

Discussion Paper

**To be discussed and commented by the main stakeholders of the
Hungary – Croatia CBC OP 2014 – 2020**

**Paper presented at the 2nd programming workshop, Pécs, 12th
September 2014**

1. The status of current paper

This paper is to be considered as an initial and **non-official outcome of the work carried out by the team programming expert until date**. Most important inputs to this paper have been the followings:

- the situation **analysis and SWOT** of the border area, including the outcome of the first workshop in Čakovec on the 28th of June 2013
- **interviews** made by experts with key Croatian and Hungarian partners (please, note that a number of interviews are yet to be made, mostly with partners at regional level in Hungary and at the national level in Croatia)
- the first results of the **questionnaires** received and summarised by the expert team.

The views expressed in this paper **will be discussed** with the key stakeholders of the programme at a **bilateral workshop in Pécs** on the 12th of September. Following the workshop further **interviews** are foreseen with partners in Hungary at the regional, in Croatia at the national level. On the basis of the results of these events a consolidated proposal will be drafted by the expert team that will be submitted to be discussed and approved by the Task Force of the programme.

The immediate objective of this paper is to outline the possible choice of Thematic Objectives and Investment Priorities formulated by the experts.

2. The main outcomes of the situation analysis regarding the development needs:

1. In general, the **location of the border region is peripheral**, characterized by socially and economically backward situation, including aging and decreasing population, level of incomes and education below the national average, however, internal structure of the region is not homogenous; in Croatia Vukovar-Srijem and Virovitica-Podravina are among the most underdeveloped Croatian counties and generally the eastern part of the Croatian area (Slavonia) is now much below the Croatian average, while the western part (Varaždin,

Medjimurje and partly Koprivnica Križevci can be characterized as more developed and dynamic areas. In Hungary County Zala is far more developed, however, the economic activity mostly concentrates in central and western parts of the county, the areas close to the border are considerably worse off. Similarly, both Somogy and Baranya show distinctive differences with lagging behind areas close to the border.

2. The region has a characteristic spatial structure, marked by **developing poles in the two ends of the border area**: Osijek and Pécs in the eastern, Varazdin/Koprivnica and Nagykanizsa in the western part of the region and **a much poorer area in between**, especially in the Hungarian side (Ormánság), with extremely low density of crossings over the border.

3. **No specific economic specialization** in sector terms is characteristic, however, the share of agriculture is great in the whole region and some opportunities seem to exist for industries processing agricultural and forestry products.

4. Generally **high unemployment** in the whole of the region, with variations in the structure of the unemployed.

5. The region is **rich in natural assets**, mostly related to the Drava and Mura rivers, also characteristic and rich is its cultural heritage. Related potential in certain branches of tourism may exist, however it is largely unexploited, the share of the tourism is low in the region's economy. Forest areas and the dominance of agriculture provide for renewable energy sources like - mainly but not exclusively – the biomass.

6. **Very poor communication activities and cooperation between the two sides** of the border apart from the two poles mentioned in point 1. above, due to

- the “**language barrier**” (poor knowledge of each other's language)
- the **physical barriers** (the rivers, the extreme scarcity of border crossing points. (decreasing bus and rail traffic may indicate weakening motivations in passenger traffic)

3. The main outcomes of the questionnaires and interviews to date

3.1. Interviews

3.1.1. Hungarian partners

- The development of Ormánság is a crucial issue, this is reflected in government's decision, too
- Transport links are considered as prerequisite of any further development. CBC OP can provide essential contribution to improve the situation in this area by helping preparation (design, feasibility studies) and also investing at a smaller scale (e.g. implementation of ferry/ferries across Drava)

- Need to support the SME sector and, in general, the local economy is strong, however, effective tools are still remain to be found to this purpose. Current OP's results seem controversial in this field.
- R&D is considered important, however no serious potential exist in the region
- Cultural and natural heritage as well as energy efficiency and energy production capacity from renewable sources is to be exploited
- Tourism-related developments seem to be successful based on the Regional Tourism Product Plan, in this respect continuity is preferred
- EGTC is operational on the Hungarian part of the region, however, no Croatian partners joined yet

