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**Is there any Institutional Capacity for Integrated Regional Development? -
Application of New Governance Approaches in Croatia**

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- Abstract -

The intention of this paper is to give an insight into governance approaches currently used in Croatia on regional and local level. The main goal is to assess various models and approaches within the specific Croatian context, which is a transition and post-war country, but economically by far ready to enter the European Union.

Models used in the context of regional development in Croatia reach from sector and explicit socio-economic focus to more spatially and environmentally sensitive approaches, which are process oriented and rather flexible planning mechanisms. The variety of approaches causes different processes in understanding and implementation of policies, programmes, or plans.

Several questions, but with focus on institutional capacity in an integrated regional development context across governance levels and modes, will be targeted by this research: the level of political evolution to understand institutional inter-relationships, economic strengths to handle social and environmental aspects, and the applicability of "external" governance models based on e.g. European programming principles.

Insights will be used from experiences in a number of cases in Croatia, such as the National Strategy for Regional Development, Regional Operational Programmes, Sustainable Island Development Programmes, as well as Local Development Programmes.

Introduction

As the main question is focussed on *institutional capacity* for *integrated regional development* through the application of *new governance approaches* in Croatia, the meaning of the terms in the context of this research shall be explained firstly from a political and institutional economy perspective. Therefore, the *first chapter* is devoted to the creation of a general understanding with regard to “*institutional capacity*” in the sense of adequacy, human resources, public administration and management. In addition to this, “new governance approaches” are thought through notions like development as a process, planning mechanism, and politics in new democratic environments. Both issues are questioned against the concept of “*integrated regional development*”, which will be clarified further through the use of terms like region, integrated development, sustainability, and policy in an EU context.

In the *second chapter*, basic development facts and main development problems will be addressed in Croatia. The theoretical considerations addressed in the paper need a realistic ground for further questioning, whereby Croatia as the case country represents an interesting basis for institutional analysis. Croatia is a transition and post-war country, geographically located in Central and South-East Europe, considered as part of the Balkan countries, and eager to join the EU, which has been confirmed by the accepted accession candidacy. Models used in the context of regional development in Croatia reach from sector and explicit socio-economic focus, to more spatially and environmentally sensitive approaches that are process oriented and rather flexible planning mechanisms. The variety of approaches causes different processes of learning, understanding and implementation of policies, programmes, or plans. These ongoing developments provide fertile ground for further research in the institutional realm of development management capacities and EU pre-accession and structural funding opportunities.

In the *third chapter* a *methodological framework*, for analysing integrated regional and local development governance approaches used in Croatia, is proposed. The aim is to assess planning (or programming) approaches currently used within the specific Croatian context and predominantly introduced through International, European and foreign governmental donor agencies as well as adapted planning approaches of national institutions. The analytical framework is based on a number of questions to be considered in the analysis of governance approaches used in development planning in Croatia. The questions focus on institutional capacity in a development context across governance levels, an explanation of the level of

political evolution to understand institutional inter-relationships will be sought; the economic strengths to handle social and environmental aspects, as well as the applicability of external governance models will be questioned. In the *fourth chapter* a number of cases will provide the necessary sources of information on practical experiences in development planning in Croatia that will be analysed in accordance with the proposed analytical framework. Insights will be used from development processes and documents such as the *National Strategy for Regional Development* (NSRD), *Regional Operational Programmes* (ROP), *Sustainable Island Development Programmes* (SIDP), and *Local Development Programmes* (LDP). In the final *chapter* general conclusions are presented.

1. Conceptual reflections on institutions, governance and regional development

Institutions are recognized to be important for managing development. As development is nowadays understood in a broader, process oriented and even evolutionary sense, it can be accepted that development concerns all and not only those who are less or even undeveloped. Therefore, those areas, locations, regions or countries “of the West” that suffered severe difficulties during industrial transformation, will know very well what “the need for change and transformation” can mean for future development. Institutional and political economics deal with the role and importance of institutions and governance in development. Researchers in this field refer to most prominent works of North (2003), or Stiglitz (2002), but there are also interesting works of other authors like Ahrens (2002), Kiwit and Voigt (1995). In the context of regional and local as well as spatial development, there are also many authors that recognize the importance of institutions and governance in the context of sustainable development, such as Healey (1999), Albrechts (2001), Sumpor (2005) and many others.

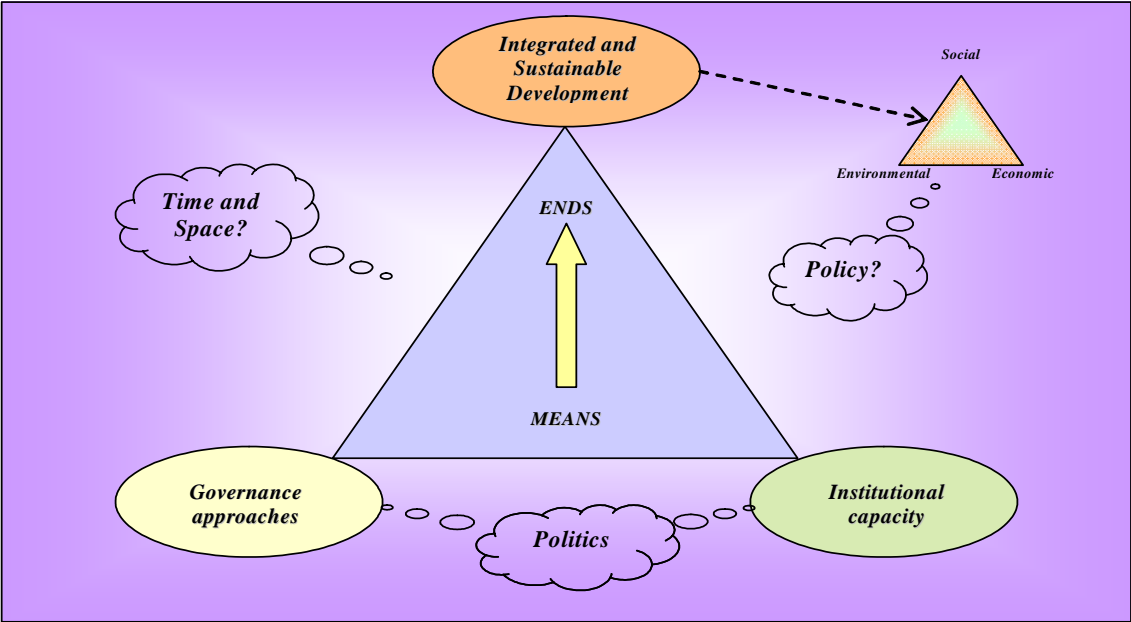
A central question of the role of institutions in development is their *institutional capacity*, be it the capacity for transition, change, or transformation. In this sense, it is important to take into account the adequacy of human resources, the often stressed need for financial resources and possibilities of know how in public administration and management. The capacity of institutions is often mentioned in the context of the “absorption capacity” of a country to use EU structural or pre-accession funds. Significant amounts of development funds are invested in technical assistance and institutional capacity building in order to enable institutions in the acceding countries to keep pace with the more advanced in the EU. A major part of the EU pre-accession funds are dedicated to technical assistance and institutional capacity building.

