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LOCAL GOVERNMENT AND DEVELOPMENT IN CROATIA: ARE WE LOST IN TRANSITION?

The paper summarises major findings of the case of Croatia within the international research project Local government and development - What works and what does not? Lessons learned in Poland, Croatia and Ukraine. Based on a systematic analysis of statistical data and information, institutional development assessments and three different cases on local development strategies, this paper identifies the most important development factors and hindering constraints and derives policy recommendations for successful local economic development in Croatia.

Keywords: local government, local and regional development, Croatia

Foreword

This paper is based on results of an analysis of the case of Croatia within the international research project Local government and development - What works and what does not? Lessons learned in Poland, Croatia and Ukraine. The project is sponsored by the Open Society Institute Zug Foundation and performed under the supervision of Prof. Pawel Swianiewicz, EUROREG, Warsaw University. The study on Case of Croatia is a result of a joint work on local development policy

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issues in Croatia undertaken by four researchers from the Institute of Economics, Zagreb. Besides the authors of this article, Nenad Starc actively contributed to research and prepared the section regarding analysis of effectiveness of national, regional and local government development policies in three selected case studies in Croatia. We would like to express our thankfulness to Nenad Starc for his support and help while preparing this article.

Introduction

In most countries the transition process raised importance of local economic development management, whereby development responsibilities are assigned to various institutions at national, regional and local level. The role of different institutions in local economic development is associated with three tiers of government in Croatia: the central government, regional self-government and local self-government¹. For the purpose of this paper, our analysis focuses mainly on subnational levels: regional (counties) and local (towns, cities and municipalities) level.

In the following chapters we are going to give the answers on following questions:

- How to measure local development;
- What are the possibilities to compare regional and local data;
- What are the results of the analysis of institutional incentives and constraints on the regional and local development; and
- How to analyse effectiveness of development policies as major issue regarding local and regional development in Croatia.

The purpose of this paper is to address basic issues related to the establishment of a model for developing a regional and local database in the line with the European Union requirements. Institutional development is considered as a complementary tool for the analysis of the national, regional and local governments' effectiveness to stimulate local economy in Croatia. Selected cases of local government performance in Croatia are also presented. The first chapter gives explanation of constraints and areas of improvements regarding available statistical information at regional and local level. Elaboration of the need for establishment of the regions and adjustment

¹ According to the status in September 2003, local and regional government in Croatia consists of 21 counties as regional level and 124 towns and 426 municipalities as local level, totalling 571 local government units.

of methodology of local and regional statistics are presented in the second part of this paper. Challenges and improvements of the institutional framework are explained in the third chapter. Lessons learned in three selected cases in Croatia are given in the fourth chapter. The paper concludes with policy recommendations in the last chapter.

Statistics in focus

Major constraints

Inappropriate data availability is an important constraint for the analysis of successful measures at regional and local level in Croatia. The disintegration of the statistical offices of ex-Yugoslavia left Croatian offices with only the most elementary data. In addition, these data were and still are not collected neither published at a single place.

The applied methodologies in Croatia are not standardised nor in line with the EU methodology, although many efforts have been taken in order to produce internationally comparable data. The lack of statistical data is most stressed on the local and regional level, which is a major obstacle for serious research and policy oriented studies.

In spite of the high volume of production, exemplified by the high number of surveys and the extensive publication catalogue, and in spite of significant improvements in individual statistics as a consequence of the use of EU standards, the statistical system as a whole has a number of important weaknesses.

Major weaknesses, which are obstacles to enhance both the productivity and efficiency of the system and the status of its major actor, are the following:

- Insufficient recognition of the importance of the statistical system for the society and of the specific role of the Central Bureau of Statistics (CBS) by the government;
- Absence of a longer-term strategic plan for the development of the statistical system;
- Contribution of regional offices in the present set-up insufficient to justify the staff allocation;
- A prevailing practice of limiting the role of the CBS to the production and dissemination of figures, but of staying clearly away from more complete analysis and explanatory comments;

- A policy of priority setting in form of maintaining existing surveys and existing series as primary concern, and of adding new surveys and new activities only insofar as resources permit;
- Data collection system with private businesses spread to thinly over many uncoordinated surveys; in its present form of operation, it cannot handle complex surveys. There is no statistical business register which could serve as a sampling frame;
- Insufficient IT infrastructure.

