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No Policy on the Horizon? Europeanization and Regional Policy in Croatia

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Summary

The 1989 reform of the regional policy of the European Union designed it as a dynamic, proactive policy that is not solely interested in specific *outputs*, but is primarily directed towards achieving *outcomes* (the policy effect at the socio-economic level) in underdeveloped regions of the Union.** Using predominantly Börzel's and Radaelli's concepts of Europeanization, the author develops a framework for the analysis of Europeanization of the EU's regional policy in the first three completed cycles (1989-2006).

Croatia has to develop in order to be ready for an effective future regional policy and tackle its absorption capacity, particularly in the areas where severe difficulties have been identified. This process must be facilitated by a wide consultation process and a participative approach in programming the Structural & Cohesion Funds interventions, both at the sectoral level and in the regions. Only then will the final result be a set of clear objectives and targets to guide the implementation of the country's structural development policies and prepare it for post-accession opportunities.

Key words: EU, regional policy, Europeanization, CSF, Croatia, IPA, NUTS,
Chapter 22

1. The EU's Regional Policy, Political Science and Europeanization

For a political scientist, the EU's regional policy has fuelled a significant amount of literature in the field of Europeanization studies. We question if regional policy is the quintessential Europeanized policy. What are the impacts of the policy on domestic administration and internal politics at the national and regional levels? Po-

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** The views presented in this article are the author's personal standpoints on the Croatian situation up to 30 November 2009.

litical scientists are interested in both the decision-making as well as the implementation aspects of the policy, because each phase provides evidence of the existence of multi-level governance patterns and the type of interaction taking place among the institutions responsible for the policy and the stakeholders who should be the main beneficiaries of policy outputs. The concept of cohesion provides a response to the question of “what” is the objective of the EU’s regional policy. The EU’s Third Cohesion Report on regional policy clearly refers to it as one of the three pillars of the construction of the European political and economic space, in addition to Single Market and Single Currency. If the first concept (cohesion) represents a political objective, the second concept (convergence) is the means by which a political objective is achieved. Convergence provides the answer to the question of “how” cohesion is achieved. In other words, cohesion is the overall outcome of the process of convergence.

Since the first Regulations of the Management of Expenditures and the Coordination of the Structural Funds have been adopted in 1988, there has been what is termed a strong “Europeanization” drive in the field of regional and local development policies. The Europeanization of regional and local development policies is based on the *de jure* transfer of the legal (rules and regulations) and financial responsibilities for the policy from the national to the European level. Radaelli (2003: 30) defines Europeanization as the “process of (a) construction (b) diffusion and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, political structures, and public policies”. The logic of Radaelli’s definition suggests that, first, the policy needs to be formulated at the European level with all of its associated instrumentation, and then descend to the national level for absorption and incorporation. In reality, it is difficult to separate the EU and the national levels in explaining the birth of regional policy, though the attribution of roles in policy-making and implementation has been clear on the basis of the 1988, 1993, and 1999 Regulations.

But what is of interest with regard to the EU’s regional policy is that one finds the European level “imprint” in all of its innovative aspects. The EU’s regional policy offers an extraordinary opportunity to examine how Europeanization affects the policy process with regard to a policy area that was traditionally national in its origin, but which since 1989 has seen the introduction of a new European level in terms of its policy structure and content. Therefore, this policy provides a clear case study of the impact of the Europeanization of a policy on a member state’s responses and behaviour. Another interesting aspect of the EU’s regional policy is that it does not “fit” into any national model or experience because it represents an addi-

tion to existing national regional policies rather than a substitute for national policies. This Europeanization of policy-making in the field of regional development did not necessarily mean that national regional policies would have to be eliminated. The objective of the EU's regional policy was to add a European dimension and level to already existing national regional development policies. The Europeanization of a policy area did not imply that member states were no longer in a position to influence policy choices and implementation.

2. Europeanization of the EU's Regional Policy:

Building a Model Brick by Brick

Now it is necessary to understand the impact of the EU's regional policy on the policy-making and implementation process and the institutional response that has been generated from the member states and regions participating in the policy. Four aspects have been very important in structuring the member states' and regions' institutional response to the dictates of regional policy. They are: "institution building" – i.e. the creation of new institutions where they did not exist, such as regional administrative structures in centralized state systems; "institutional capacity" – the increase in the ability of existing institutions to undertake new functions and processes in fulfilling their obligations in the new integrated planning approach and in interacting with non-governmental stakeholders in the development process; "administrative capacity" – the need to increase the efficiency and effectiveness in the administration of policies (managing policies, providing oversight and carrying out evaluations of policies) on the part of governmental administrative institutions; and "multi-level and multi-subject governance" – interacting with different institutional levels and different sets of socio-economic groups in the formulation and management of policies.

The term 'Europeanization' broadly relates to the impact the EU has on its member states. After almost a decade of detailed scrutiny, there is still no single theory of Europeanization (Bulmer and Lesquesne, 2005: 11; Radaelli, 2004: 25), and, according to two well-known exponents, the prospect of ever finding one seems 'improbable' (Bulmer and Radaelli, 2005: 356).

It is necessary to understand what the Europeanization process' effect was in practice and how national and regional/local institutions reacted to the new procedures introduced through Regulations 2052/88, 4253/88, 4254/88, 4255/88, 4256/88, 2082/93, 2064/97 and 1260/99, key for the implementation of the three completed cycles of the EU's regional policy.