New governance approaches are directly linked to the previous term of institutional capacity, as nowadays significant weight is put on the use of more flexible, but still officially required planning and programming mechanisms, which is needed as a basis for effective development management. Also, during the past 10-15 years, governance processes and procedures became a focal point of research in development, political and institutional economics. Many reports, guidance as well as research documents dealing with institutions and governance are being produced on account of the European Commission (see for example the White paper on European governance, 2001). Governance is often mentioned in relation to horizontal and vertical communication and coordination problems linked to implementation of development policies, plans and programmes. Vertical governance is understood in the context of coordination across government levels – from the supranational to the local levels and vice versa (Sumpor, 2005). Increasing development problems occur between sectors, where institutions, divided by sectors, do not communicate or cooperate as a result of “*turf fighting*” over scarce budgetary resources or due to the so called “*silo effect*” or inter-institutional silence resulting from non-communication between government institutions usually organised according to specific policy sectors. In this context, democracy and politics play a key role as well. Whereby, emphasis is put on more transparency in public or governmental action and more accountability of politicians and public officials. EU programming principles such as participation or coordination directly target the implementation of new governance approaches through setting up new institutions, processes and interrelations in the new EU member countries and candidates for accession.

More and more it is understood that with the EU cohesion policy, actually *integrated regional development* is enabled that is based on the holistic concept of sustainable development, where the economic, environmental and social dimensions of development are considered as equally important parts of “One Whole” (Dräger, Sumpor, Starc and Horvat, 2003). The clear understanding of the necessity to integrate the different development or policy dimensions is simultaneously put into a spatial context characterised by differences of time horizons of its individual parts. In this sense, the social and economic cohesion goals of the EU are extended by a third goal that was clearly missing until now, namely – territorial cohesion (EC, 2004.a and 2004.b). The barriers of *spatial divisions* and sector differences in *time horizons*, such as economic profits in the short term, environmental concerns in the longer term, or the overall improvement of living standards of citizens in the medium term, represent practical problems to be considered when elaborating development programmes at any level of governance.

The theoretical considerations mentioned above are presented graphically in Figure 1. The causal link between *means*, represented by institutional capacity and governance approaches, and *ends*, reflected in the visionary attainment of integrated and sustainable development, is highlighted in the graphical presentation. The causal link is often omitted, when interrelations and interdependencies in regional development need to be considered. In the next chapter, basic data and contextual information on regional development in Croatia is presented.

Figure 1. An Integrated view of Institutions, Governance and Sustainable Development



Source: prepared by Author.

2. Croatia’s regional development context

2.1 Basic facts

Croatia’s total area is comprised of 56.5 thousand km² and 31 thousand km² of territorial sea. There are 1,246 islands making it the second largest archipelago in the Mediterranean. According to the 2001 Census there were 4.4 million inhabitants in Croatia (78/km²) living in 21 counties, composed of 123 towns and 423 municipalities. As the number of local units is changing constantly, today there are three more towns and additional six municipalities (07/2006) as presented in Table 1 below. Population density varies across the counties, besides the 1.217 inhabitants per square kilometre in the capital city of Zagreb – the highest is recorded in the Međimurje County (162/km²) and the lowest in the Lika-Senj County (10/km²). The biggest population density is around the urban centres Zagreb, Pula, Rijeka, Split, and Osijek, which home approx. 66% of the total population.

Table 1

Basic statistical data on county and local level in Croatia							
County/ and County center (town representing main economic and/ or administrative center)	County territory (km ²)	No. of local self-governments (status 07/2006)		Population (Census 2001)			
		Cities/Towns (urban centers)	Municipalities (rural centers)	County		County center (Cities/Towns)	
				No. of inh.	Density	Inhabitants	% in County
I. County of Zagreb (Ring)/ Velika Gorica -economic	3.078	9	25	309.696	101	63.517	20,5
II. County of Krapina-Zagorje/ Krapina	1.230	7	25	142.432	116	12.950	9,1
III. County of Sisak-Moslavina/ Sisak	4.448	6	13	185.387	42	52.236	28,2
IV. County of Karlovac/ Karlovac	3.622	5	17	141.787	39	59.395	41,9
V. County of Varaždin/ Varaždin	1.260	6	22	184.769	147	49.075	26,6
VI. County of Koprivnica-Križevci/ Koprivnica	1.734	3	22	124.467	72	30.994	24,9
VII. County of Bjelovar-Bilogora/ Bjelovar	2.638	5	18	133.084	50	41.869	31,5
VIII. County of Primorje-Gorski Kotar/ Rijeka	3.590	14	22	305.505	85	144.043	47,1
IX. County of Lika-Senj/ Gospić	5.350	4	8	53.677	10	12.980	24,2
X. County of Virovitica-Podravina/ Virovitica	2.021	3	13	93.389	46	22.618	24,2
XI. County of Požega-Slavonia/ Požega	1.821	5	5	85.831	47	28.201	32,9
XII. County of Slavonki Brod-Posavina/ Slavonski Brod	2.027	2	26	176.765	87	64.612	36,6
XIII. County of Zadar/ Zadar	3.643	6	28	162.045	44	72.718	44,9
XIV. County of Osijek-Baranja/ Osijek	4.149	7	35	330.506	80	114.616	34,7
XV. County of Šibenik-Knin/ Šibenik	2.994	5	15	112.891	38	51.553	45,7
XVI. County of Vukovar-Sirmium/ Vinkovci -economic (Vukovar-administrative)	2.448	5	26	204.768	84	35.912	17,5
XVII. County of Split-Dalmatia/ Split	4.524	16	39	463.676	102	188.694	40,7
XVIII. County of Istria/ Pula -economic(Pazin-administrative)	2.813	10	31	206.344	73	58.594	28,4
XIX. County of Dubrovnik-Neretva/ Dubrovnik	1.782	5	17	122.870	69	43.770	35,6
XX. County of Međimurje/ Čakovec	730	3	22	118.426	162	30.455	25,7
City of Zagreb - special status - "Capital city and county"	640	0	0	779.145	1.217	779.145	100,0
TOTAL Republic of Croatia	56.542	126	429	4.437.460	78	1.957.947	44,1

Source: Republic of Croatia, Central Bureau of Statistics, Census 2001 and Official Gazette, NN 86/06.

