



# WP1: Synthesis report

*Ex post evaluation of Cohesion Policy programmes  
2007-2013, focusing on the European Regional  
Development Fund (ERDF) and the Cohesion Fund (CF)*

## Task 3 Country Report Croatia

September 2016



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**WP1: Synthesis report  
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**Task 3 Country Report  
Croatia**

September 2016

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## List of abbreviations

AIR	Annual Implementation Report
ERDF	European Regional Development Fund
EU	European Union
GDP	Gross Domestic Product
IPA	Pre-accession Assistance
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics
OP	Operational Programme
RTD	Research Technology Development
SME	Small Medium Enterprise



## List of programmes and link to beneficiaries of ERDF and Cohesion Fund support

<b>CCI</b>	<b>Name of OP</b>	<b>Link beneficiaries</b>	<b>Number of projects</b>
2007HR161PO001	OP Environment	<a href="http://www.strukturnifondovi.hr/op-zastita-okolisa-2007-2013-36">http://www.strukturnifondovi.hr/op-zastita-okolisa-2007-2013-36</a>	17
2007HR161PO002	OP Transport	<a href="http://www.strukturnifondovi.hr/op-promet-2007-2013-35">http://www.strukturnifondovi.hr/op-promet-2007-2013-35</a>	65
2007HR161PO003	OP Regional Competitiveness	<a href="http://www.strukturnifondovi.hr/op-regionalna-konkurentnost-2007-2013-37">http://www.strukturnifondovi.hr/op-regionalna-konkurentnost-2007-2013-37</a>	238

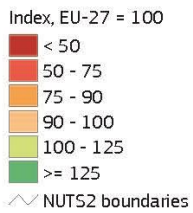
Note: The web links above are to websites of the respective Managing Authorities who, under the rules governing the 2007-2013 programmes were required to publish the names of the beneficiaries of the funding allocated. The number of projects supported has been estimated on the basis of the information published on the website at the time when the data were downloaded. In the meantime the data concerned may have been updated. It may also be that the data have been moved to another part of the website, in which case the link may not work. If this is the case, those who wish to locate the data concerned will need to go to main OP website, as indicated by the beginning part of the link and search from there.



Map 1 Croatia and NUTS 2 regions, GDP/head (PPS), 2014



Croatia: GDP/head (PPS) by NUTS-2 region, 2014



Sources: Eurostat, DG REGIO



## **Preliminary note**

*The purpose of the country reports is to provide for each Member State a short guide to the findings of the ex post evaluation of Cohesion policy programmes 2007-2013 undertaken by DG Regional and Urban Policy and an overview of the context in which the programmes were carried out. It is based on information produced by Task 1 and Task 2 of WP1 and on the country specific findings from the various WPs that form the ex post evaluation. These are listed below with an indication in brackets of the case studies carried out in the Member State concerned.*

*WP0 – Data*

*WP1 – Synthesis*

*WP2 – SMEs, innovation and ICT*

*WP3 – Venture capital, loan funds*

*WP4 – Large enterprises*

*WP5 – Transport*

*WP6 – Environment*

*WP8 – Energy efficiency*

*WP9 – Culture and tourism*

*WP10 – Urban development and social infrastructure*

*WP12 – Delivery system*

*WP11<sup>1</sup> – European Territorial Cooperation*

*WP13 – Geography of expenditure*

*WP14 – Impact modelling*

*Information on the division of funding between regions based on data from WP13 and on the impact based on the analysis carried out under WP14 is not reported for Croatia, which was not eligible for Cohesion policy funding in the 2007-2013 programming period.*

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<sup>1</sup> The findings from WP11 – European Territorial Cooperation are summarised in a separate report as part of Task 3 of WP1.





## **Executive summary**

After a period of continuous growth between 2000 and 2007, Croatia was hit severely by the crisis. The economy experienced 6 consecutive years of recession and returned to growth only in 2015. This prolonged period of recession particularly affected the labour market with the unemployment rate nearly doubling compared to the pre-crisis level. The public sector balance also showed a persistent move into deficit, which resulted in a large increase in government debt and led the Council to open an Excessive Deficit Procedure in 2014.

