

# Perspectives of the Efficient Absorption of the EU Funds for the Revitalisation of the Banija Region

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**University of Zagreb**  
**Faculty of Political Science**  
**Graduate Study of Political Science – Master of European Studies**

**Perspectives of the efficient absorption of the EU funds for the  
revitalisation of the Banija region**

**Master's Thesis**

**Zagreb**  
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University of Zagreb  
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**Perspectives of the efficient absorption of the EU funds for the  
revitalisation of the Banija region**

Master's Thesis

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Student: Jelena Novaković

Zagreb

September 2022

I declare that I have written my graduate thesis *Perspectives of the efficient absorption of the EU funds for the revitalisation of the Banija region* that I submitted to my mentor Igor Vidačak, PhD, Associate professor, for evaluation, independently and that it is entirely in my authorship. I also declare that the paper in question has not been published or used to fulfil teaching obligations at this or any other institution of higher learning, and that I did not obtain ECTS credits based on it.

Furthermore, I declare that I have respected the ethical rules of scientific and academic work, particularly Article 16-19 of the Code of Ethics of the University of Zagreb.

Jelena Novaković

# Abbreviations

**CBS:** Croatian Bureau of Statistics

**CF:** Cohesion Fund

**CFCA:** The Central Finance and Contracting Agency

**CMRS:** Croatian Mountain Rescue Service

**CPR:** Common Provisions Regulation

**CSO:** Civil Society Organization

**CSORHP:** Central State Office for Reconstruction and housing provision

**EAGF:** The European Agricultural Guarantee Fund

**EMFF:** European Maritime and Fisheries Fund

**ERDF:** European Regional Development Fund

**ESF +:** The European Social Fund Plus

**ESI:** European Structural and Investment funds

**EU:** European Union

**EUSF:** European Solidarity fund

**HRK:** Croatian Kuna

**JTF:** Just Transition Fund

**MoPPCSA:** Ministry of Physical Planning, Construction and State Assets

**MoRDEUF:** Ministry of Regional Development and EU Funds

**MS:** Member States

**NRSRH 2030:** The 2030 National Development Strategy

**RDNA:** Rapid damage and Needs Assessment

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# 1. Introduction

Two devastating earthquakes hit the Republic of Croatia in 2020. The first earthquake hit the City of Zagreb and nearby Counties on 22 March 2020, measuring 5.5 on the Richter scale. While the Croatian Government was in the phase of setting up the reconstruction governance, the city of Petrinja, which according to its geographical position, belongs to the Banija region, Sisak-Moslavina County was hit by the devastating earthquake measuring 6.4 on the Richter scale on 29 December 2020. On 04 January, the Government of Croatia declared a disaster for the second earthquake-stricken area, and the reconstruction measures were extended to the Banija region and its earthquake-stricken area.

Due to the high number of human losses and great material damage to the region, which is located 70 kilometres from the Croatian capital, the poor living conditions, underdevelopment, and systematic neglect of the region by every Government for the last 25 years came to the forefront.

As a result, the Government of the Republic of Croatia, on 14 January 2021, adopted the Decision to start drafting the Programme for the social and economic revitalization of supported areas of Sisak-Moslavina County affected by the earthquake which was adopted by the Government on 30 December 2021. The value of the Revitalization program is 15,3 billion HRK (approx. 2 billion EUR financed by available EU funds from 2021 until 2029 and the State budget. The program has two main strategic directions: encouraging the development of the main factors of competitiveness of the County and Reconstruction – removing and mitigating the consequences of earthquakes.

Although the Republic of Croatia was granted 683.7 million EUR from the European Solidarity Fund to help alleviate the devastating consequences of earthquakes in and around Zagreb in 2020 and 318.8 million EUR to help alleviate the devastating consequences of earthquakes in the Banija Region and its earthquake-stricken area, up to date only 10% of allocated amount for the first earthquake were paid out. More than a year and a half after the second earthquake, the results of Reconstruction are very poor, with hundreds of people living in containers in the Banija Region, and no house was built by the Government until June 2022. From the current perspective, this course of Reconstruction and Croatian capacity of absorption of the allocated EU funds are perceived as high risk and could seriously jeopardise the socio-economic development of the Banija Region.

This thesis seeks to address this problem by analysing which factors affect the capacity of the absorption of the EU funds for revitalisation of the Banija region. The starting hypothesis is that the absorption is affected mainly by i) complicated and lengthy procedures, resulting from previously unresolved problems of legal regulation of land and property relations, ii) inefficient coordination and communication between the Reconstruction coordinating body and implementing bodies and iii) insufficient administrative capacities.

In order to respond to the research question and test the initial hypothesis, the methodology is predominantly a qualitative one and will rely primarily on the results of semi-structured interviews with stakeholders involved in the design and implementation of the mentioned program of revitalisation. In addition, the analysis will encompass the relevant secondary literature on the absorption of EU funds.

The thesis consists of eight units. After the introduction, the second part outlines the research and methodological framework, focusing on defining the key terms, providing an overview of relevant previous research, and describing the methodology. The third part of the paper describes the Banija Region, its socio-economic status, and geographical position. Legislation, institutional framework and causes of the Region's stagnation and underdevelopment are also introduced. The fourth part analyses the legislative and institutional framework of Reconstruction and the Reconstruction results until May 2022, including the analysis of the activities and roles of various initiatives and NGOs in Reconstruction. In the fifth part, the main Government strategic document is presented: Programme for the social and economic revitalization of supported areas of Sisak-Moslavina County affected by the earthquake (hereinafter: The Programme), which focuses on stimulating the development of Sisak-Moslavina County's competitiveness and on eliminating the effects of the earthquake making the Reconstruction as the part of the Programme, on reconstructing buildings and the infrastructure as soon as possible in order to create a stimulating framework for social and economic revitalisation. We will analyse the Programme's short-term, mid-term and long-term financial plans as it will be primarily funded from EU funds. In the sixth part of the paper, available EU funds are described and analysed: the European Solidarity fund, its legislation and institutional framework in Croatia and its current absorption results. European Structural and Investment Funds (ESI) for the financial period 2014-2020, their legislation and institutional framework in Croatia and its current absorption results, European Funds for the financial period 2021-2027, legislation and analyse of current Croatia preparation results and the National recovery and resilience plan of the Republic of Croatia 2021-2026 financed from the Recovery and

Resilience Facility under temporary NextGenerationEU Instrument, its legislation and institutional framework are also analysed in this section.

The seventh part of the paper provides analysis and key findings of the research. In the concluding part theoretical determinants of absorption capacity analysis in correlation with our empirical research, current Croatian EU funds absorption capacity results, including Solidarity fund and perspective of future EU funds absorption and its results on future socio-economic revitalization on Banija Region are summarised.

## **2. Research and methodological framework**

### **2.1 Relevance of the research**

Absorption of the financial resources allocated from the EU funds is a very important aspect of the European integration process, while there is a lack of empirical research on the determinants of a country/region's abilities to efficiently absorb the money (Kersan-Škabić and Tijanić, 2017). By analysing the Reconstruction in Croatia, as part of the Banija region Revitalization and its legislative, institutional, financial, and strategic framework, we will identify the main factors that affect the Revitalization of the region and, as already mentioned, mainly funded by the EU funds. The research can have theoretical and practical implications, and findings could contribute to a better understanding of the absorption process of EU funds which is essential as the Republic of Croatia is currently facing a very challenging period since it will manage and use at the same time as many as four EU budget packages: (a) European Solidarity fund, (b) European Structural and Investment Funds (ESI) for the financial period 2014 – 2020, (c) European Funds for the financial period 2021-2027, and (d) the National recovery and resilience plan of the Republic of Croatia 2021-2026 financed from The Recovery and Resilience Facility under temporary NextGenerationEU Instrument.

### **2.2 Definition of key terms**

#### **2.2.1 Absorption Capacity**

According to Kersan-Škabić and Tijanić (Kersan-Škabić and Tijanić, 2017), the absorption is an essential aspect of the European integration process, but while the available funds are a great opportunity for Member States, it does not necessarily mean that countries will be able to exploit

them fully, and their success depends on the ‘absorption capacity’. Absorption capacity could be defined as the degree to which a country can spend, actually and efficiently, the financial resources allocated from the Structural Funds (Cace, C., Cace, S., Iova, C., & Nicolăescu, V. 2009).

What makes the matter even more challenging is that the value of allocated funds for the Republic of Croatia's financial perspective 2021-2027 is double that of the previous financial perspective. This fact is important since absorption capacity could be conceptualized as the difference between available funds and their effective absorption. This ratio mostly depends on institutional factors, i.e. on the extent to which the authorities at the central (as well as regional and local) level can prepare consistent multiannual plans for EU funds utilization and consequently deal with a large amount of administrative work related to withdrawal of EU funds and successfully coordinate and monitor their use (Savić, 2020).

Many authors use Šumpíková, Pavel, and Klazar (Šumpíková, Pavel, and Klazar, 2003) and Zaman and Georgescu (Zaman and Georgescu, 2009) approach to analyse absorption capacity through: (a) Macroeconomic absorption capacity – measured in GDP (current Cohesion Policy rules limit the transfer of EU funds to a maximum of 4% of the respective country’s GDP). (b) Financial absorption capacity – ability to co-finance programmes and projects from structural funds. (c) Administrative capacity – ability and qualifications of central and local authorities to prepare programmes and projects, capacity to cope with administrative and reporting requirements, as well as ability to implement funding and supervision properly, avoiding irregularities as far as possible. Financial and macroeconomic factors are two very measurable elements, but the administrative factor eludes exact quantification and therefore poses the greatest challenge.

Daszuta (Daszuta, 2010) in her paper is looking through the aspect of readiness as the existence of the capacity enabling efficient absorption of the Structural Funds and the Cohesion Fund at the regional level, where she identified five different areas of “readiness”:

1. Finance: it refers to the concept that the support of the EU should only complement the resources of the individual Member State.
2. Institutions: institutional readiness refers to the potential of the institutions that are a part of the programming and implementation system to effectively and efficiently realize tasks which are imposed on them, and which are tied to the creation of the programming documents, monitoring and control of the co-financed projects.

3. Legalities: the adaptation of national law to the European Union legislation.
4. Personnel: the existence of properly qualified civil servants and self-governmental clerks who are specifically prepared for the tasks connected with the ESI absorption.
5. Documentation: the existence of the adequate number of good quality projects and preparation of the technical documentation such as plans, localization drafts, business plans, feasibility studies that are the obligatory accompaniments of projects are conditioned by high-quality defined priorities and qualitative development documents (Kersan-Škabić and Tijanić, 2017).

In this paper, we will use Daszuta approach of absorption capacity as our theoretical framework.

#### 2.2.2 First earthquake

The earthquake, measuring 5.5 degrees per Richter, occurred in Zagreb on 22 March 2020 at 6:24 a.m.

#### 2.2.3. Second earthquake

The earthquake, measuring 6.4 degrees per Richter, occurred in Sisak-Moslavina County with an epicentre of 3 km southwest of the town of Petrinja on 29 December 2020 at 12:19 p.m.

#### 2.2.4 Reconstruction

For the purpose of this paper, the term Reconstruction refers to the overall Government measures for reconstruction of territories affected by both earthquakes, with a focus on measures for the Banija region and current results.

#### 2.2.5. The Banija Region

The Banija region as a part of the Sisak-Moslavina County, consist mainly of the southwest part of the County and was the most affected by the 2<sup>nd</sup> earthquake.

#### 2.2.6. Revitalization

For the purpose of this paper, the term Revitalization refers to the Government of Croatia Programme for the social and economic revitalization of supported areas of Sisak-Moslavina County affected by the earthquake.

### 2.3. Research goal and plan

This paper explores the readiness of the Government of the Republic of Croatia to effectively absorb the EU funds. To this aim, we will analyse the response and readiness of the Republic of Croatia to use the available funds (EU Solidarity Fund) to respond to the natural disaster that hit the Banija Region. Specifically, an analysis of overall absorption results for the financial period 2014-2020 and current Government preparation results for the new financial period 2021-2027 will be carried out in line with absorption capacity factors, as mentioned above. Due to the specifics of the Region (long-term underdevelopment), the primary focus is on organisation of the Reconstruction coordination efforts and results, Croatian absorption capacity, and we analyse the steps taken so far by the Government of the Republic of Croatia for the further socio-economic revitalization of the Region which will be mostly funded by EU funds, and its perspectives.

### 2.4. Research question

The thesis seeks to analyse the following research question: which factors affect the capacity of the absorption of the EU funds for the Revitalization of Banija region?

### 2.5. Hypothesis

After defined research goal and plan, and question of the research, the following hypothesis is made: the absorption of the EU funds for Banija region is affected mainly by complicated and lengthy procedures, resulting from previously unresolved problems of legal regulation of land and property relations, inefficient coordination and communication between the Reconstruction coordinating body and implementing bodies and insufficient administrative capacities.

### 2.6. Methodology

The research methodology will rely on the collection and analysis of primary and secondary data. Primary data will be obtained by qualitative analysis based on a semi-structured interviews with a total of 11 stakeholders included in the Reconstruction and Revitalization process: representatives of the state administration at the national, regional and local level, representatives of chambers of crafts and commerce, representatives of entrepreneurial support institutions, representatives of academic community, civil society, and the European Bank for Reconstruction and Development (EBRD). Beside examination of available statistical indicators provided by the Croatian Bureau of Statistics, the analysis of secondary sources will also encompass in-depth qualitative analysis of

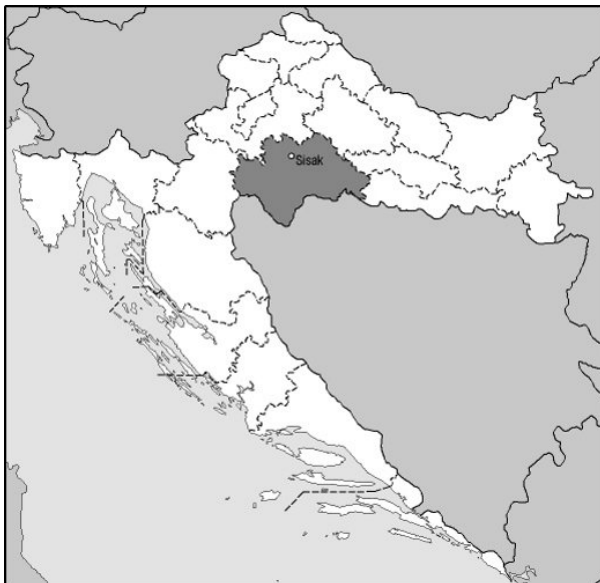
relevant literature: EU legislation, reports and publications, Croatian government official legislation, programs, and reports, Reconstruction coordination body official reports and actions, local and regional self-government legislation, academic articles, independent CSOs and think-tanks reports.

