

## *Regional Policy and the Various Statuses of Local Units in Croatia*

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UDK 35.071.55(497.5)  
352/353(497.5)

Pregledni znanstveni rad / review scientific paper

Primljeno / received 10. 10. 2011.

Prihvaćeno / accepted 11. 5. 2012.

The position of numerous local units in Croatia that are lagging behind in their development or are geographically specific (e.g. islands, hilly and mountain areas) is summarized and explained through the analysis of general and special legislation and statistical data. More than 50 per cent of Croatian local self-government units have such a status. Four groups of special authorities are analyzed. These are the Areas of Special State Concern, the Hilly and Mountain Areas, Islands and the Town of Vukovar. Each of them is regulated by a special law that grants some additional rights to local units, their residents, and legal entities registered on their territory. The paper analyzes

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whether these special regional policy measures could lead to granting a special status to these units. The reasons behind this policy and its objectives are analyzed. It is stated that the special status of these units is mainly stipulated due to developmental and redistributive reasons.

*Key words:* regional policy, local self-government, local units, special status, Croatia, assisted areas

## 1. Introduction

Although special status of various authorities in Croatia<sup>1</sup> is by general local self-government legislation formally recognized just for the capital of Croatia, the City of Zagreb,<sup>2</sup> several groups of local units can be labelled as units with special status. There are several special laws that distinguish certain categories of local units from the »ordinary« units and regulate their finances, tax relieves and special rights of their inhabitants as well as of the companies registered on their territory. The special status of some groups of local units is not manifested in their special territorial coverage, but in additional rights of these local units, their inhabitants and companies registered on their territory. These are the measures of regional policy directed towards different areas that are lagging behind due to geographical, social or economic reasons.

More than 50 per cent of Croatian local self-government units have such special status. Four groups of special units are taken under particular scrutiny in the paper. These are the Areas of Special State Concern, the Hilly and Mountain Areas, Islands and the Town of Vukovar. Each of them is regulated by a special law that gives some additional rights to local units, their residents, and legal entities registered on their territory. The aim of the paper is to assess whether regional policy measures could lead to the special status of these units. Firstly, general rationale and classification of local units with special status is presented, followed by an analysis of lagging and geographically specific areas in Croatia. In the third part, these areas are compared with »ordinary« local units in order to assess if

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<sup>1</sup> Paper prepared for the OLA International Conference *Local authorities and their different statuses*, Zagreb, 9–10 June, 2010

<sup>2</sup> Constitution, Law on Local and Regional Self-Government, Law on the City of Zagreb.

they could be treated as units with special status based on regional policy measures directed towards them. Conclusions are presented in the closing chapter of the paper.

## 2. Rationale and Classification of Various Local Units with Special Status

It is quite hard to find a country that does not have some local units with different kinds of special status that distinguish them from the ordinary self-government units. Such a special status of different local units creates the situation of »institutional asymmetry«, a term describing parallel existence of self-government units with various statuses in a country.

The reasons for such institutional asymmetry are manifold. Along with historic development and tradition of a particular country, the reasons for granting special status to some local units may be political, administrative and, as the Croatian case shows, developmental. Occasionally, granting a special status to the particular territory, whose status is very often reflected in wider autonomy and higher level of guaranteed rights, is directly connected with the prevention of political and other conflicts that might stream out of different ethnic, linguistic, religious or other reasons. As many European examples show (e.g. Belgium, Finland, Denmark, Spain, Italy, Portugal, etc.), special status of particular areas sometimes helps to solve a (potential) conflict situation (Đulabić, 2010; COE, 1996). Finally, capital cities and other big cities, as well as wider metropolitan areas, have been granted special statuses due to their high level of urbanization and significance for the entire country.

There is a distinction between several types of local units with different kinds of special statuses. The classification of local units with some, although various, elements of special status could be the following:

- *Capitals, big cities and metropolitan areas.* The types of settlements frequently enjoying special status different from other self-government units include capital cities, big cities and wider metropolitan areas. Their special position in the self-government system is very often the result of a much higher level of development than the rest of the country, of their economic and social potential and, many times, especially in the post-communist societies, of their symbolic significance for the realization of national identity. These are some of the reasons why the status of capital cities is

sometimes regulated by a special law, different from the general local self-government legislation. Furthermore, capital cities with the surrounding satellite settlements are also becoming special entities, recognized by legislation and forming wider metropolitan areas (e.g. Greater London Authority – Wilson, Game, 2006; Loughlin, 2001).<sup>3</sup> Besides capital cities and wider metropolitan areas, other big cities often enjoy special statuses, stemming from their peculiar position of highly urbanized areas within the wider regions they are situated in.

- *Lagging and geographically specific areas.* Some areas, primarily due to their specific geographic position (e.g. mountain areas), traffic isolation and other characteristics (e.g. islands, remote and sparsely populated areas), are facing specific problems resulting from particular, mostly geographic, but also economic conditions. Their singular conditions call for special treatment. The territorial division of a country has to consider such conditions and grant special status to some areas in order to foster their social and economic development and surmount their shortcomings, which are usually the consequence of geographic position. The particularities of these areas are manifested mostly through special (regional) development policy directed at improving the life of their inhabitants, at raising the attractiveness of these areas for potential investors, and at enhancing the capacity of local authorities to create conditions to catch up with the rest of the country.
- *Units with special status due to political reasons.* Certain self-government units enjoy the status different from the rest of the country due to political reasons. Ethnic, national, religious, historical or similar reasons sometimes result in granting a wider autonomy to certain areas in order to avoid potential political conflict. There are many examples across Europe supporting this statement. From Åland region (Finland) and the Faroe Islands (Denmark) in the north of Europe, to the Azores and Madeira Island (Portugal) in the south, from historical regions in Italy to autonomous communities with special status in Spain (difference between na-

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<sup>3</sup> The status of capital cities and wider metropolitan areas was in the scope of interest of the Council of Europe in the beginning of the 1990s. The 1993 CDLR report showed different status of Helsinki Metropolitan Area in Finland; of different metropolitan areas in Italy; of Dublin region; of the metropolitan region of Copenhagen, of Rotterdam and surrounding municipalities, etc. (CDLR, 1993).

tionalities and other regions – Font, 2000), one could find the examples of areas that enjoy special statuses due to complex political circumstances (Loughlin, 2001).