The large body of literature on Europeanization set out to define the possible reactions to the process, both from the theoretical and analytical perspectives. Tanja Börzel and Thomas Risse observed the domestic responses to Europeanization as

Table 1. Categorizing domestic policy response caused by pressure for Europeanization

	Difference between the EU and national policy (the 'misfit')	Level of domestic change
Inertia	Varies	Small: states resist change (but this often increases adaptive pressure and leads to change in the long term)
Retrenchment	Varies	Negative: states actively resist adaptive pressure by stressing their unique features ('nationalization')
Absorption	Small	Small: states incorporate/domesticate EU requirements without substantially modifying the national policy
Accommodation	Medium	Medium: states accommodate/mediate EU requirements through adaptation of the existing policy while leaving its core features intact
Transformation	High	High: domestication fails; states forced to substantially alter or replace the existing policy

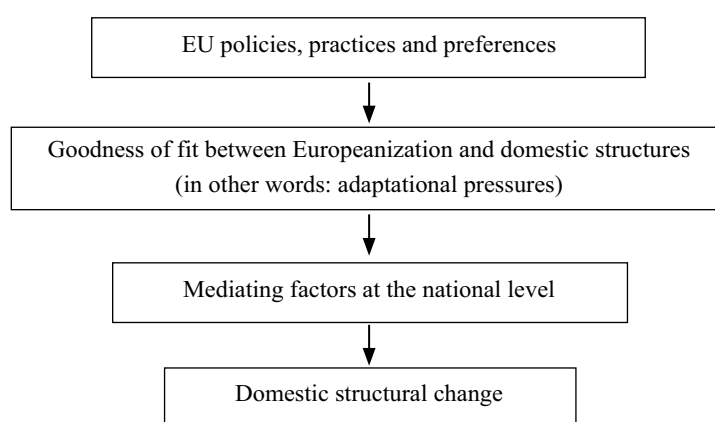
Source: adapted from Bache (2008), Börzel and Risse (2000, 2003) and Börzel (2005).

a reaction to the insufficient harmonisation between domestic institutions and European demands. "Europeanization must be 'inconvenient', that is, there must be some degree of 'misfit' or incompatibility between European-level processes, policies and institutions on the one hand, and domestic-level processes, policies and institutions on the other" (Börzel/Risse, 2003: 57-62). The authors claim that the response to the inconvenience of Europeanization has numerous possible consequences. First of all, it can cause changes in domestic structures, a redistribution of power among domestic actors, and a change in the ability of actors to use opportunities and avoid impediments, and bring in new actors into the Europeanized policy process.

In case of a specific policy area, available alternatives for domestic institutional actors are quite narrow and their response is expected within a short timeline. Classifying domestic responses to European demands, Börzel portrayed three effective models of possible responses: pace-setting, foot-dragging and fence-sitting (Börzel, 2002). Claudio Radaelli (2003) added another response to these categories – retrenchment, which describes the possibility of accenting the national approach

to a certain policy sector as a way of fencing off the effects of Europeanization. In the sector of the EU's regional policy, retrenchment is not a viable option, because participation in that policy is voluntary, so that, once a decision about participation is made, all the participants, regardless of their national institutions and traditions, must follow identical rules.

Table 2. Europeanization and domestic structural change



Source: Rise *et al.* (2001: 6).

Bache (2008: 16) points out that “goodness of fit/misfit may be a precondition for domestic change, alone it is not sufficient: a number of domestic political, institutional and cultural variables are important in mediating changes”. However, misfit is seen to be particularly useful where there is a clear EU requirement or model: the EU's regional policy is a perfect example. Mediating factors at the national level include multiple veto points, facilitating institutions, political and organizational cultures, the differential empowerment of domestic actors, learning, and political or partisan conflict. Domestic structural change deals with three options – transformation, accommodation and absorption – and therefore is in line with the definitions provided by Radaelli and Börzel.

Table 3 portrays three types of possible responses to regulations about the implementation of the EU's regional policy as negation, adaptation and learning.¹ Depending on the effect these three responses have, they can be different:

¹ These responses are a sort of fusion of terms introduced by Tanja Börzel as *pace-setting*, *foot-dragging* and *fence-sitting*, and by Claudio Radaelli with his terms of transformation, absorption and inertia.

1. at specific levels, that is, specific actors in administrative structures or political leaderships in charge of regional policy,
2. at the level of organizational structure,
3. according to governance results,
4. according to socio-economic outcomes, that is, the capability of stimulation of endogenous economic growth and development.

It is assumed that if national and regional/local structures accept the negation strategy, they point to the fact that national or regional/local political elites refused the idea of accepting new rules and procedures in the implementation of regional policy. This should not be considered an irrational response, because it might be completely rational from their standpoint. Negation can be motivated by fear that the new approach would deeply change the established procedures and political balance that has been forming for a long period of time. So, the costs of the new policy are taken as the erosion of balance and creation of a conflict situation, thus being evaluated as counterproductive in regard to the supposed benefits of using the regional policy resources in line with the new regulations. Actually, the costs of internal balance of political and administrative systems are constantly visible, while the potential benefits of the Union's new regional policy would be determined only in the medium or long term, but only through the implementation of new rules and principles of the EU's regional policy. The assumption in **Table 3** is that such an inadequate response will lead to the minimal exploitation of resources along with minimal or no net effects on socio-economic changes and economic growth in a specific region.