### 3. Banija region

#### 3.1. Geostrategic position

The Banija Region is a region within Sisak-Moslavina County. According to the Act on the areas of Counties, towns, and municipalities in the Republic of Croatia (OG. 45/13), Sisak-Moslavina County is a part of the administrative-territorial organization of the Republic of Croatia based in Sisak. In the Republic of Croatia there are 20 counties comprising 556 local self-government units: 428 municipalities and 127 cities. The City of Zagreb, as the capital of the Republic of Croatia, has a special status as a city and a County (State Geodetic Administration, 2022). The Sisak-Moslavina County is situated in the southern part of the central part of the Republic of Croatia, in the area where Pannonian and Mountain part of Croatia are concerned. The county borders Zagreb, Karlovac, Bjelovar-Bilogora, Brod-Posavina and Požega-Slavonia Counties, and Bosnia-Herzegovina in the south (Figure 1). The Sisak-Moslavina County consists of 12 municipalities and 7 towns.

Figure 1: Sisak-Moslavina County geographical position in Croatia



Source: *The Miroslav Krleža Institute of Lexicography (The Miroslav Krleža Institute of Lexicography, 2021)*

Sisak-Moslavina County has a surface area of 4468 km<sup>2</sup> and is among the largest counties in the Republic of Croatia by surface and occupies about 7.9% of the land territory of the Republic.

Banija Region is one of the historical provinces of the Republic of Croatia. As part of the Sisak-Moslavina County, it affects mainly the southwest part of the County. The Una River is the Banija Region border to the south and southeast, the state border with Bosnia and Herzegovina. The slopes of Petrova Gora are the western border and coincide with Karlovac County's border. In addition to minor deviations, the Sava and Kupa rivers are the north and northwest borders of the Banija Region. (Matas, 2004). The Banija Region area is 2,655,5 km<sup>2</sup>, out of a total of 4,463 km<sup>2</sup> of Sisak-Moslavina County or 60% of the County area (Karadža, 2019).

Figure 2: Position of Banija Region within Sisak-Moslavina County



Source: Karadža, 2019

The Banija Region consists of 8 municipalities (Donji Kukuruzari, Dvor, Gvozd, Hrvatska Dubica, Jasenovac, Majur, Sunja and Topusko) and 3 towns (Glina, Hrvatska Kostajnica and Petrinja) (Figure 2.).

### 3.2. Demographics, social and economic trends

The population of Sisak-Moslavina County is 140,549. According to the Croatian Bureau of Statistics (CBS, 2022), in 30 years, the county's population decreased by 110,783 or 44.07%, (Table 2.) while the Croatian population decreased by 895,736 or 18.72 % during the same period. (Table 1.).

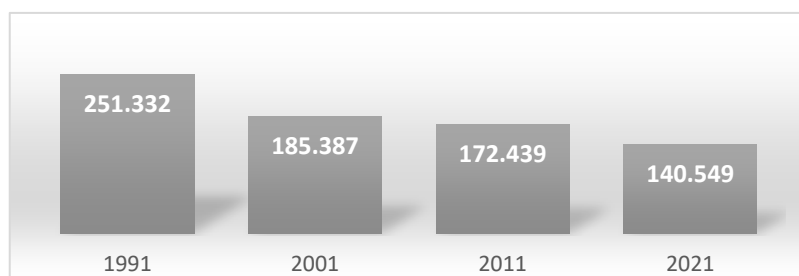


Table 1: Population of the Republic of Croatia 1991-2021



Source: Prepared by the author based on Croatian Bureau of Statistics data

Table 2: Population of the Sisak Moslavina County 1991-2021



Source: Prepared by the author based on Croatian Bureau of Statistics data

More precisely, for the same period the population of Banija Region decreased by 72.565 or 61.3% (Table 3).

Table 3. Population of the Banija Region

| Year                | 1991           | 2001          | 2011          | 2021          |
|---------------------|----------------|---------------|---------------|---------------|
| Donji Kukuruzari    | 3.063          | 2.047         | 1.634         | 1.107         |
| Dvor                | 14.555         | 5.742         | 5.570         | 3.044         |
| Glina               | 23.040         | 9.868         | 9.283         | 7.207         |
| Gvozd               | 8.082          | 3.779         | 2.970         | 2.077         |
| Hrvatska Dubica     | 4.237          | 2.746         | 2.089         | 1.487         |
| Hrvatska Kostajnica | 4.996          | 2.746         | 2.756         | 1.946         |
| Jasenovac           | 3.599          | 2.391         | 1.997         | 1.583         |
| Majur               | 2.555          | 1.490         | 1.185         | 0.782         |
| Petrinja            | 35.151         | 23.413        | 24.671        | 20.165        |
| Sunja               | 12.309         | 7.376         | 5.748         | 4.179         |
| Topusko             | 6.824          | 3.219         | 2.985         | 2.269         |
| <b>Total</b>        | <b>118.411</b> | <b>64.817</b> | <b>60.888</b> | <b>45.846</b> |

Source: Prepared by the author based on Settlements and population of the Republic of Croatia 1857-2001, CD-ROM, Croatian Bureau of Statistics, Zagreb; Census of population, households and Dwellings 2011, Census of population, households, and Dwellings 2021

The area of Sisak-Moslavina County was greatly influenced by the War in Croatia in 1990s and as unfavourable processes in the natural movement of the population were more pronounced in war-affected areas (Akrap, Gelo and Grizelj, 1999). The consequences were great demographic losses,

coupled with social, economic, and political consequences. Certainly, the greatest loss and negative consequences of war operations were the direct loss of human life and the form of migrations of the population, and later insufficient investments in socio-economic development contributed to the continuation of significant depopulation trend.

After the war, depopulation has been present in Croatia for 25 years and is conditioned by basic demographic processes: natural degradation and emigration. The comparison of the two last censuses in 2001 and 2011, regardless of the change in the definition of the permanent population, and the total natural movement of the population in that period, revealed a negative migration balance, as well as the extinction of the population.

From the last population census results, the negative trend of depopulation which directly affects the local economy continues, affecting the most the underdeveloped counties. The largest decrease in the number of inhabitants was recorded in Vukovar-Srijem County, where it was reduced by 19.54 per cent, i.e. by 35.083 inhabitants. This is followed by Sisak-Moslavina County with a decrease of 18.49% and 31.890 inhabitants respectively, and Brod-Posavina County with a decrease of 17.53%, i.e. 27,793 inhabitants. The number of households also fell in all counties, the largest being recorded in Sisak-Moslavina County (14.70%), Vukovar-Srijem County (11.83%), and Lika-Senj County (11.23%). While the number of dwellings increased in almost all counties, the greatest growth of dwellings was recorded in Dubrovnik-Neretva County (12.54 per cent) and Sibenik-Knin County (11.75 per cent). The decrease was recorded in four counties, the largest one in Sisak-Moslavina County (6.88 per cent) (CBS, 2022).

Moreover, according to Croatian Bureau of Statistics data (Table 4) as much as 24.5% of the population of Sisak-Moslavina County consists of persons over 65 years of age, while the number of children up to 14 years of age is 13%. Demographic decline and continuous outflow of the working-age population also mean sub-capacity of the nursing society, as well as continuous growth of necessary pension, social and health allocations for that part of the population.

Table 4: Sisak-Moslavina County population age structure

| Age group | 0-14  | 15-64 | 65 +  |
|-----------|-------|-------|-------|
| Women     | 8989  | 42769 | 20180 |
| Men       | 9334  | 45010 | 14267 |
| Total     | 18323 | 87779 | 34447 |

Source: Prepared by the author based on Croatian Bureau of Statistics data, 2021

Since the census took place one year after the earthquake in Petrinja, we can assume that some results were caused by earthquake consequences, but besides the earthquake, the marginal position of the region, poor transport infrastructure, economic underdevelopment, the marginal position of regional centres of Petrinja and Sisak are the reasons of population emigration. (Karadža, 2019).

The economy of the Banija Region and the Sisak-Moslavina County was based almost exclusively on agriculture and small businesses until the second half of the 20th century. There was a development of the primary industry and energy during socialism. This political-economic direction was characteristic of overcapacity, obsolete technology, adjustment exclusively to the domestic market, lack of innovation, flexibility, overstaffing, etc. These are all the essential elements that decorated the economy of Banija in the mid-20th century and until the 1990s (Čavrak, 2004). This is followed by the economic transition, i.e. the transition from a centrally planned to a market economy, which brought significant problems to companies, the disappearance of state subsidies, and the opening of borders that enabled access to the global market, which resulted in production decline and non-profitability of most companies. The transition was also created before the war events, and this only further affected the Banija Region, which experienced; the infrastructure and production facilities were destroyed mainly, and thus a large number of companies were destroyed, and the territory after the war was included under the areas of Special State Concern<sup>1</sup>. The problem in these areas was a local quality human capital deficit and a lack of entrepreneurial climate (Čavrak, 2004).

Economic recovery requires stabilization and reconstruction of fundamental economic, residential, and communal infrastructure. Although the war damages were partially removed (primarily on residential buildings), the economic facilities mainly were not reconstructed, and no new ones were built (Čavrak, 2004), and up to date, the Region never recovered.

In accordance with the Act on Regional Development of the Republic of Croatia (OG 147/14 and OG. 123/17, OG.118/18) the Ministry of Regional Development and EU Funds (hereinafter: MoRDEUF) every three years carries evaluation and classification of all local and regional self-government units in the Republic of Croatia according to the development index. From the last

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<sup>1</sup> In 1996, with the adoption of the Act on areas of Special State concern (OG 44/96), the Republic of Croatia decided to achieve as equal a development as possible of all its areas, stimulate demographic and economic progress, complete reconstruction programs, return of pre-war population and its permanent housing

Regional development index<sup>2</sup> (Development index, 2018) results, the Sisak-Moslavina County according to its value of the Index is located in the second half of the below-average of ranked units of regional self-government, as twentieth of 20 counties and the City of Zagreb. The units under the first and second half of the below average are belonging to the supported areas according to the Act on supported areas (OG, 118/18).

### 3.3. Earthquake

As mentioned in the introduction, on 29 December 2020, the Sisak-Moslavina County in Croatia was struck by a 6.4 magnitude earthquake with the epicentre 6 km outside Petrinja. The earthquake was preceded by a 5.0 magnitude earthquake on 28 December 2020, and numerous aftershocks were recorded, including a 5.0 magnitude earthquake on 6 January 2021. According to World Bank data, the overall impact was significant, totalling over 4.8 billion EUR. Seven people died, 15 were hospitalized, and dozens more suffered minor injuries. 15 000 people were temporarily displaced, and overall, of 1.5 million people were directly exposed by the earthquake. By the end of February 2021, approximately 43,000 buildings were reported as damaged (RDNA, 2020).

On 4 January 2021, the Croatian Government declared a disaster for the earthquake-affected area and provided emergency assistance in the form of EUR 15.8 million to be allocated toward efforts to mitigate the damages suffered by the affected counties. Sisak-Moslavina County, having been the most severely hard-hit county, received a large proportion (13.2 million EUR). The Government also established the Civil Protection Committee to oversee the efforts to assuage the short-term damages and curb the long-term consequences, including civil protection structures, the army, firefighter's mountain rescue services, and police. Following search and rescue operations, the Croatian Firefighting Association, the Croatian Mountain Rescue Service (CMRS), the Croatian Police, and the Croatian Army began removing construction materials; securing unstable locations; putting up container houses, mobile homes, tent settlements; providing care and supplies such as food, potable water, and other items to the population. Supported by the Civil Protection Committee, humanitarian aid was provided to the affected population along with donations; volunteer activities were organized to ensure the delivery of food, clothes, personal hygiene, sanitary, and other supplies as well as to aid in debris removal efforts. Volunteers and NGOs played

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<sup>2</sup> The following indicators are used for the calculation of the development index: 1. average income per capita; 2. average source income per capita; 3. average unemployment rate; 4. general movement of population; 5. level of education of the population (tertiary education); 6. ageing index

a significant role in the recovery from earthquakes by uniting their efforts to aid the affected population.

Unfortunately, the existing socio-economic problems are significantly exacerbated by the devastation and destruction of many residential and business facilities and the intensification of the population's emigration, further degrading the County's already depleted economic and demographic resources, which is also a catalyst for accelerating negative tendencies.

## **4. Reconstruction**

### **4.1. Legislation and institutional framework**

The first Act on the Reconstruction of earthquake-damaged buildings in the City of Zagreb, Krapina-Zagorje County, and Zagreb County (OG, 102/20) was adopted on 16 September 2020 almost six months after the earthquake in the City of Zagreb, Krapina- Zagorje County, and Zagreb County, on 22 March 2020. Two months after the earthquake in Petrinja on 06 February 2021, amendments to the Act were adopted, and the Act on the Reconstruction of earthquake-damaged buildings on the territory of the City of Zagreb, Krapina-Zagorje County, Zagreb County, Sisak-Moslavina County, and Karlovac County (hereinafter: The Act) (OG, 10/21) was in force from 06 February 2021 until 30 October 2021, when the current version of The Act (OG,117/21) entered into force, in order to simplify reconstruction procedures in earthquake-stricken areas, as one of the factors that directly influenced the course of the Reconstruction. Accordingly, each Act amendment was followed by even four changes to the Program of measures for the reconstruction of earthquake-damaged buildings in the City of Zagreb, Krapina-Zagorje County, Zagreb County, Sisak-Moslavina County, and Karlovac County.

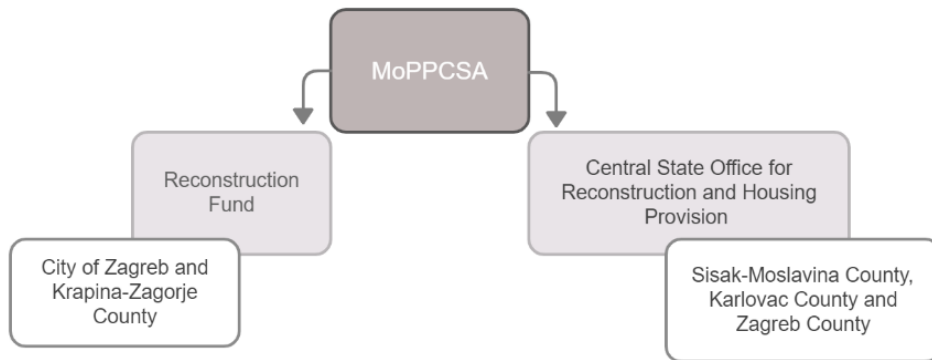
Most important Act amendments adopted in order to simplify the reconstruction procedures were:

- in applications for reconstruction, it is no longer necessary to establish complex property rights relations.
- the ban on the disposal of renovated property, as well as the obligation to register a lien on the same, is abolished.