As many European and other examples vividly testify, institutional asymmetry is obviously here to stay. Some types of special units could be found in almost every country (e.g. special status of capital cities). Some of them are more frequently present at the second, regional self-government level (e.g. regions with special status due to political reasons), because of special historical, administrative and constitutional traditions in many countries. Others are predominantly to be found at the first, basic tier of local self-government. This is mostly the case with the lagging and geographically specific areas. However, the special EU development policy (regional/cohesion policy), is obviously run at a much higher level (NUTS II) than that of basic self-government units (Đulabić, 2007).

Granting a special status to some local units does not happen without criticism. Problems and criticisms range from insufficient transparency of the whole self-government system, to difficult administrative and policy coordination among different units, to undermining democratic potential of local self-government and the right of citizens to enjoy equal rights.

### 3. Lagging and Geographically Specific Areas in Croatia

#### 3.1. Regional Policy and the Lagging and Geographically Specific Areas

Prior to the adoption of the Regional Development Act, regional policy had been implemented pursuant to several so-called regional acts, representing the main instruments for resolving the accumulated developmental problems. Those acts were the basis for efforts to channel development interventions towards several categories of areas presumed to require special government attention. However, it is almost impossible to ascertain the quantity of funds earmarked for financing development projects, or for systematic package of strategic goals, priorities and measures of regional development policy. In addition, due to the lack of systematic monitoring and evaluation, it is impossible to provide a realistic assessment of the impact various measures have on eliminating the real causes of underdevelopment.

The first step towards a more or less systematic concern for specific areas with difficulties in development were undertaken in the early 1990s, when the first Act on Reconstruction Financing (1992) was adopted, simultaneously with the establishment of the Croatian Loan Bank for Reconstruction (1992), today's Croatian Bank for Reconstruction and Development (2006). The reconstruction process was primarily based on the need to rebuild the country after the ravages of war brought about as a direct consequence of the aggression against the Republic of Croatia. Hence, the issue was not a systematic care for the development of underdeveloped parts of the country, but the need for creating basic prerequisites for living in the war-affected areas. Such policy continued in the second half of the 1990s. Although at the time there was no consistent regional policy, the simultaneous adoption of the Reconstruction Act and the Act on the Areas of Special State Concern in 1996 was a modest breakthrough towards the adoption of systematic care for the development of specific, primarily war-affected areas. The approach to development continued to be a reactive one, i.e., it focused on the reconstruction and revitalisation of the war-affected areas. However, after a while, some elements of a more active approach to development could be observed, which was particularly reflected in the adoption of several special laws (on islands and on hilly and mountain areas), and in the introduction of a separate, third category of areas of special state concern because of their lagging in social and economic development.

The regional policy system has so far covered more than 50 per cent of the Croatian territory, i.e., 33,129 km<sup>3</sup> (approximately 62 per cent). However, only 1,070,783 inhabitants live in that area, i.e., almost a quarter (24.1 per cent) of the total population. The current regional development policy is inappropriate because it is administered exclusively at the level of basic local self-government units (municipalities, towns and even settlements enumerated in regulations, thus creating an extremely inflexible and static system). It has caused atomisation of the system and impossibility of monitoring the development impact of the implemented measures. Almost 50 per cent (280) of the total of 556 local self-government units (127 cities and 429 municipalities) fit into one of the categories of special concern (ASSC, HMA, islands)<sup>4</sup> towards which special measures for promoting development are targeted. Furthermore, due to its role in

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<sup>4</sup> An exception is Ston, which has the status of an island pursuant to the Islands Act and the status of the area of special state concern (group 2 pursuant to the Act on the Areas of Special State Concern).

the Homeland War and special symbolic significance of the hero town, Vukovar enjoys a special status in the development policy system. Surprisingly, counties as units of regional self-government were completely left out from the previous regional policy system, even though economic development; planning and development of the network of educational, health care, welfare and cultural institutions; physical and urban planning, transport and transport infrastructure were (and still are) among the core categories of public affairs granted to the self-government scope of the counties by the Constitution (Art. 135/2) and have always had direct repercussions on development.

The largest and most significant category of assisted areas in terms of numbers, space and population is the areas special state concern (ASSC). The ASSC were introduced in the 1996 Act on the Areas of Special State Concern (AASSC). Since adoption, it had been amended eleven times, before a completely new act was passed in 2008. It tried to systematise the affairs mentioned above and to rectify numerous nomotechnical deficiencies of the previous act. The ASSC encompass 45.6 per cent of the Croatian territory (25,789 km<sup>3</sup>). The population of this area is approximately 730,000 (only 16.5 per cent of the total Croatian population). As many as 185 local self-government units fit into one of the three groups of the ASSC, which is 33.3 per cent of the total number of basic local units, and such areas are to be found in every county, except in the City of Zagreb.

The first and second groups of the ASSC are war-affected areas (the criterion of having been occupied). The first group (Art. 4/1 of the AASSC) encompasses 50 local self-government units (48 units in their entirety and 5 settlements in two towns),<sup>5</sup> mostly concentrated in Vukovarsko-Srijemska (15) and Osiječko-Baranjska Counties (14). The second group (Art. 5/1 of the AASSC) includes additional 61 local self-government units (53 units in their entirety and 74 settlements in additional 8 towns<sup>6</sup>), whilst the biggest number of such units is to be found in Zadarska (13), Šibensko-Kninska (9) and Karlovačka Counties (8). The third group of the ASSC was introduced after the amendments to the 2002 Act and was

<sup>5</sup> Osijek (10 per cent of the city territory) and Vinkovci (25 per cent of the town territory).