The second key form of accepting the EU's regional policy is adaptation to the new rules and procedures of the Union's regional policy, and the key characteristic is that these changes take place in a passive, instead of a proactive manner. In contrast with the negation strategy, the rules and procedures of the Union's regional policy are in this case accepted at the national and regional/local level through the approach of limited use. The attribute of this approach is limited innovation and segmentation of the policy process during implementation, through the acceptance of an incremental approach with a clear goal of applying it only to those political and administrative structures that are involved in the implementation of the Union's regional policy. In any case, there is a desire to ensure against the spillover of experiences in implementing the EU's regional policy (spillover as known from the theory of functionalism) onto other policy areas. The changes brought about by the new approach of the Union's regional policy are formally accepted, but with a strong determination to their containment in day-to-day administrative procedures. As in the case of negation, maintaining the political and administrative *status quo* is considered to be more important than complete implementation of the new regional

policy. This is why the level of change in political and administrative institutions is limited in character, and all the changes are introduced in an extremely incremental manner. The outcome of this approach is that the administrative structures accept the approach of limited use and are, thus, capable of using only a part of the planned financial resources and the Union's regional policy budget, due to an inadequate system of planning, management and reporting. The consequence of this approach is its limited effect on the regional/local economic and social structure.

Table 3. Analytical framework for the implementation of the EU's regional policy regarding response and effect types

Type of response			
	NEGATION	ADAPTATION	LEARNING
Individual	Rejection of new approaches, rules and procedures, no change in professional behaviour, resistance at all levels ↓	Minimal behavioural changes, passive implementation of new approaches, rules and procedures, gradual change ↓	Change in professional behaviour, acceptance of new responsibilities, socialization with new approaches, rules and procedures ↓
Structural	Insufficient use of new approaches, rules and procedures ↓	Selective and formal implementation of new approaches, rules and procedures ↓	Formal and all-encompassing implementation of new approaches, rules and procedures ↓
Type of effect			
Governance outcomes	Critical goal displacement, no integrated planning ↓	Partial use of a systematic methodological approach in regional planning and design of operative programs ↓	Complete adoption and use of a systematic methodological approach, integrated planning, development of partnership with socio-economic actors ↓
Growth effect	None Funds used with no effect on increasing GDP, employment and private investment	Minimal Revenues cause minimal changes in GDP, employment and private investment	Maximal Significant increase of GDP, employment and private investment

Finally, in **Table 3** the third form of acceptance of the Union's regional policy is labelled learning, and it reflects complete compliance with the new rules and procedures of regional policy in order to achieve a maximal effect of the regional policy program. In the greatest number of cases, such learning demands a restructuring of institutions at the national and regional/local levels, as well as an internalisation of new rules and procedures and changes to organisational culture itself. The *status quo* and internal balance are sacrificed in lieu of the complete implementation of the Union's regional policy, because of a belief in the realisation of a significant socio-economic effect on the existing economic structure. Current political and administrative costs are accepted as necessary, due to a conviction regarding the achievement of socio-economic benefits in the medium and long term, which can ensure foundations for an endogenous economic growth.

The response gained through the learning process contributes to the accelerated institutionalisation of the Union's regional policy at the national and regional/local levels, achieving the regional policy goal of improving institutional capacities. Learning often demands the creation of new institutions, such as offices and agencies, within the existing administrative structures, whose task is to formulate, evaluate and monitor policies, as well as to recruit staff necessary for the execution of the said tasks. Furthermore, learning can stimulate the improvement of existing institutional capacities, through which institutions may take over all the obligations related to the implementation of the regional policy programs. In both cases, it is imperative to link national and regional/local structures and actors with the regulations of rules and procedures, prescribed by the European Union regarding the implementation of its regional policy.

3. Experience in the First Three Finished Cycles of the EU's Regional Policy (CSFs) 1989-2006

Based on the model portrayed in **Table 3**, specific examples of responses by national and regional/local administrative bodies can be observed, illustrating the three options in possible responses. The implementation of the negation response could seem unacceptable for political reasons in undeveloped regions trying to reach the level of the richer regions' economic development. The data indicates numerous incidents of such behaviour during the second half of the 1980s and the implementation of Integrated Mediterranean Programs (IMPs), which served as the basis for a reform of the Union's regional policy in 1988.² The evaluation of

² It should be taken into consideration that the initial implementation of the Union's regional policy in 1989 did not foresee a period of preparation. Only Greece, Italy and France, due to their experiences in implementing IMP, had some experience in operationalising new rules and approaches of regional policy.

IMP implementation pointed to the fact that many national and regional/local political elites were fearful of implementing the integrated planning approach and the strong coordination between policy sectors because of potential outcomes of that approach, i.e. the decrease of autonomy and authority of certain political and administrative structures. The key administrative staff members believed the costs of adopting new regulations and rules to be too high in terms of redistribution of influence and power.

The best example of this standpoint is given by Sicily, and to a lesser degree, by other Italian *Mezzogiorno* regions. It was impossible to create a coordinated approach between regional offices in Sicily, in charge of implementing different parts of the program, as the IMP logic demanded. The existing administrative staff believed that coordination would undermine the individual authority of administrative managers, and lead to concentration of power in the units in charge of coordination and planning or in the office of the regional administrative manager. The result of this approach is that, after five years of IMP implementation, the level of their implementation remained extremely low. In 1992, Italian regions utilised a total of just 17.5% of the resources they were entitled to, compared to 68.1% of resources utilised by Greek regions or to 57.8% used by French regions. In the largest regions in the south of Italy, the level of absorption was less than 5%.³

Other examples of negation can be found in the first cycle of regional policy in Italy and Greece, as well as in the Community Initiatives such as INTERREG. In these cases, the program implementation was characterised by long periods of postponement of over two years before the responsible institutions accepted the idea of acting in accordance with the new regulations of regional policy. During the implementation of the first CSF cycle, Italian and Greek officials quickly became aware of the necessity to change their attitudes about the nature of the new regional policy and national political and administrative relationships of power linked to it. Furthermore, they became aware of the necessity for an accelerated attitude change, because, otherwise, their countries would have lost the right to participate in the use of the Union's regional policy funds' resources. This awareness soon became widely accepted, so it became impossible to advocate the negation approach for political and administrative elites. This became especially untenable in the newly established system of multi-level governance, with numerous actors, a system that started its extremely fast development along with the implementation of the EU's regional policy.

