested in the types of activities offered by the *Youth on the Move* initiative and that they are aware of the importance of the acquisition of communicational skills, foreign languages, and all kinds of other experiences they will need in the future. A valuable detail is that, according to the survey, the participants are mostly interested in volunteering. At the second place are creative workshops of all kinds, which supports the thesis of the importance of non-traditional learning and attracting the non-traditional learners. However, young people should be better informed and motivated for actual involvement in such activities.

The routing of young individuals towards cooperation with their European neighbors, especially in the regional area, is the key factor for Croatia's full integration and development in the new EU context, as well as for a successful regional capacity development and friendly cross-border collaboration. These goals can only be achieved by implementing them from an early age through all kinds of education activities, youth exchanges, democracy projects and voluntary activities.

potential of young people to achieve smart, sustainable and inclusive growth in the European Union. Brussels, 15. 9. 2010, p. 2. available at http://ec.europa.eu/education/yom/com_en.pdf (10.01.2013).

Sara Mikrut*

Protection of geographical indicators and designations of origin for agricultural products and foodstuff

I. Introduction

Regulation (EU) No 1151/2012 controls the creation of complex quality schemes for agricultural products and foodstuffs. It also sets out provisions in order to help producers of products linked to a geographical area by securing fair returns for the qualities of their products, ensuring uniform protection of the names as an intellectual property right in the territory of the Union and providing clear information on the value-adding attributes.¹ According to the Regulation, if there is a link between the characteristics of certain products and their geographical origin, these may qualify for either a protected geographical indication (PGI) or a protected designation of origin (PDO). These labels provide consumers with clear and concise information on the origin of their purchase, which, moreover, has the potential of boosting the popularity of certain region-specific products. This, in turn, is understood to benefit the rural economy and help maintain the population in less favored or remote areas.

In this paper, using Croatia as reference point, the aim is to show how the protection of geographical names could be used not only to protect agricultural production but also promote rural and regional identities and the specific areas that they represent. Here, the specificities of Croatian geographical position, its various natural and climate conditions, culture and tradition, and the high quality of raw materials and products (including the large number of autochthonous products) are factors that could help further national agriculture policy and rural and regional development based on Regulation (EU) No 1151/2012.

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¹ Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs, Article 4

Croatia makes an interesting subject of a case study for at least two reasons. First, it does not have an equitable regional development but it has the potential to support and strengthen its regions through PDOs and PGIs. Apart from elevating the regions in terms of production and employment, PDOs and PGIs may contribute to building national and/or regional identity, and make a much needed touristic promotion of underdeveloped Croatian regions. Indeed, this approach to development is applied by other Mediterranean countries, such as Italy, France, and Spain, where identity-building is partly based on specific agricultural products and foodstuffs, which have achieved a high level of recognition on the European market.

Second, in time of the Croatian EU accession, Croatia has had only one product published as PDO, and one applied.² This reflects a more general problem in the EU, where the number of PDOs/PGIs is disproportionately distributed across the Union. This shows that a mandatory legal framework, such as Regulation (EU) No 1151/2012, is not enough to safeguard and protect regional or at least national agricultural products and foodstuffs. Referring to the use of PDOs and PGIs in Italy, France and Spain, shows the importance of institutions in this regard. More precisely, institutional support is crucial for the commercial effectiveness of registration mechanisms. Indeed, the main characteristic of countries with a large number of PDOs /PGIs is a properly developed ‘support system’, as established in Italy, France and Spain, or a strong and well-structured inter-professional organization.³ These institutional structures have certainly been identified as central factors contributing to the high number of secured PDOs/PGIs.

In this paper, I argue that Croatia should build a similarly effective institutional framework which can ensure that PDOs and PGIs increase in number. Since the applications for registration of PDOs and PGIs may only be made by a group of producers, processors, or, in exceptional cases, natural or legal persons, much support should be given to Croatian producers associations. Such support should manifest itself in terms of facilitating the applicants during the registration

² Source: DOOR, <http://ec.europa.eu/agriculture/quality/door/list.html> (01.07.2013).

³ D. Barjolle, et al., *Protected designation of origin and institutions* (EAAE 1997) pp. 483 - 501.

procedure, and speeding the procedure up. This would indirectly also promote tourism. Indeed, food represents an unavoidable and essential element of integral tourist destination products. Here, Croatia has the chance to enrich and improve its quality through better valorization of its potentials.⁴ Having all this in mind, PDOs and PGIs should be seen as the key elements of future Croatian agricultural policy, which, in synergy with the Croatian tourism development strategy, could not only position Croatian products on the EU market, but, moreover, enlarge touristic interest for all Croatian regions, not just the coastal area, and help preserve their valuable identities and authenticity.

This paper is structured as follows. First, the importance of PDOs and PGI is explained in light of Regulation (EU) No 1151/2012. In the following section, PDOs and PGIs are described by examining how they have been secured in three specific Mediterranean countries: Italy, France and Spain. These are chosen as reference points due to their success in securing a large number of PDOs and PGIs. In the fourth section, these Mediterranean experiences are discussed with specific references and applicability potentials for Croatia. More precisely, I will examine the chances and perspectives for further regional development of Croatia by applying and being granted PDOs and PGIs. In the fifth and final part, the above findings are reflected on and summarized.

II. The role of PDO and PGI

Before the EU legislated on quality schemes for agricultural products and foodstuffs, certain member states had already introduced national legislation relating to the creation of PDO and PGI. These were mainly Mediterranean countries, including Italy, France, Spain, Portugal and Greece. Considering that the EU is based on the free movement principles, and founded on the principle of non-discrimination on the grounds of nationality, this posed a direct threat to the functioning of the internal market. More precisely, it placed pressure on the EU to regulate uniformly on the matter, which it finally did in the shape and form of Regulation EC 2081/92.

⁴ B. Grbac and A. Milohanović, *Contribution of food products in creating cultural identity of tourist destination* (Heraklion 2008) pp. 83 - 87.

The aim of Regulation EC 2081/92 was to define the conditions, procedures and the extent of the protection of the designation of origin and the geographical indications. In 2006, the Council amended this regulatory framework by enacting Regulation (EC) No 510/2006. In the light of the experience gained from the implementation of Council Regulation (EEC) No 2081/92 and Regulation (EC) No 510/2006, EU policymakers recognized that there is a need to clarify and simplify some rules relating to this topic and to streamline the procedures of this scheme.⁵ As a result of this, a new Regulation (EU) No 1151/2012 was adopted which entered into force at the beginning of 2013.