- the public procurement procedure was accelerated by the adoption of the Ordinance on the implementation of the procedure for the procurement of goods, services and works for the reconstruction of the procedure.
- right to pre-finance structural renovation costs of buildings was introduced.
- simplified process of removal of destroyed family houses and other destroyed buildings.

Following the Act, and the Programme of measures for the reconstruction of earthquake-damaged buildings, the removal of damaged buildings, or their reconstruction and the construction of replacement family houses respectively, as well as housing provision to earthquake-stricken persons, are carried out based on decisions, orders and conclusions issued by the Ministry of Physical Planning, Construction and State Assets (hereinafter: MoPPCSA) which are forwarded to implementing bodies: Reconstruction fund responsible for the territory of the City of Zagreb and Krapina-Zagorje County and to the Central State Office for Reconstruction and Housing Provision responsible for the territory of Sisak-Moslavina County, Karlovac County and Zagreb County for on-site implementation. Both implementing bodies are directly responsible for applications for the non-structural reconstruction and its implementation.

Figure 3: Reconstruction Institutional Framework



*Source: Prepared by the author according to the Act on the Reconstruction of earthquake-damaged buildings on the territory of the City of Zagreb, Krapina-Zagorje County, Zagreb County, Sisak-Moslavina County, and Karlovac County (OG, 117/2021).*

The Reconstruction is financed from two different sources. Private houses and buildings are financed from the State and Counties budgets, while European funds and other sources are used to reconstruct infrastructure and public buildings. More precisely, from the European Union Solidarity Fund and National Recovery and Resilience plan which is financed directly from the Recovery and Resilience Facility through its initiative: Building Reconstruction. Both funds will be further analysed in the sixth part of the paper. Croatian Government additionally signed a loan

with the World Bank worth 183.9 million EUR out of which 165.5 million EUR will be allocated for reconstruction and 13.8 million EUR for the preparedness of the public health system (MoPPCSA, Financial resources, 2022).

## 4.2. Results

Even though the legislation and institutional framework are in place and the funding for Reconstruction has been secured, over two years after the first earthquake and a year and a half after the second earthquake, the results are not visible, and the Government is under constant public pressure because of the slow and inefficient reconstruction.

Official Reconstruction results are regularly updated on each earthquake internet page under the MoPPCSA official website, and both of implementing bodies' sites: Reconstruction fund responsible for the territory of the City of Zagreb and Krapina-Zagorje County and to the Central State Office for Reconstruction and Housing Provision responsible for the territory of Sisak-Moslavina County, Karlovac and Zagreb County. For this paper, we will use the official report on the status of processing applications for reconstruction, financial assistance and accommodation published on the Ministry site as of 01 April 2022 (MoPPCSA, April Report, 2022).

According to the report, the MoPPCSA has received 18,147 requests for the reconstruction or removal of buildings, the construction of replacement houses, and the allocation of financial aid or exemption from the owner's financial obligation. 4,571 or 25% decisions, solutions and conclusions (Acts) have been issued and forwarded to the Fund for Reconstruction (for the area of the City of Zagreb and Krapina-Zagorje County) or the Central State Office for Reconstruction and housing provisions (for the area of Sisak-Moslavina, Karlovac and Zagreb County) for implementation on the ground. For Sisak-Moslavina County, 1,431 acts have been issued out of 10,399 claims submitted or 14% (Table 5).

Table 5: Report on the status of processing applications for reconstruction, financial assistance, and accommodation

| 15.04.2022.  | Total  |      |     | City of Zagreb |      | Krapina - Zagorje County |      | Sisak Moslavina County |      | Karlovac County |     | Zagreb County |     |
|--|--------|------|-----|----------------|------|--------------------------|------|------------------------|------|-----------------|-----|---------------|-----|
| Claim  | Claims | Acts | %   | Claim          | Acts | Claim                    | Acts | Claim                  | Acts | Claim           | Act | Claim         | Act |
| Payment release                                      | 576    | 310  | 54% | 463            | 258  | 46                       | 42   | 41                     | 3    | 0               | 0   | 26            | 7   |
| Non-structural reconstruction (financial assistance) | 6802   | 2550 | 37% | 3725           | 2218 | 39                       | 3    | 2805                   | 410  | 68              | 6   | 165           | 3   |

|   |              |             |            |      |      |     |     |              |             |     |    |     |    |
|---|--------------|-------------|------------|------|------|-----|-----|--------------|-------------|-----|----|-----|----|
| Structural reconstruction (organised)                           | 6894         | 570         | 8%         | 1229 | 199  | 104 | 35  | 5100         | 307         | 169 | 1  | 292 | 28 |
| Removal   | 1543         | 259         | 17%        | 264  | 60   | 22  | 15  | 1184         | 177         | 9   | 0  | 64  | 7  |
| Construction of replacement family houses (organised)           | 1061         | 84          | 8%         | 125  | 17   | 10  | 1   | 868          | 62          | 6   | 0  | 52  | 4  |
| Removal and construction  | 123          | 123         | 100%       | 15   | 15   | 10  | 10  | 95           | 95          |     | 0  | 3   | 3  |
| Structural reconstruction (financial assistance)                | 599          | 657         | 100%       | 410  | 240  | 12  | 23  | 149          | 373         | 1   | 4  | 27  | 17 |
| Financial assistance Instead of building a replacement house    | 153          | 10          | 7%         | 59   | 5    | 10  | 1   | 69           | 3           | 0   | 0  | 15  | 1  |
| Financial assistance for the costs of drafting the main project | 340          | 8           | 2%         | 284  | 7    | 3   | 0   | 42           | 1           | 0   | 0  | 11  | 0  |
| Housing care  | 56           | 0           | 0%         | 10   | 0    | 0   | 0   | 46           | 0           | 0   | 0  | 0   | 0  |
| <b>Total</b>  | <b>18147</b> | <b>4571</b> | <b>25%</b> | 6584 | 3019 | 256 | 130 | <b>10399</b> | <b>1431</b> | 253 | 11 | 655 | 70 |

*Source: Prepared by the author based on the Report on the status of processing applications for reconstruction, financial assistance, and accommodation, April 2022.*

To avoid misinterpretation, we are also presenting the figures confirmed by Minister at the Parliament Committee on physical planning and Construction meeting on 25 May 2022.

The competent bodies have received 28,000 claims, out of which MoPPCSA received over 18,000 thousand directly, which confirms application status mentioned above. For non-structural reconstruction the Central State Office for Reconstruction and housing received 8,342 claims and Reconstruction Fund received 1,474 claims (Croatian Parliament, 2022).

From the Report on the preparation and implementation of reconstruction programmes in areas where a disaster has been declared for (Sisak-Moslavina, Karlovac and Zagreb County), published by the Central State Office for Reconstruction and housing provision from April 2022 (CSORHP, 2022), 2,501 houses were constructed out of 8,342 claims under the non-structural reconstruction or 7,137 approved claims and 854 houses were constructed by owners.

What is important to highlight from the same Report is that the difficulties in the dynamic realization of the program are reflected in the lack of construction companies interested in this type of work (although national and regional associations of construction companies and tradesmen



have been animated for turnout), too few construction workers on the market, as well as a sudden rise in prices and even a lack on the construction material market.

Regarding structured reconstruction for the disaster declared area the Ministry has made only 59 decisions out of 9.568 on the structural reconstruction and construction of replacement buildings and 589 objects have been removed (MoPPCSA. Reconstruction Report 2022).

Due to the poor reconstruction results, in April 2022, the MoPPCSA proposed a new plan of reconstruction acceleration (MoPPCSA, Acceleration, 2022) through 5 key points:

1. Organisation adjustments: centralisation of control and monitoring process, clear roles and responsibilities, human capacity, organisational restructuring, and regular database updates.
2. Efficient procurement process.
3. Adoption of certain regulatory amendments necessary to facilitate the implementation of Reconstruction.
4. More transparent and efficient communication towards end users – citizens, contractors of individual works, and all other actors involved in the Reconstruction process.
5. By the end of summer 2022, organise the beginning of works on all types of Reconstruction in all earthquake-stricken areas, as well as the launch of works on hundreds of construction sites and the construction of a replacement.

Reconstruction period, which was systematically pointed out not only through the media but also by the Ombudsman office in its annual reports and special Reconstruction reports due to the extent of damage to houses, buildings and infrastructure, but primarily due to a substantial impact on physical and mental health, housing, access to services and other basic needs of the affected population. The critical points are Reconstruction transparency, availability of timely and relevant information, complicated procedures, unclear deadlines, and scope of reconstruction, and one of the key obstacles are unresolved property rights relations. Problems also relate to safety in damaged buildings, distribution of mobile homes and the issue of sanitary facilities, availability of water and electricity, especially in remote villages of Sisak-Moslavina County, procedures related to temporary accommodation and use of city and state apartments, availability of free legal aid and psychosocial support, and capacity of city and state services managers to follow the process (Ombudsman,2021).

### 4.3. Initiatives, foundations and non-profit organisations activities and role

As previously mentioned, the volunteers, non-government organizations, foundations, and initiatives have a significant role in the reconstruction and revitalization of the Banija Region. Support included humanitarian financial assistance, assistance in crisis housing care, repair and reconstruction of houses and economic facilities and development of local communities throughout the earthquake and poverty-stricken region through social and economic projects.

On 08 January 2021, under the Croatian Red Cross initiative and including 23 organizations established Coordination of Humanitarians of Sisak-Moslavina County intending to achieve cooperation between associations, civil society and international organizations in the humanitarian response to the needs of the population hit by the earthquake across Sisak-Moslavina County.

The Coordination of Humanitarians of Sisak-Moslavina County, in December 2021, published Humanitarian needs assessment of Sisak-Moslavina County (Humanitarian needs assessment, 2021), including the earthquake consequences and the estimates of humanitarian needs and potential risks. The assessment was prepared in cooperation with Government institutions and National and regional civil protection committees.

The report states that approximately 50,000 people were directly affected by the earthquake in Sisak-Moslavina County. Due to demolition and inadequate housing, part of the population is placed in temporary accommodations. Some affected people were housed in evacuation centres and temporary shelters (695 users in 16 organized container settlements and group accommodations), some moved to other parts of Croatia, and some decided to stay near their homes and were later housed in mobile homes or housing containers. It is estimated that in the first two months after the earthquake, 2,861 people left Sisak-Moslavina County. The towns of Petrinja, Sisak, Glina and villages located in the immediate vicinity suffered great material damage. Material damage is great at public institutions (hospitals, schools, museums), and more than 38,000 residential buildings have been damaged. By conducting an analysis of users of container settlements/group accommodations and vulnerable groups, it was established that not all basic needs of the population affected by the earthquake, such as housing care, drinking and technological water, drainage, food, health and social services, education and right to work had been fully met.

Potential risks and impacts on the needs facing the earthquake-stricken population in the following period include: the impact on climate (severe winters and hot summers); threats to natural disasters (floods, consequences of earthquakes: landslides, ); the uncertainty of water quality; poor local economic conditions; unfavourable regional political and economic development; decrease in purchasing power of the population; an increase of members of vulnerable groups; development of pandemic COVID-19; increasing number of persons with threatened physical and mental health.

Some of the organizations directly supported the citizens affected by the earthquake by providing free legal aid, assisting in preparation for the Reconstruction applications, and advocating directly with the Government to speed up the process of reconstruction of private houses by simplifying the Reconstruction requirements, mostly house legalizations issues and problems of legal regulation of land and property relations.

It is important to highlight that those organizations and foundations working for national and international donations managed to provide new houses before the Government, but also that process was hindered due to unfavourable Reconstruction rules.

The Coordination of Humanitarians had established cooperation with the National Civil Protection Committee after the earthquake, and its representative attended their meetings regularly. This is an example of good practice as through their work and projects, initiatives, foundations, and non-profit organisations are raising awareness and informing citizens and all relevant stakeholders about the most significant problems of Sisak-Moslavina County after the earthquake and the Region Revitalization. They are also advocating and raising awareness of all stakeholders about the importance of joint work on finding solutions to these problems and encouraging the development of cross-sectoral cooperation between different stakeholders (citizens, civil society, institutions, local/regional/national authorities).

## **5. Programme of social and economic revitalization of the assisted areas of Sisak-Moslavina County**

Only a few weeks after the 2nd earthquake the Government of the Republic of Croatia, on 14 January 2021, adopted the Decision to start drafting the Programme for the social and economic revitalization of supported areas of Sisak-Moslavina County affected by the earthquake (OG, 4/2021). The Programme proposal was published on the e-consulting website on 03 August 2021

and was open until 02 September 2021. Even though there is no official information about working groups involved in the Programme preparation, through media, it was revealed that the proposed version is not the one prepared by the first working group assigned as another group of experts prepared the published version. (Klancir, 2021). Finally, the published version was adopted by the Government on 31 December 2021 (OG, 147/21) under the name *Programme of social and economic revitalization of the assisted areas of Sisak-Moslavina County affected by the earthquake*. In the meanwhile, President office also published the document called *Long-term Banija Development Vision* (President, 2021)

The programme has two strategic objectives: Encouraging the development of the main factors of competitiveness, which include increasing productivity and employment and demographic revitalisation and eliminating and mitigating the consequences caused by earthquakes, making the Reconstruction as one of the two strategic objectives of the programme of social and economic revitalization.

The programme is worth 15.3 billion HRK for the period until 2029 and it will be mainly financed from the EU funds. The programme's short-term plan — by 31 December 2023 will be financed from the state budget and available EU funds: The Multi-Annual Financial Framework 2014-2020 and the Solidarity Fund worth 4.7 billion HRK. Out of this, 3.1 billion HRK to be used for reconstruction and removal of damage caused by the earthquake financed from EUSF, and additional 994.72 million HRK will be invested as part of already finalised and ongoing projects under the 2014-2020 Competitiveness and Cohesion Operational Programme.