Despite its small size, Croatia has pronounced regional disparities in the economic and social development which are more evident within rather than between the Adriatic and Continental regions. Over the period 2000-2006, GDP per head increased in both regions leading to convergence towards the EU average. However, the economic crisis brought this trend to a halt in both regions although the impact was more severe in the Adriatic one.

For the period 2007-2013, Pre-accession Assistance (IPA), amounted to EUR 705.9 million, corresponding to 0.2% of GDP and 4% of the government capital expenditure over the 7 years. The rate of implementation of programmes, as reflected in payments of funding from the EU in relation to the total, has needed to be relatively fast since significant additional funding was added in 2013 after Croatia joined the EU. In practice, by the end of March 2016, only 64% of the total had been paid, implying that the rate of implementation needs to increase to ensure that all the available funding is spent by the end of 2016 as required.

The funding was allocated mainly to environmental infrastructure, transport and, to a lesser extent, innovation and RTD. Despite the economic downturn and the weakness of the economy, the objectives and allocation of resources remained largely unchanged over the period, though within transport, there was a major shift of resources from rail to road and other modes of transport.



## 1. The policy context and background

### 1.1. Macroeconomic situation

In Croatia, which joined the EU only in 2013 towards the end of the programming period, the years from 2000 to 2007 were characterised by relatively strong and sustained growth. This was underpinned by large-scale foreign inflows of capital<sup>2</sup>. The global financial crisis put an end to the growth and the economy entered into recession with GDP falling by nearly 3% a year on average in 2007-2009 and continuing to decline in the following years up to 2015 when growth resumed, at a rate similar to the EU average (Table 1). The financial crisis highlighted the structural problems in the country manifest in low labour productivity growth, poor export performance and an inefficient public sector.

**Table 1 GDP growth, employment and unemployment, Croatia and the EU, 2000- 2015**

	2000 -07	2007 -09	2009 -11	2011 -13	2013- 2014	2014 -15
<b>GDP growth</b>	<i>(Annual average % pa)</i>					
Croatia	4.6	-2.8	-1.0	-1.6	-0.4	1.8
EU average	2.3	-2.0	1.9	-0.1	1.4	1.9
	2000	2007	2009	2011	2013	2015
<b>Employment rate (% 20-64)</b>						
Croatia	57.9	63.9	64.2	59.8	57.2	60.5
EU average	66.5	69.8	68.9	68.6	68.4	70.1
<b>Unemployment rate (% lab force)</b>						
Croatia	15.1	9.9	9.2	13.7	17.3	16.3
EU average	9.2	7.1	8.9	9.6	10.8	9.3

Source: Eurostat, National accounts and Labour Force Survey

The prolonged period of recession had serious repercussions on the labour market. The employment rate which was well below the EU average even before the onset of the crisis, declined further to only 57% of the population 20-64 in 2013. Although it increased in 2015 as GDP growth resumed, it was still 10 percentage points below the EU average. As a consequence of the lack of job creation, the unemployment rate rose from 9% in 2009 to over 17% in 2013 before falling slightly in 2015.

**Table 2 Government budget balance, accumulated debt and investment, Croatia and the EU, 2000-2015**

	2000	2007	2009	2011	2013	2015
<b>Public sector balance</b>	<i>(% GDP)</i>					
Croatia	-3.5	-2.4	-6.0	-7.8	-5.3	-3.2
EU average	0.0	-0.9	-6.7	-4.5	-3.3	-2.4
<b>Public sector debt</b>						
Croatia	36.3	37.7	49.0	65.2	82.2	86.7
EU average	60.6	57.9	73.1	81.1	85.5	85.2
<b>General Govt investment</b>						
Croatia	5.5	6.1	5.8	3.6	3.7	2.8
EU average	2.9	3.2	3.7	3.3	3.0	2.9

Source: Eurostat Government financial accounts

<sup>2</sup> European Semester, Staff Working Document, Croatia, 2015.