<sup>6</sup> Daruvar (25 per cent), Dubrovnik (50 per cent), Karlovac (10 per cent), Sisak (10 per cent), Slatina (10 per cent), Virovitica (10 per cent), Vodice (25 per cent) and Zadar (10 per cent).

based on four indicators.<sup>7</sup> After the adoption of the new Act in 2008, the initial number of 69 units belonging to the third group increased to 74 units specified according to three development criteria.<sup>8</sup> The introduction of a third group of the ASSC was a breakthrough towards modern management of regional policy based on objective and measurable indicators of socio-economic development, so it is hardly surprising that the units in this group are dispersed throughout the country's territory. Nevertheless, the number of such units is the highest in Brodsko-Posavska (12), Splitско-Dalmatinska (9), Osiječko-Baranjska (8) and Vukovarsko-Srijemska (7) Counties (EFST, 2008-I). The Act of 2008 abolished the previous obligation of annual evaluation of the development level of group-three units, thus petrifying the status quo in the division of ASSC. This could bring about significant political and other problems related to the new regional policy system arising from the Law's novel legal and strategic framework.

The ASSC are still the basic vehicle for rehabilitation and reconstruction of the housing, communal, transport and social infrastructure devastated in the Homeland War. They have been established with a view to attaining a balanced development of all parts of the country, to promoting economic and demographic development, to completing the reconstruction programme, to returning of the pre-war population and to providing permanent housing (Art. 2/1 of AASSC).

The second category of assisted areas is the hilly and mountain areas (HMA), with respective act adopted in 2002. HMA are the areas that, due to their natural and geographic characteristics (elevation, inclination and vertical articulation of the terrain, and pedological, climatic and other particular natural features conditional upon them), cause difficulties in their population's everyday life and work, and whose development should thus be particularly promoted. The population of HMA totals about 213,000, which is only 4.8 per cent of the Croatian population and 10.5

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<sup>7</sup> The criteria were as follows: the economic criterion (indicators: per capita income, the share of people with private income in the population, and the original budgetary revenue of local self-government units per capita); the structural difficulties criterion (indicators: unemployment rate, employment rate, the share of social assistance per capita); the demographic criterion (indicators: general population trend, the share of educated population, population density, ageing index and vitality index); the special criterion (indicators: border position and mine area status). EFST, 2008-I: 84.

<sup>8</sup> The third group of the areas of special state concern includes the territories of municipalities and towns assessed as underdeveloped parts of Croatia according to three development criteria: economic, structural and demographic (Art. 6/1 AASSC).



per cent (about 5,900 km<sup>3</sup>) of the territory. This category includes 45 local self-government units dispersed in eleven counties. The largest number of HMA units is situated in the territory of Primorsko-Goranska (13), Splitsko-Dalmatinska (11) and Krapinsko-Zagorska (7) counties (EFST, 2008-I: 76, 77).

The fundamental problems encountered by HMA are population dispersion,<sup>9</sup> lower availability and performance of public services, continuous emigration of population, insufficient or weaker basic infrastructure, and unfavourable economic development trends. Numerical indicators of economic activity show that HMA are significantly below Croatian average (EFST, 2008-II: 65-71). The main objectives targeted by assigning a special status to HMA are demographic renewal, resettlement, and the use of natural and economic resources in the manner that shall ensure economic development and the preservation of biodiversity and landscape (...). (Art. of 1 AHMA).

Islands are also a special category of assisted areas, proclaimed by the Constitution as natural assets of interest to the Republic (Art. 52/1 of the Constitution). Due to their geographic position, the islands encounter particular development difficulties, so they are separated as a special area of development policy. Their development is regulated by the National Programme of the Development of Islands adopted in February 1997, and the Islands Act (IA) adopted in March 1999, which has been amended several times since. Only 2.9 per cent (131,000) of the population live on the islands, on only 5.8 per cent (3,259 km<sup>3</sup>) of Croatian territory, whereas the average population density (29.3 inhabitants per km<sup>3</sup>) is almost three times smaller than the national average. Out of 1,244 islands<sup>10</sup>, there are 50 inhabited ones. With respect to demographic conditions and economic development, the Law has divided the islands into two groups. The first group includes undeveloped and underdeveloped islands and is-

<sup>9</sup> The average population density in HMA is only 31.7 inhabitants per km<sup>3</sup>, whereas the average population density in Croatia is approximately 80 inhabitants per km<sup>3</sup>.

<sup>10</sup> The Croatian islands are the second largest archipelago in the Mediterranean, which includes almost all the islands of the eastern Adriatic coast and its central part. They are divided into 79 islands, 525 islets, 640 rocks (peaks above sea level) and reefs (peaks below sea level). They are grouped into five groups, Istrian, Kvarner, north Dalmatian, central Dalmatian and southern Dalmatian groups. Space-wise, the largest one is Cres (405.7 km<sup>3</sup>), the highest one is Brač (Vidova gora, 778 m), the most indented one is Pag, the longest one is the island of Hvar, and the most populated one is Krk (17,087 inhabitants). According to 2001 census, the islands' population is 124,870, living in 344 island settlements. No less than 71.2 per cent of the Croatian seashores are island shores (MMPI, 2009: 3).

lets, and small, occasionally inhabited and uninhabited islands. This group covers the majority of islands in the support system. The second group includes the remaining islands and Pelješac Peninsula.<sup>11</sup> The division of islands into two groups is a consequence of a more intensive development of islands that have managed to turn the development wheel in the positive direction due to the development of tourism, trade and shipping. Therefore, the management of their development also requires slightly different approach than that of less developed and sparsely populated islands (EFST, 2008-II: 72).

The basic development problems of islands arise from weak transport connections with the mainland and with other islands; from a small number of active workforce; and from poorly developed infrastructure. The fragmentation of islands into several local self-government units is an additional problem.

Finally, the Town of Vukovar was granted a special status, and a law was adopted to that effect in 2001. Special treatment of reconstruction and development in Vukovar is a consequence of brutal devastation this town suffered in the Homeland War, and not of particular development challenges that would be a discrepancy from the general state of affairs with respect to the level of development of Slavonia and Baranja.<sup>12</sup>

### 3.2. Lagging and Geographically Specific and »Ordinary« Units

#### 3.2.1. *Different Statues*

Special statuses are, as a rule, aimed at departing from the general local self-government regime, and focused on granting a higher autonomy or a wider scope of activities to specific territorial units. Nevertheless, in some situations, such territorial asymmetry results in centralisation tendencies. Local autonomy is particularly put at risk by the *top-down* approach of

<sup>11</sup> Irrespective of the statutory division of islands into two groups, the Government has a possibility, on the proposal of the competent ministry, and with preliminary opinion of the ministry in charge of environment, to classify the uninhabited islands into either the first or the second group, to re-classify the developed areas of particular islands from the first into the second group, as well as the possibility to reclassify the undeveloped parts of a certain island from the second group into the first one (Art. 2/4, IA).

