

Frohlich, Zlatan

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50th Congress of the European Regional Science Association
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EU regional policy and Croatian regulatory framework

Zlatan Fröhlich
Zagreb Chamber of Economy, Zagreb, Croatia
E-mail: zfrohlich@hgk.hr

Abstract

As a candidate country, which is ready to end negotiation process with EU in 2010, Croatian regional policy is closely tied into the EU accession strategy. A major objective will be to prepare for the introduction of EU cohesion policy and the Structural Funds. The pre-accession funds will contribute to that effort. This will require a significant effort on the part of the government to strengthen the institutional base for the management of the Funds – from the centre of government to regions across the country. The National Strategy for Regional Development will be a major part of that effort.

The central logic of the Structural Funds (2007-2013) is that concentrating much of their resources on the least developed member states and regions, EU regional and cohesion policy can contribute to reducing disparities while raising the competitiveness of the EU as a whole. The outcome of this debate over the next years will have significant repercussions on the direction and management of new regional policy in Croatia.

The strategy sets the context for balanced regional development both at national and sub-national level as well as draws attention to development needs of the ‘assisted areas’ as well as counties highlighting their different development profiles. It brings together the main analytical parts: policy framework, institutional context and finally an assessment of the existing development interventions on county, NUTS 2 and assisted areas level.

As Croatia actively prepares for accession to the EU, it is crucial that it is well prepared for the implementation of EU regional policy issues. It means that national documents and new adopted legislation should be in line with EU legal framework and procedures. In the paper will be analyzed complementarities between Croatian and EU legislation, with emphasize on Croatian regional development strategy issues.

1. Croatian regional strategy in the framework of the EU accession process

The purpose of this analysis is to create the basis for the elaboration of a national strategy for regional development which is in line with EU principles and practice. The goal of national regional development policy is:

- to contribute to overall national growth and development by enabling those regions and counties which are lagging behind the more prosperous to compete,
- to reduce the social and economic disparities between the regions/counties and
- to provide a national framework for coordinated local initiative for economic and social development across the country.

As Croatia actively prepares for accession to the EU, it is crucial that it is well prepared for the introduction of EU Structural Funds and pre-accession funds. This will require a significant effort on the part of the government to strengthen the institutional base for the management of the Funds – from the centre of government to local areas across the country. The national strategy for regional development will be a major part of that effort. It will address the internal disparities which are damaging the overall development prospects of the country. In a separate but related exercise, the National Development Plan, and the work associated with it, will provide a framework for dealing with the deep structural obstacles which block Croatia's path towards convergence with the richer member states of the EU. The National Development Plan will eventually incorporate, as a core priority, within a single framework, the National Strategy for Regional Development and Action Plan for Regional Development.

2. Main characteristics of the previous Croatian regional policy

Among the main characteristics influencing Croatia's regional policy is extreme fragmentation of territorial units. Croatia has 20 counties and the city of Zagreb, as well as 556 local units, out of which 429 municipalities and 126 cities. A further characteristic is the fact that as many as 256 out of 557 local self-government units (towns and municipalities) have a development index below average (below 75% of Croatian average) and differences in socio-economic development between the most and least developed counties are nearly sevenfold. The most developed municipalities are mainly located in the North-West part of Croatia (Istria and the Primorje Goranska county) while the least developed ones are in the central and eastern part of the country.

Till recently, the approach to regional development can be termed as inconsistent, with no overall policy with clearly defined goals, actors and instruments. An unflexible and static approach, based on central planning, reactive actions, often on an ad-hoc basis¹, were among its basic elements till very recently. In such circumstances the focus on outdated instruments and development of physical infrastructure, with hardly any attention till recently being given to competitiveness and growth was not surprising. A further characteristic was its inertness in regard to new circumstances created by the accession process and the non-existence of strategic development planning.

¹ Implemented measures and support were more focused on ineffective alleviating of pressing problems then on creating favorable circumstances and environment for sustainable and balanced development, with due attention also being given to regional competitiveness

Further, the lack of political will for introducing a modern and coherent regional policy and establishing a new institutional framework for its implementation was persistent throughout the past decade and the lack of capacity for effective governance only accentuated the persistent problems. Among other characteristics of the recent regional policy the following can also be mentioned: poor fiscal capacity of local and regional units², poor horizontal and vertical coordination between central state as well as other bodies and institutions dealing with regional development³. Needless to say, effective monitoring and evaluation of ongoing and implemented development projects did not take place, meaning that there was no basis for improving and further developing the policy as well as the implemented measures and government support. In such circumstances it is not surprising that the role of local actors, “practitioners” and “initiators” was very important. They triggered a relevant number of development initiatives throughout Croatia, with their initiatives contributing to the establishment of the first local and regional development agencies, business support centres and incubators. Furthermore, they supported the preparation and implementation of numerous successful development projects with impact for the socio-economic development of their regions. However, their role was limited from point of view of the above mentioned circumstances and obstacles on the central government level, including very poor existing resources, as well as instruments for supporting regional development.