Challenges and improvements

The main objectives of the Croatian Statistical System are to produce statistics in a professional and independent manner, to increase the public trust, to guarantee the confidentiality of individual data, to better consider the needs and requirements of data users and providers and to strengthen international co-operation notably with EU. The creation of an appropriate legal framework and the redefinition of the co-ordinating role of the CBS belong to the strategic objectives.

Although the field of statistics in the Indicative Programme for the period 2002 to 2004 was not defined as a priority, the CBS participates as a project partner in the CARDS financed programmes due to the needs of individual sectors defined as priority areas². In this way the necessary technical assistance to individual sectors will be ensured in the part dealing with statistics, with the CBS being either direct or indirect project partner.

The CBS gradually adapt the data collections and the results to new classifications and definitions in line with EU or other international requirements, and in addition to introduce new surveys and new important results such as the consumer price index and national accounts.

Specific objectives of the Croatian Statistical System are to reduce the burden on data providers, to intensify co-operation with data users, to harmonise the system with the European Statistical System (ESS) and to improve systematically the timeliness and quality of data. With respect to dissemination of statistics, one main objective is to raise the level of public trust and to introduce users' satisfaction measurement system.

The CBS has made substantial progress in adapting its management culture to modern standards, in particular in strategic planning and monitoring of the compliance with EU and international requirements.

² Such as regional development, public finances, labour market and other.

The CBS is still facing difficulties in the recognition of its role as co-ordinator of the statistical system. Although a new statistical act is in the process to be adopted, co-operation remains difficult with other producers of statistics.

The question of the administrative responsibility of the 21 regional offices is still pending. Questions such as the reallocation of human resources and the definition of responsibility at a local level are hindering a quick solution.

Project fiches part of the 2003 CARDS programme have been finalised in Public Finance statistics and employment statistics. An agreement has been met between the CBS and the EC Delegation to give a second priority to the project on regional statistics.

Co-operation programmes in Regional statistics should be delayed until widely accepted decisions are taken about the subdivision of the Croatian territory.

Collecting the incollectible

Local and regional statistics

Constant changes in administrative and territorial set-up of Croatian territory on local and regional level have led to the inconsistency in creation, implementation, and evaluation of regional policy as well as unrealisable creation of a good statistical database needed to conduct analytical work.

Croatian intention to join the European Union EU, and in particular signing of the Stabilisation and Association Agreement, have motivated responsible institutions to engage themselves in defining of statistical regions. This is highly important because it is a way to approach to the EU regional funds. Furthermore, it is a way to resolve national regional policy issues.

A huge step towards the definition of the statistical regions is a work done on the proposed NUTS classification for Croatia, with a major feature of introduction of the Statistical Levels I-III from January 2004.

For the international comparisons, it is essential to have data of gross domestic product GDP on subnational levels. At the moment, the CBS doesn't have an adequate database on regional level that could be used for the calculation of regional gross domestic product (GDPR) with a pure "bottom-up" method, as it is recommended by the European System of Accounts ESA95. Nevertheless, available studies and analysis on sector statistics are substantial to provide financial as well as physical data on a regional level to estimate GDPR with a quasi "bottom-up" method or "top-down" method.

Regarding methodology, it is important to improve a tracking system of natural and financial data on regional and local levels in order to have better indicators for the allocation of national GDP to the Level II and Level III.

On a national level, GDP is calculated according to the institutional units, while ESA95 recommends calculating it for the units of homogenous production, so further improvements on national GDP calculation are expected.

GDPR is a result of business units' activity in a region. A basic criterion for the distribution of aggregates on regions is residency of local business unit. This implies that development of statistical registers is necessary.

Another key factor that measures regional disparities is unemployment. According to the current status, more improvements in statistics are needed regarding the system of unemployment calculations in order to obtain data on regional and local unemployment.

Next step is a functional establishment of regional statistical offices with precisely defined scope, tasks, and finances of regional offices.

Further improvements include enhancement of co-ordination of producers of statistical data.

*Further adjustments*³

The result of statistical research and methodology in the Republic of Croatia are short-term and structural indicators. Their quality does not at present meet the EU standards. A particular problem is that structural indicators over different branch of statistics are not unified. Different statistics branches produce original short-term indicators and adjust them seasonally in order to project a trend of different time series.

Short-term indicators generally show quite well a time series rate of growth and decline. However, to improve their quality in terms of an absolute amount the coverage will have to be extended, in particular of small-sized enterprises. Prerequisites need to be ensured for Croatia is to join international programmes for technical assistance and transfer of technology programmes.