The medium-term plan will be financed mostly from the National Recovery and Resistance Plan funds amounting to 5.057 billion HRK by 31 December 2026, while the long-term plan will be up to 31 December 2029 and shall be financed mainly from the Multi-Annual Financial Framework 2021-2027 and the Just Transition Fund.

What is relevant for this research is that from the Operational Programme Competitiveness and Cohesion 2014-2020 the Central State Office for Reconstruction and housing provision, the main implementation body responsible for 2<sup>nd</sup> earthquake reconstruction is the only applicant under the calls financed from European regional development fund. The Calls are a) Reconstruction of family houses owned by the Republic of Croatia in earthquake-stricken areas and b) Removal and construction of replacement housing units owned by the Republic of Croatia in earthquake-affected areas.

Some of the objection to the Program is that in almost 1 billion HRK out of 15.3 billion HRK invested, are already EU funded completed projects. Therefore, some of the proposed infrastructural projects do not correspond with efficiency and actual County needs, which corresponds with the fact that Sisak-Moslavina County Development Strategy was valid until 2021, and the new development strategy under is currently under development, as the County Assembly of Sisak-Moslavina County adopted the Decision on the start of the procedure for drafting the Development Strategy for Sisak-Moslavina County for the period 2021-2027 on 21 October 2021 (Official Gazette SMC, 2021).

Moreover, the Programme doesn't contain elaborated main elements of strategic planning, primarily in defining main indicators, the Programme's results, and a systematized overview of the correlation of measures – initial and target values of results, deadlines and holders of implementation of a particular measure. But, as stated in the Programme, the Ministry of regional development and EU Funds is obliged to adopt the Annual Programme Implementation Plan on the proposal of other state administration bodies, which will contain a plan for the implementation of individual stimulating measures, activities, necessary funds, sources and manner of utilization of funds and methodology for monitoring and reporting the realization of the Programme. By August 2022, the Annual Programme Implementation Plan is not officially published.

## **6. Analysis of EU funds and programmes available to the Republic of Croatia**

### **6.1. European Union Solidarity Fund**

The European Union Solidarity Fund (EUSF) was set up to respond to major natural disasters and express European solidarity to disaster-stricken regions within Europe. The Fund was created as a reaction to the severe floods in Central Europe in the summer of 2002. Since then, it has been used for 100 disasters covering a range of different catastrophic events including floods, forest fires, earthquakes, storms, and drought. 28 different European countries have been supported so far for an amount of over 7 billion EUR. (EC, EUSF, 2022).

Based on the Government conclusion from 10 June 2020, the Government of the Republic of Croatia sent to the European Commission a request for Funds from the EUSF for the settlement of damage caused by a devastating earthquake together with a request for pre-financing payment.

Following the Rapid damage and Needs Assessment from 2021, financed by World Bank, the estimated damage was 11.5 billion EUR (RDNA, 2021).

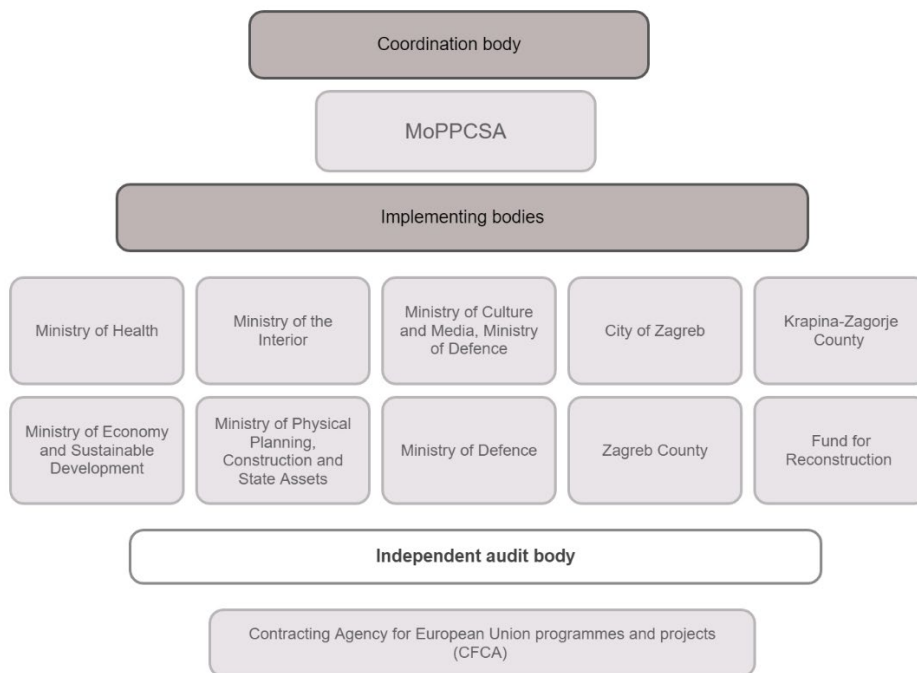
The European Parliament and the Council approved the Commission's proposal for assistance from EUSF and the Republic of Croatia was granted 683.7 million EUR to help alleviate the devastating consequences of earthquakes in and around Zagreb. The first payment amounting to 88.9 million EUR was made in August 2020 in the form of an advance, while the rest was paid out in December 2020.

### 6.1.1. Legislation and institutional framework for the 1<sup>st</sup> earthquake

On 12 November 2020, the Government adopted a Decision establishing the manner of allocating 683.7 million EURs in grants from the EUSF which created a legal framework for coordination, implementation, and use of funds monitoring system. (OG 125/2020).

The national coordinating body for implementation is the MoPPCSA and implementing bodies shall announce public calls for different categories of costs, under which beneficiaries submit their applications.

Figure 4: European Union Solidarity Fund 1<sup>st</sup> earthquake Institutional Framework



Source: Prepared by the author based on the Government Decision (OG, 125/2020)

### 6.1.2. Absorption of allocated funds to the Republic of Croatia for 1<sup>st</sup> earthquake

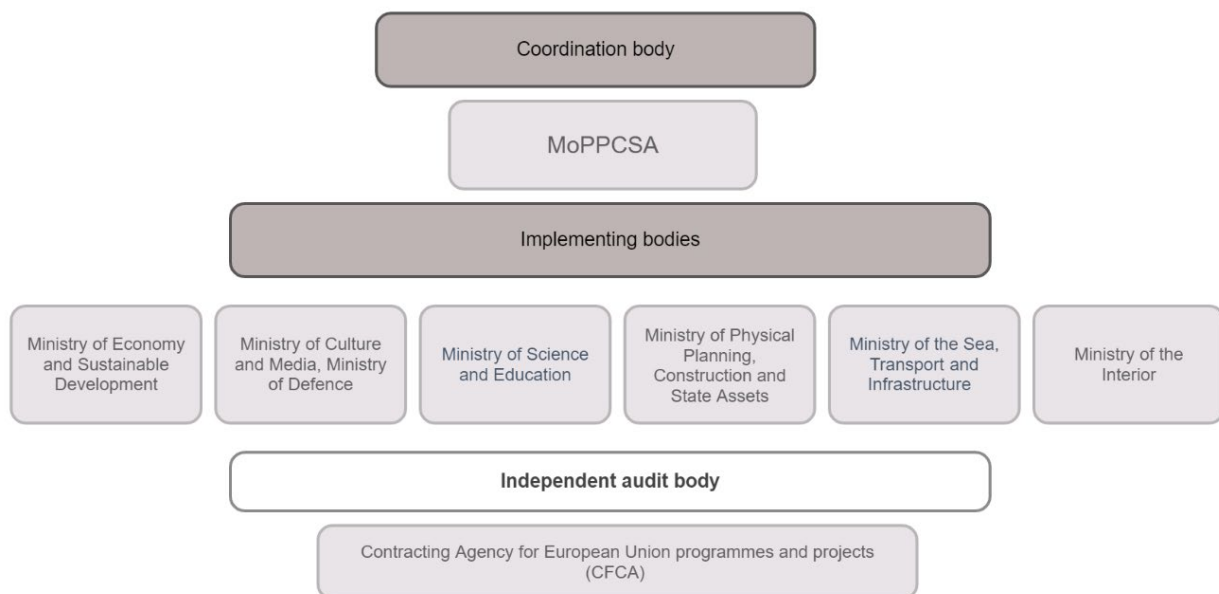
First calls for proposals, fifteen of them, were published in the first half of 2021 and were open until end of 2021 ([www.strukturnifondovi.hr](http://www.strukturnifondovi.hr), 2022). According to MoPPCSA, as of 30 April 2022, based on these calls, 432 contracts were concluded with the total value of HRK 9.21 billion, which includes financing from the EUSF and other sources. Out of the contracted project proposals (of which the EUSF finances a share of HRK 5.1 billion), an almost HRK 900 million requests for payment were made, which is slightly less than 20% of the total amount financed by EUSF, and a little over HRK 400 million was paid out (which is slightly less than 10% of the total amount financed by EUSF) (MoPPCSA, EUSF 1<sup>st</sup> Earthquake, 2022).

For damage caused by earthquakes in the territory of Banija Region/ Sisak-Moslavina County, from 28 and 29 December 2020 and in accordance with the Government of the Republic of Croatia Conclusion from 18 March 2021, the Republic of Croatia sent to the European Commission a request for EUSF for the restoration of damages caused by the earthquake series in Banija Region/Sisak-Moslavina County. An advance of EUR 41 million EUR was paid to the Republic of Croatia on 02 August 2021, while the remainder of 277.8 million EUR was paid on 30 December 2021.

### 6.1.3. Legislation and institutional framework for the 2<sup>nd</sup> earthquake

The Government Decision from 24 November 2021 (OG,127/21; OG,143/21) defines the implementation system. MoPPCSA is the National coordinating body, while the competent ministries are designated for the implementation of the financial contribution under the jurisdiction.

Figure 5: European Union Solidarity Fund 2<sup>nd</sup> earthquake Institutional Framework



Source: Prepared by the author based on the Government Decision (OG.127/21,143/21)

On January 5, 2022, the relevant ministries announced 12 calls for the reconstruction of buildings in the fields of education, cultural heritage, energy sector, transport infrastructure, telecommunications and health, and for the purpose of ensuring temporary accommodation, financing rescue services and cleaning disaster-stricken areas and restoring affected natural areas in order to avoid direct effects of soil erosion.

#### 6.1.4. Absorption of allocated funds to the Republic of Croatia for the second earthquake

According to MoPPCSA, a total of 844 project proposals were received with the value of HRK 6.7 billion (data from May 2022), including financing from the EUSF and other sources, from which 37 contracts were concluded worth over HRK 382 million (of which the EUSF finances a share of HRK 2.4 billion) which is slightly over 15% of the total amount financed by EUSF. There is no information of how many requests for payment were made and how much was paid out (MoPPCSA, EUSF 2<sup>nd</sup> Earthquake, 2022).

Having in mind that the calls for proposals were published for each earthquake-affected beneficiary a year after the earthquakes; by examining each call published on the official Government site “[www.strukturnifonodovi.hr](http://www.strukturnifonodovi.hr)” and on the implementing bodies web pages, standard conditions and responsibilities of the beneficiary for each call for proposals changed for



a number of times resulting in extension of the preparation of the project proposal which led to extension of the proposal evaluation, authorisations and the conclusion of contracts.

Finally, the EUSF grant should be used within 18 months of the date on which it was allocated, and the beneficiary state must pay back any part of the grant that remains unused. Deadline to use the first grant approved from EUSF is 30 June 2022, and from the data mentioned above, only 10 % of that amount was paid out by May 2022.

However, the European Commission has decided to exceptionally grant Croatia the possibility to extend until 30 June 2023 the deadline for the use of the financial contribution from the EUSF both grants allocated. The Republic of Croatia have only a year to publish and contract the rest of both approved grants which is 90% of first grant or HRK 3.1 billion for the first grant and to pay out 100% from the second grant, based on official data from May 2022, as outlined above.

## 6.2. European Structural and Investment Funds (ESI) for the financial period 2014 - 2020

Croatia's accession to the European Union in July 2013 brought many benefits, including the possibility of using co-financing through ESI funds. By then Croatia had already had experience with co-financing through Instrument for Pre-Accession Assistance, a programme that replaced the first generations (CARDS, PHARE, ISPA and SAPARD) but full EU membership has brought new demands.

Having in mind that Croatia entered the European Union at the end of Financial perspective for 2007-2013, the absorption rate (ratio of allocated and spent funds) Croatia reached was 81%, which was the lowest rate among EU member States (whose average is 94.45%). Three quarters of local self-government units have not used ESI funds at all, and the main reason was the lack of administrative capacities for preparation and projects implementation (Maleković, Puljiz, Keser, 2018).

For the purpose of this paper, we will concentrate more on ESI funds under the 2014-2020 financial perspective as it started six months after Croatia became a fulltime member of the European Union.

The institutional framework for the implementation of the ESI Funds is defined in the Regulation on Common provisions (EU) No 1303/2013 (EU-Lex, 1303/2013, 2022) defining general principles and preconditions at the European Level, and the key strategic framework of the

European Union for the period 2014-2020 consists of the Cohesion Policy, the Europe 2020 Strategy, and individual sectoral public policies.

In the 2014-2020 financial period, and as of 2021, the Republic of Croatia has at its disposal in total of 12,091,901,856 EUR from the European Structural and Investment funds. Out of that amount, 9,013,790,309 EUR is envisaged for the cohesion policy objectives, 2,825,458,409 EUR is envisaged for agriculture and rural development, while 252,643,138 EUR is envisaged for development of fisheries (Cohesion data, 2022).

Cohesion policy of the European Union is the main investment policy of the EU to reduce economic, social, and territorial differences and the second richest common policy of the EU. (Mendez, Bachtlerand and McMaster, 2019).

Table 6. ESI Funds allocations for the Republic of Croatia 2014-2020

| ESI Fund            | Allocation in EUR |
|---------------------|-------------------|
| ERDF                | 4,731,988,251     |
| CF                  | 2,130,755,644     |
| ESF (including YEI) | 2,151,046,414     |
| EAFRD               | 2,825,458,409     |
| EMFF                | 252,463,138       |
| Total               | 12,091,711,856    |

Source: Prepared by the author based on EC Cohesion Data 2022

The EU Cohesion Policy is financed from 3 main Funds:

1. **Cohesion Fund (CF)** – support transport and environment projects in countries where the gross national income (GNI) per inhabitant is less than 90% of the EU average. In 2014-20, these are Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.
2. **European Regional Development fund (ERDF)** – aims to strengthen economic and social cohesion in the European Union and to reduce developmental differences between its regions.
3. **European Social Fund (ESF)** – supports employment-related projects throughout Europe and invests in Europe’s human capital – its workers, its young people and all those seeking a job.