3. Basic elements of the new regional policy

The central government institutions in Croatia, even though with a substantial delay and more or less success, have undertaken very concrete steps in designing a new regional policy as well as the necessary institutional framework for its implementation. This process, even though initiated as early as the very beginning of the decade, with the first draft Strategy of Regional Development (SRR) drafted 5 years ago, resulted finally with the passing of the Law on Regional Development (LRD) in December 2009, and with the long awaited finalized Strategy expected to be adopted by the Government by summer, along with all the by laws respective rules and procedures. In such circumstances, the so far implemented approach in regard to regional development is radically changed.

This very change of approach and the new regional policy is to a great extent the result of the accession process and Croatia’s central government institutions’ readiness to adjust our own regional policy in line with the principles and practice of the Cohesion policy. From this point of view, it can be stressed that the designing of the new regional policy was to a great extent both initiated as well as influenced by the standards and approach used in the framework of Cohesion policy.

The new course is also the reflection of some of the changes in the perception and approaches, as well as instruments of both national regional policies in old, as well as new EU member states, which have also partly influenced the current new approach and instruments of our own regional policy. It remains to be seen however, how efficient our policy makers and stakeholders on all levels will be with the implementation of the ambitiously set new goals and adopted main course.

² Poor fiscal capacity in the very start meant that there was no basis for promoting development.

³ It is necessary to stress however that inter-sectoral cooperation has substantially improved in the past 2-3 years in comparison to the situation at the beginning of the decade, partly also as the result of pressure coming from EC, but also other international institutions.

The designing and adoption of the Strategy (SRR), i.e. new regional policy presumes the creation of the necessary environment for a different and new role of local and regional actors in initiating local and regional development, in line with the currently applied approach to regional development. The new regional policy is based, among other, on the following new elements, to which we can also refer to in the sense of the basic pillars for its further implementation.

- **Establishment of a coherent approach of supporting development.** The process of defining development priorities on different territorial levels – from county to the level of the statistical regions, to national level – are for the first time clearly formalized and harmonized. The county development strategies have thus gained their institutional backing, and regional (county) stakeholders are being given clear guidelines regarding the elaboration of these strategic documents which are harmonized and linked to the nationally defined development priorities. Further, the development priorities are for the first time being defined on the level of the statistical NUTS 2 regions – a very relevant fact from point of view of reaching a wider inter-county consensus on main development objectives and priorities of a wider territory.
- **Institutionalization of regional (above county level) bodies for considering development.** The establishment of partnership councils on the level of the NUTS 2 regions presents a major breakthrough for supporting regional development. According to the new Law on regional development, these Councils are to have an important role in the defining of development priorities on the level of NUTS 2 regions and proposing lists of development projects. The creation of such regional bodies, in line with similar bodies established in EU member states, as mentioned in the previous chapter, is expected to have positive effects on raising responsibility and “ownership” of local and county bodies for the development of the wider regions.
- **Support to the culture of partnership.** The introducing of the Partnership Councils on the NUTS 2 level and the obligation to draw county development strategies as main strategic programming documents on the regional level, in line with the principle of partnership, is expected to have long term positive effects on the development of dialogue and effective cooperation among different local and regional stakeholders and actors in segments of key importance for the development of their regions. Along with the mentioned practice in EU member states, the representatives of these Councils will also encompass local and regional self-governments, economic chambers, the private, research as well as non-governmental sector and other. This approach will strengthen the democratization of the overall system of managing regional development and provide opportunities to the relevant actors to have a proactive role in designing their development policy. This will simultaneously contribute to the ownership of the partners in regard to key strategic development documents as well as development projects, which is very important from point of view of their implementation. Such a strengthened role of partners on the local, regional and central level contributes to social cohesion as well as further strengthening of mutual cooperation of local and regional self-government units.
- **Introducing of evaluation of development impact of development programmes and projects.** The introducing of this principle in line with a very well elaborated system of criteria is of strategic importance for the further and continuous upgrading of the regional policy. One of the tasks of the Ministry in charge – Ministry of

Regional Development, Forestry and Water Management is to raise the awareness as well as capacity related to the importance of the mentioned evaluation not only on central government level, but by all means on the regional level also – where a relevant role can be played from the part of regional actors.