Majority of different statistics (agricultural, forestry, tourism, labor force, etc.) needs substantial effort to become compliant with the EU standards. Future

³ Source for this part of the paper is Information provided by the Government to the Questionnaire of the European Commission. Part: Statistics.

work in the CBS will focus to bring regulations, directions and recommendation into accordance with EUROSTAT.

Vital statistics data (population) are harmonised with the international recommendations. An overview of the surveying results set forth in the Compendium, forecasts demographic projections every 3-5 years, hence further development up to the year 2006 will focus on population projections by age and gender at a county and national level.

Labour market statistics are based on the data provided according to two separate methodological approaches. The Labour Force Survey measures economic activity of the person according to their real status, while statistical surveys and administrative sources measure economic activity of the person according to a formal status of the person. The data on persons in employment, according to the person's formal status, are collected by the CBS, while the Croatian Employment Service collects the data on unemployment and vacancies. Employment and unemployment data come from the Labour Force Survey. The survey is carried out on a representative sample of households at the national level (NUTS Level I). The sample is a two-stage stratified random sample of housing units within which members of all households are interviewed as survey units.

Towards incentive institutional framework

From the institutional review of regional and local development in Croatia, many issues appeared that are urging to be improved. The listed problems are overlapping, yet the common ground for them is there are no data to support changes, and the resistance to changes is very strong.

Legal framework is still considered more as a constraint than incentive to regional and local development. The legislation is being harmonised with the EU, so legal framework is subject of frequent changes. Numerous acts and by-laws make the legal framework not transparent and too complex for regional and local self-government units to follow the rules and to understand all relevant legal provisions. Some legal acts are not accompanied with by-laws and therefore are hard to implement. The lack of sanctions contributes to neglecting the legal obligations.

The national regional development policy and institutions that would implement policy measures are still missing in Croatia⁴. Under the CARDS 2002

⁴ Fund for Regional Development should fully take over its function of financing independently and fostering execution of regional development plans.

Programme, national regional development strategy is written and it should be produced in 2005. Establishing a national agency for (regional) development and the similar executive agencies at the local level would help local governments to elaborate their development plans according to the national regional development strategy.

Clear and measurable criteria excluding all political aspects whether to form the new local government unit LGU or not should carefully examine if the LGU will be capable to autonomously manage its development. Criteria should be established according to the set of indicators of human, financial and other capacities of the LGU to perform its legal competencies as a unit of self-government.

The process of decentralisation in Croatia has all the characteristics of fragmentation of territory to a huge number of small, incompetent local self-government units who are highly dependent on the central state aid and lack the capacity to manage autonomously local development. Formal decentralisation had led to the hidden centralisation of power of central state and/or influent individuals at the local level. The real decentralisation of power will not be realised without strengthening the overall development capacity of LGUs, transparent information and communication, and introducing good governance principles in local government. Fostering co-operation is seen a long-term remedy to overcome the overall lack of LGUs' development capacities.

However, the financial capacity to manage development has been recognised as one of the major impediments for local development. More than 30% of LGUs cannot cover current expenditures with current revenues, while legal competencies and responsibilities are equally set for all regional and local self-governments. The exact data on fiscal capacity are not available since the data on local budget realisation are late for more than a year. The main problem of analysing the structure of revenues assigned and the fiscal capacity of regional and local self-government units' lies in the difficulties related to adequate and accurate fiscal data.

Generally, there is no monitoring and evaluation system because of the problems of data quality and availability. Public supervision of local government is not efficient. Accountability is one of the main weaknesses of local governments. Public participation is stipulated as a recommendation in the legislation, but rarely applied voluntarily by the local officials. As information to the public is not mandatory, many cases remain unknown to the local population.

Regional and local development studies that include an institutional analysis are still rather rare in Croatia. Selected cases of more or less successful local communities indicate that the institutional capacity is crucial for local development strategies to be created and adopted, or positive changes in general to occur. However, no analysis of institutional capacities of LGUs in Croatia has been performed by now.

For example, there are no data available on number of employees and/or their qualifications in local government, nor the functional review of administrative bodies. We could speculate on the regional differences, on the transparency of decision-making process, or on public participation methods exclusively on the basis of the randomly selected case studies. The huge process of public administration reform initiated recently in Croatia is expected to indirectly result in more efficient institutions at the local level as well.