The public balance, which was in deficit even before the crisis, went into increasing deficit as GDP declined, reaching almost 8% of GDP in 2011 despite fiscal consolidation measures which included large-scale cutbacks in public investment (Table 2). From then on, however, the consolidation measures taken succeeded in reducing the deficit to 3% of GDP by 2015. The prolonged period of deficits led to a substantial increase in public sector debt, which rose from 38% of GDP in 2007 to over 80% in 2013, which led the Council to open an Excessive Deficit Procedure against the country on January 2014<sup>3</sup>.

## 1.2. Regional Disparities

Despite having a population of only 4.2 million, regional disparities in social and economic conditions are pronounced, though more within the two NUTS2 regions, the Adriatic and the Continental, than between them. The Adriatic region (including the 7 Western counties) is more homogenous with less internal disparities, though the counties of Istria and Primorje-Gorski Kotar (Rijeka) have higher per-capita income than Split-Dalmatia. On the other hand, the Continental region (including the 12 Eastern counties) combines the high performing capital city of Zagreb with the Slavonia area which remains much less developed.

Over the 2000-2006 period, GDP per head increased in both regions leading to some convergence towards the EU average, though remaining well below (see Country folder for Croatia). The economic crisis brought this tendency to a halt to this pattern of regional development convergence. The crisis adversely affected both regions, though it had a more severe effect initially on the Adriatic one than the Continental. After 2009, however, the reduction in GDP per head in PPS terms relative to the EU average was similar (by 3 percentage points in each case). The crisis led to a similar decline in the employment rate and much the same rise in unemployment in both regions.

## 2. Main features of Cohesion Policy implementation

### 2.1. Nature and scale of Cohesion Policy in the country

The priorities of the National Strategic Reference Framework (NSRF) approved after Croatia joined the EU were: (1) strengthening economic competitiveness; (2) establishing optimal economic conditions for job creation and employability; and (3) achieving balanced regional development.

Initially support for regional development in the 2007-2013 period came from the Instrument for Pre-Accession Assistance (IPA), which was much smaller in amount than the funding for Convergence regions in the EU12. After accession in 2013, support came from the ERDF and Cohesion Fund, increasing the amount available for expenditure, though not in relation to what was initially planned in 2007 to be provided. Over the period, a total of EUR 705.9 million was provided to the country (Table 3). This was the equivalent of 0.2% of GDP and around 4% of the government capital expenditure or of EUR 23 a year per head of population.

Three national Operational Programmes (OPs) were implemented to tackle the main economic and structural challenges. The OP Environment received 40% of the funding available with the main focus on waste management and wastewater treatment as well as on improving water supply while the remainder was almost evenly distributed between the OPs for Transport and Regional Competitiveness.

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<sup>3</sup> Council Decision of 21 January 2014 on the existence of an excessive deficit in Croatia (17908/13).

**Table 3 ERDF and Cohesion Fund resources and national co-financing for the 2007-2013 period in Croatia, initial (2007) and last (April 2016)**

	2007				2016			
	EU funding	National public funding	National private funding	Total	EU funding	National public funding	National private funding	Total
EUR million								
Convergence	705.9	103.5	23.7	833.1	705.9	103.5	23.7	833.1
<i>Change, 2007-2014</i>								
Convergence	-	-	-	-	-	-	-	-
% GDP	0.22	0.03	0.01	0.27	0.22	0.03	0.01	0.27
% Govt. capital expend	3.9	0.6	0.1	4.6	3.9	0.6	0.1	4.6
Per head (EUR) pa in Convergence	22.8	3.3	0.8	26.9	22.8	3.3	0.8	26.9
<b>EU12</b>								
% GDP	2.15	0.43	0.06	2.63	2.17	0.36	0.08	2.61
% Govt. capital expend	38.3	7.6	1.0	46.9	38.7	6.4	1.4	46.5
Per head (EUR) pa in Convergence	212.4	42.1	5.6	260.2	214.6	35.5	7.8	258.0

Note: EU funding relates to decided amounts as agreed in 2007 and as at 14 April 2016. The figures for % GDP and % Govt. capital expenditure relate to funding for the period as % of GDP and Govt. capital expenditure aggregated over the years 2007-2013. Govt. capital expend is the sum of General Government gross fixed capital formation and capital transfers. The EU12 figures are the total for the EU12 countries for comparison.