The successful implementation of the new regional policy will to a large extent depend on the success of effective implementation of the above mentioned new elements of the Strategy of regional development. This effectiveness of this process will, on the other hand, depend on the degree in which the local and regional actors (basically in the framework of regional development agencies), but also local and regional self-governments, are capacitated not only for managing local and regional development, i.e. good governance, but also on their expertise related to strategic development programming – i.e. conceptualisation and preparation of project proposals, their successful application as well as effective implementation of projects with major impact on socio-economic development of their respective local/regional units.

4. Regional Competitiveness

Although Croatia is a relatively small economy, there are significant socio-economic differences between counties (NUTS III level) in terms of demographic trends, economic activity and growth rates. Croatia is characterized by a significant concentration of population in a few macro-regional and regional centers. The highest population density is in the City of Zagreb, 7.5 times higher than the county which comes second (Međimurje), and 15.5 times higher than the Croatian average (78.4 inhabitants/km²). With the exception of the City of Zagreb, the ratio of population density between the least populated county (Lika-Senj) and the most populated county (Međimurje) is 1:16.2.

Data on the location of registered business entities show that economic activity is to a great extent based in major urban centers (Zagreb, Split and Rijeka) and their surrounding areas. Again, the lead is taken by the City of Zagreb whose share amounted to 34.01%. At the other extreme is Lika-Senj County where this share was slightly higher than 6%. Fairly low presence of registered business activity has been also recorded in Virovitica-Podravina County and Požega-Slavonija County. As explained, Croatia is characterized by significant differences in regional administrative unemployment rates, from County of Istria 8.8% to County of Vukovar-Srijem 33.6%.

The two most developed counties had a 2.6 times higher GDP per capita than the two least developed counties. The three most developed locations in terms of GDP per capita are the City of Zagreb, the County of Istria and the County of Primorje-Gorski kotar. Beyond these, only the County of Lika-Senj has reached the GDP per capita level above the Croatian average. The least developed counties are Vukovar-Srijem and Slavonski Brod-Posavina, where the GDP per capita levels are less than 60% of the national average. Compared to the average EU-25 average GDP per capita Croatian levels range from 81% in the City of Zagreb to 26% in the Counties of Vukovar-Srijem and Brod-Posavina. According to Central Bureau of Statistics, Croatian levels of GDP per capita (in PPP) compared to the average GDP per capita in EU 25 ranged from 82% in the City of Zagreb to 26% in the counties of Vukovar-Srijem and Brod-Posavina.

The above mentioned differences among regions are due, inter alia, to geographic characteristics, the legacy of wide variations in socio-economic development at the time of

independence in 1991 and the effects of the homeland war in the form of economic and social devastation of many parts of the country. The war had especially significant impact on the difference of GDP and unemployment levels amongst the counties (see Annex 2 – Tables 6 and 8). The areas lagging behind the national development average face the problems of poor basic infrastructure, mine contamination, lack of social and human capital caused by depopulation trends and long-term unemployment.

In order to address the above mentioned problems and disparities, it is important to secure increased growth and balanced development of various counties. One of the key preconditions for this is the development of private sector. Nowadays, the majority of private companies in Croatia are small and medium enterprises (SMEs). Out of the total number of registered business entities in Croatia 99% are SMEs, which compares with EU-15 where SMEs account for 99.6% of the enterprises. Most SMEs are micro-enterprises and they have significant potential to contribute to increased competitiveness and employment over the coming years.

Despite those positive trends, SMEs in Croatia face many challenges. Some of the internal problems of the SME sector include insufficient entrepreneurship (especially in sectors with considerable growth potential, including technologically based entrepreneurship) and low levels of education among entrepreneurs. External problems faced by the SMEs include administrative barriers and underdevelopment of financial products specifically for the SMEs. The SME sector in general suffers from insufficient cooperation and networking, both with business and other institutions (for example the research and tertiary educational sectors). SMEs located in disadvantaged areas face additional problems such as lack of adequate communal and business support infrastructure, and insufficient number of programmes encouraging investments into the productive sector.

Croatian Government started a series of incentives with a view to tackling some of these challenges. Business-related services are currently provided by MELE and Croatian Agency for SMEs (HAMAG). Building entrepreneurial infrastructure also stays as one of the top Government priorities in the SME sector. Currently, the entrepreneurial infrastructure comprises 27 business centres, 16 business incubators and 6 regional development agencies. In addition, there are 15 economic free zones and 235 entrepreneurial zones, of which 140 are fully functioning.

5. Law on Regional Development of the Republic of Croatia

Law on Regional Development of the Republic of Croatia shall regulate: objectives and principles of conducting the regional development of the Republic of Croatia, planning documents, authorized bodies for conducting regional development, assessment of the development rate of local and regional self-government units, financing, monitoring and evaluation, reporting on implementation of regional development policy.