Examples of the negation response quickly disappeared during the second CSF cycle implementation, and in the third CSF cycle it was almost impossible to find

³ For more detail, see Bianchi, 1993: 47-70.

such an example. By 2000, the Europeanization of regional policy was taken as a reality which had to be respected and accepted. Furthermore, it was accepted that the regional policy funds could only be used in accordance with the European Commission regulations. During the third CSF cycle, the period of spending the given expenditures and achieving the foreseen results was reduced. Thus, the procrastination strategy also became unviable due to the severity of the sanctions that would have been executed in that case, i.e. the cut-off of financial resources.

The process of adaptation is visible in the initial negotiations between the European Commission and the member states; initially the United Kingdom, Germany and Italy had different standpoints on what constitutes regional policy, based on their experiences before the 1988 reform, and on the role of the European Commission in the process as well. This “lack of fit” between the rules and regulations of the European Commission and the member states was repeated in both consequent cycles of regional policy, becoming manifest in the delay of implementation of regional policy programs.⁴ The adaptation process thus became a common response in the conditions where there was a lack of harmony between European and national rules and procedures, where national and regional/local institutions were not capable of achieving the demands of the Union’s regional policy, and where institutions that were supposed to implement the EU’s regional policy should have been restructured from the existing ones or formed anew. In other words, adaptation can be considered an easier option, set between negation and learning, whose characteristics *vis-à-vis* the other two responses are less clear, and more difficult to discern in reality. If national institutions are not capable of implementing the regulations of the Union’s regional policy and it takes time to build new institutions or reform the existing ones, then adaptation represents a logical answer until adequate structures are created and have become functional.

An example of aggravated adaptation to the Union’s regional policy procedures is visible in the implementation of the partnership principle in the Goal 1 regions in Germany, the Netherlands, France and Ireland. In the past, the implementation of development policies was in the competence of the public sector, while the private sector was believed to be the user, instead of an integral part of decision-making and implementation processes of that policy. During the first two CSF cycles in Italy, the inclusion of the private sector in national CSF programs in Goal 1 regions was un-

⁴ A large part of the problem in starting the second and third CSF cycles programs was their overlapping with previous CSF cycles. Considering the inability of member states to conclude the financing of CSF programs within the allotted time, the Commission always approved a two- or three-year extension of the programs in order to finalise their financing. These extensions were necessary for the finalisation of financing programs from the preceding CSF cycle, but were extremely detrimental to the quick and efficient start of the following CSF cycle.

derstood as the participation of state-owned enterprises such as the railroad, Telecom Italia and road authorities, not as the participation of private enterprises. The participation of private enterprises became a regular occurrence only in regional operative programs. This approach was drastically changed in the third CSF cycle, when the private sector became a key factor of the program.⁵ A similar lack of flexibility greatly reduced the possibility of one part of the programs to create a synergic effect and coordinate activities with private sector investments in Germany.

The manner in which administrative structures responded to the regulations regarding the implementation of the Union's regional policy changed over time. It is normal to expect that state and regional/local institutions will deal with understanding and applications of the rules and principles of the Union's regional policy in the very beginning. Still, given time, experience in implementing regional policy is gained, which contributes to its effective implementation by national and regional/local institutions.

Examples of learning are visible in the significant reform efforts directed towards the restructuring of administrative systems and creating management structures, realised during the first CSF cycle in Ireland and Portugal, and the use of extensive external technical expertise in Greece. Italy also learned how to better manage the Union's regional policy programs, by undertaking a radical review of its administrative structure in 1997 (Gualini, 2003: 620-622). By looking at the changes in the content of Regulations for the use of the Union's regional policy funds, a certain level of learning can be identified in the European Commission as well. This is especially visible in rules regarding evaluation, management of operative programs, monitoring of expenditures and reporting on payments rendered.

4. Croatia

The first article of the Croatian Constitution states that Croatia is a unified and indivisible state. This orientation is understandable given the many centuries of fragmentation under different rulers Croatia went through, and the lack of tradition of governing a unified state territory such as it is today. Croatia is administratively divided into 20 counties and the City of Zagreb (with both county and town status). There are 124 towns and 429 municipalities. Regional development-related issues within the remit of the counties concern policy fields such as education, health, physical planning/urban development, spatial planning, economic development, transport and transport infrastructure. Municipalities and towns take care of

⁵ The role of the private sector was far greater in programs under Goal 2, where financial resources of the Union's regional policy funds are incomparably smaller than the Goal 1 regions, but where private sector expenditures are significant, sometimes up to four times larger than those of the public sector.

the maintenance of urban areas and housing, physical planning and urban development, utility services, child care, social welfare, primary health care, elementary education, culture, physical education and sports, consumer protection, environmental protection and development, fire protection, civil defence and traffic in their area. Larger towns as a rule have higher autonomous budgets than the counties they belong to. Consequently, they can play a strong role in the initiation, promotion and co-financing of development projects.