Preparing local development programmes

The effectiveness of development policies - what works and what does not - have been described through an example on three selected cases. Evaluation of the production, adoption and implementation of development programmes' process have been made in order to measure accomplishment of each programme, pointing out governance assessments of deficiencies of particular local self-government. Evaluation has been made on the examples of strategic programmes for the cities of Virovitica and Samobor and the Sustainable Island Development Programme for the Island of Šolta. They have quite well shown the capacity of the local self-government to manage its own development. All three strategic programmes were prepared according to the participative methodology; the process was transparent and counted for accountability and responsiveness of stakeholders when it came to the implementation.

First attempt of using participative methodology in preparation of development programme and its later implementation relates to the City of Virovitica. This approach resulted in successful preparation and adoption of the strategic development document, but failed in the implementation phase. An external choice of pilot site, political indolence towards development programme, SWOT analysis produced by external experts, and before all a considerable lack of feeling of ownership amongst politicians were noticed as key reasons for the failure in implementation.

A much more successful case of the City of Samobor consisted of at least ten steps: the estimation of readiness of a potential beneficiary, kick-off seminar, creation of development council and development teams (local experts), analysis of existing budget, programmes, plans, politicians' "assessment" of proposal of draft of document, public hearing campaign, Action Plan preparation, contemporary adoption of budget and programme and further consulting. Strategic Programme and Action Plan were accepted by the City Council but never perceived as "their" development programme. Nevertheless, latest information indicate that although city officials do not refer to the Development Programme, around 50% of planned activities are accomplished or in progress.

Of the three cases, the Sustainable Island Development Programme for the Island of Šolta stands as the most relevant one. Its legislative framework makes it a part of the bottom up - top down development planning process, and the programme stands as the first Croatian regional operation plan waiting for other regional and sectoral operation plans.

Advantages of the tested methodology are: clear structure of necessary steps, flexible approach to elaboration process, fruitful and well accepted participation, tolerance and democratic discussion enhanced through appropriate guidance, creation of a coherent local government management tool, and involvement of local experts providing better insight into current circumstances and problems.

These pilot programmes also pointed out several issues that need improvement. The first implementation of the methodology caused standard problems related to testing issues and piloting. Therefore, most of the bad sides are mainly a result of beginners' mistakes and could be summarised in four important conclusions. First, a process of consideration by the local community was too long. Second, local government officials and professionals lack know-how for assessing real and financial needs and therefore, the necessary communication and networking skills, which reflected many miscalculations in the operational plan. Third, the strategic plan was initially not synchronised with local government budget and the first yearly implementation plan was not synchronised with strategic plan. Fourth, top down (external) initiation of local development strategies cause difficulties in acquiring ownership of the strategy.

Conclusions and recommendations

Statistics

The situation regarding analysis of successful measures at regional and local level in Croatia can be improved and the major challenges and areas of improvements refer to improvement of the Croatian Statistical System CBS.

Although the CBS gradually adapts the data collection and the results to new classifications and definitions in line with the EU or other international requirements, there are some other places for additional challenges and areas of improvements in the CBS. This is because of specific objectives of the Croatian Statistical System, which refers to reduction of the burden on data providers, intensification of cooperation with data users, harmonisation of the system with the European Statistical System (ESS) and systematically improvement of the timeliness and quality of data. With respect to dissemination of statistics, one main objective is to raise the level of public trust and to introduce users' satisfaction measurement system.

The CBS has also made substantial progress in adapting its management culture to modern standards, in particular in strategic planning and monitoring.

The CBS is defining a new strategy covering the period 2003 to 2012 which should take into account the users' needs and be compliant with EU standards.

One of the problems regarding regional and local database is inappropriate data availability. There are several possible challenges and areas of improvement to establish an internationally comparable database on regional and local development in Croatia.

First, all stakeholders in Croatia need to be informed regarding major constraints and possible improvements to establish an internationally comparable database. Second, the result of the research work on the issues regarding data availability at regional and local level will be the appropriate report assigned to local self-governments in Croatia, to consultants working with local self-governments, as well as to researchers whose focus of interest is regional and local economic development. Third, establishment of a statistical background for policy oriented research, which should enable research focused on challenges in the legal, institutional, administrative and financial systems of Croatia that are important for future local economic development. Fourth, results from this document could provide a base for future analysis of important issues for improvements of effectiveness of tools used by national, regional and local governments to stimulate local economy.

It can be expected that in the near future Croatia will have defined system of statistical regions. This will be followed by an intensive work on the updating and adjustment of previously collected local and regional data as well as future work on the collection of the data for the newly formed statistical regions.