<sup>12</sup> For a detailed analysis of laws and instruments utilised for support to the specified categories of assisted areas see Đulabić, 2005; Đulabić, 2007: 187 etc.

development policies specifically designed for islands, mountain areas, sparsely populated and other geographically specific areas. In the last several decades, local self-government in the majority of developed countries has been entrusted with the role of engines of social and economic growth (Koprić, 2010: 124; Škarica, 2011; Maleković and Puljiz, 2010: 201–204; Lyngstad, 2010: 94–95). It is believed that development policy should originate from lower territorial levels (*bottom-up* approach), in accordance with the subsidiarity principle, and that higher levels have to enable the lower ones to take responsibility for the development of their respective areas (more on the solidarity principle in Koprić, 2001).

European countries have tried to accomplish this by means of various decentralisation policies,<sup>13</sup> three aspects of which are significant for the enhancement of the development component: consolidating the territory of the basic local units, fostering cooperation between them (horizontal association), and establishing a regional (self-)government level (Đulabić, 2010: 151). A uniform approach and equal legal treatment of all local units in general legislation prevails in Croatian local self-government. This relates to both the issues of the scope of competence (with the exception of large towns and towns that are county seats), and to the internal organisation issues, local political bodies and the manner of their election. Attempts are being made to compensate for such a situation by a number of various special laws that, to a greater or lesser extent, depart from the general regulation of local self-government (special laws regulating the scope of competence,<sup>14</sup> regulations on financing of local units and analysed laws on the assisted areas), which has led to exceptional complexity and magnitude of the system and resulted in a factual impossibility to carry out a well-founded assessment and evaluation of its quality, appropriateness, and rationality.

In 2007, the Congress of Local and Regional Authorities of the Council of Europe adopted a recommendation with particular intention to connect the peripheral and sparsely populated areas with ideas that found development policies on the principles of partnership, cooperation, sub-

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<sup>13</sup> There is extensive literature about the relationships of decentralisation, local government level and fostering social and economic development. More details in Frey, 2008; Davey, 2003; Johnson, 2001; Jurlina Alibegović, Kordej-De Villa, 2009; Maleković, Puljiz, 2010.

<sup>14</sup> Reference is primarily made to partial decentralisation in the areas of primary education, health care, social welfare and firefighting. Public affairs in the aforementioned areas have been taken over by just a small number of local units (Škarica, 2011).

sidiarity, and *bottom-up* development. Recommendation 225(2007) about the Challenges and Opportunities for Peripheral and Sparsely Populated Regions advocates the observance of the subsidiarity principle in such a manner that the support measures are formed at the levels that best suit their nature. The Recommendation insists on the partnership between different territorial levels in developing local infrastructure and improving public services in assisted areas.<sup>15</sup> Integrated and decentralised development policies, which should be designed at the most appropriate level, in accordance with the subsidiarity principle, are advocated and supported. The Recommendation does not mention the special status of the area it pertains to.

Once the position of local units, natural persons and legal entities in the areas with special status has been systemised, it is difficult to assess to what extent the proclaimed objectives have been accomplished, for two reasons. Firstly, the objectives are not very specific (demographic renewal, economic progress, better quality and more uniform fostering of social conditions etc.) and they are definitely influenced by many other factors besides the measures provided for by these laws. Indicators as the links between the measures and the objectives do not exist, so that it is difficult to assert in a well-founded manner how much the measures have contributed to the attainment of objectives. Secondly, monitoring the implementation of the measures and their impacts is sporadic and unsystematic, while the institutional structure is fragmented. There are many agencies implementing the development policy, and this can lead to diverse and even mutually opposite measures (Starc and Rašić, 2003: 64). To obtain a relatively reliable picture of the complexity of the assistance system, it should be noted that other laws also provide for certain measures for the assisted areas.<sup>16</sup>

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<sup>15</sup> A more recent recommendation of the same body advocates a similar position – Recommendation 296(2010) Sustainable Development of Mountain Regions and the Experience of the Carpathian Mountains. In pint 5, it postulates that territorial cohesion may be attained only by an integrated design of public policies that relate to mountainous areas, more specifically, by collaboration between different territorial levels in accordance with the ideas of a multi-stage management.

<sup>16</sup> E.g., the Law on the Lease of Office Premises, the Law on the Amendments to the Crafts Act, the Law on the Administrative Fees in the Area of Intellectual Property Rights.

### 3.2.2. *An Analysis of Special Rights for Lagging and Geographically Specific Areas*

The Act on the Areas of Special State Concern (AASSC) has introduced the following as incentives for demographic renewal in the ASSC: a) possibility to lease a family house or a flat in state ownership; b) possibility to lease a damaged family house in state ownership and obtain construction material; c) donation of building land in state ownership and construction material for building a family house; d) donation of construction material for repair, reconstruction and extension of a family house or a flat; e) construction of a family house on the building land owned by the applicant; f) donation of building land in state ownership and construction material for building a housing unit in a residential building; and g) donation of a family house or a flat in state ownership. Manners of providing accommodation are mutually exclusive, so that the beneficiary may exercise the right on one basis only. Those rights may be exercised by individuals who have permanent residence in the ASSC and people who intend to settle such areas.<sup>17</sup> The provision of housing is fully in the competence of central state administrative bodies and their regional offices, so that the local self-government units in those areas are marginalised and left without the leverage effect regarding local housing policy. Thus, they are hindered in their self-government scope of competence as regulated by the Constitution and the Law on Local and Regional Self-government (LLRSG).<sup>18</sup> Thereby the constitutional subsidiarity principle is also by-passed and thus breached.