There are three NUTS 2 regions: North-West Croatia with 6 counties, Pannonia with 8 counties and Adriatic Croatia with 7 counties. Efforts to organize the NUTS 2 regions, for consultation processes as well as for support to regional development, are underway.⁶ The overall Croatian GDP per capita in 2005 was 7,038 €; in North-West Croatia the figure was 9,050 € (64.3% of the EU's average of 27), in Pannonia 4,865 € (34.5%) and in Adriatic Croatia 6,709 € (47.6%).

Within the counties and some of the cities, local or regional development agencies have been established to promote economic development in general; in some cases, these agencies are combined with business support centres. Most regional development agencies (now called county development agencies [CDA]) are a continuation of earlier project management units that were part of county administrations.⁷ The CARDS 2002 project *Sustainable development in areas of special state concern* resulted in the establishment of regional partnership committees in all Croatian counties except Zagreb. In addition, the programme facilitated the establishment of project management units at the county level that are now slowly being transferred into county development agencies.

Croatian NUTS 2 regions do not have elected political bodies; they exist only for the NUTS/EUROSTAT purpose. In order to satisfy the principle of partnership for EU regional policy programs, they will have to work with the counties (NUTS 3 level), and possibly with the large cities as well.

Croatia is still a highly centralised country (Koprić, 2001; Petak, 2000, 2004). The disinclination of parliamentary political parties to initiate the question of changing the territorial structure and decentralisation,⁸ and, especially, regionalization,

⁶ In order to cope with these responsibilities, the funding principle is that the budget for the NUTS 2 region projects will appear in the budget of the competent line ministry.

⁷ The Istria County was among the first here, with its Istrian Development Agency and strong cooperation with Italian regions. The Development Agency North – DAN and Azra are highly successful in the County of Varaždin and manage to attract foreign investments. Today, the differences among all agencies could be traced on the basis of who their founders are: county/city authorities or private enterprises.

⁸ In early 2000, the new government introduced a limited decentralisation program. In July 2009, the Ministry of Administration initiated an analysis of the need for reduction of the

should be added to that.⁹ Insufficient administrative, human and most of all financial capacities of the counties will remain a limiting factor for regional policy programs, especially when it comes to the absorption of the SCF resources.

4.1. Regional Development in Croatia

Kersan-Škabić (2005: 254-255) succinctly portrays in her work the condition of Croatian regional policy. Croatia has still not adopted a regional development strategy or law, nor is a unified institutional framework for regional policy implementation in place. Only a few laws define privileges for certain areas (e.g. tax rebates for the population of areas devastated during the war, mountain areas) (Čavrak, 2003: 57-59). Certain projects still add significance to the regional development: in 1999, the Concept of Regional Economic Development of the Republic of Croatia was formulated, according to which counties should be in charge of regional policy (Fröhlich, 1999: 163, 201-203). The document – The Principles of Regional Development of the Republic of Croatia (part of the Strategy for Croatia in the 21st century) – was adopted in 2001, and special importance was given to investments in infrastructure that would stimulate the development of mountain, border and island (depopulated) areas. In the same year, the Parliament passed the Law on the Regional Development Fund (*Official Gazette*, No. 107/01) and the Law on the Development and Employment Fund (*Official Gazette*, No. 107/01). The Regional Development Fund aims to stimulate the development of areas devastated by war, low population density areas, areas of special state interest, islands, mountain areas, border areas and areas with structural problems. The continuity of this policy is accentuated by the adoption of the Law on Islands (*Official Gazette*, No. 34/99, 32/02), Law on the Areas of Special State Care (*Official Gazette*, No. 26/03) and Law on Mountain Areas (*Official Gazette*, No. 12/02, 117/03). It can be claimed that the Croatian Government pays special care and attention to the least developed regions in the country, but this policy is segmented and it never achieved the expected level of positive results (Kersan-Škabić, 2005: 254).

4.2. Croatian Way to EU Membership: The Case of Regional Policy

The Central Office for Development Strategy and Coordination of EU Funds (CODEF)¹⁰ is a government office under the Office of the Prime Minister of Croatia,

number of local units (municipalities and cities). However, this endeavour lacks political determination.

⁹ An exception here are regionalist parties such as the IDS (Istrian Democratic Assembly) and Dalmatian Action, whose influence at the state level is marginal.

¹⁰ The CODEF is headed by the *State Secretary*, who is appointed and relieved of his duty by the Government of the Republic of Croatia upon the proposal of the Croatian Prime Minis-

responsible for the overall co-ordination of EU funds available to the Republic of Croatia. It also coordinates the development of the Strategic Coherence Framework as a basic strategic document for the use of the funds made available through IPA (Instrument for Pre-Accession Assistance) in the segment of the program that refers to the promotion of the economic and social development of the Republic of Croatia. In the framework of the preparation for EU accession and the management of EU funds after the accession, the CODEF is responsible for coordination of the preparation of the National Strategic Reference Framework (NSRF) and supervises the preparation of the sectoral Operational Programs (OPs) by the line ministries. The above-mentioned tasks are carried out in cooperation with other bodies of state administration, non-governmental sector and the EU.

CODEF units concerned with EU funds programming and management employ 30 persons. The *Department of Preparation of Development Strategy* is responsible for the preparation of the NSRF, while the *Department of EU Programs in the Field of Economic & Social Cohesion* bears responsibility for the preparation of sectoral OPs and the negotiations for *Chapter 22 – Regional Policy and Coordination of Structural Instruments*.