Croatia has always been a point of contact of different cultures and civilisations. Its regional identity is rooted both in geography and turbulent historical developments. For centuries the Mediterranean area was subjected to Italo-Venetian influence, while the Pannonian parts were subjected to influences coming from the central Ugro-Pannonian area. Northwestern Croatia was influenced by Germanic Central Europe. After centuries of difficult political struggle that culminated in the War of 1991-1995, Croatia obtained independence in 1991. In 1992 it became a member of the UN and in 1998 the last occupied parts of the country were reintegrated. War damages were immense in terms of population loss, as well as in terms of damage to the physical and natural environment. (Kordej-De Villa et al. 2004)

Demographic trends show that until 1991 Croatia had positive natural growth. During the “Homeland war” (1991-1995) the natural growth rate was negative and only in the period 1995-1997 the birth rate exceeded the death rate. After 1997 there was a sharp decline in the birth rate, which resulted in negative natural growth. Forced migration caused by the war, especially migration towards Zagreb in the period 1991-1995, resulted in a concentration of population in the capital. According to the 2001 Census, almost one quarter of the Croatian population lives in the capital city of Zagreb and the surrounding Zagreb County. In the period 1994-2003, more than 716,000 people moved from one settlement to another within Croatia. The largest share of the migrating population (12%) was recorded in 2003. With

regard to the place of migration in the period 1994-2003, migration between counties accounted for the largest part (45%). In 2003 six counties and the City of Zagreb had a positive migration balance, while in 14 counties negative migration balance was recorded, the highest being in Vukovar-Srijem (above 1,000) and Slavonski Brod-Posavina (cca. 900). (Kordej-De Villa et al., 2004)

Table 2

Croatian Regional GDP, mln EUR at current prices				
	2001	2002	2003	2004
I. Zagreb County	1.053	1.328	1.386	1.539
II. Krapina-Zagorje County	561	581	602	619
III. Sisak-Moslavina County	803	823	832	873
IV. Karlovac County	601	661	639	659
V. Varaždin County	877	995	1.019	1.010
VI. Koprivnica-Križevci County	643	695	697	717
VII. Bjelovar-Bilogora County	521	580	577	621
VIII. Primorje-Goranska County	1.794	1.893	2.129	2.243
IX. Lika-Senj County	215	267	324	432
X. Virovitica-Podravina County	373	399	411	429
XI. Požega-Slavonija County	317	336	364	390
XII. Slavonski Brod-Posavina County	539	585	599	659
XIII. Zadar County	585	664	785	849
XIV. Osijek-Baranja County	1.280	1.455	1.462	1.627
XV. Šibenik-Knin County	360	411	468	528
XVI. Vukovar-Sirmium County	594	655	688	738
XVII. Split-Dalmatia County	1.760	1.937	2.094	2.430
XVIII. Istria County	1.388	1.550	1.694	1.855
XIX. Dubrovnik-Neretva County	555	591	647	758
XX. Međumurje County	492	554	561	595
City of Zagreb	6.866	7.508	8.257	9.114
Republic of Croatia	22.177	24.468	26.235	28.683

Source: Republic of Croatia, Central Bureau of Statistics, First Release 12.1.2., 2006 and 2007, <http://www.dzs.hr>

Regional differences in economic and social development are generally defined in terms of regional gross domestic product and rates of unemployment, which are also aggravated by structural changes that have also significant social and economic consequences. Accordingly, in table 2 and table 3, GDP in nominal as well as per capita terms is presented on county, i.e. regional NUTS III level, for the period 2001-2004. In this period, GDP growth can be observed in almost all counties, except the slight stagnation in 2003 in the Karlovac and Bjelovar-Bilogora Counties, and in the Varaždin County in 2004. The highest share in the 2004 national GDP total was generated in the capital city (31.8%), which is then followed by the Counties of Split-Dalmatia (8.5%), Primorje-Goranska (7.8%), Istria (6.5%) and Osijek-Baranja (5.7%). Interestingly, besides Zagreb, the largest Croatian towns are located in these counties, namely Split, Rijeka, and Osijek and can be seen as the country's main industrial hubs or growth poles. On the other hand, the counties of Požega-Slavonija, Virovitica-Podravina and Lika-Senj are those with the least GDP levels.