3.1.2. Croatian partners

- There is a general preference to allow a diverse set of stakeholders to participate in the programme and generate better communication across the border, regardless of the sector.
- Institutional cooperation in relation to local and regional development planning is seen as important opportunity for strengthening capacities for local and regional development in Croatia.
- A need for pre-financing and co-financing is a great obstacle to stronger participation in the programme and likely to become worse with mainstream, national Structural Funds programmes in Croatia also requiring pre-financing after the accession.
- Strong need for strengthening of entrepreneurial activity in the area, but scepticism as to the ability of cross-border cooperation to make a difference. Part of interviewees detected low interest of SMEs for participation in events of the projects in previous period and poor effects of joint projects of support institutions. Suggestions to target sectors in which CBC is likely to add value, such as ICT and other knowledge-based sectors, tourism and marketing and branding of agricultural products.
- R&D seen as an important area of socio-economic development, but attitudes on its viability as an objective in the new programme vary, since the capacities for R&D (presence of research infrastructure) vary from county to county.
- Environment protection is seen as the key area in which CBC can add value. Suggestions were given to make sure all aspects of environment protection are covered (preference to water ecosystem was perceived in previous programmes) and that participation of diverse type of stakeholders is ensured (smaller organisations to be more involved). A stronger cooperation between nature protection institutions should be promoted, as it is seen as weak at the time being.
- Tourism is seen as an area in which cross-border cooperation gives a significant added value and in which there is a great demand and interest for joint projects. It generates not only shared economic, but also social and cultural values and, in addition, provides an outlet for branding and marketing of agricultural products.
- Agriculture and food production are seen as an area in which there are similar needs across the border and where joint branding and marketing of local food products could be beneficial.

- Transport connections are overall recognised as a weak point of the cross-border area, but only part of the stakeholders see a possibility of addressing this issue through a cross-border programme (by supporting the preparation for a new bridge and development or improvement of different forms of cross-border transport).
- Energy efficiency seen as an important cross-cutting issue, especially in relation to the housing and in relation to data collection, but very few specific ideas on how cross-border cooperation could contribute were given so far.
- Employment and labour market are generally seen as an area in which CBC on this border is not likely to have great impact, since labour mobility in general is low and across the particular border even very poor. Language is seen as a significant barrier, also in case of promotion of social inclusion. Some advantages in experience exchange between support institutions are seen.
- Education and LLL are seen as generally an area in which CBC has a potential of adding value to the existing models and that worked well so far.
- There is some scepticism noted in relation to unilateral EGTC initiatives and a lack of clear idea of what added value EGTC could provide to the existing models of cross-border cooperation.

Please, note that very few interviews have been made to date with representatives of Croatian ministries and national agencies until today. Further interviews with Hungarian partners are foreseen, too.

3.2. Questionnaires

3.2.1. Background

Received questionnaires:

- Hungary: 14 (6 central and 8 regional actors)
- Croatia: 14 (14 regional actors out of which 6 Task Force member institutions)

Each partner was asked to choose 4 thematic objectives (TO) out of the 11 ERDF priorities. Results of this selection have been summarized under heading “most frequently marked TO’s”

Partners were also asked to distribute 100 points to weight preferred investment priorities (IP). Under heading “most relevant TO’s” the weighted summary of IP’s have been presented. Scores of the selected IP’s within TO’s have been summed and ranked by TO’s.

Please, note that survey can only serve for illustrative purposes, rather to give impressions than providing any evidence regarding the respondent’s needs!

3.2.2. Hungary

The most frequently marked TO's are as follows:

| | |
|--|-------|
| 1. Environmental protection and resource efficiency | 17,5% |
| 2. Low-carbon economy | 17,5% |
| 3. Strengthening research & TDI | 12,5% |
| 4. Sustainable transport and removing bottlenecks... | 10,0% |
| 5. Climate change adaption, risk prevention | 10,0% |
| 6. Education, skills and lifelong learning | 10,0% |

The following TO's were considered as most relevant:

| | |
|--|-------|
| 1. Environmental protection and resource efficiency | 21,7% |
| 2. Sustainable transport and removing bottlenecks... | 15,4% |
| 3. Strengthening research & TDI | 11,5% |
| 4. Education, skills and LLL | 10,1% |
| 5. Employment and labour mobility | 8,8% |
| 6. Low-carbon economy | 8,5% |

3.2.3. Croatia

The most frequently marked TO's are as follows:

| | |
|---|-------|
| 1. Environmental protection and resource efficiency | 22,2% |
| 2. Competitiveness of SMEs | 14,8% |
| 3. Education, skills and lifelong learning | 11,1% |
| 4. Strengthening research & TDI | 9,3% |
| 5. Employment and labour mobility | 9,3% |
| 6. Social inclusion and combating poverty | 9,3% |

The following TO's were considered as most relevant:

| | |
|---|-------|
| 1. Environmental protection and resource efficiency | 38,1% |
| 2. Competitiveness of SMEs | 15,1% |
| 3. Social inclusion and combating poverty | 9,0% |
| 4. Employment and labour mobility | 7,6% |
| 5. Low-carbon economy | 7,2% |

3.2.4. Some observations:

- Environmental protection is by far the most supported TO
- Transport is highly preferred by Hungarians but recognised only by 2 of the Croatian respondents
- SME development, as TO does not appear in Hungarian questionnaires while Croatian partners show relatively high interest
- Social inclusion is preferred to some extent by Croatian respondents but not mentioned by Hungarians
- Neither Hungarian nor Croatian partners preferred TO nr 11, “Enhancing institutional capacity and an efficient public administration”