Source: DG Regional and Urban Policy, Inforegio database and Eurostat, national accounts and Government statistics

## 2.2. Division of funding between policy areas and changes over the period

The funding allocation reflected the NSRF priorities, i.e. the majority of the resources were invested in environmental infrastructure, transport, and innovation and RTD (Table 4)<sup>4</sup>. During the implementation, the sole shifts of funding that occurred were in transport, where some of the funding initially allocated to rail went to road and other transport due in large part to the difficulties of carrying out rail projects. Despite the prolonged recession over the period, therefore the allocation of funding did not change greatly.

<sup>4</sup> The 17 categories shown in the table are aggregations of the more detailed 87 categories into which expenditure was divided in the period for reporting purposes.



**Table 4 Division of financial resources in Croatia for 2007-2013 period by category, initial (2007) and last (April 2016) and shift between categories**

Category	EUR million					% Total	
	2007	2016	Added	Deducted	Net shift	2007	2016
1.Innovation & RTD	115.7	115.7	0.0	0.0	0.0	16.4	16.4
2.Entrepreneurship	10.4	10.4	0.0	0.0	0.0	1.5	1.5
3.Other investment in enterprise	3.0	3.0	0.0	0.0	0.0	0.4	0.4
4.ICT for citizens & business	8.1	8.1	0.0	0.0	0.0	1.1	1.1
5.Environment	273.0	273.0	0.0	0.0	0.0	38.7	38.7
6.Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7.Broadband	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8.Road	0.0	79.6	79.6	0.0	79.6	0.0	11.3
9.Rail	221.6	98.7	0.0	-123.0	-123.0	31.4	14.0
10.Other transport	7.9	50.8	47.6	-4.7	42.9	1.1	7.2
11.Human capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12.Labour market	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13.Culture & social infrastructure	9.5	9.5	0.0	0.0	0.0	1.3	1.3
14.Social Inclusion	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15.Territorial Dimension	20.7	20.7	0.0	0.0	0.0	2.9	2.9
16.Capacity Building	10.5	10.5	0.0	0.0	0.0	1.5	1.5
17.Technical Assistance	25.5	25.9	0.4	0.0	0.4	3.6	3.7
<b>Total</b>	<b>705.9</b>	<b>705.9</b>	<b>127.7</b>	<b>-127.7</b>	<b>0.0</b>	<b>100.0</b>	<b>100.0</b>

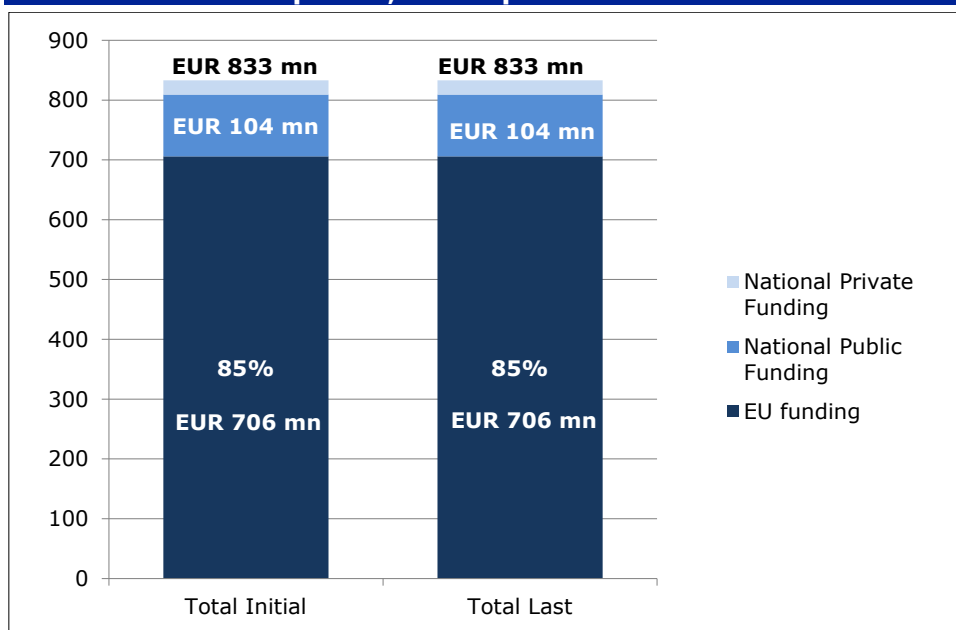
Note: 'Added' is the sum of additions made to resources in OPs where there was a net increase in the funding going to the category. 'Deducted' is the sum of deductions made to resources in OPs where there was a net reduction in funding. 'Social inclusion' includes measures to assist disadvantaged groups and migrants. 'Territorial dimension' includes support for urban and rural regeneration and tourist services and measures to compensate for climate conditions.