The objective of the regional development policy is to contribute to the economic growth and development of the Republic of Croatia in accordance with principles of sustainable development by creating the conditions that shall enable reinforcement of competitiveness and realization of development potentials in all parts of the country.

Regional development policy especially tends to:

- ensure cohesion of local and regional needs with central level development priorities, that is, priorities of the European Union cohesion policy with available budget resources that are intended to be used for development, as well as resources procurable through European Union funds,
- ensure support to aided areas for enhancement and optimal usage of their development potentials by eliminating the source of development difficulties,
- reduce negative effects of state boarder on development of regional self-government units.

5.1. Principles of Regional Development

a) Solidarity and Focus

Specific incitement for development of aided areas is based on mutual solidarity of all citizens of the Republic of Croatia, and is especially focused on development of areas that are considerably underdeveloped in comparison to the national average.

b) Equal opportunities

Regional development policy is based on the need of creating life conditions that shall enable everyone to possess equal opportunities for developing their own potentials, regardless of their whereabouts and other associated characteristics.

c) Partnership and Cooperation

Regional development policy is based on partnership and cooperation between public, private and civil sector, that is, the cooperation between bodies of public administration, bodies of regional home rule units, cities and other units of local home rule, economic operators, scientific community, unions, and associations of citizens.

Planning documents that are drafted in accordance with regulations of this law are adopted through the consultation procedure with an adequate partnership council.

d) Planning and Programming

Planning and programming of regional development is realized by adoption and implementation of perennial planning documents.

e) Merging of Financial Resources and Addition

Financing of regional development is ensured by merging of resources of different sources intended for preparation, drafting and implementation of planning documents and development projects, which obtain long-term and appreciable effect on regional development.

Resources that are procurable from the EU funds for the Republic of Croatia must not diminish the country's own sufficient financial resources in incitement of regional development.

f) Monitoring and Evaluation

Policy of regional development shall be monitored and evaluated during the drafting and implementing of planning documents, as well as after these activities, for the realization of increase in efficiency, productivity and influence on development.

g) Sustainability

Regional development policy contributes to harmonized and balanced development of the Republic of Croatia, which ensures protection and preservation of the environment and diversity of cultural treasure.

h) The Public and Transparency

Planning documents that are drafted in accordance with the regulations of this law shall be subject to public review. Selection of development projects and funding procedures shall be public.

i) Local Autonomy

Policy of regional development shall be implemented according with the autonomy of local and regional home rule units warranted by the legal system of the Republic of Croatia

6. Introduction to the OP Regional Competitiveness

Within the overall aim of ensuring that the relevant institutions of the Republic of Croatia achieve readiness for eventual EU membership and develop institutional capacity and practical experience with the management of ERDF-type interventions, the Regional Competitiveness Operational Programme shall serve as a basis for using the EU pre-accession assistance for the purpose of achieving the strategic priority of promoting social and economic cohesion within Croatia and overall levels of national competitiveness. The OP seeks to do so in accordance with priority areas identified by the EC Regulation that established IPA and the Multi-Annual Indicative Programming Document for Croatia.

In order to justify the concentration of EU assistance on specific development projects and measures, the following section of the OP sets out the strategic context and the socio-economic context of the relevant policy areas. With regard to socio-economic cohesion within Croatia, the relevant policy area is that of regional development. With regard to overall national competitiveness, the relevant policy areas eligible for IPA assistance are small and medium enterprises (SMEs), innovation, science and technology, research and development (R&D), and information and communication technologies (ICT). Measures aimed at internal socio-economic cohesion and national competitiveness make up a balanced and mutually coherent set aimed at achieving the strategic priority of this OP.

The **Accession Partnership** offers direction in terms of achieving economic competitiveness and socio-economic cohesion in the short- and medium-run. The economic priority identified

in the medium-term is the need to further improve the business environment by improving conditions for the creation and development of private enterprises and direct investment and by simplifying rules of market entry and exit. There are several policy areas underpinning these achievements and, consequently, also the achievement of a territorially cohesive development and of overall economic competitiveness. One element underpinning success in that sense is the need to increase productivity by means of an increased investment into R&D, innovation and new technologies, among other through an enhanced cooperation between the private sector and scientific bodies. Secondly, it is necessary to pursue international standards, specialization, and focus on high value added products and services through more and better entrepreneurship training, assistance and business infrastructure, as well as networking and clusters.

6.1. Policy and socio-economic context with regard to OP Regional Competitiveness

The following sections set out the context of policy areas addressed through this OP. These policy areas suggest that the OP is made up of two components, of which one aims to enhance Croatia's overall competitiveness while the other targets socio-economic cohesion of areas within Croatia. Under the Structural Funds, the intention is to address these two components through their separate Operational Programmes, as is frequently the practice in the EU Member States.