Tax benefits are a special group of measures. Citizens who acquire real estate located in the areas of special state concern are not liable to pay capital transfer tax provided they have, or they have reported, permanent residence in that area. Since the capital transfer tax is partially also

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<sup>17</sup> Housing policy has had quite good results so far. A total of 35,320 families have attained housing: 6,112 by leasing family houses in state ownership, 2,848 by leasing damaged family houses and being donated construction material for their reconstruction, 12,580 by leasing flats in state ownership, 1,097 by being donated building land in state ownership and 12,506 packages of basic construction material (Proposal of the Law on the Amendments to the Law on the Areas of Special State Concern with the Final Proposal of the Law, [www.sabor.hr](http://www.sabor.hr)).

<sup>18</sup> Article 18 of the ALRSG underscores the autonomy of municipalities, towns and counties in deciding on the activities from their self-government scope; in Article 19, a general clause provides for the self-government scope, specifying the examples of certain categories of public activities included in the self-government scope of local units, which encompasses urban development and housing.

the revenue of local self-government units, the effect of this provision becomes questionable. On the one hand, it puts population into a more favourable position, while on the other hand, the local unit in which the population lives is in a more difficult position because such a provision leaves it without any sources of revenue by a unilateral decision of the central government.

Corporate profit tax generated in the ASSC belongs to the state budget, and it is paid to local self-government units in the ASSC as support from the state budget. Corporate profit tax payers may be beneficiaries of a scalar regulated model of tax exemptions and/or benefits provided that they have more than 5 permanently employed workers, with more than 50 per cent of employees having permanent residence in an ASSC. The tax exemption amounts depend on the group of ASSC in question and on the period of the performance of activity (Art. 23 of the AASSC). Thus, legal entities may also be granted other benefits, i.e., grants in accordance with general state regulations on state aid.

Local self-government units in the ASSC exercise the right to various compensations from the state budget: a compensation for mining in their area, which is otherwise state revenue, and the compensation for surface covered by a protected area of nature (the amount of compensation is determined by Government's decision). Such compensations are strictly earmarked and may be utilised only for projects related to environmental protection and economic development. Pursuant to an agreement with the Government, a local self-government unit is compensated from the state budget for the funds it utilises for subsidised transportation of third- and fourth-grade secondary school students. They are entitled to free intercity transportation from the place of residence to the nearest school of students' choice and back.

Pursuant to the Act on Hilly and Mountain Areas (AHMA), local self-government units on islands and those determined by a special law as areas of special state concern cannot acquire that status. The most significant right that this Act grants local self-government units designated as HMA is the right to tax revenues from income tax and corporate profit tax collected in their respective areas, which would otherwise belong to the state budget pursuant to the Law on Financing Local and Regional Self-Government Units. The beneficiaries of corporate profit tax benefits and amounts thereof are determined in the same manner as in the AASSC for the third-category areas. The Act stipulates that such benefits shall have been valid by 1 January 2011, with the exception of economic entities en-

gaged in agriculture and fishery, whose benefits from corporate profit tax expire on the date of Croatia's accession to the European Union.

The benefits of individual persons regulated by this Law are the following: the right to harvest forest products by individuals above 16 years of age with permanent residence in an HMA unit and priority in exercising the right to lease agricultural and forest land, to lease a hunting ground or to exercise a fishing right. Natural and legal persons with permanent residence or seat in a local self-government unit in a hilly and mountain area are granted this priority under equal conditions.

The Act on Islands (AI) has stipulated the preparation of a Programme of Sustainable Development of Islands as an obligatory development document of coastal and island counties as well as island and coastal towns and municipalities. The content and methodology of the preparation is prescribed by the Government, and the funds for the Programme are provided for in the state budget. To what extent can provisions determined in the manner described above contribute to endogenous development of Croatian islands? Which island municipalities and towns will be able to express their specific features individually? Physical planning documents, belonging to the self-government scope of island municipalities and towns, have to be harmonised with the Programmes of Sustainable Development whose main parameters are determined by the Government, which adopts them along with the opinions of a number of central state administration bodies. Island and coastal local self-government units perform the implementation of the Programmes of Sustainable Development of Islands, which expands their competences. It remains unclear whether this expands their self-government or transferred competences. The Government, at the proposal of the competent ministries, has adopted 13 sector-specific State Programmes of Development of Islands. Although a large number of them plan for the activities belonging to the self-government scope of local units, local units do not at all participate in the preparation of those programmes. The possibility for leading independent local policies, and consequently citizens' influence, is significantly narrowed by this legal provision. All the advantages of localisation of public affairs are thus lost, from higher legitimacy of public decisions to better adaptation of the decisions to specific local circumstances and interests (more in: Škarica, 2011). Instead of strengthening the independence and capacities of assisted local units, by means of such a policy, the state has turned them into executive mechanisms for decisions adopted at the central level. This discourages local initiative, ignores specific local knowledge about public problems and narrows down the range of different manners of their resolution.

Island units may, at the request of their respective representative bodies, be authorised by the Government to manage residential buildings, business premises and flats in state ownership. This management is rather limited because the Law stipulates the purpose of utilisation of a particular real estate, while the Government regulates only the lease and rental conditions.

The Law has also determined that the compensation for the exploitation of oil and gas on islands, which accounts for 3 per cent of the total revenue generated by their sale and is revenue of the Republic of Croatia, belongs to the local self-government unit on whose area the exploitation is carried out. This compensation is strictly earmarked revenue, so that it may be used only for promoting the activities important for islands, for the protection of environment and for the implementation of state programmes related to islands.

Furthermore, obligatory cooperation is stipulated for local self-government units on islands in the organisation and performance of some communal activities if the communal infrastructure in the particular area is a single and indivisible whole (Art. 35.). Such a cooperation pertains to the collection, transportation and disposal of communal waste, water supply, wastewater treatment and discharge and joint organising of passenger transportation for passengers in islands' public transportation. In other communal activities, cooperation on an optional basis is also encouraged.