At the moment, the CBS doesn't have an adequate database on regional level that could be used for the calculation of regional GDP. Nevertheless, available studies and analysis on sector statistics are substantial to provide financial as well as physical data on a county level to estimate the GDP.

Regional gross domestic product is a result of business units' activity in a region. A basic criterion for the distribution of aggregates on regions is residency of local business unit. This implies that development of statistical registers is necessary.

Institutional Framework

The most crucial part of challenges and areas of improvements in the institutional framework of regional and local development in Croatia refer to legal

framework. Numerous acts and by-laws make the legal framework not transparent and too complex for local government units LGUs to follow the rules and to understand all relevant legal provisions. Some legal acts are not accompanied with by-laws and therefore are hard to implement. The central government is perceived as a key factor in the accomplishment of the harmonisation process as planned. It includes, among other, in time elaboration of by-laws and other normative acts, as required by law; intensive work on informing LGUs and all of the concerned institutions and citizens about the legal framework applied and implementation of relevant legislation and decisions strictly.

Administrative organisation of LGUs has been under constant change for last several decades in Croatia. Constant increase of number of towns and municipalities without considering capacity to provide services is serious issue. The proposal is to establish clear and measurable criteria for LGUs to meet in providing mandatory services to their citizens. Criteria should exclude all political aspects and include the set of indicators of human, financial and other capacities of the LGU to perform its legal competencies as a unit of self-government.

Decentralisation Process

One of the most important parts for improvement refers to decentralisation process. The process of decentralisation in Croatia has all the characteristics of fragmentation of territory to a huge number of small, incompetent local self-government units who are highly dependent on the central state aid and lack the capacity to manage autonomously local development. The real decentralisation of power cannot be realised without strengthening the overall development capacity of LGUs, transparent information and communication, including legislative framework, clear division of functions, improved co-operation and co-ordination of activities, at all levels and both vertical and horizontal.

Lack of financial capacity to manage local development is the foremost issue in Croatia. To solve this problem a serious analysis is needed in the long-run, that will include major aspects of this problem - administrative organisation of LGUs, mandatory and voluntary responsibilities of LGUs, the sources of revenues and expenditures in LGUs budgets, distribution of responsibilities between three tiers of government and correlation with revenue and expenditure structure, analysis of grant and transfer system, the status of nonfiscal revenues, borrowing by LGUs, privatisation issues etc.

In Croatia there is a weak institutional capacity to manage development. Regional and local development studies that include an institutional analysis are

still rather rare in Croatia. The proposal is to include in studies an evaluation of human, organisational, managerial capacities, which may be combined with good governance indicators at the local level.

Control mechanisms and inefficient audit and lacking sanctions together with no monitoring and evaluation system lead to bad management and irregularities in LGUs work. The internal control should be established in the LGUs.

General lack of co-operation at all levels is considered one of the major obstacles to development. Building awareness of how important the co-operation is to foster development, should be the primary task to national bodies as well as LGUs. The long term educational mission of the civil society and international organisations in Croatia is to promote partnership and benefits of co-operation, too.

Three analysed Croatian cases showed us positive and negative sides of participative development planning process in Croatia. One of the lessons learned is that time and resources are not obstacles to elaboration of a strategic document. Real obstacles could be insufficient and not enough educated personnel and rejection of idea (unwillingness) towards preparation of development document. Nevertheless, the three development programmes clearly marked the new approach to local development programming in Croatia.

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LOKALNA UPRAVA I RAZVITAK U HRVATSKOJ: JESMO LI IZGUBLJENI U TRANZICIJI?

Sažetak

Autorice predstavljaju rezultate istraživanja na slučaju Hrvatske u okviru međunarodnog projekta Lokalna uprava i razvitak- što funkcionira, a što ne? Iskustva Poljske, Hrvatske i Ukrajine. Tri su područja analize obuhvaćena ovim radom: sustavna analiza statističkih podataka i informacija, analiza ostvarenog stupnja institucionalnog razvoja i analiza tri slučaja donošenja i implementacije razvojne strategije u Hrvatskoj. Rezultati analize ukazuju na najznačajnije čimbenike razvitka i ograničenja, a rad zaključno iznosi i preporuke mjera politike za uspješan lokalni razvitak u Hrvatskoj.

Gljučne riječi: lokalna uprava, lokalni i regionalni razvitak, Hrvatska

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