In June 2008, within the context of preparations for the management of EU Structural Instruments, the Government of Croatia brought the Decision on strategic and institutional framework for the utilization of EU Structural Instruments in Croatia (*Official Gazette*, No. 77/2008). The Decision defines:

- 1 Structural Instruments available to Croatia upon accession,
- 2 Strategic documents to be prepared in cooperation with European Commission services (National Strategic Reference Framework, Operational Programs),
- 3 National authorities responsible for the overall coordination of the Structural Instruments, certification of expenditure and audit,
- 4 National authorities responsible for the preparation and management of individual strategic documents (Operational Programs).

ter. The CODEF currently consists of three departments, each headed by a *Deputy State Secretary*, and eleven sections. At the moment, the CODEF employs 50 persons in total. From 2007, under the IPA program, the CODEF State Secretary is the National IPA Coordinator (NIPAC) with the responsibility to ensure the overall coordination of assistance under the IPA Regulation. The National IPA Coordinator (NIPAC) is in charge of the overall coordination of CARDS, PHARE and ISPA instruments, in particular of the execution of the programming, monitoring and assessment tasks.

The table below summarizes a selection¹¹ of the strategic documents which are presented in Croatia's negotiating position on *Chapter 22*¹² and relevant institutions which are responsible for their preparation:

Table 4. Croatian position in Chapter 22 negotiations

Strategic documents	Responsible authority
National Strategic Reference Framework (NSRF)	CODEF
OP Transport	Ministry of Sea, Transport and Infrastructure
OP Environment and Energy	Ministry of Environment, Physical Planning and Construction
OP Competitiveness and Innovation	Ministry of Economy, Labour and Entrepreneurship
OP Human Resources Development	Ministry of Economy, Labour and Entrepreneurship
OP Integrated Regional Development	Ministry of Regional Development, Forestry and Water Management
OP Public Administration	CODEF
OP Technical Assistance	CODEF

In the light of on-going developments, and according to the decisions taken at the "Technical Meeting on Benchmarking Explanations – IPA Transition with Croatia" which took place in Brussels on 12 February 2009, under *Chapter 22* between the European Commission and Croatia, the number of OPs is reduced to four (the first 4 OPs are listed in the table above). The rationale behind this decision is that Croatia will, in the transition period between the date of accession and 2014, continue with the same number and types of OPs as under IPA. OPs may, however, in view of the Structural Funds post-accession implementation, be adapted to include additional priorities covering a wider scope within the defined strategies.¹³

¹¹ Territorial cooperation objective (i.e. Cross border cooperation programs) is not subject of this contract.

¹² Intergovernmental Conference on the Accession of the Republic of Croatia to the European Union, Negotiating Position on Chapter 22 – Regional policy and coordination of structural instruments, Zagreb, 25 June 2008.

¹³ It should be noted that most likely a fifth OP Public Administration will be added, but the Croatian authorities' decision is not yet clear.

Setting the institutional and management capacity for the management of EU funds will have to fully comply with the EC Regulation 1083/2006. It must be supported by government resolutions on the division of responsibilities and duties as well as procedures, including a clear system of management of the SF/CF and system of financial management. The CODEF is expected to play a leading role in this process, through a set of detailed documents and procedures explaining each step of the process in compliance with EC regulations and respecting the national legal system.

4.3. Human Resources Issue

The EU accession process and Structural & Cohesion Funds preparation is becoming a reality for the Croatian administration and a very important issue for the CODEF and line ministries in the coming period. They will have to identify a flexible and efficient form of work for combining IPA implementation with SCF programming, since proper and timely implementation of IPA is one of the benchmarks for *Chapter 22* negotiations. This is not an easy task, as the two activities are at the same time interlinked, but requiring a different type of work and commitment on behalf of the administration. A model of operation is therefore to be identified and put in place in order to ensure an exemplary transition from pre- to post-accession management of EU funds. This model has to be discussed and agreed with the Commission services at an early stage of the transition, in order to set a clear framework for SCF programming.

As long as IPA functions and SCF functions stay combined in the same persons, the preparation and implementation of both funding programs are bound to end up in failures. The availability of human resources at all organizations responsible for EU Funds programming is extremely limited; not all the staff is specialized, and in several cases it has been only recently appointed. No other technical assistance has so far been provided to support the programming process of the SCF in OPs after the accession. The capacity shortages at the CODEF are not very likely to improve in the short run. The otherwise very capable staff supervising EU projects are charged with tasks for CARDS, PHARE, ISPA and IPA, as well as for the Structural Instruments. This is physically impossible with the present number of staff. The fact that administrative procedures show a tendency to become more complicated, demanding and time consuming is even more worrying. This is of course the prerogative of Croatian institutions. However, it must be clear that additional time is needed to meet these requirements. The immediate consequence is that a lot of time could have been used to produce greater and better project outputs, but has instead been used for non-productive administrative oversight purposes.

The role of the CODEF as the central coordination entity for the Structural & Cohesion Funds post-accession has to be further strengthened and acquire a stra-

tegitic role in the definition of the overall objectives and priorities in the use of the funds. This is a fundamental aspect of NSRF programming and the development of the sectoral OPs.