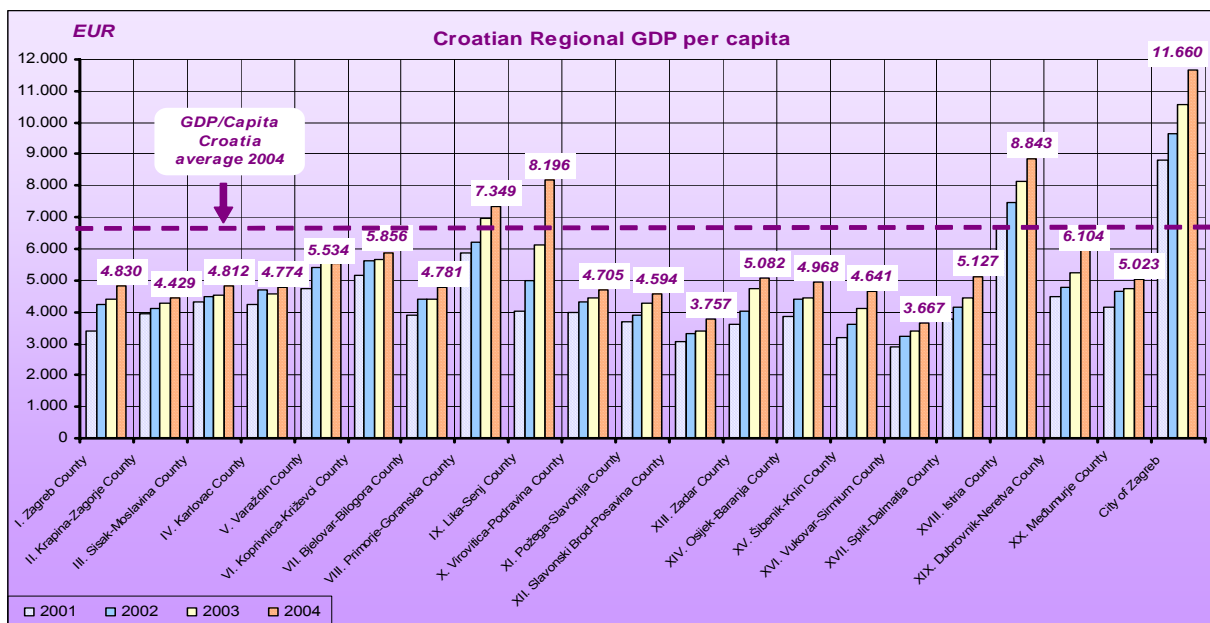
Table 3

Croatian Regional GDP in EUR/capita				
	2001	2002	2003	2004
I. Zagreb County	3.392	4.247	4.385	4.830
II. Krapina-Zagorje County	3.948	4.112	4.287	4.429
III. Sisak-Moslavina County	4.335	4.472	4.549	4.812
IV. Karlovac County	4.243	4.708	4.592	4.774
V. Varaždin County	4.752	5.407	5.564	5.534
VI. Koprivnica-Križevci County	5.168	5.613	5.661	5.856
VII. Bjelovar-Bilogora County	3.923	4.397	4.414	4.781
VIII. Primorje-Goranska County	5.871	6.197	6.977	7.349
IX. Lika-Senj County	4.008	5.011	6.109	8.196
X. Virovitica-Podravina County	3.994	4.303	4.453	4.705
XI. Požeška-Slavonija County	3.691	3.921	4.264	4.594
XII. Slavonski Brod-Posavina County	3.048	3.311	3.398	3.757
XIII. Zadar County	3.601	4.045	4.734	5.082
XIV. Osijek-Baranja County	3.877	4.411	4.447	4.968
XV. Šibenik-Knin County	3.179	3.624	4.115	4.641
XVI. Vukovar-Sirmium County	2.898	3.213	3.397	3.667
XVII. Split-Dalmatia County	3.785	4.136	4.446	5.127
XVIII. Istria County	6.718	7.471	8.122	8.843
XIX. Dubrovnik-Neretva County	4.504	4.783	5.225	6.104
XX. Međimurje County	4.152	4.678	4.736	5.023
City of Zagreb	8.812	9.634	10.586	11.660
Republic of Croatia	4.995	5.510	5.909	6.461

Source: Republic of Croatia, Central Bureau of Statistics, First Release 12.1.2., 2006 and 2007, <http://www.dzs.hr>

In 2001, only three out of 21 Croatian counties had per capita GDP above the national level. This trend remains almost the same and is also visible in 2004. Only significant changes occur in the data referring to the county of Lika-Senj, which moves from the 3rd last place to the 4th best place in 2004, due to the motorway construction works (Zagreb-Split) and low population density (10/km²). Therefore, changes in the level of overall development should be considered rather carefully.

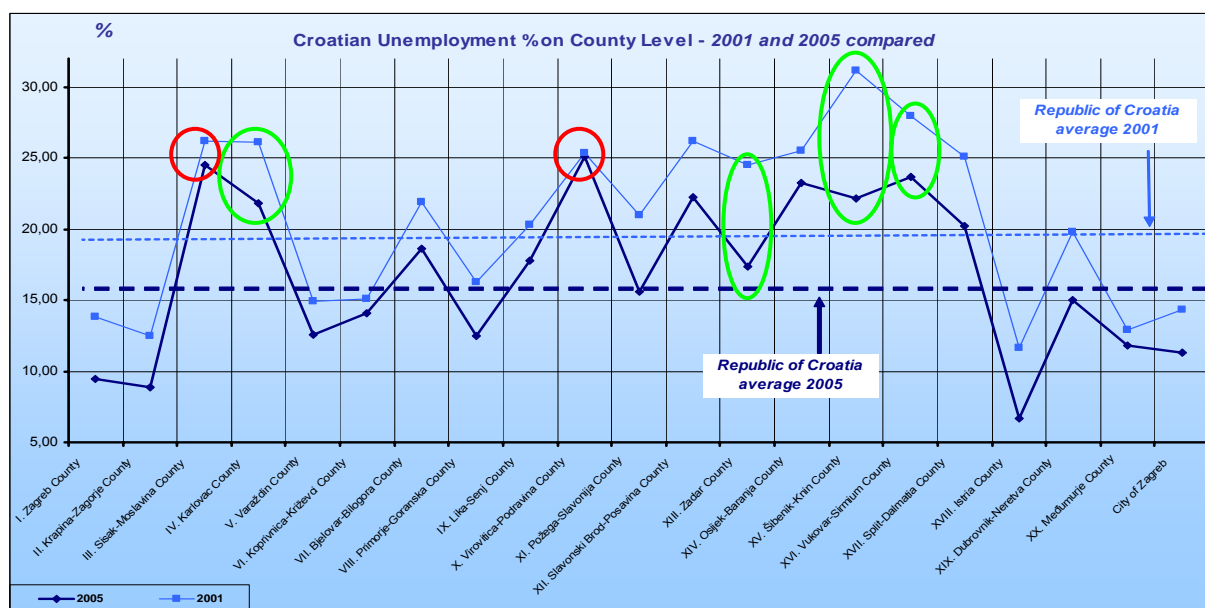
Figure 2



Source: Republic of Croatia, Central Bureau of Statistics, First Release 12.1.2., 2006 and 2007, <http://www.dzs.hr>

In 2004, per capita GDP of the City of Zagreb was 80% above the national average, while in Istria it was 37%, in Lika-Senj 27% and in Primorje-Goranska County 14%. In all the other counties the estimated per capita GDP was below the national level and varied between 57% of the national per capita GDP level in Vukovar-Sirmium and 95% in the Dubrovnik-Neretva County. Lowest GDP per capita in 2004 can be seen in the counties of Vukovar-Sirmium and Slavonski Brod-Posavina.

Figure 3



Source: Estimates based on data from Croatian Employment Services (<http://www.hzz.hr>); Central Bureau of Statistics (<http://www.dzs.hr>) - Census 2001.