The rationale of the newly amended regulation is to clarify, simplify and streamline the rules and procedures of the application for PDOs and PGIs. By simplifying the regime awarding quality schemes for agricultural products and foodstuffs, Regulation (EC) No 1151/2012 creates a robust framework for the protection and promotion of quality agricultural products.

The quality and diversity of EU agricultural production is generally seen as one of the Union's important economic strengths, and agricultural products marked under the Union's quality scheme are indirectly granted competitive advantage on the internal market. Ultimately, the European Commission understands that PDOs and PGIs play a key role in promoting products having specific characteristics, which not only encourages the diversification of agricultural production but also helps improve income opportunities of farmers and rural regions more generally. This fits well with the overall citizen and consumer choice in Europe: they are increasingly demanding traditional products, or products produced in a particular area. They tend also to be concerned with maintaining the diversity of agricultural production in the Union. As such, there is a strong demand for agricultural products or foodstuffs with identifiable specific characteristics, in particular those linked to their geographical origin. Case studies suggest that the existence of the PDOs/PGIs seems, at the very least, to reinforce the cultural heritage and value of the region of the production of the PDOs/PGIs.⁶

⁵ Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs (21).

⁶ *Evaluation of the CAP policy on protected designations of origin (PDO) and*

III. EU diffusion of PDO and PGI: Mediterranean countries as key leaders

1. The emergence of PDO/PGI

Certain Mediterranean countries realized early the strength of quality schemes and the possibility of combining the process of globalization with traditional agricultural production in the best possible way. As mentioned earlier, Italy, France and Spain had, before the EU initiated policymaking on this topic, developed national legal frameworks for the protection and promotion of quality agricultural products. Since the middle of the 20th century, public institutions have played an important role in the recognition and encouragement of coordinated steps of product promotion, in particular for typical regional products, in several countries of the European Union.⁷ Today, these countries are entrusted with a large number of protected products, as well as specific a image based on these.

Italy currently holds the European record for securing PDO and PGI labels for its national products. Indeed, it is claimed that Italy's 'history and traditions depend upon the protection and development of the great Italian heritage of food and agriculture'.⁸ The EU-based system of denominations for the development and protection of food products make it possible to encourage farm production and producers to invest in less favorable regions as, for instance, their product names are protected against imitation and abuse, whilst, at the same time, informing the consumers of origin and quality. According to Origenandino, producers of Italian Tuscano olive oil have managed to increase the price of their olive oil by 20% since it was registered as a PGI in 1998.⁹

protected geographical indications (PGI), EC, London Economics, ADAS and Ecologic, 2008.

⁷ *Evaluation of the CAP policy on protected designations of origin (PDO) and protected geographical indications (PGI)*, EC, London Economics, ADAS and Ecologic, 2008.

⁸ R. Vecchio and A. Annunziata, 'The role of PDO/PGI labelling in Italian consumers' food choices', 12 *Agricultural Economics Review* (2011), p.80.

⁹ Alybayrak, and E. Gunes, 'Implementations of geographical indications at brand management of traditional foods in the European Union', 4(6) *African Journal of Business Management* (2010) p.1060.

2. Facts and numbers: Italy, France and Spain at the top of the EU PDO/PGI scene

There is a large disparity of registered PDOs and PGIs in Europe. Ultimately, only 3 countries together – Italy, France and Spain – are entrusted with more than 50% of the EU’s PDO/PGI registered products, (or products in the process of registration).

Table 1 Cumulative number of PDO/PGI (applied, published and/or registered) in observed countries:

COUNTRY	PDO	PGI
EU 28	687	703
ITALY	183	115
FRANCE	125	128
SPAIN	112	95
CROATIA	2	/

Source: Cumulative number of PDOs/PGIs (applied, registered and/or published in observed country), DOOR, EC, available at <http://ec.europa.eu/agriculture/quality/door/list.html> (01.07.2013).

The least successful countries in securing PDO/PGI awarded products in the EU are Malta, Estonia, Romania, Cyprus, Latvia and Croatia with two or less PDO/PGI products registered, or in the process of registration.

IV. Perspectives and chances for further regional development of Croatia in the framework of PDOs and PGIs

1. Croatia – State of play

Regulation (EU) No 1151/2012 leaves it to the member states to prescribe the procedures listed in the Regulation. Croatia has created a clear legal framework for the application of PDO and PGI but the lack of institutional support has resulted in poor numbers of PDOs and PGIs, despite the huge potential of Croatia in this regard.

More precisely, at the time of writing this article, Croatia has on DOOR list only two PDO products going through process of registration¹⁰, where only one is published so far - *Istarski pršut*, and one applied PDO product - *Varaždinsko zelje*.

Although, the link with the area needs to be stronger for PDOs than for PGIs, there are still no PGIs in the process of registration.

In Croatia some important steps were recently taken so as to assure more attainable national procedures regarding PDO/PGI registration. In the Strategic plan of the Ministry of Agriculture 2012-2014¹¹, the need to secure a higher number of PDO/PGI certification bodies was highlighted. Moreover, practical Guidelines for the registration of PDO and PGI in the Republic of Croatia were also recently published.¹²

Although this is a sign of progress, synergy between potential PGO/PDO holders and national institutions is necessary but still missing. Moreover, at present in Croatia there is a lack of knowledge and confusion among the wider public and “potential holders associations” regarding issues related to agricultural policy in general, but also with respect to the protection of registered names and symbols of agricultural products and foodstuff, related to designation of origin, geographical indication, or traditional specialty guaranteed. With the Croatian EU accession, a wide range of questions remain unanswered on this topic, which leads to the conclusion that clear communication is needed. Also, a higher level of assimilation in associations that are potential PGO/PDO holders is required, as well as a strong cooperation between all stakeholders.

¹⁰ Source: DOOR,EC,
http://ec.europa.eu/agriculture/quality/door/list.html?&recordStart=0&filter.dossierNumber=&filter.comboName=&filter.Min.milestone__mask=&filter.Min.milestone=&filter.Max.milestone__mask=&filter.Max.milestone=&filter.country=HR&filter.category=&filter.type=&filter.status= (01.07.2013).