The European Regional Development Fund and the European Social Fund are also known as structural funds.

In addition, in the financial perspective 2014-2020, the following are also available:

4. **European Agricultural Fund for Rural Development (EAFRD)** – focuses on resolving the challenges facing EU's rural areas.
5. **European Maritime and Fisheries Fund (EMFF)** – helps fishermen to adopt sustainable fishing practices and coastal communities to diversify their economies, improving the quality of life along European coasts.

All five funds have the common title European Structural and Investment Funds (ESI Funds). (Mendez, Bachtlerand and McMaster, 2019).

#### 6.2.1. Legislation and institutional framework

The Partnership Agreement, the Operational programs, the Common National rules, and the Act on establishing an institutional framework for the use of ESI Funds in the Republic of Croatia for the period 2014-2020 and the regulations regulating the competence of individual bodies for each ESI instrument at the level of the Republic of Croatia are defining the strategic framework that ESI funds use. The Partnership Agreement establishes a national strategy for using the European Structural and Investment Funds and describes how the Republic of Croatia will approach the fulfilment of the common objectives of the Europe 2020 Strategy with the assistance of the EU budget funds. European Commission adopted 'Partnership Agreement' between the European Commission and Croatia on funding through the European structural and investment funds on 30 October 2014 (EC, PA, 2014).

The areas financed from Structural and Investment Funds are defined by operational programs documents detailing and elaborating measures and activities for effective implementation and use of ESI Funds and achieving the priorities set out in the Partnership Agreement. The Republic of Croatia has adopted four such programs, and activities within each operational program are financed by the corresponding ESI Fund (Cohesion Fund, European Regional Development Fund, European Social Fund, European Agricultural Fund for Rural Development, European Maritime and Fisheries Fund).

Croatian operational programs for financing period 2014-2020.

- Operational Programme Efficient Human Resources.

- Operational programme Competitiveness and Cohesion.
- Operational programme for Maritime Affairs and Fisheries.
- Rural development programme.

Common National rules cover business processes with accompanying prescribed forms related to eligibility of expenditure, risk management and improvement of the system, conditions for preparation and implementation of projects, forecasting and monitoring, audit trail, selection and contracting, verifications, payments, certification, recoveries, audits, irregularities, information and visibility, strategic planning, programming, evaluation, and closure.

Following the Act on the establishment of an institutional framework for the use of ESI Funds in the Republic of Croatia for the period 2014-2020. (OG, 107/2014), The MoRDEUF of the Republic of Croatia is the main coordination authority for financial period 2014-2020.

Table 7. ESI Funds 2014-2020 Institutional Framework

|                        |                                 |
|------------------------|---------------------------------|
| Horizontal Authority   | Operational programme structure |
| Coordinating authority | Managing Authority              |
| Certifying authority   | Intermediate body 1             |
| Auditing authority     | Intermediate body 2             |

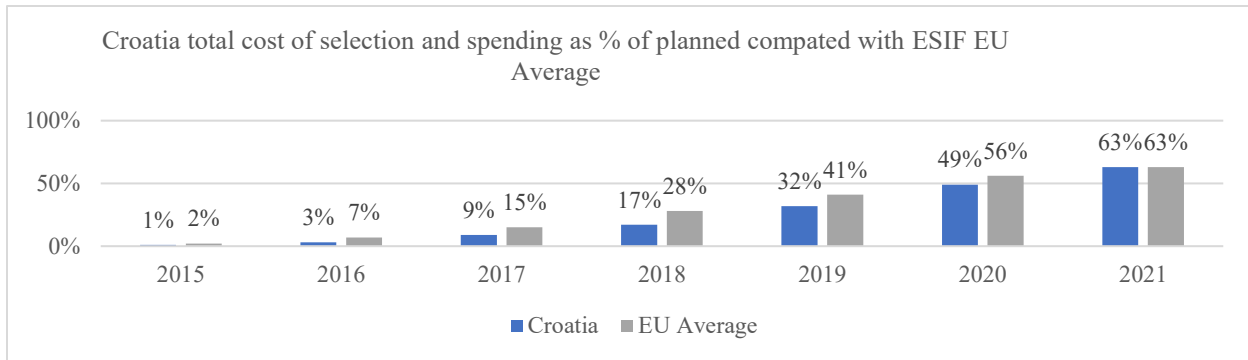
Source: Prepared by the author OG, 107/2014

The MoRDEUF is also the Managing authority for the Operational programme Competitiveness and Cohesion while the Ministry of Labour, Pension System, Family and Social Policy Managing is the Managing authority for the Operational Programme Efficient Human Resources, Ministry of Agriculture is the Managing Authority for the Rural development programme and Operational programme for Maritime Affairs and Fisheries.

#### 6.2.2. Absorption of allocated funds to the Republic of Croatia

The analysis of the implementation progress of the European Structural and Investment Funds for the 2014-2020 programming period is based on the European Commission data, which are available on an annual basis (end of the calendar year and the last available quarter).

Figure 6. Progress in the implementation of the European Structural and Investment Funds, paid out cumulatively, % compared to the planned (for the EU 2014-2020 programming period).

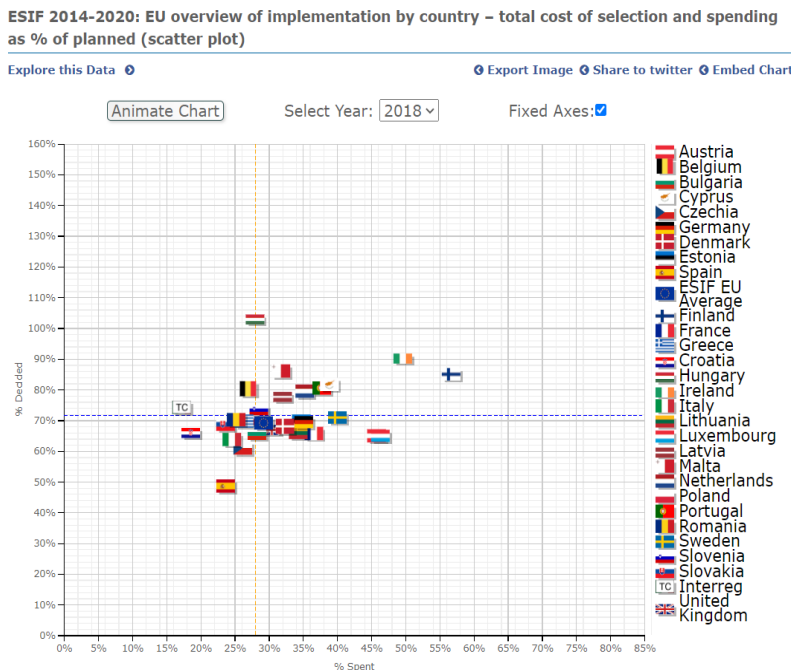


Source: Prepared by the author based on the Cohesion data. (Cohesion Data, 2022)

The establishment or adjustment of a national management system for EU funds to the needs of the budgetary perspective (2014-2020) also contributes to the low funding in the first two years of the financial perspective (Savić, 2020) and according to it and having in mind that new financial perspective did not start yet, low funding can be expected in first four years as new financial perspective started on 01 January 2021.

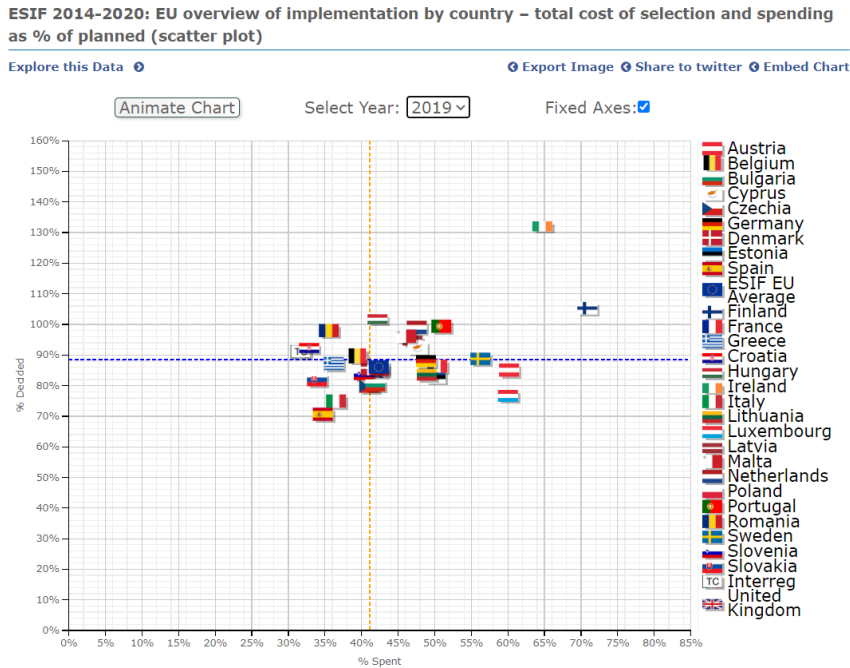
Comparing with ESIF EU Average, Croatia ranked below average until 2021. In terms of expenditure Croatia ranked 26<sup>th</sup> out of 28 countries in 2015, in 2017 Croatian ranked 27<sup>th</sup> out of 28 countries, while in 2018 and 2019 Croatia ranked last (Figure 5&6).

Figure 7. EU overview of implementation by the country for 2018



Source: Cohesion data. (Cohesion Data, 2022)

Figure 8. EU overview of implementation by the country for 2019

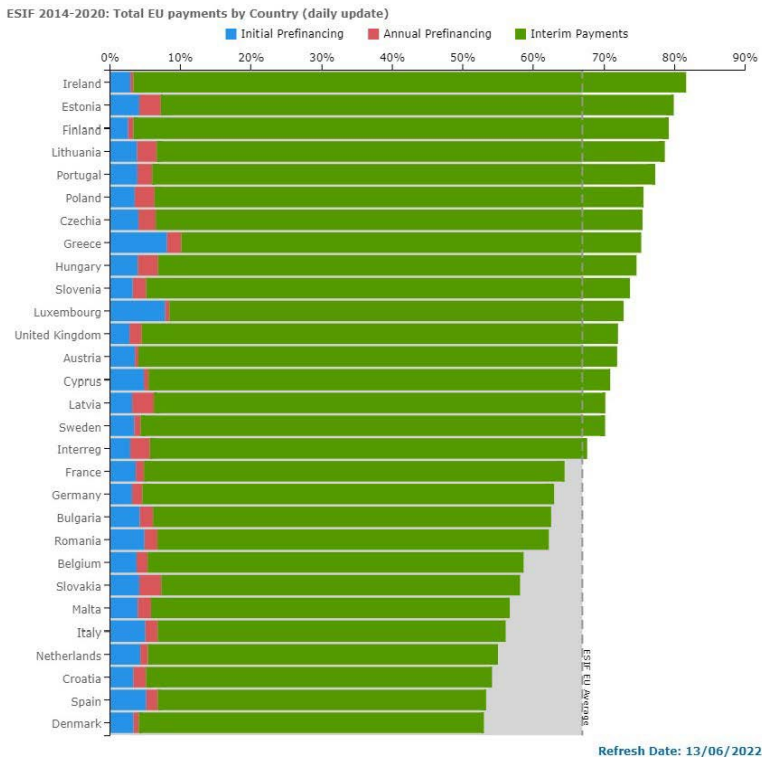


Source: Cohesion data (Cohesion Data, 2022).

Following the European Court of auditors’ annual report on the implementation of the EU budget for the 2020 financial year (ECA, 2022) considerable differences between Member States in the absorption of the ESIF funds allocated to them during the 2014-2020 MFF were highlighted. While the three MS where the absorption rate was lowest (Italy, Croatia, and Spain) have absorbed only around 45 % of their committed amounts, Finland, for example, has absorbed 79 % of its total allocation.

In 2021, Croatia finally met the EU ESIF average and was better at absorbing funds from Spain, Italy, Slovakia, Romania, Belgium, Denmark, Luxembourg and Austria, however, in terms of payments in 2021, Croatia ranked 26th among the 28 EU countries, i.e. 54% (6,657,507,661 EURs) of the total allocated EU amount of 12,091,901,856 EURs was paid out by June 2022.

Figure 9. ESIF 2014-2020: Total EU Payments by the country



Source: Cohesion data (Cohesion Data, 2022).

### 6.3. European Structural and Investment Funds (ESI) for the financial period 2021-2027

#### 6.3.1. Legislation and institutional framework

On 14 May 2018, the Commission presented to the Council its proposal for the multiannual financial framework (MFF) for 2021 to 2027 (Consilium, 2018) and ministers had the first round of discussions. After the coronavirus pandemic hit Europe, a second proposal followed on 27 May 2020; the European Commission proposed targeted reinforcements to the long-term EU budget for 2021-2027 and the temporary recovery instrument NextGenerationEU. In July 2020, the EU heads of state or government endorsed the next long-term budget and NextGenerationEU (European Council, 2020). On 10 November 2020, the agreement was also sealed with the European Parliament.

Following the European Parliament's consent, the Council has adopted the Council Regulation 2020/2093 laying down the EU's multiannual financial framework for 2021-2027 (EUR-Lex, MMF, 2020) and Council Regulation 2020/2094 of 14 December 2020 establishing a European

Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis (EUR-Lex, NextGenerationEU, 2020).

The EU's long-term budget for 2021 to 2027 is consists of 1.211 trillion EUR and of 806.9 billion EUR for NextGenerationEU.

The programs funded under the multiannual financial framework are grouped into seven headings, or expenditure categories of the EU budget, and it will provide the framework for the funding of almost 40 EU spending programmes in the next seven-year period (Table 8.).

Table 8: Allocations for the Financial period 2021-2017

| Budget heading                        | 2021-2027 LONG-TERM BUDGET  | Next Generation EU   |
|---------------------------------------|-----------------------------|----------------------|
| Single Market, Innovation and Digital | 149.5                       | 11.5                 |
| Cohesion, Resilience and Values       | 426.7                       | 776.5                |
| Natural Resources and Environment     | 401                         | 18.9                 |
| Migration and Border Management       | 257                         |                      |
| Neighbourhood and the World           | 110.6                       |                      |
| European Public Administration        | 82.5                        |                      |
| <b>Total</b>                          | <b>1,210.9 trillion EUR</b> | <b>806.9 billion</b> |

\*Current prices

Source: Prepared by the author based on European Commission, Directorate-General for Budget, *The EU's 2021-2027 long-term budget and NextGenerationEU: facts and figures, 2021 (EC, Facts & Figures, 2021)*.