4. Remarks and proposals:

| TO's | | summary of needs and proposals |
|------|-----------------|--|
| 1. | R&D, innovation | <p>situation:</p> <ul style="list-style-type: none"> • no substantial potential in R&D, however, cooperation between the universities (e.g. Osijek/Pécs or Varasdin/Nagykanizsa) and some supporting intermediary institutions (e.g. RDA's) is active. Smart specialisation strategies are being prepared in both countries at NUTS II level. <p>proposal:</p> <ul style="list-style-type: none"> • not to select as TO on its own • possible inclusion of the relevant IP if „integrated” priority axes will be allowed. Integration with SME (nr. 3) or, alternatively, Lifelong Learning (nr 10) seems to be feasible. IP to be considered if integrated with any priority axis is <i>“promoting business R&I investment, product and service development, technology transfer, social innovation and public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation;”</i> • include the cooperation of R&D and intermediary institutions with TO nr. 11 |
| 2. | ICT | <p>situation:</p> <ul style="list-style-type: none"> • weak infrastructure, clear development need exist • coordinated developments by the „T-group companies” on business grounds are possible |

| | | |
|----|--------------------------|--|
| | | <ul style="list-style-type: none"> investments in the sector are not really relevant interventions in the context of a CBC OP <p>proposal:</p> <ul style="list-style-type: none"> not to select as TO on its own encourage the use of ICT technologies as horizontal objective and preference criteria in project selection |
| 3. | Competitiveness of SME's | <p>situation:</p> <ul style="list-style-type: none"> encouragement of local economic development enjoys high priority development need is justified by the analysis if selected, priority axis can include – as preferences – ICT, R&D, tourism, or agricultural production, too in case, integrated priority with R&D may be justifiable, too. employment creation should be a preferred specific aim if selected, fundamental decision is to be made regarding what instruments to be used. Direct support to SMEs seems to be preferred in theory, however, specific needs of the sector have not been investigated neither in HU nor in HR. Coordination with mainstream national SME support schemes could be difficult and implementation modalities are not settled either for direct support schemes in CBC programmes <p>proposal:</p> <ul style="list-style-type: none"> select as potential TO (as alternative choice to 10, as below). further investigate (i) specific needs within the sector (ii) possible implementation modalities (iii) the realistic added value in the context of the CBC (iv) possibility of funding the desired or feasible activities/projects under “Lifelong Learning” objective (TO nr. 10) (v) especially explore the relevance of IP “promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms” |
| 4. | „Low carbon” | <p>situation:</p> <ul style="list-style-type: none"> relevant development needs can be assigned to all the three TO's. Realistically, not more than one environment-oriented TO could be selected (provided that thematic concentration will require to select only four TO's) |

| | | |
|----|---------------------------------|---|
| 5. | Climate change, risk prevention | <ul style="list-style-type: none"> • most relevant investment priorities are under TO nr. 6. but prevention of natural risk (under TO nr. 5) or the promotion of the use of renewable energies (under TO 4) could be relevant as well <p>proposal:</p> <ul style="list-style-type: none"> • select nr 6. as potential TO, with focus on “protecting, promoting and developing cultural heritage” and “protecting biodiversity, soil protection and promoting ecosystem services including NATURA 2000 and green infrastructures” |
| 6. | Env. & Resource Efficiency | <ul style="list-style-type: none"> • further investigate the possibility of an integrated priority axis with the inclusion of some IP’s from the „climate change” and „low carbon” objective (TO’s nr. 5 and 4), like “promoting investment to address specific risks, ensuring disaster resilience and developing disaster management systems” under TO 5 and “promoting the production and distribution of renewable energy sources” under TO 4. • also consider to select nr 4 as potential TO provided that the choice of the TO’s selected will not be limited to 4 but 5. In this case one of the environmental priorities should integrate the “risk prevention” IP’s of TO nr. 5, (“promoting investment to address specific risks...”) • especially for “risk prevention” objective the expected results of current OP shall be further explored to identify whether need still exist! |
| 7. | Sustainable transport | <p>situation:</p> <ul style="list-style-type: none"> • high level of development needs exist, although recognized that any CBC OP’s contribution to the improvement of the transport links can only be limited (e.g no bridge can be built...)! As Croatia is not yet part of the Schengen area, the establishment of border crossing points are also subject of customs and border security considerations and related infrastructure, too! Risks associated with Croatia’s accession to the Schengen area could constitute serious risks for implementing larger scale infrastructures within the OP. <p>proposal:</p> <ul style="list-style-type: none"> • select nr 7. as potential TO, based on the sector’s crucial importance • focus OP’s interventions on: (i) preparation (feasibility, design) of infrastructures, e.g. bridge over the Drava (ii) |