4.4. Croatian NUTS 2 Regions

There were four Government's proposals delivered to EUROSTAT on how to merge Croatian counties (NUTS 3 units) into NUTS 2-level units. After long delays on the part of Croatia, the first proposal of five NUTS 2 units was delivered in 2004, but it was rejected. The second proposal, with the idea of four NUTS 2 regions was accepted in May 2005, but it was politically unacceptable and caused the dismissal of the Central Bureau of Statistic's chief responsible for its preparation.¹⁴ The only publicly available document opted for three units of NUTS 2 classification, where the capital city is a separate one. In this document the authors present various options of NUTS 2 division, supporting them with accompanied projections of financial benefits and all other variables (Lovrinčević *et al.*, 2005). Unfortunately, EUROSTAT has rejected their proposal on the simple ground that Zagreb does not fit to the basic criterion of the number of inhabitants (the minimum of 800 000). The fourth proposal was prepared by the Faculty of Economy in Split and again proposed three units, but with Zagreb incorporated into the North-Western unit. It was approved by EUROSTAT in May 2007 (*Official Gazette*, No. 35/07).

In the autumn of 2008, the Faculty of Economy in Zagreb organized a series of regional workshops to compile the socio-economic development priorities for each NUTS 2 region. County authorities and county partnership committees participated in this process. The work ended up in the definition of the following priorities that are valid until 31 December 2013:

NUTS 2 Region of North-West Croatia	
Priorities	Measures/Operations
Increasing competitiveness by strengthening the capacity for regional development	Development and even distribution of human potential and the strengthening of institutional infrastructure
	Cross-border cooperation
	Strengthening the capacity for strategic planning and attracting EU funds

¹⁴ It was delivered to EUROSTAT without the Government's approval and was used by the Opposition as an instrument of a political bargain.

Networking of the business sector in order to increase efficiency and competitiveness by adding value	Structural networking and encouraging the development of clusters around research centres (development of innovative clusters)
	Strengthening of an attractive entrepreneurial environment
	Development of communal and social infrastructure along with caring for the environment and developing ecology awareness
Effective management of cultural, historical and natural heritage	Integrating selective forms of tourism with traditional crafts and agriculture
	Valorisation of cultural, historical and natural heritage
	Creating educated personnel for sustainable management of cultural, historical and natural heritage

NUTS 2 Region of Pannonia	
Priorities	Measures/Operations
Increasing competitiveness by modernization of agriculture and the processing industry, and developing rural areas	De-mining
	Improving traffic infrastructure
	Stopping the deterioration of rural areas by creating equal opportunities for living and working in rural as well as urban areas
	Restructuring industry and generating new activities for the development through innovation and new technology in agriculture and the processing industry
	Sustainable and efficient management of cultural, historical and natural heritage
	Better use of renewable energy sources
	Risk management (natural disasters, etc.)
Strengthening of human resources	Improving the demographic structure and eliminating deprivation and social exclusion
	Increasing the quality of life
	Business education (computer literacy, lifelong learning, foreign languages, etc.)
	Strengthening the capacity for effective management in local and regional administration and usage of EU funds
	Increasing ecology awareness

Development of entrepreneurship	Linking the business, scientific (educational) and public sectors (“Triple Helix”) and associating into interest associations
	Generating new activities by encouraging and commercializing innovation as well as the development and use of new technology
	Growth of employment through encouraging investment into export-oriented activities
	Improvement and targeted development of entrepreneurial infrastructure and business support institutions

The region of Pannonia has also produced a series of ideas for projects fitting these priorities.

NUTS 2 Adriatic Region	
Priorities	Measures/operations
Sustainable management of cultural, historical and natural heritage for the purpose of strengthening the competitiveness of the region	Prolonging the tourist season by developing selective types of tourism, diversifying services and expanding the tourist offer, and also through increasing the quality of the existing accommodation capacities and building new ones
	De-mining
	Organizing life in protected areas and their optimal valorisation
	Sustainable exploitation of the sea and waters
	Fire protection
Development of traffic and communal infrastructure	Improving the air, maritime and rail infrastructure
	Improving communal infrastructure
	Improving inter-modal transport with the necessary institutional and social support with special emphasis on horizontal and vertical communication
Strengthening human resources with the transfer of knowledge and new technologies	Developing education by strengthening professional and lifelong education
	Strengthening the entrepreneurial infra-structure
	Linking the business, science and research, and public sectors (“Triple Helix”) with the purpose of transferring knowledge, introducing new technologies and commercializing innovation

The priorities as defined at the NUTS 2 level provide for a series of opportunities for grant schemes and infrastructure projects to be developed for funding under the RCOP, Competitiveness OP, HRDOP and the Cohesion Fund. With no pretension to being exhaustive, the following table gives an indication of the potential:

North-West Croatia	Help-desk for entrepreneurs
	R&D infrastructure
	Science park infrastructure
	Business incubators
	Public utilities (urban development)
	Agro tourism
Pannonia	Business incubators
	Business clusters
	Innovation centres
	Scientific parks
	Reconstruction of industrial sites
	Biotechnology
	VET centres
Adriatic region	VET centres
	Training centres
	Business incubators
	Help-desk for infrastructure development

4.5. EU Assistance Projects Related to Regional Policy

On 13 October 2005, there was a public presentation of the proposal of the Strategy for Regional Development of the Republic of Croatia. The proposal was formulated by the (former) Ministry of Sea, Tourism, Traffic and Development within the European Union CARDS program, and in cooperation with renowned consultants: *Ecorys* from the Netherlands¹⁵ and OAR from Austria. By the end of 2009, the Croatian

¹⁵ One of the main advisors of *Ecorys* is Ronald Hall, a former high official in *DG Regio* and the author of the First Report about the Economic and Social Cohesion in the European Union of 1996.