¹¹ *Strateški plan Ministarstva poljoprivrede 2012-2014*, Ministry of Agriculture (Zagreb, January 2012).

¹² *Vodič za registraciju oznaka izvornosti i oznaka zemljopisnog podrijetla poljoprivrednih i prehrambenih proizvoda u Republici Hrvatskoj*, (Ministry of Agriculture, GIZ, GmbH, Zagreb, December, 2012).

2. PDO/PGI schemes and regional development

So far I have discussed the potential of PDO and PGI schemes in helping to secure and promote rural living. However, in order to access these schemes, a clear identity that should be promoted needs to be established.

Croatia has many specific agricultural products and foodstuffs. Typical food products reflect historical, local and cultural specific qualities of particular place, and therefore could be regarded as gastronomic tourism resources that enable tourism development. Special attention is given to specific features of typical food products and their contribution in creating local and cultural identity of tourist destination.

However, it must be noted that in Croatia, despite the availability of great natural resources, the market of food products is unstable. There are inequalities in supply and demand, big price disparities, uncontrollable import and export activities and the lack of a long-term development policy. A great part of food products used in tourism is hardly exported outside the country because of unfavorable assortment, lack of quality and high prices.¹³

According to Grbac and Milohanović¹⁴, food represents an unavoidable and essential element of integral tourist destination products, wherefore Croatia has the chance to enrich and improve its quality through better valorization of its potentials. Moreover, it is claimed that specific features of typical food products can be treated as important tourism resources. By adding new value to tourist destination offers, tourist satisfaction is affected and consequently the level of tourism development can be increased.

V. Conclusion

Regulation (EU) No 1151/2012 is a regulatory framework that helps safeguard the uniqueness of each EU region and country, and as such, keeps the specific identity and cultural diversity of the different

¹³ M. Meler and Z. Cerović, 'Food marketing in the function of tourist product development' *British Food Journal* (2003) pp. 175 - 192.

¹⁴ Grbac and Milohanović, op. cit. n. 4., p. 85.

European member states. Moreover, one of the main purposes of this Regulation is to support Union farmers and producers who have kept traditions alive while taking into account the developments of new production methods and materials. >From this perspective, it helps the rural regions in the EU retain their competitive edge, and as such, ‘globalization and localization are not opposite, but rather part of the same development’.¹⁵

My argument is that Croatia should embrace the opportunities offered by this Regulation and pay particular attention to the social characteristics of institutions, associations, as well as individuals standing behind them who may initiate and may be entrusted with PDOs and PGIs.

In December 2012, the Croatian Ministry of Agriculture published Guidelines for the Registration of PDOs and PGIs in the Republic of Croatia¹⁶, which is a useful start of aspirations for the simplification of the national procedure of registration. However, this process should still be improved and modeled on existing procedures in, for instance, Italy, France and Spain. The results of the investment efforts are easy measurable, for instance, examining the number of registered products.

The registration of PDOs and PGIs offers many avenues that Croatia and its regions should embark on. In short, this should be at the top of the agenda in Croatian Agriculture Policy.

¹⁵ L. Messely1, J. Dessein and L.H. Lauwers, ‘Regional Identity In Rural Development: Three Case Studies Of Regional Branding’, 4 *Applied Studies in Agribusiness and Commerce* (2010), p.20.

¹⁶ *Vodič za registraciju oznaka izvornosti i oznaka zemljopisnog podrijetla poljoprivrednih i prehrambenih proizvoda u Republici Hrvatskoj* (Ministry of Agriculture, GIZ, GmbH, Zagreb, December, 2012).

Tihana Petrović*

The impact of social cohesion on regional policy, with special reference to Osijek-Baranja County

I. Introduction

While there is a lot of literature devoted to the concept of exclusion and its causes, there is little published on how the major elements of exclusion brought together create a situation from which it is pretty hard to get out. Social exclusion must be overcome. It is estimated that 10 percent of the Croatian population, i.e., about 440,000 people, are socially excluded, with an additional 5% at the risk of social exclusion. However, it is not just about them, but also about their families and children who already are and will be affected by social exclusion, unless serious actions are undertaken. Providing equal opportunities and empowering vulnerable groups in society will greatly increase their chances to participate actively and productively in society. There are great benefits from the active contribution of individuals to society as a whole.¹

In line with the title, the first part of the paper will be on regional policy and regional development in Croatia, followed by a brief definition and differentiation of the concepts of 'social cohesion' and 'social exclusion', considering that these are two interrelated concepts, which many theorists equate. We cannot forget to mention the big problem most societies have that directly threatens and undermines their social cohesion – unemployment. The following part contains specific information about unemployment in Osijek-Baranja County. Hereinafter, we look at Osijek-Baranja County, its documents/strategies/action plans that concern our area of interest, and its work and influence in the field of social cohesion as well as examples of good practice in the County.

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¹ Nenad Star, et al., *Poverty, Unemployment and Social Exclusion* (Zagreb, United Nations Development Programme 2006), Kata Zalović-Fišter and Vicko Krampus, eds., *Siromaštvo, nezaposlenost i socijalna isključenost, Izvješće o siromaštvu, nezaposlenosti i socijalnoj isključenosti*; (Program Ujedinjenih naroda za razvoj Zagreb 2006).

II. Regional policy and regional development of the Republic of Croatia

Regional policy is one of the oldest common policies. In 1958, two funds were already established: the European Social Fund and the European Agricultural Guidance and Guarantee Fund. Due to the first wave of enlargement of the European Communities, the European Regional Development Fund was established in 1975. Its main goal was the redistribution of budget funds to the poorest regions.

In the European Commission, the Directorate General for Regional Policy is in charge of regional policy and development funding of the Member States; in the European Parliament, regional and European economic and social cohesion is the responsibility of the Committee for Regional Policy, Transport and Tourism; finally, local and regional authorities in the European Union are represented by the Committee of the Regions. The aim of the Committee is to contribute to the effectiveness of EU policies. Its representatives regularly give their opinions on regional policy and the reduction of social and economic disparities within the Union. The Council and the Commission often consult with the Committee of the Regions on the issues of policies and education of youth, culture, public health, Trans-European Networks for transport, energy and telecommunications, employment, social policy, environmental and transport policy. The European Investment Bank is one of the key institutions that support the regional policy objectives.