Croatia has established its pre-emption right for real estate on the small, occasionally inhabited and uninhabited islands in such a manner that the owner who is selling such a property is obliged to offer it to the state first, i.e., to the body in charge of managing. If the state does not accept the offer within 30 days, the pre-emption right is transferred to the county, and if the same happens in the next 30-day period, the county is obliged to offer the property to the municipality/town in whose area the property is situated.<sup>19</sup>

The Law grants special rights in terms of road transportation to specific categories of the island population, such as pupils, students, pensioners and persons above the age of 65 who are entitled to free transportation

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<sup>19</sup> In 2009, the Ministry received 13 requests for sale of real estate and did not use its pre-emption right on behalf of the Republic of Croatia even once. Therefore, it would be better and in accordance with the subsidiarity principle, if local self-government units were granted the pre-emption right, with the transfer of right going in the opposite direction, from the local to the state level (MMPI, 2009).



in public island road transportation. The situation is the same with health workers in transportation of patients, while disabled persons who cannot use public transportation services are reimbursed for transportation costs for which they make their own arrangements. The whole system of subsidies bypasses local self-government units because those funds are paid directly from the state budget by the competent Ministry. An individual who obtains a permit for small-scale fishing, with permanent residence on the island, may engage in small-scale fishing without the obligation to pay for the fee.

The government particularly supports economic activities that support sustainable development of the islands (Art. 15, AI). Businesses that start or expand their activities provided for by this Act are in a special loan programme of the Croatian Bank for Reconstruction and Development and have loans available under privileged conditions. Crafts and businesses situated on the islands and performing their activity there may exercise the right to *de minimis* aid for the preservation of jobs.<sup>20</sup>

The state has invested approximately 1 billion kuna and 150 million in grants, of which more than 400 million kuna was invested in transport infrastructure, and approximately 26 million kuna in communal infrastructure and social affairs respectively (MMPI, 2009: 17–20).

To sum up, the AI in some of its parts does not give the impression of a precise, measurable and realistic normative instrument of development policy, but more of framework programmatic documents full of good intentions.<sup>21</sup>

The Act on the Reconstruction and Development of the Town of Vukovar (ARDTV) provides for several incentives for citizens and businesses with permanent residence and/or the seat on the territory of the Town. Businesses and individuals performing economic activities are exempted from payment of the initial import duties on equipment required for optimisation of activities. Upon submitted request, the Croatian Government will reimburse the employers whose seat is in Vukovar 50 per cent of paid health and pension insurance for certain categories of employees.

Students with permanent residence in the town of Vukovar are entitled to scholarship according to the Plan of Employment Needs in Vukovar, pro-

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<sup>20</sup> In 2009, 179 island employers received support for 3,249 workers worth approximately HRK 10 million.

<sup>21</sup> This statement is best illustrated by the provisions of Art. 9 of the AI about the development of the system of maritime, air and road transportation.

vided that, following the completion of the studies, they work in Vukovar twice as long than the period during which they have been receiving the scholarship.

People with specific qualifications and occupations whose expertise is in particular demand in the area of Vukovar, and whose housing problems are not solved, may, under more favourable conditions, have a house or a flat leased. Similarly, such people may also be donated building land or construction material.

There is an obligation to establish one or more free business zones in the area of Vukovar. Taxpayers performing a business activity in the Town of Vukovar (TV) who have more than five permanently employed people, more than 50 per cent of whom permanently reside in the area of Vukovar, a HMA or an ASSC, are exempted from paying corporate profit tax during 10 years following the commencement of the implementation of the ARDTV, i.e., until 2011.<sup>22</sup>

Vukovar Town Council may participate with its proposals in the preparation of the Plan and Programme of Reconstruction and Development of the Town. The Mayor, together with the competent ministry, proposes the president and vice-president of the Fund for Reconstruction and Development of the Town of Vukovar appointed by the Government. Those two positions are the only ones about which the town bodies of Vukovar are consulted. This is an astounding bypassing of self-government political and administrative bodies in the processes and programmes of reconstruction and development. Even in the activities in which it is logical (and even stipulated by law) to expect certain competences of local self-government units (provision of housing, planning of business zones), all activities are in the competence of central state administrative bodies or the Government. The Fund for Reconstruction and Development of the Town of Vukovar in some of competences also performs the tasks of local self-government bodies. With its activities, the Fund has contributed to resolving infrastructure problems and housing.<sup>23</sup> It has been pointed out that there have been positive developments in Vukovar, but that »... projects and activities of local importance should primarily be in the competence of local self-government and that in the future the Town of Vukovar should assume higher responsibility« (EFST, 2008).

<sup>22</sup> The law prescribes a model identical to the one referred to in Articles 23 and 24 of the AASSC.

<sup>23</sup> More on <http://fond-vukovar.hr/o-fondu>

### 3.2.3. *What Is Special about Lagging and Geographically Specific Areas?*

What constitutes the »special« status of local self-government units included in some of the analysed laws? In most cases, the particularity does not mean a wider scope of competence or greater financial autonomy. Some fiscal benefits (retaining the tax revenues collected in their area, grant of some of state non-tax revenues) guarantee higher revenues to local units. However, on the expenditure side they are limited by law with regard to the purpose of their spending. Such a balance, which causes them to lose some of their financial autonomy, probably suits the local units because they, despite everything, still have larger financial resources available. A system regulated in this manner does not allow for tax competition, i.e., local units cannot have significant impact on attracting the investments and population by their own fiscal policy measures.<sup>24</sup> Transferred revenues are largely earmarked. In a way, this statement is also corroborated by the lack of initiative of assisted units for the change of their position or by a fervent resistance to the announcements of the possible loss of their status. Such initiatives mostly come from the scientists and professionals (Đulabić, 2007: 90; Koprić, 2010: 132). The particularity of the status is reflected neither in a wider self-government scope nor in wider powers of local self-government units in assisted areas. On the contrary, the state with numerous development and welfare programmes tackles unilaterally the categories of public affairs from self-government scope granted to the local units by the Constitution and the ALRSG. Discretionary power in the performance of tasks from the self-government scope is narrowed, particularly in the housing and communal activities. Because it is financing those activities, the state reserves the right of their planning, regulation and implementation as well. Regardless whether this concerns the preparation of strategic documents or subsidising different categories of population in the activities such as transportation, education, or provision of housing, local units have not been formally identified as subjects of or partners in decision-making. This is particularly noticeable in the LRDTV in which, but for two less important exceptions, municipal government bodies have not been granted even a symbolic role of participation in decision-making related to the town. The legislation does

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<sup>24</sup> There are doubts as to whether in Croatia there is a pro-centralisation or pro-decentralisation trend given the decisiveness of the Government that the local self-government financing system is based on shared taxes and current intergovernmental transfers, instead of on conceding a considerable amount of taxes to lower territorial levels (Bajo and Bronić, 2007: 3).

not promote participation of local self-government units in the designing and forming of development programmes and projects.