### 6.3.2. Croatian legislation and institutional framework for EU funds absorption

The Act on the institutional framework for the use of EU Funds in the Republic of Croatia (OG, 116/2021) entered into force on 04 November 2021. The Act establishes an institutional framework for the use of EU funds under shared management starting from the financial period 2021-2027, which refers to the Coordination body and program bodies in the management and control systems of EU funds and defines the implementation of activities to strengthen the capacity of the institutional framework for the use of EU funds and beneficiaries, partners and collaborators in projects financed from EU funds.

Specific functions, tasks and responsibilities of the Coordination body will be determined by the Regulation of the Government of the Republic of Croatia for each financial period, starting from the financial period 2021-2027, in accordance with the Act and relevant legal regulations of the European Union. Pursuant to Article 5, item 4 of the Act, the Ministry of Regional Development and EU Funds, as the state administration body competent for regional development and EU funds,



drafted a proposal for a Regulation on the functions, tasks and responsibilities of the Coordination body within the institutional framework for the use of EU funds in the Republic of Croatia in the financial period from 2021 to 2027. The Regulation was adopted by the Government of Croatia on 18 August 2022. (OG, 96/2022).

#### 6.3.2.1. Strategic documents for the EU funds under financial perspective 2021-2027 in Croatia

The Ministry of Regional Development and EU Funds, as coordinating body, is responsible for programming, establishment of the system, adoption of rules, development of an integrated management and information system, monitoring of implementation at national level and coordination with the Commission.

Partnership Agreement and Operational programmes and strategies stemming from the Partnership Agreement according to the Act on the system of Strategic planning and Development Management of the Republic of Croatia (OG,123/2017) are defined as acts of strategic planning for the use of EU funds. In accordance with the Programme of the Government of the Republic of Croatia for the mandate 2016-2020, on 28 September 2017 the Government adopted the Decision on the establishment of the Steering Committee and the Executive working Group for drafting the National Development Strategy of the Republic of Croatia until 2030 (OG, 97/2017). The National Development Strategy of the Republic of Croatia until 2030 (OG, 13/21), adopted on 5 February 2021 is an act of national strategic planning. The Strategy will form the basis for budget planning and programming of EU funds and other international sources (co)financing available to the Republic of Croatia in the period after 2020 and also represents the basis for the preparation of operational programmes for the use of EU funds.

According to the Act on the institutional framework for the use of EU Funds, the objectives for EU funding are: 1. EU Cohesion Policy; 2. The EU Common Fisheries and Maritime Policy; 3. EU security policies; 4. The EU Common Agricultural Policy.

Table 9. Allocation for Croatia per EU funds and policies in 2021-2027 financial perspective

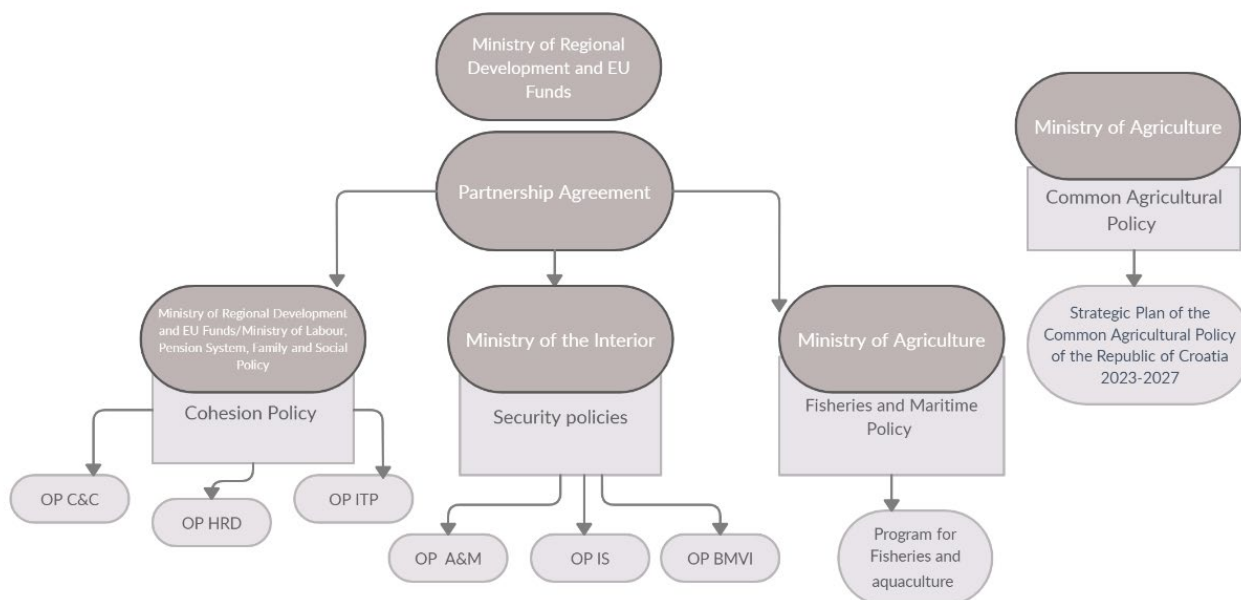
| 2021-2027 LONG-TERM BUDGET | EU fund                            | Allocation in EUR<br>*current prices | Total per policy |
|----------------------------|------------------------------------|--------------------------------------|------------------|
| Cohesion policy            | European Social Fund               | 1 983 billion                        | 9.15 billion     |
|                            | European regional development Fund | 5 356 billion                        |                  |
|                            | Cohesion Fund                      | 1 547 billion                        |                  |
|                            | Just Transition Fund               | 82 million                           |                  |

|                               |  |                |                      |
|-------------------------------|--|----------------|----------------------|
|                               | European Territorial Co-operation  | 184 million    |                      |
| Maritime and fisheries policy | European Maritime, Fisheries and Aquaculture Fund  | 244 million    | 244 million          |
| Common Security policy        | Asylum, Migration, and Integration Fund  | 282 million    | 282 million          |
|                               | The Internal Security Fund   |                |                      |
|                               | The Border Management and Visa Instrument (BMVI) is part of the Integrated Border Management Fund (IBMF)                               |                |                      |
| Common agricultural policy    | European Agricultural Guarantee Fund (EAGF) 2610.50 billion<br>European Agricultural Fund for Rural Development (EAFRD) 2146.9 billion | 4757,4 billion | 4.757,4 billion      |
| <b>Total</b>                  |  |                | <b>14.48 billion</b> |

Source: Prepared by the author based on European Commission, Directorate-General for Budget, *The EU's 2021-2027 long-term budget and NextGenerationEU: facts and figures, 2021*. (EC, Facts & Figures, 2021).

The managing authorities are responsible preparation, management, and implementation of an individual operational programme (Figure 10).

Figure 10: Comprehensive framework for programming documents preparation



Source: Prepared by the author based on the Act on the institutional framework for the use of EU Funds

## 1. EU Cohesion Policy

A significant amount of funds will be implemented in accordance with the EU Regulation 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common

provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (hereinafter: the **Common Provisions Regulation (CPR)**).

Cohesion Policy funding for the period 2021-2027, amounting to one third of the seven-year European Union budget is distributed between:

1. **European Regional Development Fund (ERDF).**
2. **The Cohesion Fund (CF)** supports investments in the field of transport and the environment, with special emphasis on renewable energy and investments in TEN-T<sup>3</sup>.
3. **The European Social Fund Plus (ESF +).**
4. **Just Transition Fund (JTF)** is exclusively focused on productive investments in SMEs, investments in research and innovation activities, and encouraging the transfer of advanced technologies; investments in deployment of affordable clean energy technology and infrastructure at affordable prices and the reduction of greenhouse gas emission; investments in digitalisation; investments in enhancing circular economy and investments in additional training and reskilling of workers.

The cohesion policy also includes the programmes supporting the “European Territorial Cooperation” goal, financed by the ERDF.<sup>4</sup>

The material implementation of the Funds, however, requires the approval of the corresponding Operational Programs prepared by each MS following the terms of the Partnership Agreement and presented to the Commission for its approval. To start the process of drafting programming documents for the new financial period 2021-2027, at its session held on 05 November 2020, the Government of the Republic of Croatia adopted a Decision on operational programmes related to

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<sup>3</sup> The Trans-European Transport Network (TEN-T) policy addresses the implementation and development of a Europe-wide network of railway lines, roads, inland waterways, maritime shipping routes, ports, airports and railroad terminals. The ultimate objective is to close gaps, remove bottlenecks and technical barriers, as well as to strengthen social, economic and territorial cohesion in the EU. The current TEN-T policy is based on Regulation (EU) No 1315/2013

<sup>4</sup> a) IPA Cross-border Cooperation Programme Croatia - Bosnia and Herzegovina – Montenegro; b) IPA Cross-border Cooperation Programme Croatia - Serbia, c) Cross-border Cooperation Programme Hungary - Croatia, d) Cross-border Cooperation Programme Slovenia - Croatia e) Cross-border Cooperation Programme Italy - Croatia, f) Transnational Cooperation Programme Central Europe, g) Transnational Cooperation Programme Euro – Mediterranean, h) Transnational Cooperation Programme Danube, i) Adriatic-Ionian transnational co-operation programme, j) Interregional cooperation programme INTERREG EUROPE, k) Interregional cooperation programme INTERACT, l) Interregional cooperation programme URBACT, m) Interregional cooperation programme ESPON.

cohesion policy for the financial period of the European Union 2021-2027 in the Republic of Croatia and the bodies responsible for their preparation.

- a) Operational Programme Competitiveness and Cohesion 2021-2027.
- b) Operational Programme effective Human resources 2021-2027, and
- c) Integrated Territorial Programme 2021-2027.

MoRDEUF, as managing authority, submitted the first drafts of Operational Programme Competitiveness and Cohesion 2021-2027 and Integrated Territorial Programme 2021-2027 together with Partnership Agreement to the European Commission on 21 July 2021 (MoRDEUF, 2021).

Following the European Commission's observations on the drafts submitted, the formal negotiation process with the European Commission and the final identification of all elements of the programming documents started in October and November 2021. Although the e-counselling was planned for Autumn 2021 the OP Competitiveness and Cohesion 2021-2027 (E- counselling, OPCC, 2022) and Integrated Territorial Programme 2021-2027 (E- counselling, ITP, 2022) were published in May 2022 and were open for comments until 01 June 2022 on e-counselling web site. Operational Programme Competitiveness and Cohesion 2021-2027 and Integrated Territorial Programme 2021-2027 together with Partnership Agreement were submitted to the European Commission for approval on 08 July 2022 (MoRDEUF, PA/OP, 2022). The next step is final negotiation with European Commission and adoption of operational programs by the Government of Croatia, following which it can be concluded that the calls for proposals funded from new financial perspective will not be published before the beginning of the 2023 or even later, depending on European Commission approval.

The Operational Programme for effective Human resources 2021-2027 first draft was submitted to the European Commission at the end of July 2021, and it was open on the e-counselling website for 15 days, from 24 June 2022 until 09 July 2022. (E- counselling, OPHR, 2022). Final document was submitted to the Commission for approval on 15 July 2022 (ESF.hr, 2022).

Besides the abovementioned funds (ERDF, CF, ESF+ and JTF), the CPR also encompasses funds which do not fall within the competence of the Ministry of Regional Development and European Union Funds such as:

2. The EU Common Fisheries and Maritime Policy

EU funds referred to The EU Common Fisheries and Maritime Policy in Croatia will be used based on the Operational programme: Programme for Fisheries and aquaculture of the Republic of Croatia for the programming period 2021-2027 financed from European Maritime, Fisheries and Aquaculture Fund (EMFAF). The Fund aims to channel resources from the Union budget to support the Common Fisheries Policy (CFP), the Union's maritime policy and the Union's international commitments in the field of ocean governance, in particular in the context of the 2030 Agenda for Sustainable Development.

On 20 June 2020, the Ministry of Agriculture, as managing authority adopted the Decision on the launch of the procedure for the preparation of Programme for Fisheries and aquaculture (MoA, 2020). Programme for Fisheries and aquaculture proposal was published on e- counselling from 14 June 2022 until 23 June 2022. There is no official information when or if it has been submitted to European Commission for approval up to August 2022.

### 3. EU security policies

EU funds referred to EU security policies in Croatia will be used based on the Operational programmes: Internal security programme financed from The Internal Security Fund, Asylum, Migration, and Integration programme financed from The Internal Security Fund, Asylum, Migration, and Integration Fund and programme of the Integrated Border Management Fund (IBMF), The Border Management and Visa Instrument (BMVI). Croatian Government adopted the Regulation on the authorities in the management and control system for the implementation of The Programmes of the Internal Security Fund, the Asylum, Migration and Integrated Border Management Fund and the Fund for Integrated Border Management of the Instrument for financial support in the field of border management and visa policy for the programming period on 18 August 2022. (OG, Security policy, 96/2022) defining the organisational unit responsible for European affairs, international relations, and EU funds at the Ministry of the Interior as the Managing Authority There is no official information when or if it has been submitted to European Commission for approval up to August 2022.

### 4. The EU Common Agricultural Policy

Common Agricultural Policy Funds – The European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) are not covered by the CPR in the financial period 2021-2027, however their allocations are included in the financial envelope for

the Republic of Croatia. EU funds referred to The EU Common Agricultural Policy in Croatia will be used based on the Strategic Plan of the Common Agricultural Policy of the Republic of Croatia 2023-2027 as basis for the use of EAFRD and EAGF. The managing authority for EAGF and EAFRD in the Republic of Croatia is the Ministry of Agriculture. The Strategic Plan of the Common Agricultural Policy of the Republic of Croatia 2023-2027 was published on e – Counselling web site on 11 August and will be open for comments and suggestion until 12 September 2022 (e- Counselling, CAP, 2022).

The analysis of the legislative, institutional and strategic framework for the new financial perspective, concluding with August 2022, indicates that preparations for the new financial perspective are still underway, the programming process for the Republic of Croatia has not been completed yet, and the drafting of some operational programmes are still ongoing, and therefore the date of publication of the first tenders remains unknown.

#### 6.4. Next Generation EU

NextGenerationEU is an 806.9 billion EUR temporary recovery instrument to help repair the immediate economic and social damage brought about by the coronavirus pandemic.