6.1.1. Competitiveness of the Croatian Economy

The competitiveness agenda consists of multiple, interrelated policy agendas, falling under the scope of a number of line ministries. One of the policy areas essential to Croatian competitiveness is that of small and medium sized enterprises (SME). Another is the area of science, technology, research and development (R&D) and innovation. A third area featuring in this particular OP is that of information and communication technologies (ICT). The following section sets out the current policy and socio-economic context in all three areas, identifying challenges to be addressed – among other, through the EU pre-accession assistance.

Small and Medium Enterprises (SMEs)

The Strategic Development Framework (SDF) affirms the importance of entrepreneurship and stipulates that, besides removing the administrative and educational barriers to healthy entrepreneurship, which relies on seizing business opportunities and on changing the societal value judgement concerning entrepreneurship, a key condition for the development of an entrepreneurial and innovation climate is the implementation of harmonised state policies to stimulate entrepreneurship. The positive effect on entrepreneurship must become one of the basic criteria to assess all activities of the state and all forms of spending taxpayers' money.

According to the SDF, the development of an entrepreneurial climate implies the following goals:

- Affirm entrepreneurship as the key activity on which social dynamics and integrity rely
- Increase the TEA index at least to 25% above the global average by 2013
- Promote the development of entrepreneurship as the main instrument of regional development

- Establish an integrated and consistent set of government policies aimed at stimulating entrepreneurship
- Develop lifelong learning for entrepreneurship
- Evaluate all government policies from the viewpoint of how they affect entrepreneurship

A number of measures are suggested to improve entrepreneurship climate:

- strengthen the efficiency of, and coordination between, the current incentive measures and the current entrepreneurial infrastructure to achieve maximum synergy between money, the efficiency of the entrepreneurial infrastructure, and the needs of enterprise.
- improve the efficiency of funds on the state level for incentives to entrepreneurship.
- systematic evaluation of the effects of individual pieces of legislation on entrepreneurship and the entrepreneurial climate
- analyse the experiences of successful regional development agencies and successful projects in encouraging entrepreneurship, and attempt to transfer them into less prosperous regions.
- create legal opportunities to allow the state to invest in risk capital funds (especially regional and industry-specialised ones)
- encourage investments, especially greenfield investment.

6.1.2. Social and economic cohesion within Croatia

The policy most directly related to social and economic cohesion is the policy of regional development. Its explicit aim is to assist areas lagging behind in terms of development to catch up with the national average. The regional development policy seeks to achieve territorially coherent growth through measures aimed at social and economic development. The following section sets out these policy tools, the institutional and legal structure supporting policy implementation, and concludes with the socio-economic context depicting the challenge of regional development in Croatia.

Legislation related to regional development

The group of acts regulating issues of assistance to development of areas of special state concern are as follows:

- 1. Act on Areas of Special State Concern⁴**
- 2. Act on Hilly and Mountainous Areas⁵**
- 3. Act on Reconstruction and Development of the town of Vukovar⁶**
- 4. Islands Act⁷**

1. Act on Areas of Special State Concern (ASSC) was adopted in 1996 and has since been amended several times. The Act determines Areas of Special State Concern and the measures of assistance for their reconstruction and development. These measures are aimed at natural and legal persons having residence/permanent residence or registered seat in these areas. The purpose of determining areas of special state concern is to: eliminate the consequences occurred due to war, stimulate faster population return, stimulate demographic and economic progress and achieve the most equal level of development of all areas in Croatia.

⁴ Official Gazette No. 44/96, 57/96, 124/97, 73/00, 87/00, 94/01, 88/02, 26/03 and consolidated text 42/05 and 90/05

⁵ Official Gazette No. 12/02, 32/02, 117703, 42/05 and 90/05

⁶ Official Gazette No. 44/01 and 90/05

⁷ Official Gazette No. 34/99, 32/02 and 33/06

The ASSCs, determined at the level of local self-government units or their parts, are divided into three groups. The criteria used for the classification of the first two groups are the circumstances that occurred on the basis of the state of occupation and the consequences of aggression against the Republic of Croatia. They thus comprise the territories of towns and municipalities occupied during the Homeland war. For the third group additional four criteria of classification are introduced, irrespectively of the state of occupation: a) criteria of economic development, b) criteria of structural difficulties, c) demographic criteria and d) special criteria (municipalities near the border which became state border following Croatia's independence, and mined municipalities that do not enter the first two groups).