Source: DG Regional and Urban Policy, Inforegio database, April 2016

### 2.3. Policy implementation

The total funding provided for Croatia remained unchanged over the period, though much of it did not become available until after accession in 2013, with an EU co-financing rate equal to 85% (Figure 1).

**Figure 1 Total funding going to expenditure on Cohesion policy programmes for the 2007-2013 period, initial planned amount and final amount (EUR mn)**



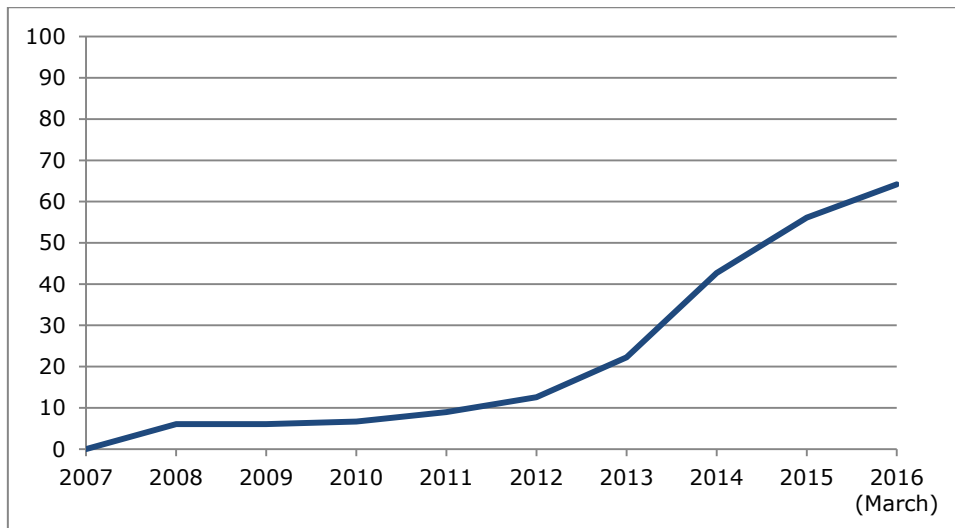
Source: DG Regional Policy financial data, 14 April 2016



The national government contribution amounted to EUR 103.5 million (or around 12% of the total funding) while private funding added EUR 23.7 million (around 3% of the total).

By the end of March 2016, the rate of implementation of programme, as reflected in payments from the Commission to cover expenditure incurred and claimed for, was around 64% of the total funding available (Figure 2). This implies that a substantial amount of funding still needs to be spent in the course of 2016 in order to absorb all the funding by the end of the year as required by the regulations.

**Figure 2 Time profile of payments from the ERDF and Cohesion Fund to Croatia for the 2007-2013 period (% of total funding available)**



Source: DG Regional Policy financial data, end-March 2016

## 2.4. Delivery system (WP12)

An evaluation of the management and implementation of Cohesion policy over the 2007-2013 period was carried out by WP12<sup>5</sup>. Given the recent accession of Croatia into the EU, the country has little experience of programming, implementing and managing Cohesion policy funds. In addition, the evaluation found that the standards of administrative performance system are relatively low in terms of the quality of governance and executive capacity. Moreover, the monitoring system used over the 2007-2013 period was poorly developed with inadequately defined indicators and a non-user-friendly interface (though such problems were by no means unique to Croatia), a result of the staff responsible for it lacking expertise and experience<sup>6</sup>.