Regional policy is a means of intervention by the state and it aims to decrease the socio-economic inequalities between different parts of the country and to create conditions for the uniform development. The holder of the policy for balanced regional development in the Republic of Croatia is the Ministry of Regional Development and EU Funds. The European Union allocates one third of the budget for the development of less developed regions in the EU through the so-called cohesion policy. It implies planning, implementation and coordination of regional development policy and establishing an integrated programming, management and funding of regional development.

The management cornerstones of the policy for regional development directed towards the construction of the total development potential in

Croatia were established by the Law on Regional Development and the Strategy of Regional Development of the Republic of Croatia. The Regional Development Board creates conditions and implements a number of activities aimed at planning, implementation and evaluation of programs for the development of local and regional governments. The development of cross-border, transnational and interregional cooperation is encouraged, as well as the preparation of strategic and operational documents and projects for the use of EU funds and other sources of funding allocated for regional development. All of the above is undertaken with the aim of reducing imbalances in the development of certain areas, and to help create conditions for sustainable economic and social development.

III. Social cohesion and social exclusion

Social cohesion and exclusion are two different but at the same time interrelated concepts. Social cohesion can be defined as the integration of individuals and social groups in the society as a whole. It refers to a series of issues, such as social protection, employment and unemployment, education, workers' rights, effective protection of vulnerable social groups, equal treatment, fighting against exclusion and discrimination and strengthening European cooperation regarding migration issues. It is necessary to overcome various forms of social inequality, power asymmetry and social conflicts. Social cohesion is actually an ideal to strive for, to maintain, adapt and improve. It is the access to basic social rights, the fundamental factor in the struggle against poverty and social exclusion, and its main task is to ensure the welfare of the members of a society, to minimize inequality, avoid polarization and to 'listen to the voice of the excluded'.

If the differences are too great, and if less privileged members of society are convinced that they cannot expect improvement, that the poor are socially excluded, and if they cannot realize the interest of society which offers nothing for them, then there is a risk that social and economic inequalities could begin to seriously threaten social cohesion.

Nowadays, these disparities are more and more pronounced and raise the question of how the diversities are to be managed in order to

become a source of mutual enrichment rather than a source of division and conflict. No society is cohesive, and the biggest challenge is its adaptation of social policy to changing needs and circumstances, without losing its own characteristics. It is necessary to engage in eliminating poverty and creating sustainable development. Cohesive society is actually made of free individuals who use democratic methods to achieve their common goals. It is not possible to achieve this if some individuals are socially excluded. For this reason, the concept of social cohesion will be considered through the aspects of social exclusion.

The concept of social exclusion is difficult to define, but we can say that it is in fact the failure to achieve integration in one or more of the societal systems (democratic, legal, labor market, social welfare, family, or that of the local community).

During the last decade, social exclusion has become one of the most popular topics of social sciences, as well as the major social problem of our time. Back in 1989, this concept became an integral part of the preamble to the European Social Charter, which was amended in 1996 by introducing a new right to protection against poverty and social exclusion.

There are certain difficulties in defining the term social exclusion. Although frequently used, it does not necessarily mean that it is theoretically well founded or empirically verified. Some authors suggest that social exclusion should be seen as a so-called umbrella-concept, not as a concept that can be precisely operationalized. Some countries have their own official definition of social exclusion, while France, for example, went so far as to adopt a law against exclusion in 1998.

In order for the dimensions of exclusion to become measurable, the European Union accepted the Laeken indicators in 2001 (first set of indicators for monitoring social exclusion through eighteen statistical indicators covering four dimensions of social exclusion – income, labor market, health, and education).

In the mid-nineties of the 20th century, the term social exclusion began to appear in Croatian professional publications, mostly describing the position of some social groups, such as the poor, the unemployed, young

or Roma. Groups that are at increased risk of social exclusion can be classified according to the cause of their exposure to this risk (whether it is economic status, family structure, age, education, identification, health, disability, etc.) It is evident that social exclusion and social cohesion significantly affect the regional policy and development of a region.

IV. Social cohesion and social involvement in Osijek-Baranja County

The County Development Strategy of Osijek-Baranja County 2011-2013 is one of the planning documents of the regional development policy that defines the strategic objectives and priorities for sustainable socio-economic development of the local (regional) government. It covers all aspects of social and economic life of the county. The purpose of its drafting is to prepare projects for the acceptance and use of a variety of funding sources, at different levels (pre-accession, structural and cohesion funds, EU funds, national and regional levels, as well as bilateral and multilateral donations). The specific objective is the preparation of the related and consistent development program over a period of time, the definition of development sub-strategies, priority areas, measures for the implementation of specific objectives, identification of project readiness, defining specific development projects for the implementation, and fulfillment of the obligations within the given timeframe and within the resources available to all participants in the county.

The planning document that complements the County Development Strategy 2011-2013 in its most important segment of human resources is the Human Resource Development Strategy of Osijek-Baranja county 2011-2013. It defines the direction of employment, education and social inclusion at the county level. Analytical overview of the strengths, weaknesses, potentials (possibilities/opportunities) and threats in the field of social inclusion or inclusion is in the unified strategic SWOT analysis of the document (Table 1).

Table 1 SWOT analysis of social cohesion in Osijek-Baranja County

Strengths	Possibilities
<p>Increase of public awareness on the importance of social inclusion</p> <p>Increase in the number of projects that promote social inclusion</p> <p>Relatively well-developed network of health and social care</p> <p>In the Croatian Employment Service there is a counselor specialized in working with disabled people and people with lower employability prospects</p> <p>Existence of incentives and programs for disabled and disadvantaged people</p> <p>Development of social infrastructure in the County</p> <p>Reform of the social welfare system and positive legislation in accordance with EU standards</p> <p>Good cooperation between the public and civil sector through a growing number of joint projects</p>	<p>Reform of the social welfare system</p> <p>Networking of institutions, organizations and local and territorial (regional) governments at the local, regional and cross-border level</p> <p>Action Plan of the decade for Roma Inclusion 2005-2015</p> <p>Action plan for the inclusion of disabled people into the labor market</p> <p>Training and employment of disabled people, people with lower employability prospects, and other disadvantaged people</p> <p>Implementation of social policy closely linked to the labor market</p> <p>Law on professional rehabilitation and employment of disabled people</p>