Another indicator of regional disparities is the regional unemployment rate. Unemployment rates by counties are estimates and results by counties in comparison for 2001 and 2005 are presented in Figure 3. The unemployment rate in 2001 was 19.5% on national level and in 2005 improvements in the economy are reflected in the lower national unemployment rate of 15.8%. On county level in 2005, the lowest rates were in Istria (6.7%), Krapina-Zagorje (8.9%) and the Zagreb County (9.5%). Highest unemployment rates were recorded in Virovitica-Podravina (25.1%) and in Sisak-Moslavina (24.6%). Interesting positive developments within this 5-year period can be seen in the significant drop in unemployment rates in the Zadar County and the Šibenik-Knin County. Exactly in these two counties, the first *Regional operational programmes* (ROP) based on participative approaches and EU programming guidelines with the help from European consultants financed through the

CARDS programme for Croatia and UNOPS were elaborated in 2001. Since then, a total of eight county ROPs were elaborated and funded through the CARDS programme for Croatia.

No change in unemployment rates throughout the same period occurred in the Virovitica-Podravina County, which significantly lags behind other Croatian counties. Though this county started the ROP elaboration process just recently, this does not mean that they did not have any development programmes. They did. In 2002, the county assembly adopted an SME development strategy for the county, but it seems that no positive effects were recorded in the years that followed. Both approaches used in the elaboration of development programmes were based on in the EU standard programming procedures and participation of key stakeholders. However, the main difference was that the ROP's had a priori guaranteed funding and real political commitment as well as eager public administration staff that cooperated efficiently with the international long term experts engaged to support the "implementation" of the elaborated programmes. Here it has to be mentioned that local political stability is of utmost importance as this reflects on the political commitment to follow agreed development actions. Such impediments were the main reason that in spite of the elaborated ROP in the Sisak-Moslavina County, also CARDS funded, no significant change can be seen in the very high rate of unemployment.

2.2 Administrative structures and formal governance processes

The legal framework for local and regional self-governments in Croatia was established in 1992. In the following years, a number of reforms of the territorial and institutional framework occurred. In 2001, a new Law on Local and Regional Self-Government was adopted, where counties were clearly defined as the units of regional self-government, while cities and municipalities remained units of local self-government. Today, the Republic of Croatia is a unitary state with 20 counties referred to as regions, and the capital city of Zagreb, which has a County and City status. Until 2001 counties had dual functions, performing delegated tasks from the national level and own self-government tasks. The existence of two kinds of public administrations on county level, i.e. the devolved regional self-government and the deconcentrated national government offices on county level, created an unclear institutional structure. After the separation of offices on county level in 2001, the county self-governments found themselves in a situation of lacking personnel, funding and real authority. With the emergence of regional development practices supported also by the EU and other bilateral donors, counties started to strengthen their economic and social development roles and position throughout the Croatian territory.

Even though counties are referred to as regional self-governments in Croatian legislation, they are actually too small to be considered as regions in European terms and belong in fact to the local government level (NUTS III level). As Croatia is a candidate for accession to the European Union, the Croatian Central Bureau of Statistics (CBS) initiated a consultation process on possible scenarios for dividing Croatia into NUTS II regions. Various scenarios ranging from one to five regions were discussed within Croatia, but also with representatives from Eurostat and the European Commission. Statistical regions would be comprised of a number of administrative regional units, i.e. counties. The final agreement was reached between all relevant sides in March 2007 and Croatia will be comprised of three statistical NUTS II regions – North-West Croatia (6 counties), Central and East (Pannonian) Croatia (8 counties) and Adriatic Croatia (7 counties).

Since 2001 a number of amendments to the Law on Local and Regional Self-Government were adopted, whereby a last change to the Law happened in October 2005, when a new category of local units was introduced – “big towns” (with 35,000 or more inhabitants). In general, the Local Self-Government (LSG) level is comprised of 126 cities or towns and 429 municipalities (status July 2006), whereby this number increases constantly over time. The city or town is a unit of local self-government with more than 10,000 inhabitants, constituting a unitary urban, historical, natural, economic and social space. The vast majority of towns have less than the minimal number of inhabitants, since the Law prescribes exemptions under which a municipality can gain a town status. The municipality is a local self-government unit, consisting of territories of several inhabited places representing a natural, economic and social entity, and which is connected by common interests of its inhabitants.

2.3 Institutional and fiscal capacities on regional and local level

The total number of 576 local and regional government units in comparison with the population of 4.4 million does not say much. But knowing that from 1990 the number of LSG increased five times and that it constantly increases regardless of the fact that many of the existing LSG are unable to fulfil their functions (many being highly dependent on central government grants), it can be stated that this is not sustainable in the long run. The population size of units of local self-government also varies widely, whereby approximately 70% live in cities or towns (urban) and 30% in municipalities (rural). Further, according to the Census 2001 data only four cities have more than 100,000 inhabitants. There are also 28 municipalities that have less than 1,000 inhabitants. But regardless of the actual size, local units have the same responsibilities and accomplish the same functions. It can be expected

that the role of the county administrations is to support local self-governments that have less organisational and fiscal capacities. While stronger urban centres will have a stronger position than counties in financial terms as well as in the availability of human resources.

The economic and administrative strength of the major urban centres was considered with the first phase of decentralization, which was initiated in 2001. An analysis of the fiscal capacity of local self-government and administration units in the period 1999 – 2000 was conducted for that purpose by using a number of indicators with a view to obtaining relevant indicators of the real state of affairs in the local self-government financing system. The 2000 indicators, obtained by an empirical analysis of fiscal capacity and the ratio between current revenues and current expenditures for the basic functions to be performed by each local self-government unit, suggest that more than 30% were unable to cover their current expenditures by current revenues. However, the study does not address in detail the sizes of local governments nor whether the local governments actually provide all legally foreseen services. The weaker LSG therefore either rely on central government transfers or simply do not provide the mandatory services. For the initiation of the decentralization process, 32 cities/towns and 21 counties were selected to take over new responsibilities. The Croatian Ministry of Finance published in 2006 aggregated data on the consolidated general government budget outturn for 2001-2003. These data referred to the central government and extra-budgetary funds outturn, and local data for 53 units that entered the first phase of decentralization in 2001. The consolidated general government total revenues were between 46-47% of GDP in 2001-2003, while expenditures and lending minus repayments exceeded total revenues resulting in an overall deficit of around 3% of GDP every year in the period. Some policy changes occurred during that period (pension, health and employment contributions were integrated into the State Treasury system). Central government revenues increased from 32% in 2001 to 39% of GDP in 2003, while central government expenditures show an even more significant change from 26% in 2001 to 38% of GDP in 2003.