For Croatia, as well as other countries in a similar situation with limited experience and capacity to design policy interventions, a good practice may be to identify detailed examples of strategic measures and project types to be included in the OP in order to provide a framework for implementation<sup>7</sup>.

## 3. The outcome of Cohesion Policy programmes – main findings from the ex post evaluation

<sup>5</sup> The WP12 report is published at [http://ec.europa.eu/regional\\_policy/en/policy/evaluations/ec/2007-2013/#1?](http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/#1?).

<sup>6</sup> As highlighted by the focus group carried out under the evaluation of Delivery system, WP12, Final report, *ibid.*

<sup>7</sup> Delivery system, WP12, Final report, see [http://ec.europa.eu/regional\\_policy/en/policy/evaluations/ec/2007-2013/#1?](http://ec.europa.eu/regional_policy/en/policy/evaluations/ec/2007-2013/#1?).



The main findings summarised here come from the evaluations carried out under the Work Packages (WPs) of the ex post Evaluation of Cohesion Policy 2007-2013, which covered in detail the following policy areas:

- Support to SMEs – increasing research and innovation in SMEs and SME development (WP2);
- Financial instruments for enterprises (WP3);
- Support to large enterprises (WP4);
- Transport (WP5);
- Environment (WP6);
- Energy efficiency in public and residential buildings (WP8);
- Culture and tourism (WP9);
- Urban development and social infrastructure (WP10);
- European Territorial Cooperation (WP11);
- Delivery system (WP12);
- Geography of expenditure (WP13);
- The impact of cohesion policy 2007-2013: model simulations with Quest III and Rhomolo (WP14).

Not all of these are relevant for Croatia. In particular, the evaluation of large enterprises (WP4) did not cover Croatia and no funding was allocated to financial instruments for enterprises (WP3), energy efficiency in public and residential buildings (WP8), culture and tourism (WP9) and urban development and social infrastructure (WP10). In addition, the evaluation of ETC (WP11) does not include Croatia. Equally, the estimates produced by WP13 for the allocation of funding and of expenditure between regions and those produced by the study on the impact carried out under WP14 also did not cover Croatia. The findings of WP12 were outlined above.

### **3.1. Enterprise support and innovation (WP2, WP3 and WP4)**

The total funding going to this policy area amounted to EUR 129.1, million corresponding to around 18% of the total allocation for Croatia during the 2007-2013 period. Of this, over 90% went to RTD and innovation.

#### **SME support, R&D and innovation (WP2)**

As reflected in the allocation of funding (Table 4), the development of SMEs and R&D infrastructure was considered essential to achieve one of the priorities of the NSRF, namely 'Improving environment for job creation'. As noted above, most of the funding went to innovation and RTD, especially in SMEs, which accounted for just over 16% of the total available. However, the resources allocated to support of SMEs did not prevent a progressive reduction in the value added they generated over the crisis period<sup>8</sup>.

### **3.2. Transport (WP5)**

Transport was the policy area which received the second largest share of funding (32.5% of the total) after the Environment. In the course of the programming period, there was a significant shift of funding within transport in from rail to roads and other transport.

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<sup>8</sup> Support to SMEs - Increasing research and Innovation in SMEs and SME development, WP2, Final report, p. 12, see [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp2\\_final\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp2_final_en.pdf).



### **3.3. Environmental infrastructure (WP6)**

Some EUR 273 million, or 38% of the funding available, was allocated to investment in environmental infrastructure in order to comply with the EU Directives in respect of water supply, wastewater treatment and waste management. Most of the funding went to the first two.

A project to improve the supply of clean drinking water supply and the treatment of wastewater treatment was carried out in Knin, which was also designed to separate the sewerage pipelines from the storm drainage system.

Although there are no indicators for the results of investment in waste management, Eurostat data show that, over the 2007-2013 period, the share of municipal solid waste recycled increased from below 5% to nearly 15%<sup>9</sup>.

### **3.4. Overview of achievements**

No core indicators were monitored and reported for Croatia.

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<sup>9</sup> Environment, WP6, Final report, p. 111, see [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/expost2013/wp6\\_final\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp6_final_en.pdf).