Weaknesses	Threats
<p>Low level of preparedness of the public, private and real sector in the employment of disabled people and other disadvantaged people</p> <p>Poorly harmonized laws governing the rights of disabled and disadvantaged people</p> <p>Inadequate system of vocational rehabilitation of disabled people, people with low employability prospects, and other disadvantaged people</p>	<p>Relatively small number of projects dealing with social inclusion due to lack of implementation capacity</p> <p>Unfavorable economic situation</p> <p>Lack of specialized staff to work with disadvantaged groups</p> <p>Low awareness of disabled people, people with low employability prospects, and other disadvantaged people on how to exercise certain rights regulated by laws</p>

<p>Lack of support for disabled people and people with low employability prospects in communication and navigation</p> <p>Low employment of disabled people, people with low employment prospects, and other disadvantaged people</p> <p>Relatively small number of programs that encourage the employment of people with low employability prospects</p> <p>Low educational structure of disabled people and people with low employment prospects</p> <p>Large share of young unemployed people with disabilities</p> <p>Underdeveloped network of specialist services for different/special user groups</p> <p>Lack of trained staff to carry out health and social activities in relation to the standards</p> <p>Lack of employers' interest to hire disabled people, people with low employability prospects, and other disadvantaged people</p> <p>Insufficient public sensibility to disadvantaged people, people with low employability prospects, and other disadvantaged people</p>	<p>Lack of harmonization of the education system with the needs of the labour market for disabled people, people with low employability prospects, and other disadvantaged people</p> <p>Slow and limited decentralization of functions in the system of health and social care</p> <p>Weak financial capacity and lack of source earnings of the social activity institutions</p>
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Source: author, 2013

The priorities and measures that must be implemented in order to achieve specific goals and to contribute to the achievement of long-term strategic goal of human resource development of Osijek-Baranja County are defined (Table 2).

Table 2 Priorities and measures

Priority 1:	Priority 2:	Priority 3:	Priority 4:
Increasing employability, promoting mobility and lifelong learning	Social inclusion of disabled and disadvantaged people	Development of education and building capacity of human resources	Civil society development
Measure 1.1. Support for the development of employment incentive measures; harmonization of supply and demand in the labor market	Measure 2.1. Promotion and support of equal opportunities in education and employment for all participants of the labor market	Measure 3.1. Support for improving the capacity of workers and the introduction of new methods of work in the education system	Measure 4.1. Support for the strengthening of civil society
Measure 1.2. Support for capacity building and development of the sector of small and medium-sized enterprises	Measure 2.2. Support for social inclusion and encouraging social entrepreneurship	Measure 3.2. Harmonization of educational programs and lifelong learning programs with labour market needs	
Measure 1.3. Development and modernization of the regional offices of the Croatian Employment Service; enhanced cooperation between all the support mechanisms in the labor market		Measure 3.3. Research and development	

Source: author, 2013

Through the EU program for Croatia, IPA Component IV - Human Resources Development, there is a Study on the Status and Needs of Persons With Disabilities in the Labor Market,² in December 2010 and The Action Plan for Employment of Disabled People for the Osijek-Baranja County for 2011 and 2013.³

This study represents an important source of information on two levels. First, the study was needed for quality preparation and implementation of further activities under the project, primarily to define action plans for employment of disabled people in eight pilot counties. On the other hand, it presents a comprehensive overview of the system with a series of recommendations for further improvements, it should serve external customers who are directly or indirectly involved in the process of vocational rehabilitation and employment of disabled people. With its comprehensiveness and detailed recommendations, it should be a useful resource for all actors operating in the inclusion of disabled people in the working world and, globally speaking, the wider community.

The Action Plan at the level of Osijek-Baranja County has been made as a part of the project 'Fostering Effective Inclusion of Disabled People into the Labor Market', which aims to promote the social inclusion of disabled people and their integration into the labor market.

The Action Plan for the Inclusion of Disabled People into the Labor Market of Osijek-Baranja County analyses the problems of disabled that are evident in an environment where they are, and finds answers to overcome them, in order to give disabled people equal opportunities and the right to a dignified life.

The Action Plan was prepared by the Working Group for drafting the Action Plan for the Inclusion of Disabled People into the Labor Market, which consisted of representatives of Croatian Employment Institute – Regional Office Osijek, Osijek-Baranja County, City of Osijek, Center for Entrepreneurship Osijek, Center for Vocational Rehabilitation, Centre for Social Welfare, Croatian Chamber of Economy, County Chamber Osijek, Croatian Trade Chamber Osijek, Croatian Employers'

² EuropeAid/127436/D/SER/HR.

³ EuropeAid/127436/D/SER/HR.

Association, Regional Office Osijek and the Union of Disabled People in Osijek-Baranja County.

According to data from the County Development Strategy of Osijek-Baranja County and information from the Department of Health and Welfare, Social Welfare Services in the county are carried out by six centers for social welfare, eight homes for the elderly and infirm, two homes for mentally ill adults, three childcare homes, a center for professional rehabilitation, a center for education and therapeutic community. The capacity of these institutions is considered to be inadequate given the needs. Osijek-Baranja County is the founder of three homes for the elderly and infirm: Osijek, Đakovo and Beli Manastir, and the Centre for Professional Rehabilitation Osijek, part of which is a shelter for victims of domestic violence. The founder of other institutions is either the Republic of Croatia or other natural or legal persons. In addition to these institutions, the activity is performed by civilian organizations (Red Cross, Caritas, etc.), foster families, family homes, legal persons with the performance of other core businesses and others. In Osijek-Baranja County, there is also a family centre. Regardless of the satisfactory situation in the field of social welfare, there is still a need for institutions in which it will be possible to accommodate people with disabilities, as well as solving problems of disabled people in order to equalize opportunities.

To improve the social image of the County, the funds from the budget are allocated for additional programs that do not arise as an obligation of the County under the law, such as: one-time assistance to socially disadvantaged citizens, the cost of heating, one-time assistance to pensioners with pension amounts of 1100 Kuna and lower for Easter, aid to Caritas for funding soup kitchens. The County also supports projects that contribute to the quality of life of elderly people (lifelong learning, help and care at home).