Croatia is a highly centralised country, which can be confirmed on the basis of local self-governments revenue shares in GDP and the share in the total government budget revenues. In 1999, the share of local budget revenues in consolidated revenues of the general government budget was 10.3% (or 5.4% GDP). In 2000, the year before the launch of the first phase of decentralisation, the share of local budget revenues in consolidated revenues of the general government budget was 10.9% (5.2% GDP). The 2001-2003 fiscal data for the local level (based on 53 local and county units) does not show any significant change during that

period, where revenues rose only from 4.1% and 4.7% of GDP. Expenditures rose from 4.3% to 5.2% of GDP, while the deficit of local governments increased slightly from 0.2% to 0.5% of GDP in the same period. These results show that even though, the decentralization process was initiated, no significant changes in the local fiscal data occurred.

At the end of 2006, the Government proposed changes in the local level financing structure and the Parliament adopted them in the Law on financing local and regional self-government units (Official Gazette No. 136/2006). Starting with January 2007, the shares in the income tax increased in favour of the local and regional units, while the profit tax will not be shared and became in its entirety a central government income. Due to the loss of the profit tax share, only those local governments will suffer fiscal losses that had a strong economic base, such as the capital city of Zagreb, while most other local units will expect more revenues.

As the main goal is to give an insight into governance and development approaches currently used in Croatia, various regional development programming approaches within the specific Croatian context will be assessed based on a set of questions presented in the next chapter.

3. Questioning institutions, governance and integrated development approaches

It is not the intention of this research to define or investigate the fundamentals of the three interrelated notions of *institutional capacities*, *new governance approaches* and *integrated development*. This has been done in numerous theoretical works. The main question is rather focussed on the following: Are the *means*, upon which obviously most politicians like to decide, adequate to reach the *ends* that are encompassed by the holistic vision of sustainable development? Though this question does not necessarily look for one answer, and it is an acceptable idea that not one, but many answers can be expected for a whole range of sub-questions related to this quite complex question must exist. Therefore, a multiple set of sub-questions can lead towards some partial answers that allow for improvements in the institutional and governance system of a country or region. Accordingly, the analytical approach for the assessment of the different governance approaches in regional development is based on rather advanced questions related to the three mentioned key aspects:

a) In what state are the existing institutional capacities and political climate?

Here sub-questions might go in the direction of questioning the level of political evolution and the readiness to understand the necessity of “good” institutional inter-relationships? Or even the concept of “democracy” as it is translated and applied in the various spheres of

everyday life might be problematic. The answers to these questions are rather descriptive. It can be inferred that a low level of political evolution will hamper development programming and plan implementation. Also, if no common understanding of how democracy and its basic principles work in a country, region or locality, then equity is endangered.

b) Are any new governance approaches introduced and applied?

Instead of claiming “how good” a certain model is or that there is only “one best” model for a country’s development, a more advanced question shall be put forward, namely: How applicable are "externally created" governance models and how much adaptation is needed or considered, to make them functional in a new institutional environment or context? It needs to be stressed that new countries, institutions, or processes do not come into existence out of nothing – their new existence and functioning is based on existing institutional frameworks, foundations, processes and traditions. But the question is to what extent are these issues taken into account? It is generally accepted that there is no ONE best model or approach, but there are approaches that work better in certain contexts or environments than other. Helpful in this regard are guidelines that are more flexible and rely on acceptance of general principles such as participation of key stakeholders in a development process. However, adaptation is necessary in order to introduce new ways of doing things, and more time is needed to create a learning process and understand that learning and development actions encompass processes and flows.

c) Are possibilities for integrated regional development in a holistic way considered?

A very common, but important question is related economic strength, which in itself represents only a *mean* to reach sustainable development, to handle social and environmental aspects, as required within the holistic concept of sustainable development. However, when applied, development actors are often in the situation to ask themselves, if sustainable development is a realistic goal or a mere vision? Quantitative results are usually indicators of economic strength, such as budgetary revenue or expenditure, other funding sources such as grants, loans, public-private investments etc. It can hardly be expected that if there is no sufficient economic strength that development will be possible. Another important factor of enabling sustainable development is the sufficiency of organisational capacity and availability of competent human resources to implement policies in a collaborative way. Integrated regional development is not possible, if policy implementation is individualised by sectors.

In the next chapter this conceptual framework will serve for the assessment of recent development and programming approaches in Croatia in the context of EU accession.

4. Croatian development programming processes and documents

The analytic framework for assessing development processes presented above is far from being complete. It was also not the intention of this research to create a perfect assessment framework, but to gradually gain more insight and better understanding of the current state. Therefore, the analytic framework questions represent a continuation of previous research (Sumpor, 2005), whereby with this new set of questions, new answers to prevailing local and regional development questions in Croatia can be further researched.

Development planning and programming is an activity as well as a continuous process that refers to all levels of government. Strategic documents are elaborated based on projects and foreign donor funded development actions, including the EU CARDS programme funds for Croatia. At the same time, programming is an obligatory requirement when budgeting for capital investments, according to the Croatian Budget Law (2003). However, programming methodologies and particularly approaches vary significantly. Documents produced usually lack important information on implementation structures, coordination modes, financing sources and responsibilities for individual tasks and activities. Croatia has actually a long tradition of development planning. However, *the main problem even today is implementation of development strategies, programmes and plans.*

In the past five to ten years an extensive trend of establishing development institutions on county and local level can be witnessed in Croatia. A number of SME related development institutions evolved during the 1990-ties on local and county level. These institutions are being transformed into county or regional development agencies and all counties have one today. A major challenge for development institutions in the future will be the active role in managing and implementing development projects funded by the EU and other public and private sources in Croatia.

The results of the analysis of four programming cases in Croatia across different levels of governance and in accordance with the analytic framework can be described as follows:

4.1 National Strategy for Regional Development of the Republic of Croatia (NSRD)

a) In what state are the existing institutional capacities and political climate?

A very strong incentive for longer term development planning and programming in Croatia came with the expected and promised financial support from the European commission (EC) to support the accession process of the Republic of Croatia towards the European Union. One of the preconditions for using pre-accession and later structural funds is to develop

institutional structures and capacities and to enable them for the absorption of these funds. In this context, technical assistance for institutional capacity building and raising absorption capacity of Croatian institutions is foreseen in the pre-accession programmes for Croatia. Clearly, such development support is only possible through coordinated action based on adequately conceptualized development programmes.

