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**"Croatia's path towards EU"**

CONFERENCE  
EU REGIONAL POLICY  
FROM THE PRE-ACCESSION PROGRAMMES  
TO COHESION POLICY  
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Ladies and Gentlemen,

It is a pleasure for me to be here in Zagreb today at the start of my first official visit to Croatia. These are important times – for Croatia, as you continue the negotiations for accession to the Union, and for the Union as a whole as we continue our work to reach an agreement on a new Treaty.

Both of these tasks are politics of the weightiest kind – spreading the zone of peace, security and prosperity across the European continent, and equipping ourselves with the institutions and policies to ensure

that we are able to meet the many challenges of the future. These are high and worthy ambitions, and the reality is that we all have a role to play in achieving them. The Berlin Declaration of March made clear that the tasks that lie ahead are the responsibility not just of the European Union and its Member States, but of its regions and its local authorities, and I am delighted that so many of those representatives are with us today.

The role of the regions and of local authorities is seen most immediately in the European Union's cohesion policy. They are an integral and essential part of the policy of which we have every reason to be proud. Cohesion policy is perhaps the most concrete manifestation of the solidarity which underpins the process of European integration, creating new opportunities, reducing the gaps of income between the regions and mobilising the development potential which I believe every region and city has.

Naturally, European Cohesion Policy places a particular emphasis on helping the less developed regions to undertake new investment which would otherwise not take place. But it also addresses the problems of lack opportunity in other regions in an effort to help them face up to increased competition in the global economy.

## **European Cohesion Policy is delivering positive results**

Last week the European Commission adopted the 4th Cohesion Report. It shows that EU Cohesion Policy has delivered impressive results:

- It has supported much-needed investment in infrastructure, human resources, and the modernisation and diversification of regional economies. Between 2000 and 2005 in the four cohesion countries, public investment has been around 25% higher than without cohesion policy.
- Cohesion Policy has also contributed to reduce social exclusion and poverty: it co-finances the training of 9 million people annually, more of half of them women, leading to better employment conditions and higher income; over 450 000 gross jobs were generated in six countries between 2000 and 2005, accounting for 2/3 of Objective 2 funding.
- Cohesion Policy has also contributed to improving administration and public governance, particularly at sub-national level.

## **Convergence is occurring in the enlarged Union**

The 4th Cohesion Report also revealed that convergence is occurring in the Union, both between MS and between regions:

- New Member States are growing fast which also translates into regional convergence, due to strong economic performance in regions with low GDP. In 2004, the top regions (with 10% of the population) had a GDP per head that was almost 5 times higher than that of the bottom regions (with 10% of the population), while in 2000 it was 6 times higher.
- Economic prosperity is becoming less geographically concentrated. The GDP share of the traditional "core" of Europe is smaller today than in 1995. This is due to high growth rates in more peripheral regions – such as Baltic countries - and the emergence of new growth centres in EU-15 cohesion countries and new Member States.
- The number of regions with GDP per head below 75% of the EU average fell from 78 to 70 between 1995 and 2004. Still, these 70 regions are home to 123 million Europeans.

### **Key deficits and new challenges in the enlarged Union**

There are however still a number of deficits:

- The employment deficit (to reach the 70% Lisbon employment rate) - almost 24 million jobs need to be created, mostly in few regions in southern Italy, Poland, Romania, Bulgaria, and South-west Spain.
- The innovation deficit - 86 regions (123 million people) have an innovative performance below the EU average, the great

majority being located in new Member States, Spain, Greece, Portugal and southern Italy.

In addition, new challenges such as demography, globalisation and climate change have emerged which will put additional pressure on regional economies to modernise.

- Demography: Europe's population is projected to start declining by around 2020. In 2005, the national population growth rate was less than 0.1% and 86% of population growth was due to migration. Already today, 85 regions of the Union (mainly in the new Member States) are experiencing absolute population decline, and another 76 maintain population growth only thanks to migration.
- Globalisation: Many regions throughout the Union, including in the new Member States, have an economic structure largely concentrated on sectors where competition from emerging economies is higher, particularly those regions with a high share of economic activity in textiles, clothing, and leather and lower-tech industries.
- Climate change: 7% of the EU population live in areas at high risk of flooding and in 45 provinces (NUTS III), over 20% of the population is at risk (in Lombardia and Emilia Romagna along the Po valley, but also Dutch and German regions along the

Rhine). The number of floods in the EU27 has increased every decade since the 1960s.

### **The reformed European cohesion policy 2007-2013**

In order to respond to the new challenges we have significantly reformed European Cohesion policy for the period 2007-2013.

First of all, cohesion policy is modernised through a new architecture placing greater emphasis on the need for a strategic vision in pursuit of a common set of Community priorities. These priorities are summed up in the growth and jobs agenda which was launched by the Union in 2005. In fact, European cohesion policy will be the major instrument at Community level for the modernisation of the Union's economy in the years to come.

While the policy is strategic in nature, it combines this with a decentralisation of responsibilities to those on the ground in the Member States, regions and cities that have the experience or expertise necessary to ensure successful implementation. Once the overall strategy is agreed with the Commission, it is often the regional and local authorities that have the responsibility for key decisions in matters such as project selection and management.