In the City of Osijek, the welfare program is implemented through assistance for housing costs, costs of fuel, assistance for public kitchens, temporary homeless shelter, assistance for the costs of public transport (free public transportation of high school students and college students, as well as assistance in organizing transportation of persons with disabilities), free hot meals for pupils in primary schools, one-

time assistance, assistance covering funeral expenses, gifts for children from socially disadvantaged families for Christmas holidays, financial assistance for layette, assistance in placement of children from socially disadvantaged families in kindergartens and nursery schools, temporary housing for victims of domestic violence, help and care at home, and multi-day stay in nature programs (schools in the countryside, holidays) for children from families of poor financial state.

All of the above proves that Osijek-Baranja County largely strives to promote social inclusion of vulnerable and marginalized groups, and to strengthen their role in the community.

V. Examples of good practices in Osijek-Baranja County

Through the action of numerous non-profit organizations in Osijek-Baranja County and their regular activities, programs and projects, a great deal of work is also being done for social cohesion of the society and reduction of disparities within it. Some of the organizations' programs aimed at the inclusion of socially excluded groups in society are listed below.

Table 3 Organizations and programmes

Serial number	Name of the association, other program providers and projects	Name of program/project, activity or service provided
1.	Women's Association 'Izvor' (<i>Source or Spring</i>), Home for mentally ill adults and Volunteer Centre Osijek	Support for social cohesion – you can do more
2.	Association for psychosocial needs 'Amadea'	Workshops for school children – the rights of children and youth to leisure, play and participate in cultural and artistic activities
3.	Croatian association to help disadvantaged people from Bolman	Help for socially vulnerable people, buying equipment for children from socially disadvantaged families
4.	Bowling Club of disabled people 'Osječkosmijeh' (<i>The Smile of Osijek</i>)	Improving the health of people with 100% disability
5.	Croatian Pensioners - Municipal Association Đurđenovac	Program of humanitarian and charitable activities, social welfare and health care
6.	MOGU - therapeutic, recreational and sport riding for people with special needs, Osijek	Inclusion of people with intellectual disabilities in the labor and social environment through education for work
7.	Regional Federation of Associations of Disabled People, Belišće	Impact and application of new technology on people with disabilities
8.	Association of the Deaf and Hard of Hearing of Osijek-Baranja County	The 'Deaf in the Community' program, strengthening and promoting the rights of deaf and blind people in the city of Osijek and the Osijek-Baranja County
9.	Association HVIDR-a Osijek	Self-help and psycho-help for the disabled, veterans and their families, team for crisis interventions
10.	Union of Disabled People Organizations in Osijek-Baranja County	Project for helping disabled people and children with special needs

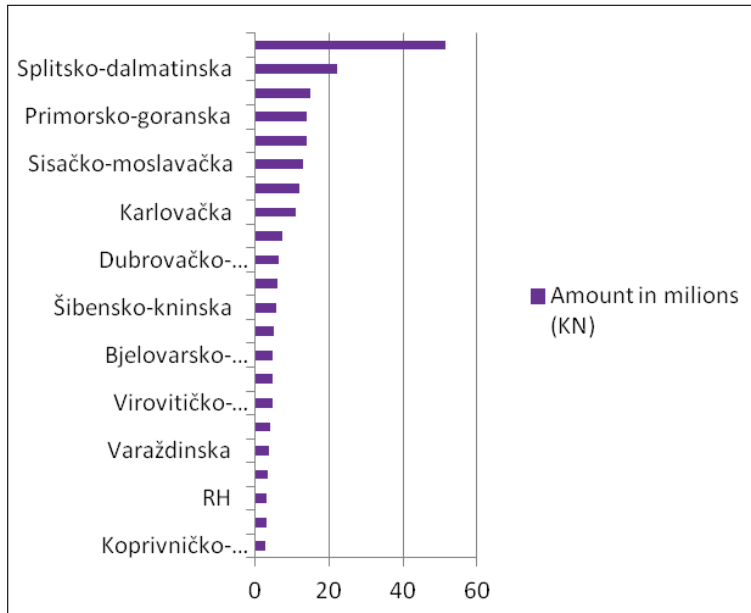
The impact of social cohesion on regional policy, with special reference to ...

11.	Caritas of the Đakovo-Osijek Archdiocese Centre for Children	'We are here, too' workshops for children and young Roma
12.	Association St. Vinko Paulski in Republic of Croatia - Conference of St. JosipRadnikBelišće	To a new day with joy, a program to alleviate suffering and promote human dignity and personal integrity of vulnerable people
13.	Catholic Association Veronikinrubac (<i>Veronica's Scarf</i>)	Visiting users to socialize and purchase food, maintaining personal hygiene of the users, contacts with doctors, drug purchase
14.	Social welfare centre of Osijek-Baranja County	Measures of family legal protection taken in the interests of children, counseling, housing, delivery of hot meals, home care
15.	Family centre of Osijek-Baranja County	Help and support for socially vulnerable groups of population, the Council of Europe Campaign to stop sexual violence against children, protection from domestic violence
16.	Osijek-Baranja County, Osijek Centre for Inclusion	Inclusion, working occupation of protégés, employment of people with intellectual disabilities
17.	Association Ne-ovisnost (<i>Non-Dependence</i>)	Addiction prevention, referral to treatment, counseling, drug rehabilitation, social reintegration of rehabilitated addicts, reduction of damage incurred as a result of substance abuse, employment of rehabilitated addicts

Source: author, 2013

The United Nations Development Programme (UNDP) in Croatia highlights in its report, namely the publication entitled 'Mapping of Alternative Social Services/Programs by County' which was developed by Natasha Škrbić and Lidija Japac 2008, that Osijek-Baranja County is in the third place, behind the City of Zagreb and Primorsko-Goranska County, in the number of social welfare projects to be implemented, according to the amounts allocated for social services, which is proved by the graph and table attached (Graph 1, Table 4).

Graph 1 The share of funds per county



Source: Nataša Škrbić and Lidija Japec, *Mapping of Alternative Social Services/ Programs by County* (Zagreb 2008).

