



## USE AND ROLE OF PROJECT CYCLE MANAGEMENT IN DEVELOPMENT OF LOCAL ECONOMY

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**Abstract:** *Project Cycle Management is an official methodology for the preparation, implementation and evaluation of European Union projects and programs. It includes management activities and a set of rules for planning and decision making. Because of the pre-accession period, many stakeholders in the Republic of Croatia are in a delicate situation. From that aspect, in this paper we are analysing actual situation in companies and at entrepreneurs. The results of our methodological research are that there are employees with theoretical but with no practical experience in Project Cycle Management. The results brought us to the conclusion that is necessary for companies and entrepreneurs to build their knowledge and experience in Project Cycle Management, in order to develop their ideas into projects acceptable for co-financing from the European Union.*

**Key words:** *Project, company, entrepreneur, methodology, European Union*

### 1. INTRODUCTION

Project Cycle Management is a term used to describe the management activities and decision-making procedures used during the life-cycle of a project (including key tasks, roles and responsibilities, key documents and decision options). In 1992, the European Commission adopted "Project Cycle Management" (PCM), a set of project design and management tools based on the *Logical Framework* method of analysis, which was already widely used by many donors, including several Member States and encouraged by the Development Assistance Committee of the OECD. The manual was subsequently updated in 2001, shortly after the publication of the EC's most recent Development Policy document (April 2000). A decision was made in early 2003 to update the PCM manual again, now referred to as the "2004 PCM Guidelines" (EC development cooperation for ACP countries, 2004). For the Republic of Croatia, this approach in the preparation and implementation of projects became widely learned, practiced and used from 1993. From that year all the counties in the Republic of Croatia started to prepare their own regional development strategies, usually called Regional Operational Programmes. The first Regional Operational Programme in the Republic of Croatia was finished and adopted in Zadar County in 2003.

### 2. PROJECT CYCLE MANAGEMENT IN USE

The main tool in the phase of preparing strategic documents, better known as ROPs (Regional Operational Programmes), for the counties was Project Cycle Management. It was first time systematically used, in all the counties. Project Cycle Management was also used and known before 2003, but mainly in civil society organizations, who were pioneers in preparing and applying projects using different foreign donor's funds. In the Republic of Croatia from the 1990s up until today, many

stakeholders, civil society organization members, members of different associations, entrepreneurs, employees of different companies, civil servants and others have had opportunities to take courses on topics such as Project Cycle Management, cost benefit analysis, strategic planning, public procurement, etc. In the most cases, after they participated in these courses, they have not used this new knowledge practically, during their daily business or in the preparation of projects for different funds. Namely, during the preparation of one project for a European Union project proposal, the Regional Development Agency of Požega Slavonia County, with local officers of the Chamber of Commerce and the Croatian Employment Service, have conducted research among different potential final beneficiaries of the project. The purpose of the project was to raise the capacity of local stakeholders to prepare and implement European Union projects. So helping the research, the Regional Development Agency wanted to find out, what was the existing situation on the field relating to interest in Project Cycle Management, relating to awareness about the importance of Project Cycle Management, and financing from European Union funds. The research was conducted in Požega Slavonia County, using short interviews on a sample of 63 entrepreneurs and company representatives (owners or their managers). According to the results of research, 22 % or 14 of the entrepreneurs or companies have employees who have taken courses in Project Cycle Management. But 87% or 12 of those 14 had not implemented any of their new skills. The main reason (in 78% of cases) was that they could not apply it in their daily business, and they did not have a need or opportunity to use these skills in the preparation of different projects. In other words, Project Cycle Management, as a very important tool for project preparation in this period of pre-accession, and as a tool which is simply defined and has a wide range of applicability, is really very rarely used. The main reason is that there are not enough project ideas in preparation, and just a few in implementation, in which Project Cycle Management can be or is used. The conducted research also showed that 95% companies or entrepreneurs (or 60 out of 63 interviewed) were interested in applying their project for European Union funds, but on the other hand, there were only 55 % or 35 of them who were interested in getting their employees to do a Project Cycle Management course. And for the owners or managers of these companies there was very important question: whether employees would go on these courses during work time or in their free time. 40 %, or 24 of them, agreed to their employees doing a course during work time. Also, related to project preparation, 63 % or 40 of them were ready to pay outsourced consultants for the preparation of projects instead of developing them within their own team. 63 % of those interviewed also thought that it was a good option for the implementation of projects to use external staff instead of company staff in the project implementation. 48 % or 30 of them did not think it was important to organize their own project team, they did not think it was necessary at the moment. Generally many stakeholders have passed Project Cycle