The Recovery and Resilience Instrument is the central part of NextGenerationEU, with EUR 723,8 billion of loans and grants available to support reforms and investments undertaken by EU countries. It aims to mitigate the economic and social impact of the Coronavirus pandemic and make European economies and societies more sustainable, resilient, and ready for the challenges and opportunities of green and digital crossings. The resources from the recovery and resilience Instrument will be allocated following national recovery and resilience plans prepared by each Member State in cooperation with the European Commission and per the agreed allocation key.

##### 6.4.1. National recovery and resilience plan of the Republic of Croatia 2021-2026

Croatian National recovery and resilience plan was assessed positively by the European Commission on 8 July 2021 and it was adopted by the Council of the European Union on 8 July 2021 (EUR-Lex, RRP, 2021).

Table 10: Allocation for Croatia per EU funds under the NextGenerationEU financial perspective

| NextGenerationEU                     | Amount in EUR  |
|--------------------------------------|--|
| The Recovery and Resilience Facility | 9.9 billion (6.3 for grants and 3.6 for loans)                                   |
| REACT EU                             | Expected 700-800   |
| REACT EU 2021/2022                   | 571+100  |
| Rural Development (Year 2021/2022)   | 201.7  |
| Just Fund Transition                 | 105  |
| rescEU EU Civil Protection Mechanism | According to the principle of solidarity, there is no initial allocation per MS. |

Source: European Commission, Directorate-General for Budget, *The EU's 2021-2027 long-term budget and NextGenerationEU: facts and figures, 2021*. (EC, Facts & Figures, 2021).

The National recovery and resilience plan (NRRP, 2021) contain project proposals in six areas with a total value of 9.9 billion EUR, out of which 6.3 billion EUR for grants and 3.6 billion EUR billion for loans.

The plan has five components and one initiative:

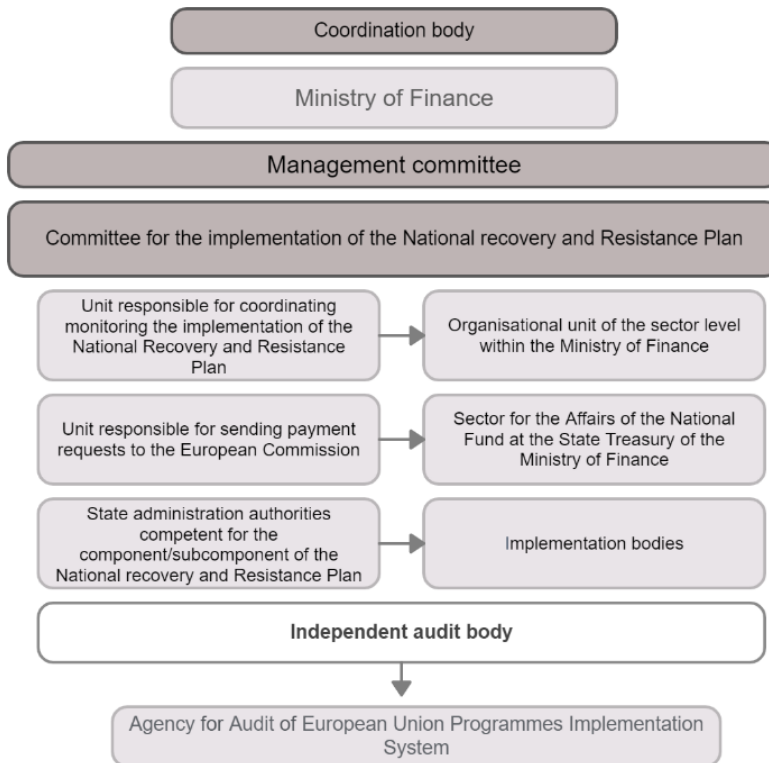
1. Economy
2. Public administration, judiciary, and state property
3. Education, science, and research
4. Labour market and social protection
5. Health care
6. **Initiative: renovation of buildings**

#### 6.4.2. Legislation and institutional framework

The Croatian Government on 08 July 2021, adopted a Decision on the management and monitoring system for the implementation of activities under the National recovery and resilience Plan 2021-2026 (OG, 70/2021) laying down the institutional framework and procedures related to coordination related to the implementation of activities under the National recovery and Resistance Plan 2021-2026. The Decision also defines the institutions that perform the functions of management, coordination, and monitoring of the implementation of the act.

The institutional framework of the management and monitoring system for implementing activities under the National Recovery and Resistance Plan in the Republic of Croatia consists of responsible units presented in Figure 11.

Figure 11: National Recovery and Resistance Plan Institutional Framework



Source: Prepared by the author based on the Decision on the management and monitoring system for the implementation of activities under the National recovery and resilience Plan 2021-2026.

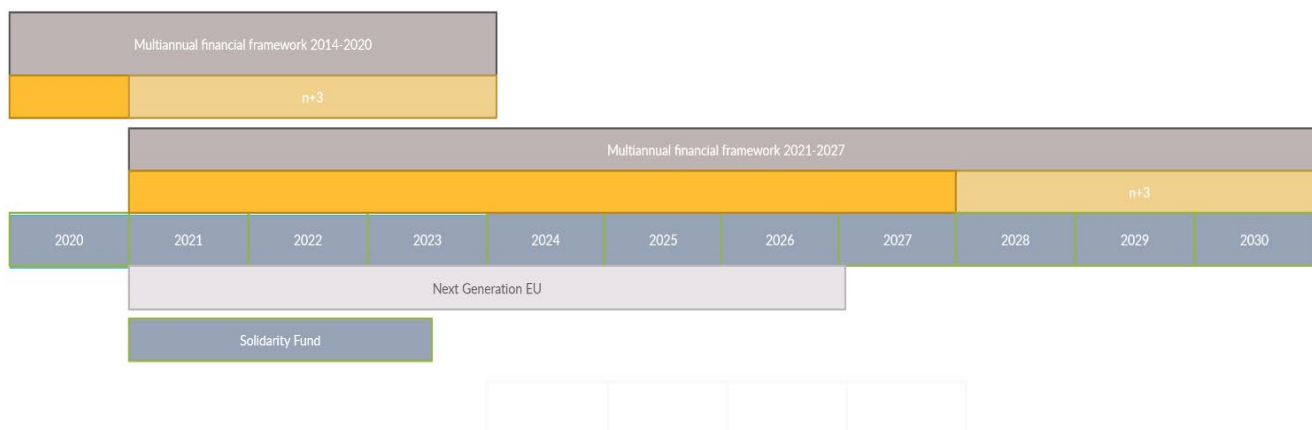
The MoPPCSA is the state administration authority responsible for implementing the Initiative: Building reconstruction of the National Recovery and Resistance plan together with the Environmental Protection and Energy Efficiency Fund, Reconstruction Fund, The Ministry of Culture and Media, Ministry of Health and Ministry of Science and Education as implementation bodies. The objective of this Initiative is to contribute to the wave of reconstruction of buildings, which implies transformation into an energy-efficient and decarbonised building stock. Reconstruction will include residential and non-residential buildings, as well as public buildings, considering the importance of public interest for health and educational buildings. Investments under the recovery and resilience plan will contribute to more effective post-earthquake reconstruction and seismic safety of buildings.



Pre-financing of 818.4 million EUR was paid to Croatia in September 2021. Based on a positive preliminary assessment (EC, Preliminary assessment, 2022), Croatia submitted its first payment request of 700 million EUR. The deadline for implementing investments under the National Recovery and Resistance plan is 30 June 2026.

For the first time, Croatia manages and uses at the same time as many as four EU budget packages. The tendering process for the new Financial perspective 2021-2027 did not start yet, as the operational programs preparation and approvals process is still ongoing, but the Government's intention is to publish the first calls for proposals as of September 2022. The above analysis and timeline of EU packages presented in Figure 12. both confirm a challenging period for the Croatian administration to absorb available EU funds.

Figure 12. Timeline of EU budget packages



## 7. Factors affecting the capacity for absorbing the EU funds for the revitalization of Banija – findings from interviews

Qualitative analysis' results presented here were collected through field semi-structured interviews with a total of 11 stakeholders included in the Reconstruction and Revitalization process: representatives of the state administration at the national, regional and local level, representatives of chambers of crafts and commerce, representatives of entrepreneurial support institutions, representatives of academic community, civil society, and the European Bank for Reconstruction and Development (EBRD).

The research questions were divided in three categories: a) Reconstruction, b) Absorption Capacity and c) Revitalization consisting of 15 questions in order to identify which factors affect the capacity of the absorption of the EU funds for the Revitalization of Banija region.

For the purpose of this research, the total of 23 stakeholders were contacted to participate, from which 11 responded affirmatively and one person agreed to provide consultation input but was not willing to participate in the research.

The interviews took place from 23 July until 23 August 2022 and all interviews were held individually in the length of one hour on average.

The processing of the collected material consisted of prescribing interviews into a transcript form, underlining responses, and dividing underlined records into the following three thematic units: a) Reconstruction, b) Absorption Capacity and c) Revitalization.

a) **The Reconstruction part** of the research consists of six questions including the main problems of the Reconstruction process, factors which directly affect the Reconstruction results, Reconstruction Legal and Institutional framework, Quality of cooperation between initiatives of local stakeholders, entrepreneurs, local and regional self-government units and competent state administration bodies during reconstruction and challenges of cooperation at the local and regional level.

Through the analysis of participants' responses, the conclusion was that the lack of communication (*"The main problem of the reconstruction is that there is no intersectoral or sectoral communication, no cooperation or communication with the end user"*, Interview 5<sup>5</sup>, 2022) and coordination of the Reconstruction process, resulting in unavailability and transparency of information for end users and complicated administrative procedures, bureaucracy and ineffective processes (*"the first main problem are bureaucracy and complicated administration procedures"*, Interview 4, 2022) are the main problems of the Reconstruction process. This state of affairs results in unavailability and transparency of information for end users regarding their rights for temporary accommodation, for connection to electricity, water, sewage system – access to public services, for humanitarian aid, legal regulation of land and property relations and social welfare. Besides that, some of the participants, based on the current Reconstruction result, do not participate

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<sup>5</sup> The numbers in parentheses indicate the participant in question, since the participants' anonymity and confidentiality were ensured, personal names were not used in the research

in the Reconstruction as an ongoing process but are rather waiting for the process to start (*“The point is that the Reconstruction has not started, there is no on-the-spot Reconstruction in the Sisak-Moslavina County”*, Interview 5, 2022), (*“The reconstruction didn't even begin. They didn't even remove the ruins yet”*, Interview 10, 2022).

Most of the participants are concluding that the factors which directly affected the Reconstruction results are:

1) the lack of general and specific knowledge of strategic planning, division of tasks, taking the responsibility for the assigned tasks and use of sanctions (*“Lack of institutional coordination of activities and taking responsibility to accompany measurable indicators of the success of implemented activities”*, Interview 7, 2022), including the lack of readiness of state administration for such cases, strategic unpreparedness and inadaptability of procedures to earthquakes in the affected area (*“A lot of information and inquiries for applications for reconstruction were online, because they didn't think about the area, population is mostly the elderly, without access to a computer or even the internet and without computer literacy, Interview 3, 2022).*

2) the lack of quality human capacity (*“There are three basic preconditions for successful reconstruction. The first and the basic one is the efficiency of the administrative process, the second is the availability of financial resources and the third is the availability of the educated and professional workforce. If there's not one of these three elements, it's very likely the thing won't work!”*, Interview 4, 2022).

3) legislation and institutional framework (*“the two main problems are the legislative framework, which is not good, it is not flexible enough for these extraordinary situations, and the institutional framework, which consists of many stakeholders, and in this way it becomes difficult to communicate who is in charge, who is responsible, who is not responsible, which also complicates public reconstruction, reconstruction of public buildings and absorption, and then renovation of private houses.”*, (Interview 10, 2022), and

4) political aspirations (*“people pay tribute to inefficient and frequent party interests, guided by State”*, Interview 10, 2022).

The inadequate legislative framework (*“the legislative framework has the greatest influence, because a bad legislative framework blocks the entire process, which is also visible, Interview 4, 2022), (“The law was written at one speed, where the field itself and the situation on the field were*

*not taken into account enough, but more bureaucratic thinking was used, the law was changed and adapted, and this resulted in certain improvements, but simply not enough.*”, Interview 11, 2022), and non-functioning institutional framework (*“Six institutions cannot be involved in the renovation of one house. You cannot coordinate between six institutions, if it is not under one roof, within one team, it will not happen, and it is not happening”*”, Interview 9, 2022) were mentioned by most of the participants as the main factors which affected Reconstruction results, directly or through highlighting the problems occurred based on those frameworks.

The experiences regarding the quality of cooperation between initiatives of local stakeholders, entrepreneurs, local and regional self-government units and competent state administration bodies during reconstruction vary. Some of them are positive (*“Local communities are aware that they need to rely on the help of other stakeholders besides the State Government”*”, Interview 2, 2022), (*“We communicated well with the County, and managed to communicate and agree on everything, and cooperation with local structures depends on who sits where and on individual motivation,* Interview 8, 2022) while others are rather negative (*“There was no serious operational connection between the public and private sectors, so we were working on two parallel tracks, completely unnecessary”*”, Interview 6, 2022). The overall conclusion is that cooperation is important and significant but depends on the effort at the individual level and the degree of personal motivation and proactivity. Some of participants also highlighted that work and results of initiatives and NGOs are better than the State Reconstruction Results, which shouldn’t be the case (*Civil society jumped in and, instead of supporting the State, took an equal role in Reconstruction*, Interview 1, 2022), (*“Non-governmental organizations are an added value, but they cannot be the axis, that is the role of the State”*”, Interview 6, 2022).

The biggest challenges of cooperation at the local and regional level are caused politically (*“If we talk specifically about the area of Sisak-Moslavina County, everything revolves around local and state politics, there is of course a certain political gap, which is in the public domain and everything starts from it”*”, Interview 4, 2022), (*“ there is a difference at the local and regional level, where there were misunderstandings for political reasons, since the city majors belong to different political parties,* Interview 6, 2022), but also by the capacity and possibilities of their units (*“At the local level, although they had good will, they were not sufficiently capacitated, nor did they have any support in capacitation/ Most of them lack a strategy, a lack of long-term goals”*”, Interview 3, 2022).

b) **The absorption part** of the research covers limitations of the future development of local and regional self-government units in the area of Sisak-Moslavina County caused by the devastating consequences of the earthquake, financial possibilities of the local and regional self-government units affected by the earthquake, to what extent does the institutional framework for the use of EU funds affect the absorption capacity, the main areas that need to be improved to increase the absorption capacity of EU funds and to what extent will the overloading of institutions in the coming period affect the absorption capacity, bearing in mind that at the same time Croatia will be implementing 4 EU financial packages.