Table 4 Number of projects and the total amount of funds per county

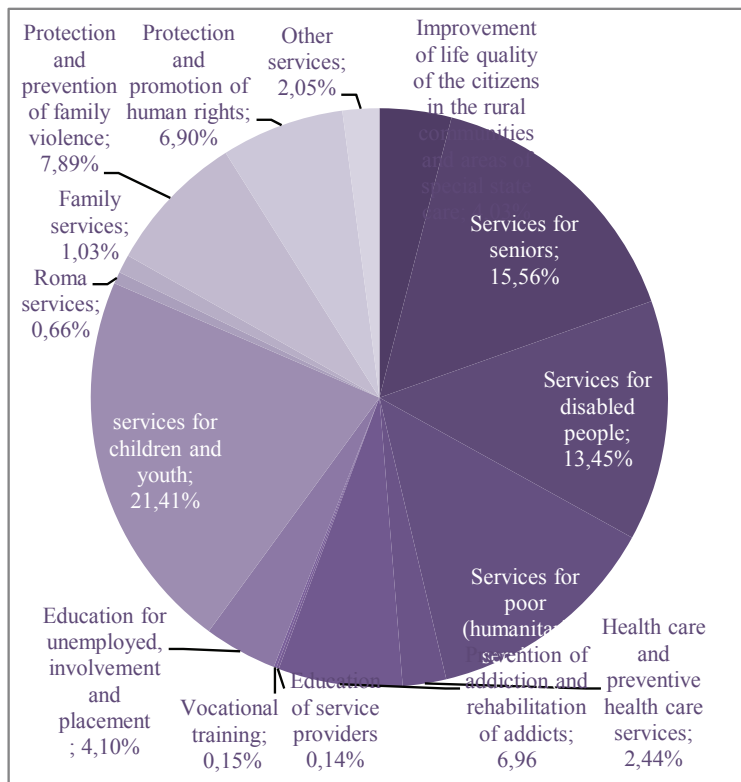
County	Number of projects	Percentage, %	Amount	Percentage, %
Grad Zagreb	462	18,33	51.608.649,97	23,69
Splitsko-dalmatinska	198	7,85	22.341.639,42	10,26
Osječko-baranjska	228	9,04	14.938.224,83	6,86
Primorsko-goranska	229	9,08	14.043.751,70	6,45
Vukovarsko-srijemska	88	3,49	14.000.319,78	6,43
Sisačko-moslavačka	120	4,76	12.976.696,01	5,96
Istarska	125	4,96	12.071.323,21	5,54
Karlovačka	96	3,81	11.004.152,27	5,05
Zadarska	100	3,97	7.393.773,04	3,39
Dubrovačko-neretvanska	110	4,36	6.377.600,00	2,93
Zagrebačka	124	4,92	6.144.095,75	2,82
Šibensko-kninska	81	3,21	5.626.781,63	2,58
Ličko-senjska	38	1,51	4.977.116,74	2,28
Bjelovarsko-bilogorska	55	2,18	4.676.461,28	2,15
Brodsko-posavska	67	2,66	4.660.983,21	2,14
Virovitičko-podravska	50	1,98	4.636.851,68	2,13
Požeško-slavonska	41	1,63	3.996.639,76	1,83
Varaždinska	57	2,26	3.926.512,80	1,80
Krapinsko-zagorska	71	2,82	3.316.825,00	1,52
RH	43	1,71	3.207.989,00	1,47
Međimurska	37	1,47	3.147.486,00	1,44
Koprivničko-križevačka	101	4,01	2.781.709,37	1,28
TOTAL	2521	100	217.855.582,45	100

Source: author, 2013

Research has shown that there is a representation of the largest number of different services and the relative balance of funds for various services and user groups. In Osijek-Baranja County, most services are for children and youth, and then services for seniors, while in the third and fourth place, in almost equal proportions, are services for people with disabilities and services for poor people. Also, this county has a larger share of funding for the poor, compared to Zagreb and Split-Dalmatia County. Few resources are allocated for the training of unemployed and their involvement, and funding for family services (counselling and support for parents) are relatively poorly represented in Zagreb and Primorsko-Goranska County, and almost negligible

in Split-Dalmatia and Osijek-Baranja County (Graph 2 Overview of services in Osijek-Baranja County).

Graph 2 Overview of services in Osijek-Baranja County⁴



Source: author, 2013

It should be pointed out that, despite the fact that the report from 2008 is outdated, Osijek-Baranja County has the same results nowadays and this placement should be satisfying, but nevertheless, it is always good to strive towards the improvement of the existing position as much as possible and to work on social inclusion of marginalized citizens.

⁴ Source: Ibid.

V. The image of unemployment (Osijek-Baranja 2012)

It can be said that unemployment is one of the major problems of the present and it seriously threatens the social cohesion of society. There is still no answer to the question of how to put an end to it, but the results we have are devastating.

Specifically, during the year 2012 in Osijek-Baranja County there were 34438 registered unemployed people, 5,4 % or 1,775 people more as compared to 2011. The reason for this is the increasing entry to record and a smaller exit from it. The lowest unemployment rate is in June (because of the seasonal jobs, of course), while it is the highest in December, according to research by the Croatian Employment Institute. As far as the structure of the unemployed population is concerned, according to sex it is 54,4% of women versus 45,6% of men, according to level of education it is 31,7% of people with a three-year high school education, 60,9% of them have completed four years of secondary education, and 31,4% of unemployed have only completed elementary school or not even as much as that. 35,4% of the unemployed population is over 45 years old, and approximately 50% of unemployed people overall are registered with the Institute are long-term unemployed, meaning more than a year. 2% of the total unemployed are disabled people, 8% are Croatian was veterans.

Osijek-Baranja County is rated on the third place according to unemployment in Croatia, which is evident by the increase in unemployment in all its branches. People of female sex dominate in Našice (56,8%), people older than 45 years in Beli Manastir (38,4%), as well as people with no or only elementary school completed (40,8%), while the largest proportion of unemployed who are waiting for a job for more than one year is also in Našice (51,7%).