Management courses, but in the field it is very rarely implemented. The main reason is that, there are very few project ideas, and there are still a very small number of projects in preparation, regardless of whether they are prepared by their own staff or by outsourced staff. Also, it is good to remember that for many companies or entrepreneurs, there were no calls for proposals for which they are eligible. But it is also clear that they have to prepare themselves for the moment when Croatia will become a European Union member. Then the situation will change drastically; there will be Structural Funds which will bring much more opportunities for companies (Figenwald, 2010). When we talk about companies or entrepreneurs, which are eligible for European Union funds, they have many problems in the process of preparing projects for European Union funds. Some objective problems are external—for example, long periods for obtaining different permits, a long procedure to make a project compatible with spatial plans etc. Very often, there are unfavorable terms in the call for proposals: the impossibility of fulfilling financial conditions, in advance, before they know whether they get European Union support or not. The fulfillment of these criteria, especially in the short term, is for most companies and entrepreneurs, very hard or impossible. Beside external problems, there are also several internal problems, for example one very important psychological problem is the perception of European Union funded projects. First, there are not many successful examples of companies whose project was co-financing from the European Union. So many companies and entrepreneurs are skeptics; they do not believe that they will get co-financing from European Union funds. There are, on the other hand, also some not so bright examples from some previous European Union funds, for example, as a Special Accession Programme for Agriculture & Rural Development -SAPARD (European funds for Croatian Projects, 2009). Namely, 27 m Croatian Kuna in SAPARD were not implemented for different reasons: because the supplier from the European Union could not provide a Certificate of Origin or could not supply the specific equipment on time, or because the beneficiary of a project just gave up because of the project's conditions (Ranogajec, 2010). There are also some who could have applied but are not interested in European Union funding. They are focused on their core business. Also for many of entrepreneurs "no one ever gave me something for free" is a significant motto. Some other entrepreneurs are discouraged when they realize that they have to prepare all documentation in the English language, and necessarily prepare all the bills, financial reports, permits, in which they have to be very precise in reporting how they are spending the European Union money etc. For those entrepreneurs this procedure seems too complicated. All of these reasons bring us to the conclusion that our entrepreneurs and companies are still sleeping, probably waiting to for the Structural Fund or Cohesion Fund. But in any case, money will not be waiting on them, it will be just the opposite: they have to educate people who will develop and transform their ideas into projects, and then they can participate in the race for European Union money. It that sense, it is also important to know that there is less and less money from local ministries, and the European Union funds are becoming the only alternative as the available amount of European Union funds becomes bigger and bigger. Concerning that, entrepreneurs and businessmen will have to inform themselves to be as prepared as they can be for when some financing possibilities for which they are eligible arrive. Many of them have ideas for project only at the moment that a call for proposals is made and then it is very often too late. They do not have time to develop their ideas, to plan their activities, and we don't have to talk about all the permits, money for co-financing etc. Concerning the information about European Union funds, there are several important things that other important stakeholders can improve.

For example, it is necessary that the available information about funding possibilities is very simply written, so that stakeholders and potential applicants know clearly about existing possibilities and about potential future possibilities of getting a co-financing from European Union funds. Also it is very important that figures about how much money they can really expect per certain sector or project are more realistic specified, rather than just receiving some information about billions as heard on the television or street. Also there are some cases of companies or entrepreneurs that are looking for funds in situations when it is too late, when the call for proposals has closed, or when they are into financial or some other problems. Because many companies, or small and medium entrepreneurs, while their core business is going well and their cash flow is good, do not think about other financing possibilities such as European Union or World Bank funds. In that moment some European fund is a completely peripheral thing. But on the field it is very often that companies can fall very fast into financial problems, and illiquidity may come overnight. For example the illiquidity in the Republic of Croatia in the period of only one year, from December 2008 to December 2009 has raised to 52,6 % (Business, 2010). So the importance of European Union funds as a possible alternative, is bigger every day, especially for those companies, who could become a direct user of those funds. In this sense it is good to have at least one employee, to follow this information, calls for proposals, and to have if possible some elementary education in the preparation of projects for European Union funds.

### 3. CONCLUSION

Generally, many stakeholders have passed through Project Cycle Management and similar education, but there are not many people who are able to implement it in the field. They are participating in the education with the aim of learning to prepare a project, but afterwards something different happens. There is still just few prepared or implemented projects on the field. Most participants of these courses are introduced to the main terms, but they never understand the main purpose of Project Cycle Management. It is a systematic procedure, a set of logically connected activities, which helps us to define our problems objectively and then the objectives (to solve a problem) and after the objectives, to define activities and results, which will bring us to the overall objective of our project.

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