The Republic of Croatia expressed its need in the consultation process with the EC to elaborate a National strategy for regional development, as well as the related uniform Law on regional development. The elaboration process started in 2003 with EC technical assistance support financed from the CARDS programme for Croatia. After a complex elaboration process facilitated by international and national experts that closely cooperated with the Croatian Ministry of sea, transport, tourism and development, a draft National regional development strategy was finalized in autumn 2005. The adoption of the strategy and law by the government and parliament is still expected (status April 2007). Formally, regional development policy is still implemented as before, based on partial laws and bylaws targeting specific undeveloped or war torn areas. However, programming has been introduced on county level throughout Croatia based on the draft NSRD.

An initial idea at the time of NSRD elaboration was also that from the same funds technical assistance for the elaboration of the *National development strategy (NDP)* will be financed, in which the main national development goals, regional and sectoral, would be integrated. The elaboration process was supposed to start in mid 2005 and go on for two years. This was postponed upon political decision and instead of this strategy; a strategic reference framework is elaborated of shorter duration and narrower scope, i.e. to create a strategic concept for the use of EU pre-accession fund only. Still, the elaboration of a National development strategy is politically seen only as an instrument for future European structural funds, which will become for Croatia important when joining the EU (expected in 2009-10).

b) Are any new governance approaches introduced and applied?

Complex institutional structures are introduced with this project and by formally respecting the partnership principle, though a predominantly vertical influence of the governmental hierarchies can be felt. Collaborations are not directly built in this process, while formalization through collaborative Partnership agreements between the county self-governments and the Croatian Government are proposed in the draft Regional development law. A strong international influence can be recognised in the very broad formulation of national goals and objectives.

The programming approach as well as the mode of recognizing institutional interdependencies and future institutional structures, including the key elements of the future implementation, was assessed. External experts emphasized the need to establish institutional structures and create conditions for strengthening the absorption capacity of the Croatian public administration, to a great extent the institutional dimension of the needed interaction of horizontal and vertical coordination is taken into account. In this context, horizontal coordination takes into account the need to involve institutions that cover different policy sectors (inter-ministerial coordination). Vertical coordination refers to interactions between institutions on different governance levels (national, county and local level).

Since the formulation of the new national regional policy, based on recommendations of European experts, is directed towards providing an enabling framework on national level - "from the top down", the proposals for the content related part are expected from the lower levels - "from the bottom up". Therefore, it will be very important in the future that lower levels of government, the regional and local units, will also be able to express their real needs through adequately elaborated development programmes. This consultative process initiated a strong bottom-up force for development, as almost all counties have a regional operational programme, despite the fact that this is not obligatory yet as the draft Law on regional development is still stuck in a political decision making vacuum.

c) Are possibilities for integrated regional development in a holistic way considered?

It can be expected that concrete coordination problems will occur when the content related dimension is considered during the formulation of the Action plan, as well as the goals, measures and activities within the proposed programmes. The content related dimension that is usually linked to regional development issues is not recognizable in this document. This leads to the conclusion that horizontal institutional relationships were not considered sufficiently. It is not clear what the government actually wants to enable with this policy - besides better administrative structures for easier flow of funds? Which goals and objectives shall be followed by interested parties on other levels of government and in which direction shall they act? It seems that the content related issues are left to new programmes or projects.

Clearly, the environmental and spatial dimensions have not been considered in this strategic document. These aspects will in the future play a significant role when concrete project proposals will be elaborated. Concretely, a strategic environmental assessment will be an obligatory requirement, once Croatia joins the EU; or it can be expected that aspects of territorial cohesion will have to be considered in regional development programmes.

4.2 Regional Operational Programme of the Zadar County (ROP)

a) In what state are the existing institutional capacities and political climate?

The Regional Operational Programme of the Zadar County was the first strategic programme elaborated in 2001 with support of international technical assistance (UNDP-UNOPS and EC) and in accordance with general programming principles recommended by the EC. The assembly of the Zadar County adopted the ROP in December 2003 and became thereafter an official County development document for the period 2004-2010. However, the programme was not implementable in the first year, because the operational plan was only defined up to the level of measures and a tentative list of possible actions was prepared that could have been implemented within this framework of measures. It was recognized that for the implementation of the ROP the county did not provide any funds from the annual budget in the first year and too many priorities were defined.

b) Are any new governance approaches introduced and applied?

The initiation of the consultative process and realization of cooperation in working groups represented a special challenge for the County. Special attention had to be provided for the identification of the real interested partners, and inclusion of a sufficient number of stakeholders, in order to achieve an adequate representation, while constraining at the same time the involvement, as to keep the process efficient. It was recognized that the culture of dialogue (communication) between governmental and non-governmental interest groups is not developed sufficiently. In this process, the County tried to keep the consultation process going, however, admitted that this is a learning process for them as well that will continue also during the implementation phase.

A second technical assistance team of EU financed external experts were engaged to support the county during the first phase of ROP implementation from mid 2004. This team identified after the ex-ante evaluation shortcomings in the programme and proposed immediately to revise the ROP during 2005. Implementation mechanisms had to be created and a Regional partnership group was formally established. The formal coordinator for the ROP implementation remained the same person within the County administration as in the programming phase, and is also the main responsible for the Partnership Group.

c) Are possibilities for integrated regional development in a holistic way considered?

The entire concept of regional operational programming is based on EU programming principles and the overall cohesion policy goals that were entirely focussed on socio-

economic development in the past programming perspectives. This has directly influenced the development programming processes through EU guidance documents in countries that prepare their institutional structures for the EU accession process and future implementation of EU policies and use of structural funds. Therefore, the development programmes for all Croatian counties are based on identified social and economic development needs, while environmental and spatial aspects are only marginally addressed.

4.3 Sustainable Island Development Programme of the Island of Šolta (SIDP)

a) In what state are the existing institutional capacities and political climate?