Important steps have been taken to streamline legislation and simplify rules for the management of cohesion programmes.

Finally, three initiatives jointly launched by the European Commission, the European Investment Bank and other financial institutions will help Member States and regions to establish sound and efficient management of the funds and to make better use of financial engineering instruments. JASPERS will assist less developed Member States and regions in the preparation of major projects. JEREMIE will increase access to finance for the development of SMEs. JESSICA will promote sustainable investment in urban areas.

The new regulations set out a coherent framework so that cohesion policy can continue to deliver results. The Member States, the European Parliament and the Commission have worked hard to create this solid framework, which is backed by an investment effort of EUR 50 billion per year.

### **Croatia's path towards EU cohesion policy**

Let me finally turn to the path of Croatia towards EU membership, first looking at what has already been achieved and then at what remains to be done.

The history of the EU financial assistance to Croatia is a history of slow, but steady decentralisation of decision and management and of increase in financial support: from the early days of OBNOVA and CARDS, through the pre-accession programmes Phare, ISPA and SAPARD, to the current implementation of the new Instrument for Pre-accession Assistance (IPA).

From 2007 until its accession to the EU, Croatia will be supported by IPA which will allow for investments amounting to EUR 142 million per year (2007-2009).

IPA will also prepare Croatia for European cohesion policy. It will cover investments in areas such as transport infrastructure and protection of environment (which corresponds to the future Cohesion Fund), the development of the social sector, of employment and education (to be continued under the European Social Fund), economic development of the disadvantaged areas and cross-border co-operation (to be taken over by the European Regional Development Fund) and rural development (which will be transformed into the European Agricultural Fund for Rural Development). We need good coordination among all those instruments.

IPA must thus be seen as support to Croatia in preparations for the implementation and management of the future cohesion policy. It is a useful "learning by doing" exercise.

I am pleased to see the progress achieved so far in IPA preparations. The Strategic Coherence Framework ("mini NSRF") has been established, the multi-annual draft Operational Programmes have been submitted in March 2007 and are now in the process of being revised. We hope to have them adopted before the end of the year.

My services will remain committed to actively work with you to prepare the implementation of IPA through the negotiation of the programmes and the preparation of the IPA managing structures for accreditation. The necessary structures and procedures for decentralised management for IPA need to be in place and accredited by mid 2008.

### **What still needs to be done**

Our joint objective is to ensure that Croatia will have the institutional, administrative and budgetary capacity in place in due time to participate in EU cohesion policy. This is a crucial issue: Community funding cannot be approved until all conditions ensuring sound management of the funds are in place.

Let me say that from the very beginning of the process, it is essential to have a **strong coordinating body** in charge of cohesion policy with the political support, stability, coordination capacity and the competence and resources to drive the process forward, as well as efficient **inter-ministerial coordination** mechanisms. We will look carefully to these aspects when assessing your degree of preparedness.

All along your integration process, and namely for cohesion policy, the quality and organisation of public administration at all levels is of paramount importance.

**Capacity building** is therefore a key area of support before and after accession. The structures involved have to be adequately resourced. Croatia should pursue its plan to prepare an overall strategy for capacity building as a matter of priority.

Managing effectively European cohesion policy requires deep knowledge of economic sectors, familiarity with law and economy, understanding of how public finance works, knowledge of foreign languages, communication skills and a lot of commitment and energy.

The investment you are making today to manage IPA need to be consolidated so that Croatia will be able to maintain a strong civil service within the structures that you are building now. Your performance of effectively managing IPA will be carefully examined by the Commission to assess your preparedness to manage EU cohesion policy.

Second, **harmonisation of the national legislation with the *acquis communautaire*** and its full transposition in the areas of **public procurement, state aids/competition, environment and equal opportunities** is essential for the implementation of cohesion policy. An adequate reinforcement of the bodies and mechanisms ensuring proper implementation and enforcement in these areas is of utmost importance. In this context, I welcome the efforts of business associations such as chambers of economy and crafts which train Croatian businesses to participate in tender procedures.

Third, additional efforts are still needed to set up a proper system of **financial management and control**, including the establishment of adequate structures and procedures, a clear description of tasks and reporting lines between all bodies involved, and the provision of appropriate accounting systems.

Forth, further reflection is recommended to identify the **appropriate level of implementation for future regional operational programmes** and the related managing structures. In particular, it is worth exploring the possibility of establishing management structures (not necessarily administrative ones) at NUTS II level.

Finally, a proper **project pipeline** needs to be developed in order to ensure that full use will be made of IPA and cohesion policy funds. Please remember that the lack of "implementation ready" projects will result in delays and may even lead to the loss of funds (n+3 risk). Therefore, already now substantial resources (including technical assistance) should be used to prepare good quality projects ready to be launched.

These issues should be given urgent attention. I am confident that all of you will establish the best possible conditions for IPA and future cohesion policy implementation. I can assure you that the Commission is committed to give its full support.

Thank you for your attention.