Mechanisms by means of which one tries to realise the basic purpose of this regulation are housing care of the population in ASSCs by setting criteria for granting of houses, apartments, land for building and construction material; tax relief for transaction and acquirement of immovable property on areas of special state concern, tax relief on inheritance and gifts; compensation for exploitation of mineral raw materials. Besides, the Act stipulates ceding of revenue tax and profit tax revenues to local units in areas of special state concern realised in their territory.

The Act for the most part resulted from the need to offer to war-torn areas appropriate assistance in order to, as fast as possible, and in as great number as possible stimulate the return of displaced and refugee population. Although its purpose was not stimulation of development of areas lagging behind the national average, the Act evolved with time allowing for the inclusion of the entire state territory lagging behind and thus for becoming the basis of an active development policy. This is made obvious by the introduction of the third ASSC category, whose criteria are not war-related. Nonetheless, the Act fails to regulate issues crucial to building a coherent system of managing development activities.

2. The Act on Hilly and Mountainous Areas defines another set of areas of special concern for the Republic of Croatia. The Act enumerates local self-government units having the status of hilly-mountainous areas. Local units excluded from the implementation of this Act are areas the status of which has been regulated by other legislation relating to some development issues. The Act is to stimulate these areas' demographic reconstruction, create preconditions for a better usage of natural and economic resources in order to achieve socio-economic growth and development, and allow for preservation of biological and landscape diversity.

3. The Act on Reconstruction and Development of the Town of Vukovar stipulates measures of assistance and stimulation for reconstruction and development of the town of Vukovar with the objective of removal consequences occurred during Homeland War. This task was determined as a special concern task for the Republic of Croatia, as a consequence of the complete devastation of all the aspects of this town.

Incentive measures of assistance for the realisation of the basic purpose of this regulation relate in their major part to: the buildings damaged or destroyed by the war; de-mining, return of refugees and displaced persons; employment and opening of new jobs; introduction of information technology to economic and social entities and bodies of state and local administration; technical and technological modernisation; education and vocational training; development of entrepreneurship; protection of environment.

Every year, not later than 60 days from entering into force of the state budget, the Government of the Republic of Croatia passes the Plan of Reconstruction and Development of the Town of Vukovar containing specific projects and their competent entities and the manner of their financing, schedule and deadlines of their implementation. The Council for Reconstruction and Development of Vukovar and the City Council of the Town of Vukovar (the local representative body) participate in its drafting as advisory bodies.

4. The Islands Act is based on the principles of National Island Development Programme, its purpose being to protect and stimulate the development of islands as natural resources of the Republic of Croatia which are of its special interest and enjoy its special concern and protection. The Act defines legal framework for management of the development of islands at all the levels of state government regulation (central, county and municipalities and city level).

By a system of enumeration, the Act divides islands into two basic groups, based on a combination of two criteria, the criterion of development/underdevelopment and that of presence or absence of population on particular islands or island groups. According to these criteria, the first group includes insufficiently developed/underdeveloped and small, occasionally populated or non-populated islands or very small islands. The second group covers all the islands which are not included in the first group and the Pelješac peninsula. The Government of the Republic of Croatia may by its decision allot any of the islands to one of these groups, on the basis of their specific location and problems (placing an island in the first or second group or allotting a developed island from the first group to the second group and vice versa). The Act prescribes measures the objective of which is to realise the primary purpose of this Act. Fundamental documents include the Sustainable Island (i.e. groups of islands) Development Programmes and the State Island Development Programmes. The Sustainable Island Development Programmes are passed by the Croatian Government at the proposal of central bodies of state administration and units of local self-government on the territories for which the said programmes are passed, and pursuant to drafts and previous opinions of central administrative bodies and coastal-island counties. The Act defines the total of 26 islands or groups of islands for which the programmes are passed, and are implemented by the island or coastal-island municipalities or cities, or by the coastal-island counties. State Island Development Programmes are passed by the Croatian Government, taking into consideration the previous opinion of the Island Council, Island Committees and the Croatian Competition Agency. The Act envisages a total of 13 such programmes, the drafting of which is coordinated by the central body of state administration competent for the implementation of the Act.

6.2. Bodies and institutions in charge of regional development

Because of a strict sectoral approach to the institutions of the central government, several line ministries are competent for preparation of development policy, programming, implementation of programmes and their monitoring. Beside the MSTTD, the central level institutions having a significant role relating to regional development are the following ones:

- Regional Development Fund,
- Fund for Development and Employment,
- Fund for Reconstruction and Development of the City of Vukovar,
- Ministry of Finance,
- Central State Administrative Office for Public Administration,

- Ministry of Agriculture, Forestry and Water Management,
- Ministry of the Economy, Labour and Entrepreneurship,
- Ministry of Environmental Protection, Physical Planning and Construction,
- Ministry of Science, Education and Sports,
- Ministry of Health and Social Welfare,
- Croatian Employment Office,
- Croatian Bank for Reconstruction and Development,
- Croatian Bureau of Statistics.