As for unemployed disabled people, in late December 2012 in the Regional Office Osijek there were 740 registered unemployed disabled people, that is, 46 persons (6,6%) more than in December 2011, and the share of unemployed disabled people in the overall unemployment rate was 2,0%. Meanwhile, in Croatia there are 6607 registered disabled people (1,8% of the total number of unemployed people), and Osijek-Baranja County, with a share of 11,2%, is the second according to the

number of registered disabled people (behind the City of Zagreb). There are 324 or 43,8% unemployed women with disabilities, and 416 or 56,2% of the unemployed men with disabilities. As far as the age of the unemployed is considered, it can be said that all age groups are equally affected. The unemployed with secondary school for up to three years and schools for skilled and highly skilled workers are in domination, followed by people with primary schools, secondary schools for a period of 4 years or more, university (11 people or 1,5%) and the first stage faculty (3 people or 0,4%). There are 23 disabled people (3,1%) who have no qualifications and elementary school. Most disabled people have no work experience (289 persons or 39,1%) or have experience of one year (163 persons or 20,0%). As a rule, they are long-term unemployed.⁵

1. Education and unemployment

During the year 2012 the average number of unemployed people increased in all educational groups, except of those with primary school (a decrease of 1,2% or 95 people). The most pronounced increase was noted for the unemployed who have completed the first degree (18,2%) and faculty (15,4%). The reason for this is a considerably increased number of new entrants who are university-educated people, as well as the reduced recruitment of graduates at the first level of the faculty. At the same time, a slight increase in the average number of unemployed people was recorded in the three-year (4,3%) and four year (5,6%) secondary school. The number of unemployed who have not completed primary school increased by 20,0% (507 people). Most of the unemployed were in the educational group with secondary vocational school of 3 years, or a school for skilled and highly skilled workers – 31,7% of the total average number of unemployed. That group is followed by the group of people with education by secondary vocational school for a period of 4 years and secondary school (29,2%), and primary school (22,6%). People with a high school education of any kind make up more than 60% of the total average

⁵ Data taken from: *Godišnjak 2012*. (Hrvatski Zavod za zapošljavanje, Područni ured Osijek) [Yearbook 2012, Croatian Employment Institute, Regional Office Osijek].

number of unemployed. However, it should be taken into account that there is 31,3% unemployed people with an incomplete or completed primary school. Finally, the proportion of people who have completed the first level of university, the university and an academy makes a minority of the unemployed (only 7.7%). The structure of unemployed women with completed education is somewhat more favorable than the structure of unemployed men. Thus, there are 32.3% unemployed women with secondary school education, and 25.5% men. Women are more often college educated (8.5% of women), however, it must be taken into account that university-educated men (6.6% of unemployed men) get employed more quickly. The share of unemployed men who have not completed primary school is 9.3%, and 8.4% of women.⁶

2. Education and poverty

The level of education in Osijek-Baranja County is relatively low, and the education and poverty are inextricably linked. Poverty can be interpreted as a result of lack of education of the population as well as obstacles to the acquisition of education. Education is described in the International Covenant on Economic, Social and Cultural Rights as ‘directed to the full development of the human personality and the sense of dignity’. The lack of education results in serious consequences. People with low levels of education and low occupational qualifications are at a high risk of impoverishment. The reason for this is the long-term unemployment or belonging in the group of employed but poor people. These people tend to have more difficulties dealing with critical events in life than the ones who have a higher education. Dimension of education can be improved by subsequent education or training, the recognition of immigrant certificates, certificates of training or participation in lifelong learning, and in many cases, progress in education is achieved by learning ‘on the job’.

VII. Conclusion and recommendations

Analysis of numerous and various social services shows that the area is quite active, but still lacks a clearer picture of the development policy of the welfare system in the context of welfare policy, and in

⁶ Ibid.

particular what place would the civil society organizations take in this policy. Bearing in mind the cohesion policy, it is clear that services for disabled people and services for the elderly are the most largely funded, followed by services for children and youth, addiction prevention and rehabilitation of drug addicts. As for the other users to whom the higher amounts of money are directed, these are the poor and socially vulnerable people, children and young people with special needs and disabilities, women and children victims of domestic violence and people with intellectual disabilities.

Generally, most of the funds for services are in the City of Zagreb, Split-Dalmatia County, Osijek-Baranja County and Primorsko-goranska County. Social service providers are the most common associations.

Social services (for example, daily and half-day visits and activities for specific user groups, psycho-social support and counseling, home help, personal assistance and similar services) for a group of users who are granted to non-institutional services or imposing measures, especially when they take place outside of the Centres for Social Welfare, should be defined through the parameters at the national level, and planned and realized at the level of municipalities, towns and counties. For some services, such as shelters for victims of domestic violence and homeless shelters, there are no systematic funding mechanisms at the national level; these programs are entirely dependent on the initiatives of local authorities and/or organizations that have launched them. It would therefore be necessary to establish mechanisms that systematically align national priorities in the field of social policy with local needs and define the level of planning and funding for certain social services.

Most of the projects that are financed are short-term projects – this fact presents a new challenge for everyone: the sustainability of the provided service. In addition, there is a need to improve the overall system of record-keeping at all levels (central, regional and local) because the current method of recording data is uneven, and the data is incomplete and it is not possible to get some important data necessary for planning future services. Challenges in the interpretation of program areas and funding priorities have been noted (e. g., the main activity of organizations of disabled people, interpretations of institutional

support and orientation of individual program areas of the National Trust in relation to other implementers of the competition), overlapping of criteria for funding program areas from multiple sources at the same level (MOBMS, MZSS, MZOS, Foundation, Government Offices of Republic of Croatia), as well as interpretations of the priorities of the competition in relation to public policy and priority measures to which these priorities should be defined, which does not allow the establishment of an adequate system of monitoring and evaluation of implemented measures as a basis for decisions on effective targeting of available resources.

It can be said that what Osijek-Baranja County lacks to a greater extent in order to achieve greater social cohesion can be divided into several categories, such as children and young people (without adequate parental care, homeless children, children with learning disabilities, people who have dropped out of school, etc.), seniors and retirees, the disabled, women victims of domestic violence, single mothers, long-term unemployed (especially young highly educated people), people living in poor conditions, such as homeless, socially disadvantaged people and families, children of disadvantaged families, sick people with poor financial status, etc.

Just as it was said earlier, although Osijek-Baranja County can be exceptionally pleased and proud with its successes and achievements, there are problems that still need help, support and respect so that the people who are affected by them can get a chance to participate in the life of the society properly. This is something that every one of us needs.



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