All participants agree and point out that depopulation (*“The biggest limitation is human capacity, i.e. depopulation, no matter how much is invested to fulfil all possible plans, to withdraw 100% of funds, to do everything, the question is whether this will reverse the trend of depopulation”*, Interview 11, 2022), qualified personnel (*“You will never get a quality staff to work in a place like Banija region, someone with an understanding of strategic development, under the current governance*, Interview 1, 2022), financial resources, required knowledge and good strategic policies (*“Lack of communication, strategic planning and directing people towards real results, no knowledge, no money, no necessary competences”*, Interview 7, 2022) are the main limitations for future local and regional self-government units.

On the same terms, all interviewees are aware of the lack of financial possibilities of local and regional self-government units, even before the earthquake due to County economic underdevelopment and especially now after the earthquake which jeopardizes their ability to participate in EU funding or to finance the Reconstruction, and they will depend on national investment (*“There are no financial possibilities; they can't do anything alone; nothing will happen without national investment. They can't even finance themselves, let alone invest*, Interview 9, 2022) (*“they simply do not have the capacity to deal with European projects, nor to participate or to wait for the return of funds”*, Interview 11, 2022) (*“local and regional self-government units, financially, cannot finance the Reconstruction”*, Interview 10, 2022).

According to the majority of interviewees the Institutional Framework for the use of EU funds is crucial for the absorption capacity (*“The institutional framework completely influences the absorption capacity, at the central, regional and local level”*, Interview 7, 2022), but it is not sustainable, due to insufficient coordination (*“The problem is in the scheme of competent institutions for EU funds, all ministries are management bodies, even if we were efficient in*

*interdepartmental coordination, it would not work, let alone that we are not. That's one of the reasons why it doesn't work. One policy is managed by several bodies, i.e. responsible for one policy”, Interview 9, 2022), as well as the lack of systematic monitoring of results due to many coordinating bodies involved (“New programs should be announced based on the results of previous programs, and this is not done”. Interview 1, 2022).*

According to participants, human resources (“*human potential development on the national and regional level*”, Interview 4, 2022), financial capacity and actors related to the EU funds system (institutional framework, rules, procedures (“*The ‘fastest’ finger<sup>6</sup> has nothing to do with the quality of the project proposal. It only has to do with whether you were fast or slow*”, Interview 7, 2022) and practice of project preparation and implementation) are the main areas that need to be improved to increase the absorption capacity (“*human capital development on the national and regional level*”, Interview 4, 2022).

Having in mind the current Croatian absorption capacity, it is very clear to all participants that Institutions involved in EU funds absorption will be overloaded, especially taking into account that the current financial envelope is two times bigger than the one from the previous financial perspective and their capacities were not extended (“*This year will be extremely difficult, we entered this financial perspective much more unprepared than we were in 2014-2020. In 2013 we had drafts of all calls, in and again we lost two years, and now we will lose two years*”, Interview 7, 2022) and the fact that the same initiatives will be financed from different funds which may lead to overlap if not coordinated carefully (“*The question is problematic in itself, it gives an answer to itself because there we have areas for the same projects, somewhere something will be completely reconstructed, partly from the Solidarity Fund, partly from the multi-year financial framework, partly from the National Recovery Plan and for that efficient coordination is crucial to avoid overlapping, and it is very questionable how well it will be executed*”, Interview 11, 2022).

c) **The Revitalization part** of the research covers key factors affecting the Revitalisation of Banija region, quality of cooperation between initiatives of local stakeholders, entrepreneurs, local and regional self-government units and competent state administration bodies in order to overcome social and economic challenges of the Banija region, impact of the strategic framework on the implementation of Revitalisation on the Revitalisation results and finally the perspective of the implementation of the government's program for the reconstruction of Banija/Sisak-Moslavina

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<sup>6</sup> It is a very criticised and controversial procurement method where the fastest applicants are entitled to funding, and there is no evaluation of submitted proposals.

County as one of two strategic objectives of the *Programme of social and economic revitalization of the assisted areas of Sisak-Moslavina County affected by the earthquake*.

Key factors affecting the Revitalisation for participants of this research are the quality and implementation of the Government Revitalization programme (*“the proposed measures do not define the measure holders, time frames or clear financial indicators. The starting point is program of measures and activities, who is implementing them, when, and how much it will cost and from which source they will be financed”*, Interview 5, 2022) and its status on Croatian Government priority list (*“The key is in political factor to maintain the implementation of the plan on a high priority list, in order to implement such plan to the greatest possible extent”*, Interview 11, 2022).

There are a couple of factors affecting the cooperation between initiatives of local stakeholders, entrepreneurs, local and regional self-government units and competent state administration bodies: the cooperation is politically conditioned (Interview 1, 2022) the importance of supporting initiatives and capacities of local stakeholders (NGO's) is not properly acknowledged (*“The importance of local capital and civil society is not recognized”*, Interview 5, 2022) and there is a lack of inclusion of local community, public and private sector in decision-making process at the beginning of any programming (*“At the start, when planning begins, the local community should be involved, as e-consultation at the very end of the process of enacting a policy is too late for serious involvement”* Interview 6, 2022).

According to participants, the problems of implementation of the Revitalization Programme are also linked to the credibility of the Programme itself and the lack of local ownership caused by inadequate participation of local stakeholders in the formulation of that strategic document (*“A Revitalization Program written by someone from the outside who may never have lived in this area does not make any sense and it is impossible to write a strategy like this in two months / What is also important is that there are three different, or opposing, Programs, which is beyond all reason”*, Interview 4, 2022), (*“the program also lists some good points, but these things have nothing to do with Revitalization. Let's say, the construction of a section of the highway of several kilometres, which is great, and we are all waiting, but this has been a plan since 2006”*, Interview 5, 2022), (*“such a Program cannot be done ad hoc, it should have been done more participatively, the development should have included more stakeholders, so that the Program would get what is specific for the Region and to identify the Region real needs”*, Interview 9, 2022).

All participants expressed concerns regarding the perspective of the implementation of the Government's Program due to delays (*"The longer the Reconstruction itself will take, the more people will leave, there will be no workforce that is essential for economic revitalization and retention of residents"*, Interview 6, 2022) and the lack of absorption capacity (*"Nothing from the Reconstruction of Banija region, but at least to see at least one result from the planned projects. We could not finish 15 km of railway within the current the Financial framework, so we had to lower the indicators. If we can't build 15 km of railway, then what can we do?"*, Interview 9, 2022).

## **8. Conclusion**

As mentioned at the beginning of this paper, the absorption capacity is still insufficiently explored, not only in Croatia but also in almost all recent members of the European Union, which face similar challenges in implementing EU projects. The aim of this research was to contribute to better understanding of the causes of the inefficient Reconstruction and the reasons behind the delayed implementation of the Government Revitalization Programme. The key research question is which factors affect the capacity of the absorption of the EU funds for the Revitalization of Banija region.

Following the Daszuta theoretical framework, the five factors of absorption capacity were discussed - finance, institutions, legalities, personnel, documentation. Through questioning and discussing with the participants of this research, who were very open and honest in their responses, and willing to share their own experiences and opinion, it could be concluded that all the issues which stem from this research are already known to the public through the media. It is more than evident that Reconstruction, as a part of the Revitalization of Banija region, is not functioning, especially when compared to past institutional responses to earthquakes in Makarska in 1962 and Banja Luka in 1969, where Reconstruction was much better organized without EU funds assistance and with the usage of less quality machinery than today. That raises the question, what went wrong? Despite the established legislative, institutional, and strategic framework and financial resources available in the amounts higher than ever before, the key challenge remains the insufficient administrative capacity, marked by significant delays in defining and establishing the management system and the lack of staff in the system of EU funds implementation.

This research on the Banija region reconstruction, absorption capacity on the national, regional, and local level and perspective of the Government Programme of Revitalisation, confirms that the



legislative, institutional and strategic framework has proved to be inefficient and that there is a need for the depoliticization of the Programme. The research conclusion and issues highlighted can be compared with the current MoPPCSA Reconstruction acceleration plan through which the Government outlines all the issues identified in the research, which are the direct consequence of, as mentioned above, inefficient legislative, institutional, and strategical frameworks and a lack of qualified personnel.

The results of the absorption of the Multiannual financial framework 2014-2020 in Croatia speak for themselves, and same goes for EUSF absorption results. This confirms previous findings of Zaman and Georgescu, which emphasized that the most EU member states experienced difficulties in the absorption of the European funds during the early years after their accession, mainly due to the lack of a long-term vision of the authorities, insufficient resources to co-finance projects, low capacity of the central and local administration, lack of inter-institutional cooperation, failure of the public private partnership, limited ability of the human resources, etc (Zaman, G and Georgescu, G., 2009).

Moreover, delays in passing the necessary legislation and inefficient EU funds absorption can lead to delays in the implementation of funds under the new financial perspective 2021-2027 and there is also a huge risk that the level of administrative resources required to manage the significant increase in funding will not be sufficient. The risk is particularly high in the first years of the new Multiannual financial framework and Recovery and Resilience Facility, which can lead to additional delays, weakening of irregularity control systems and poor financial management (ECA, 2022), the issues Croatia is already facing. Only MoPPCSA is currently being the main state administration authority responsible for Reconstruction, Implementation of EU Solidarity fund, implementation of the Initiative: Building reconstruction of the National Recovery and Resistance programme together with corresponding measures from a new financial perspective 2021-2027.

Above all, only in the last two years a couple of highly positioned state officials have been arrested in a corruption probe, all regarding EU funds and national budget malversations. Former Minister of the Ministry of Regional Development and EU Funds and The Central Finance and Contracting Agency (CFCA), Director were arrested in 2021, while the CFCA is without a new Director up to date. The Minister of the Ministry of Physical Planning, Construction and State Assets was arrested in February 2022, together with the Directorate for supported areas, Director at the MoRDEUF, which was followed by the arrest of the former Minister of Agriculture, accused of direct

embezzlement of EU funds for his benefit. Named institutions are directly involved in Banija region Reconstruction and Revitalization, depending on the Strategy (Government Programme of Revitalization) which is not in the implementation phase yet, and by its context and the fact that we were having three different versions of Revitalization Programme, leaves the impression that these kinds of documents are only fulfilling the form.

Finally, it is important to emphasize that dealing with consequences of two devastating earthquakes was particularly difficult during the Covid-19 pandemic, which caused a huge number of human losses and an unprecedented economic crisis. This has put the Government in an unenviable situation and made the formulation and implementation of the Revitalisation Programme particularly challenging. The current geopolitical situation and related effects on the world economy, inflation, and global energy crisis, are also influencing the Government's priorities. Only time will tell whether the Government is able to keep the Banija region Revitalization high on its agenda and ensure the successful implementation of the established strategic objectives in this area.

## 9. Summary and key words

The city of Petrinja, which according to its geographical position, belongs to the Banija region, Sisak-Moslavina County, was hit by the devastating earthquake measuring 6.4 on the Richter scale on 29 December 2020. On 30 December 2021, The Croatian Government adopted the Program for the social and economic Revitalization of supported regions of the earthquake-stricken Sisak-Moslavina County. The Reconstruction of Banija is one of the two strategic objectives of the programme of social and economic Revitalization of supported areas of Sisak-Moslavina County affected by the earthquake. The organization itself and the Reconstruction results directly influence the programme's first strategic objective: Encouraging the development of the main factors of competitiveness, which include increased productivity and employment and demographic Revitalization. The programme is worth HRK 15.3 billion, and about 90% of the funds will be financed from EU funds; therefore, effective absorption capacity is essential for the future socio-economic development of the region.

By analysing the results of current Croatian EU funds absorption and preparation and coordination of the Banija region Reconstruction, as part of the Banija region Revitalization programme and its legislative, institutional, financial, and strategic framework, we are identifying the main factors that affect the Revitalization of the region, mainly funded by the EU funds. This research has theoretical and practical implications, and findings could contribute to a better understanding of the absorption process of EU funds which is essential as the Republic of Croatia is currently facing a very challenging period since it will manage and use at the same time as many as four EU budget packages: a) European Solidarity fund; b) European Structural and Investment Funds (ESI) for the financial period 2014 – 2020.; c) European Funds for the financial period 2021-2027; d) The Republic of Croatia's National recovery and resilience plan 2021-2026 which is financed from The Recovery and Resilience Facility under the temporary NextGenerationEU Instrument.

**Key words:** Absorption capacity, EU funds, Reconstruction, Revitalization, legislative, institutional, financial, and strategic framework

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### **Raw Data:**

1. Interview 1 (2022) Semi-structured interview with a representative of one of the Foundations involved in reconstruction and revitalization of the Banija region. Zagreb Conducted on 23 July. → (Interview 1, 2022)
2. Interview 2 (2022) Semi-structured interview with a representative of Humanitarians Coordination. Zagreb Conducted on 26 July. → (Interview 2, 2022)
3. Interview 3 (2022) Semi-structured interview with a member of Foundation involved in reconstruction and revitalization of the Banija region. Zagreb Conducted on 27 July. → (Interview 3, 2022)
4. Interview 4 (2022) Semi-structured interview with a highly positioned representative of the international financial institution in Croatia. Zagreb Conducted on 27 July. → (Interview 4, 2022)
5. Interview 5 (2022) Semi-structured interview with a highly positioned representative of a non-governmental, non-political, unprofitable, humanitarian organisation. Sisak Conducted on 9 September. → (Interview 5, 2022)
6. Interview 6 (2022) Semi-structured interview with a member of Foundation involved in reconstruction and revitalization of the Banija region. Zagreb Conducted on 29 July. → (Interview 6, 2022)
7. Interview 7 (2022) Semi-structured interview with an EU funding expert. Zagreb Conducted on 3 August. → (Interview 7, 2022)
8. Interview 8 (2022) Semi-structured interview with a highly positioned member of chambers of crafts and commerce within Sisak-Moslavina County. Zagreb Conducted on 10 August. → (Interview 8, 2022)

9. Interview 9 (2022) Semi-structured interview with a member of Croatian Parliament. Zagreb Conducted on 13 August. → (Interview 9, 2022)
10. Interview 10 (2022) Semi-structured interview with a highly positioned City of Glina official. Glina Conducted on 16 August. → (Interview 10, 2022)
11. Interview 11 (2022) Semi-structured interview with a member of Croatian Parliament. Zagreb Conducted on 23 August. → (Interview 11, 2022)