| | | |
|-----|---|---|
| | | <p>feasibility or actual establishment of ferry service(s) (iii) minor investments in public transport on border sections not formed by the rivers</p> <ul style="list-style-type: none"> • mostly projects of clear strategic nature and with clear commitment and proper legal base provided by both of the national authorities (e.g. demonstrated by inter-governmental agreement) are proposed to be financed if TO is selected. • intense further preparations are needed to clarify the positions of the national authorities responsible for customs and border security and the preparedness of any border-crossing investment • preparations are also needed to explore precisely the development needs and design budget and objective accordingly. |
| 8. | Employment and labour mobility | <p>situation:</p> <ul style="list-style-type: none"> • some “typical” tools to enhance employment and labour mobility cannot be used due to the lack of language skills and the low density of border-crossing points. Thus, any significant change in cross-border labour mobility seems to be unrealistic for the time being. <p>proposal:</p> <ul style="list-style-type: none"> • not to select as TO on its own • Examine, however, further whether IP “<i>development of business incubators and investment support for self-employment and business creation</i>” can be relevant |
| 9. | Social inclusion, fight against poverty | <p>situation:</p> <ul style="list-style-type: none"> • although in theory relevant problems could be addressed under this TO, the lack of language skills and the low density of border-crossing points would hinder the effective cooperation in this field. <p>proposal:</p> <ul style="list-style-type: none"> • not to select as TO on its own • include the social inclusion issues as horizontal objective and preference criteria in project selection • encourage the cooperation of relevant actors and institutions under TO nr. 11. |
| 10. | Education, Life Long Learning | <p>situation:</p> <ul style="list-style-type: none"> • although in theory relevant problems could be addressed under this TO, the lack of language skills and the low density of border-crossing points could hinder the effective |

| | | |
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| | | <p>cooperation in this field</p> <p>proposal:</p> <ul style="list-style-type: none"> • select as potential TO (as alternative choice to TO nr. 3 SME development). Main criteria shall be whether which TO can cover more relevant interventions aiming at the development of the local economy in the border region. Specific CBC IP can be relevant here: “developing and implementing joint education and training schemes”. The rationale is that it can provide viable type of measures (soft, educational measures) aiming at the same topics as SME development (ICT, energy efficiency, tourism) and also aim at better economic competitiveness, but through implementation modalities that are more appropriate for CBC. <p>If not selected,</p> <ul style="list-style-type: none"> • include the LLL issues as horizontal objective and preference criteria in project selection • encourage the cooperation of relevant actors and institutions under TO nr. 11 |
| 11. | Institutional capacities, cooperation | <p>situation:</p> <ul style="list-style-type: none"> • immense need regarding cooperation of various institutions exist. Specific CBC IP “promoting legal and administrative cooperation and cooperation between citizens and institutions” is of high relevance <p>proposal:</p> <ul style="list-style-type: none"> • select TO nr. 11 in one of the priority axes. |

5. Summarized proposal

5.1. TO's proposed to be selected and elaborated further

1. SME development (nr. 3.)

remarks:

- include some R&D and innovation (possibly also tourism and agricultural production or food processing and branding) related topics
- explore whether TO nr.10 as alternative to TO nr. 3 could serve the real needs of the local SME's more effectively.**

2. “Resource efficiency” (nr. 6.)

remarks:

- a. include IP’s if possible from “climate change” (nr. 5) and/or “low carbon” (nr. 4)

3. ”Low carbon” (nr. 4)

remarks:

- a. include IP if possible from “climate change”
- b. feasible only if 5 TO’s will be allowed by the ETC regulation or if nr 7 is not selected!**

4. Transport (nr. 7.)

remark:

- a. select **if strategic projects can be identified** and proper legal base established **by the national administrations**. If this is not in place, no sense in choosing this TO!

5. Institutional capacities, cooperation (nr. 11.)

remarks:

- a. encourage the cooperation of a widest possible circle of institutions and private entities, including “people-to-people” cooperations. Possible emphasis on R&D, ICT, entrepreneurship development, energy efficiency, tourism or other topics considered relevant but potentially not sufficiently addressed by other priorities)

5.2. Incorporate as horizontal objectives and convert into selection criteria the followings:

- use of ICT (related to TO nr 2.)
- fight against poverty, social inclusion (also to be linked to geographical preferences, such as the Ormánság, for example, related to TO nr. 9.)
- contribution to better lifelong learning opportunities or systems (related to TO nr. 10.), if TO 10 not selected
- support the entrepreneurship, especially the facilitation of the economic exploitation of new ideas and fostering the creation of new firms
- enhance R&I, in particular service development, technology transfer, social innovation and public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation, on the basis of respective regional smart specialisation strategies.