Therefore, they cannot attain their proclaimed development purpose. If the priority of the state development policy is not rendering the assisted units capable of independent development and strategic planning, they will become increasingly dependent on the Government and will not develop their own capacities and comparative advantages on their own. The Government is focused on efficient and even utilisation of funds rather than on local autonomy, which is to be expected from the central decision-making.<sup>25</sup> The Government is trying to annul the economic and social disparities between »ordinary« local self-government units and those with special status. Those are valuable efforts, particularly when citizens and business benefit from it. However, the Government also needs bear in mind that by taking the place of local self-government units in some functions it has not cemented its position, but is there temporarily, until the units are able to assume the powers that are currently in the Government's scope. Consequently, the particularity of those areas is reflected in considerably stronger presence of the Government at the local level and in the importance of its decisions for the well-being of individuals, of businesses and even of the respective local self-government units. Programmes and centrally designed benefits and subsidies cannot generate development unless local resources are involved in the decision-making process.

The above leads to the conclusion that the units situated in any of the four analysed assisted areas cannot be referred to as units with a special status in the sense that they constitute a special type of local self-government units (unless this special status implies a reduced autonomy and greater dependence on the central government). It seems, however, that they serve only as a territorial framework for a number of redistributive mea-

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<sup>25</sup> The whole regime of assisted areas irresistibly reminds one of the community development theory, which used to be the official doctrine of the United Nations for undeveloped and developing countries. It was considered that limited resources might be spent rationally and cost-efficiently only under centrally determined plans, at the initiative of central state organs and under their strict oversight (Koprić, 2001: 412). The existing regime of the four laws mentioned above could be assessed as administrative deconcentration, given that the implementation of measures is mostly entrusted to the bodies of (deconcentrated) state administration, while entrusting the implementation of those measures to local self-government bodies, under significant central control, would mean administrative decentralisation. Such a treatment of local self-government implies a large discrepancy with the common practice, and with the concepts of political decentralisation and subsidiarity based on the Constitution and conventions.

asures and incentives designed and implemented from the central level, aimed at eliminating development problems in those areas. One cannot draw a conclusion about the special status granted to different local units by certain laws from the special financing regime (fiscal equalisation), since there are a number of differences and regimes in the Croatian local self-government financing system (financing of decentralised functions in of education, health care, welfare and fire fighting, a vast system of inter-governmental transfers, etc.). A special status should be based on certain differences in the legal status, internal organisation, in the scope of competence, and in manners of horizontal and vertical connection with other territorial levels (Ivanišević, 2006: 212). Furthermore, the differences in terms of development policy cannot constitute a ground for granting a special status to local units, because there are differences in other policies as well (education, health care, welfare), and yet they are not granted a special status.<sup>26</sup> It can be concluded that the »special status« of local units consists in their rather special position with respect to specific issues. However, their particularities are partial and sporadic, and it cannot be claimed that units from any of the four aforementioned areas constitute a special type of local unit, which would be significantly different from others in terms of the status and which would constitute a special type of self-government unit.

## 4. Conclusion

It seems that in the modern approach to regional development shaped through the EU structural policy, the development of lagging areas should not be sought through their special position (autonomous or not), but should be materialised through adherence to the basic principles of the EU cohesion policy and the values of local autonomy and subsidiarity advocated by the Council of Europe. Ivanišević believes that by uniform status of all local units, i.e., by a monotype organisation of local self-government, irrespective of what kind of circumstances they function in, the

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<sup>26</sup> Moreover, the differences in public policies in which local self-government units have quite a lot of powers in their self-government scope could even sooner constitute the essential difference in status that could imply a special status of a local unit. Nevertheless, the issue of special statuses is not debated in those policies.

chance is given to less developed local self-government units to develop faster (Ivanišević, 2006: 213).<sup>27</sup>

The analysed regional policy measures are mainly aid to undeveloped and war affected areas, and not a meaningful set of strategic mechanisms for conducting an active development policy and for promoting the development of lagging areas. Such an approach, in addition to the ones mentioned above, has a number of other deficiencies. For instance, the issues related to towns, especially large towns, and to their role in the development of the country are not taken into consideration at all in the concept of development policy, although the towns, due to the structure of their population and economic potential, should be the main lever of the country's development. The strategic approach to development has been embedded into the provisions of some laws, but it is extremely complicated in some parts, or fundamental documents have never been adopted. Other principles of the contemporary regional policy (programming, partnership, concentration, additionality, efficiency; more in: Đulabić, 2007: 125–133) have not been included in the designing and implementation of regional policy to a sufficient extent.

Special position of certain local or regional self-government units could be intended only for the improvement of their position by granting a wider autonomy, and not the other way around. In that case, the polytypic structure of local self-government fulfils its purpose, i.e., it reflects the particularities and different possibilities and needs of individual parts of the state territory. Some development problems might also be resolved by training local self-governments to encourage their own development, in particular, by territorial restructuring aimed at the formation of larger and stronger local self-government units or by encouraging collaboration (through financial and other instruments).