The Regional Development Fund is involved in direct financing of regional development activities. The Act on the Regional Development Fund established the Fund in 2001, regulating the financial support for encouraging coherent development across Croatia. Assistance is aimed especially at the development of formerly war-torn areas, sparsely populated areas, ASSCs, islands, hilly and mountainous areas, border areas, areas with structural difficulties, and areas whose GDP is below 65% of the national average.

To support these areas, the Fund can receive funds from the State Budget, from privatisation income, long-term bonds, loans from financial institutions, bilateral loans, grants and other sources. In practice, however, the State Budget is the only resource for the moment. Funds are primarily earmarked for the implementation of the projects related to infrastructure (as a pre-condition of economic development), and economic projects which need to be cost-effective, environmentally friendly, based on domestic resources and employment of local population. Projects assisted need to have been envisaged in the relevant county's development plan – the so-called Regional Operational Programme (ROP). Once the Fund issues a call for proposals, counties conduct the first selection of projects, while the final selection is done by the Fund. If the projects are of equal importance the Fund selects those that envisage a higher percentage of self-financing.

The repayable funds available from the Fund are offered under the terms that are more favourable than the terms on the capital market. Projects in infrastructure proposed by areas whose financial power (budget funds per capita) is below 65% of the national average may receive (by decision of the Fund's managing board) up to 50% of non-repayable funds for the investment project.

Besides central government bodies there are, within the self-government competences of regional and local units, administrative bodies (administrative departments or services) responsible for the issues relevant for regional and local development in the counties and in a number of towns. The legal framework in Croatia does not foresee an obligation of setting up a body in charge of regional development at the regional (county) level. Such bodies are the reflection of the perceived needs and possibilities of counties, town and municipalities. There are, in the majority of counties and in many towns, one or more development institutions founded by the sub-national self-government: county (or local) development agencies, entrepreneurship centres at county and local level (support of SMEs with loans, consultancy services, information, vocational training and entrepreneurship promotion), technology centres etc. These institutions have a more or less developed degree of partnership and cooperation with central government institutions.

A great number of institutions working on regional and local development in Croatia, particularly on SME development, have joined a national network, the **Association of Croatian Institutions for Support of Entrepreneurs**, including regional development

agencies, entrepreneur centres, entrepreneur incubators, chambers of commerce, chambers of crafts and trade etc. A great number of them have an active role in the development at county level. The most famous examples of successful agencies are the Istrian Development Agency (IDA) set up as a partnership of local self-government units, and the Međimurje Agency for Regional Development – heir of the Međimurje Entrepreneurship Centre that participated in design and implementation of projects in the county in the past six years.

Part of the developmental institutional network at the sub-national level are the county offices of the Croatian Employment Service and councils set up by the National Council for Social Partnership to gather employers and trade unions at the county level in order to deal with local issues of socio-economic development.

Counties, however, play the key role and initiative with regards to development at the sub-national level. One of the significant moves in the sense of developing institutional capacities for development at county level is the work on the so-called **Regional Operational Programmes (ROP)**. At first, their development was stimulated by the EC Delegation and the UN Development Programme (UNDP), as a prerequisite for the use of CARDS assistance targeting investments in war-torn counties. With government support, ROPs were designed in eight of these counties. The process of ROP development eventually expanded to other counties, as well. Today almost all counties have a ROP, which serves as a basis for searching for EU, other donor and state budget support to implement development projects. Institutions, procedures and methods set up and used in the ROP context moreover offer significant potential for institutionalizing regional development and aligning it with the principles of partnership, co-financing, and strategic development planning, which are the requirement for Croatia's use of the Cohesion Policy funds upon accession to the EU.

In order to increase the efficiency and effectiveness of the national regional development policy and to align it with the Structural Funds principles, the draft Act on Regional Development provides regulations for several very significant issues indispensable for development activities management:

1. a practice of partnership as a basic method of work in formation of regional development policy and as a fundamental institutional structure that is to enable such participative method of work .
2. a single assessment and classification model of local and regional self-government units according to the development level as well as a single criteria system for designation of regions with development difficulties.
3. basic planning documents, by means of which a harmonised and standardised basis is set up for conducting a regional development policy in Croatia.
4. the role and responsibility of bodies in charge of the overall regional development policy at the national level.
5. the role and accountability of local and regional self-government units in designing and conducting a development policy.
6. a mechanism of cooperation between central state and lower levels of public authorities.
7. a monitoring, evaluation and reporting system, in order to follow up on the implementation of the relevant planning documents.
8. the basic principles of regional development policy management, reflecting the basic principles of the Structural Funds management and the Cohesion policy terminology.