The Sustainable Island Development Programme (SIDP) of the Island of Šolta was the first formally adopted multilevel governance development management instrument and first development document of that sort elaborated for Croatian islands. The elaboration started in 2001 based on the initiative and within the project "Consultations in regional development planning in Croatia" (first phase 2001-2002), which was financed by the German government and implemented by the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) in cooperation with the Institute of Economics, Zagreb (EIZ). The initiative to elaborate the programme with the support of international and domestic experts was well accepted by the local self-government. One of the central goals of the project was to provide technical assistance to the Croatian government and its institutions in regional development planning. The initiation of elaborating the SIDP for Šolta represented direct support to the main partner of the above mentioned project, the former Ministry of public works, development and construction, in the implementation of the National Island Development Programme in 1997 and the Island Act adopted in 1999 (changes in 2002). Although island development based on programming was not on a high rank on the list of national political priorities. This was one of the main reasons why there was a very long time-gap of 20 months, when the Municipal Council of Šolta adopted the SIDP (Feb. 2002) and the time when the Government of Croatia has finally adopted it (Nov. 2003). This has also negatively influenced the initially very positive expectations of the authorities and citizens on the Island of Šolta. In the meantime, during the second phase of the technical assistance project implemented by the GTZ and EIZ (2003-2005), the direct support was directed towards the Directorate for Sea, part of the new Ministry for Sea, Transport, Tourism and Development (since 2004), in initiating the elaboration of all the remaining development programmes on state and island level. By the end of 2005 all draft programmes (a total of 40 programmes) were ready, while adoption by the Government is postponed on regular basis due to various political reasons.

Despite the weaknesses that derive from the insufficient organizational and fiscal capacity of the municipality of Šolta, as well as the weakly functioning system on national level regarding Island development policy, the SIDP of Šolta is being implemented - not completely, but at least within the given circumstances and possibilities.

b) Are any new governance approaches introduced and applied?

According to the Island Act, the mentioned ministry was responsible to initiate the elaboration process of overall 26 SIDP, including the Island of Šolta, as well as 14 sectoral State Programmes for Island Development (SPID). The mentioned programmes (40 in total) have to be adopted by the Government of Croatia, as Islands are areas of special state interest. Accordingly, the national institutional, legal and programming framework for the implementation of National Island Development Policy was created already in 1997, interestingly without special foreign assistance. However, regulations for the implementation of this policy were missing, which would make the stipulations in the Island Act operational. In this context, the initiation of the SIDP elaboration for Šolta was a pilot project that was consciously accepted by the ministry after the programme was elaborated. The experiences gained through the strategic development planning process in the case of the SIDP Šolta during 2001 represented the methodological basis for the preparation of further programme elaboration regulations and procedures.

c) Are possibilities for integrated regional development in a holistic way considered?

The island development programmes are conceptually entirely based on the holistic concept of sustainable development. This has also entered national legislation and was fully respected throughout the elaboration process of the state level as well as island level development programmes. However, it seems that the planning process did not represent the major problem in this process, but the political adoption process is still quite problematic as well as the implementation as programme based development. It seems that despite the national legislation, sustainable development approaches are still politically not fully comprehended.

4.4 Local Development Programme of the Town of Virovitica (LDP)

a) In what state are the existing institutional capacities and political climate?

In the introduction to the strategic development programme of the town of Virovitica, it is stated that "at the beginning of 2001 the Executive body of the town of Virovitica has put forward the decision on the elaboration of a long-term strategic development programme, which will enable all development stakeholders of the town to reach an agreement on the

future direction of development, and the executive body of the local authorities of the town of Virovitica will have directions for the most efficient and adequate projects, activities and investments". It is also stated, that the programme was elaborated with technical assistance project financed by the German government and implemented by the GTZ and EIZ.

The initiative to elaborate the strategic document for Virovitica actually came from the experts engaged in the mentioned project. Unfortunately, this programme never gained the opportunity to become a development management instrument of the local government. It was elaborated in a period of significant political instability in the town. At the same time when the executive body of the town and town council were adopting the programme, an opportunity to dismiss the acting mayor was being prepared secretly. The beginning of the elaboration process was characterized by the first change of government, due to formal local elections in 2001. While by the end of 2002, the same year when the strategic development programme was adopted, early elections were announced. The new local government did not accept the programme as it lacked the *sense of ownership*, even though the new mayor voted for it, when he was a representative of the town council. The adopted programme was for a while available on the official web pages of the town. However, soon after the early elections at the end of 2002, almost the entire managerial level of the town administration was dismissed and new web pages were created. The new local government had its own development concept and did not refer anymore to the adopted long-term strategic development programme of the town.

b) Are any new governance approaches introduced and applied?

The experts used in the elaboration process modern strategic development planning approaches that ensured also participation of various interest groups of the town. Even though, Croatian legislation does not require strategic development planning on local level, the mayor and executive body did accept the elaboration of the programme with external technical assistance. In this context, the strategic development programme was elaborated and was supposed to represent a new framework for development policy in the town of Virovitica, as well as a basis for coordinating development activities in the territory of the town.

c) Are possibilities for integrated regional development in a holistic way considered?

During the programme elaboration, the experts introduced a holistic approach in the analysis of the current situation in the town. Thereby, five sectoral analyses on the state of economic development, social development, environment, spatial development and institutional structures were prepared on the basis of basic statistical data and direct interviews.

Participatory approaches were used throughout the elaboration process and local experts were involved in the process from the beginning. Even an analysis of all planned actions in terms of implementability throughout the foreseen time-span was prepared. The results indicated that most of the planned activities were actually not financially demanding, but rather requiring more active engagement of the existing staff. Although, the highest figures foreseen in the budget were actually larger infrastructure investment, but which represented just a smaller share of the overall list of planned actions and activities in the Operational plan. The local development plan seemed to be realistic and implementable. However, its destiny was just a local administration shelf.

5. Conclusion

Based on experiences in the application of new governance approaches in Croatia, it can be concluded that there are potentials to raise the existing institutional capacities further to levels that are needed to more successfully implement integrated regional development programmes. To build institutional capacities requires time, willingness to learn and political openness to new governance processes and approaches.

Clearly, political stability is a key factor to any development process. However, the introduction of holistic and participatory approaches might seem revolutionary to some autocratic and traditionally paternalistic environs, while these approaches require more patience, communication and deeper knowledge than any other development approach before.

From this research it could be recognised that there are potentials on local and regional level, while many processes are being introduced from above, where pressures are high and capacities are the weakest. Politics has also its strongest influence on national level and in central government institutions. While on local and regional level competent individual development actors play a crucial role. When taken together, all those competent individuals create a strong force that started to push national level representatives to act in more and more transparent and accountable ways. These processes can be in a large extent be traced back to the introduction of new modes of governance and creation of new institutional structures and processes in Croatia since the beginning of this 21st century. It is an exciting process and provides a universe of research opportunities for all those interested in institution building and development processes in newly established countries.

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