A special status of local units on the islands is outlined to a point by some pieces of legislation, and it makes sense that in this area the actual diversity of island areas should be expressed by strengthening the special status. Only the AI, and just to a certain extent, places the local self-government units it pertains to into a special status because it regulates differently

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<sup>27</sup> In a monotype system, the less developed units will require a solidarity mechanism for the purpose of fiscal equalisation of local units. This is a chance for local units in less developed areas to break the vicious circle of poverty and instigate their development with the help of the state. In contrast, the legal sanction of unequal conditions may »freeze such differences in time« so that rural areas stagnate in terms of development and the gap between developed and undeveloped areas of a state deepens (Ivanišević, 2006: 214).

some aspects of the scope of competence, manner of the performance of some tasks, financing etc. It is not sufficient to merely stipulate technical cooperation in the performance phase of local affairs (establishment of joint utility companies etc.) in order to attain a unified and harmonised development of island municipalities and towns, but it is also necessary to manage the island as a whole. Due to a specific geographic position, the situation of local self-government units that are mutually supportive is more pronounced than in the rest of the country. In order for joint performance of local public services, particularly utility services, but also other affairs of local importance (physical planning, promotion of economy, child care etc.) to be cost-effective and in the best interest of the local population, it is necessary to create institutional connections among local political bodies, i.e., to set up a joint decision-making forum. This can be accomplished in a number of ways. The first one is to amalgamate island local units into one, thus providing for a single interest platform that would run the whole island. In this manner, the revenue earned by some island settlements might be distributed more evenly to the whole island. This would provide a basis for the initiation of a change of the electoral system, with electoral units within the (approximate) boundaries of current municipalities and settlements, to ensure even representation of the population.<sup>28</sup> Alternatively, local units on the islands could preserve their identity, but with the establishment of a joint political body that would decide about all the issues important for the whole island (besides the activities mentioned above, these would primarily include strategic planning of the development and spatial planning). This body would also have its governing organs, which would need to take over the implementation of national development plans and programmes, that are, for the time being, and on account of territorial fragmentation, being implemented through the state administrative bodies and their local/regional offices and branch offices.

Only under such territorial and organisational arrangements could the local level really be a partner with higher levels in terms of planning and promoting local development.

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<sup>28</sup> Koprić has a similar proposal, in case of consolidation of the territorial structure of local and regional self-government in Croatia (Koprić, 2010: 135).

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Table 1 Local self-government in Croatia

REPUBLIC OF CROATIA 4.290.612 inhabitants 56.592 km <sup>3</sup>		
2 <sup>nd</sup> tier  20 counties + Zagreb	Counties Units of regional self-government 20 – 3,497,737 inhabitants (81.5% of the overall population) 204,315 – average size (ZG included) 175,000 – average size (without ZG)	Zagreb (ZG) Special status (Law on the City of Zagreb) 792,875 inhabitants (18.5% of the overall population)
1st tier  556 units  7,715 – average size (ZG included) 6,300 – without ZG  1990 – 100 units with approximately 40,000 inhabitants	Communes 429  1.26 million inhabitants (29.6%) 2,960 – average size of a commune	Towns 126 (102+24 large cities and county seats, special status since 2005)* + 1 (Zagreb) 3.02 million inhabitants (70.4%) 23,784 – average size (ZG included) 17,681 – without ZG 16 large towns (more than 35,000) 50 towns – between 10,000 and 35,000 inhabitants 60 towns – less than 10,000 inhabitants
	Areas of Special State Concern – 184 Hilly and Mountain Areas – 45 Islands – 50	

Source: Population census 2011 and authors' calculation

\* These 24 towns enjoy a special status regarding their somewhat wider scope of self-governing competences in comparison to other towns. Out of them, 16 towns (large towns) have gained this status on the basis of number of inhabitants (more than 35,000), and the other 8 enjoy the same status because they are county seats, regardless of the number of inhabitants (Pazin, Gospić, Krapina, Čakovec, Koprivnica, Virovitica, Požega, Vukovar).

Table 2 – Areas with special status

Local Units			Inhabitants		Surface	
Type	No.	% (556 = 100)	Number	% (Croatia = 100)	km <sup>3</sup>	% (Croatia = 100)
ASSC*	184	33.2	637,528	14.8	25,789	45.6
HMA	45	8.2	202,279	4.7	5,922	10.5
Islands	50	9	129,520	3.0	3,418	6.0
Total	280	50.4	969,327	22.5	35,129	62.1

Source: Calculation of the authors and data of the Ministry of Regional Development, Forestry and Water Management, April 2010

\* Data includes the Town of Vukovar, which has 28,016 (0.7%) inhabitants, and surface of 98.9 km<sup>3</sup> (0.2%) of Croatia.

## REGIONAL POLICY AND THE VARIOUS STATUSES OF LOCAL UNITS IN CROATIA

### *Summary*

*The authors aim to summarize and explain the position of the numerous local units in Croatia that are lagging behind in their development or are geographically specific (e.g. islands, hilly and mountain areas) through the analysis of general and special legislation and statistical data. More than 50 per cent of Croatian local self-government units have such a status. Four groups of special authorities are particularly analysed in this paper. These are the Areas of Special State Concern, the Hilly and Mountain Areas, Islands and the Town of Vukovar. Each of these groups is regulated by a special law that grants some additional rights to local units, their residents, and legal entities registered on their territory. The aim of the paper is to analyze whether these special regional policy measures could lead to granting a special status for these units. The reasons behind this policy and its objectives are analysed and it is stated that special status of these units is mainly stipulated due to developmental and redistributive reasons.*

*Key words: regional policy, local self-government, local units, special status, Croatia, assisted areas*

## REGIONALNA POLITIKA I RAZLIČITI STATUSI LOKALNIH JEDINICA U HRVATSKOJ

### Sažetak

*Autori sažimlju i objašnjavaju položaj brojnih jedinica lokalne samouprave u Hrvatskoj koje zaostaju u ekonomskom razvitku ili su pak posebne u geografskom smislu (otoci, brdsko-planinska područja) analizirajući opće i posebno zakonodavstvo i statističke podatke. Više od polovine hrvatskih lokalnih jedinica uživa poseban status. U radu se analiziraju četiri skupine takovih jedinica, a to su područja od posebne državne skrbi, brdsko-planinska područja, otoci te grad Vukovar. Svaka od ovih skupina regulirana je posebnim zakonom koji jamči dodatna prava jedinicama lokalne samouprave, njihovim stanovnicima te pravnim osobama registriranim na tom području. Cilj rada jest analizirati mogu li posebne mjere regionalne politike dovesti do dodjele posebnog statusa navedenim jedinicama. Propituju se razlozi koji su iza takve politike, kao i njezini ciljevi, te se nalazi da je poseban status ovim jedinicama lokalne samouprave uglavnom dodijeljen zbog razvojnih razloga i razloga redistribucije.*

*Ključne riječi: regionalna politika, lokalna samouprava, lokalne jedinice, poseban status, Hrvatska, potpomognuta područja*