The regional policy reform should draw from the good practice in the field, and institutionalize the process of regional development planning at the level of counties. The existing ROPs would, for that purpose, have to be upgraded according to common national guidelines and made into quality strategic documents, aligned with the national budget planning and the national development priorities. In order to draw foreign as well as national financial assistance, these **county development strategies (CDS)** would be elaborated in line with the priorities of the different EU assistance programmes as well. A precondition of an improved development planning process in the regions is continued administrative capacity building in the counties as well as in municipalities and all other relevant actors. Assistance should be extended to the process stakeholders with regards to knowledge and skills related to regional development, EU pre-accession assistance and the Cohesion policy, as well as regarding the practice of planning, coordination, and partnership. A possible boost to the counties' technical capacity with regards to development planning, project preparation and project management are **county development agencies**, to be set up at the level of each county, accredited according to uniform national criteria, and assisted financially by the MSTTD initially.

The overall goal of a policy reform should, in other words, be a pro-active, systematic and integrated regional development policy, covering all of Croatia's territory and extending assistance to particular areas according to the same set of criteria. In so doing, the policy principles would be aligned with European i.e. Structural Funds standards and practices. In addition to new policy tools and structures which would ensure a more effective, objective and inclusive approach to regional development, the reformed policy should shift the accent of national assistance towards a more pro-active set of development measures which in a more direct manner contribute to socio-economic development.

7. Conclusions

The paper reflects upon some of the new approaches in supporting regional and local development in the last two decades as well as on the new opportunities arising for regional actors in Croatia as well as the current accession countries. The key factor lying behind the new trends and opportunities is the Cohesion policy, i.e. the process of adjustment to the EU requirements in this field which brings new funding opportunities for regional actors, but, also and much more important, new instruments to tackle their socio-economic problems and exploit their own development potentials.

Participation in Cohesion policy has created the opportunity for the empowerment of regions in Croatia as well as in the accession countries, both from the financial as well as the institutional capacity perspective. Obligated application of the partnership principle when participating in Cohesion policy, ensures a higher role for the sub-national actors in the overall policy design and implementation. Yet, it remains to be seen how much involvement of the regional and local actors will actually be allowed to take place in practice from the part of the responsible central level institutions. Unlike some new member countries as well as candidate states, where regional level administrative units do not exist, the tradition of the regional self-government units which are part of the Croatian political system from the early 90-ies, are an additional argument and advantage for the Croatian counties to rightly insist on getting more space in the future SF structures and implementation. However, it is important to bear in mind that the mentioned large number of counties is not an appropriate factor for the

strengthening of the role of the Croatian regions in managing funds, since our counties are simply too small territorial and administrative units for managing their development

Among the positive issues is the fact that Croatia's new regional policy is in line with the key principles of the Cohesion policy which should additionally help the regional and local actors in accommodating to the new policy environment. In that respect, the national regional policy plays a particularly important role, acting as a key promoter and coordinator of regions' views and interests in respect to the national sectoral bodies. While involvement of the Croatian regions in programming, policy design and implementation is still in its very initial phase, they already play a very active role in project preparation, and some of the more developed regions have the first successful experience with project implementation, particularly in the framework of cross-border projects.

As visible from the conducted survey, the capacity of regional actors to participate in EU pre-accession programmes confirm that county-level institutions are progressing in the last couple of years. County-level institutions remain to be one of the most active actors in this field, acting not only as a beneficiary of the funds, but also as support for other actors in preparing their projects and increasing their skills and capacity.

Substantial experience is also to be seen related to cooperation and building of partnerships with other actors. Despite the progress being made so far, there remain several crucial problems. First, there is a highly unbalanced regional distribution of the number of employees and even more unbalanced distribution in terms of the absorbed funds. Even at this stage of the accession process, when accession can be expected in two or three years, some counties do not possess any relevant experience with project management. This is something which deserves attention not only at the county level, but also at the central level institutions in charge for regional policy and preparation for the SF. It should be once again emphasized that the pre-accession funds, with the current level of funding, are indeed only an exercise for the SF. The low level of funding available for the counties and complicated procedures negatively affect the willingness of the county-level politicians to invest more substantially into institutional capacity. Still, the counties have to be patient and have a long-term perspective of their participation in SF in mind and the capacity building "exercises" as well as all investments into training and raising of specific knowledge and experience will by all means make the whole process of adjustment to EC requirements more effective, enabling the regions to reap optimal results in the framework of Structural funds.

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