Government has not yet adopted either the Strategy for Regional Development or the General Law on Regional Development which should provide a broad legal framework for the implementation of regional policy. After long delays, the current estimation is that the Law could be adopted in the first quarter of 2010, even though it was discussed and agreed upon at the meetings of the working bodies and the coordination of the Government. If this is not done, it will have a negative influence on the programming process. Anyhow, it is possible to make judgments from the final draft of the Law on Regional Development which was passed into parliamentary procedure at the end of last year. Upon reading this text, it is easy to conclude that Croatian lawmakers wanted to make a legal framework only for the purpose of the national regional development policy. The law as such is completely unusable for any role of the national regional policy within the EU context. The main reason lies in the fact that there are no provisions for the partnership principle, which is the foundation of the EU's regional policy since 1989. There is no role for the counties in planning, implementing or monitoring regional development programs, and therefore there is (yet) no line on the horizon for a modern and proactive regional policy in Croatia.

In 2008, the CODEF became the beneficiary of two simultaneously operated projects related to the field of regional policy: the Development of Institutional Capacity for the Management of EU Structural Funds Post-Accession – Institution Building Component and Project Pipeline for IPA/Structural Funds. It should be noted that the tasks of EU assistance have gradually shifted from “merely” identifying and selecting infrastructure projects towards producing a comprehensive overview of the current pipeline of infrastructure projects, with their maturity status. Such a system will help the CODEF and the line ministries to target their efforts more and better at projects that stand a chance of being included in the allocation of SCF in the period 2011-2013. In addition, it would help to make realistic prognoses of absorption for each of the priority axes and key areas of operation to be included in the NSRF. Finally, a comprehensive “Project Pipeline Database” will give the Croatian authorities a realistic picture at any moment in time of what can be expected in terms of SCF financing, and which efforts they need to make in order to prepare their projects. One idea was later rejected by the CODEF on the grounds that there was no capacity available to maintain the database.

The extremely late and fragmentary delivery of project information by line ministries was combined with the expansion of the identification to more than 1,000, instead of the planned 30 projects. Field visits to projects in order to collect additional information were running parallel with the maturity analysis. The Information on Infrastructure Projects has proven hard to access at the national level, and is generally not available in a comprehensive and detailed manner. This could

be a reflection of the lack of capacity of certain institutions/organizational units or may be due to the novelty of the exercise, in the case of institutions/organizational units not usually dealing with investment projects. There remains the need for continued and stronger awareness-raising regarding the importance of project identification.

With a notable exception of the Integrated Regional Development Division of MRD-FWM and a less pronounced exception of the IPA Operating Structures for components IIIc and IV, line ministries have shown insufficient engagement in the project pipeline preparation activities. Crucial information on infrastructure projects to be developed for SCF financing has not been delivered – or delivered much too late and fragmentary – by important “absorption” ministries such as MEPPPC, MSTI, and the Water Directorate of the MRDFWM. It will suffice to state that, if this practice continues, there will be little to show to the Commission Services once the negotiations on financial allocations start.

With the assistance of the EU, the CODEF has received an analytical report on the database of infrastructure projects, including the required selection methodology (multi-criteria analysis) and Project Development Plans for 17 infrastructure projects mature enough to work on. The idea was that the NSRF Coordination Group (consisting of State Secretaries of the relevant ministries) would decide on the ranking of the 17 proposed projects. Instead, the Croatian authorities have decided to work on five of the nine environmental projects in the list, namely the Waste Management Centres Biljane Donje and Piškornica, the Wastewater Projects Osijek and Zaprrešić, and the Wastewaters Treatment and Sewerage System Project in Nin. At the same time, the Wastewater Projects Poreč and Vukovar were to be placed on the reserve list. Incidentally, the Vukovar project was not included in the list of 17 pre-selected infrastructure projects, which has posed additional problems concerning the needs estimations and the level of maturity. The overall value of nominated waste management projects is about 100 million €, while the value of all wastewater projects combined is about 130 million €.

Despite the fact that four transport projects were included in the list of seventeen pre-selected projects, the Ministry of Transport has not selected any of them as a priority. Later it was decided that, in case any of the environment projects would prove not to be feasible, a railroad project (the Samobor-Bregana line) and a road project (the Vučevica tunnel) would enter the list. Since then, no information on these projects has been received, although the ECD repeatedly urged the beneficiaries to start working on them as well.

For reasons unknown to anyone outside the NSRF Coordination Group, no decisions, positive or negative, were communicated concerning the development

of the remaining projects on the list. In the energy sector, they are the wind-power plant Krš-Pađene and the geo-energy centre Kutnjak Lunjkovac, in the tourism sector – the Sveto Brdo mountain resort, and in the health sector – the general hospital in Pula.

The European Commission has asked Croatian authorities to submit for each OP, together with the NSRF, a detailed list of projects that are planned to be submitted for SCF financing. EU assistance projects were used to put these lists together and to add suggestions for groupings of projects. The lists for the RCOP, the Transport OP and the Environment OP were submitted to the CODEF. Line ministries and future managing authorities had to finalise the lists and submit them to the EC. Eventually, the Croatian authorities presented their own lists of projects – vastly different from those prepared with EU assistance – to the Commission Services. The Commission Services returned the lists for improvement and it was decided by the CODEF that EU assistance should be used again, this time by the RCOP Managing Authority and related line ministries in the adaptation of their list.

4.5.1. ESF Grant Schemes

Contrary to the experience with major infrastructure projects, the experience with ESF grant schemes presents an almost completely opposite situation. The preparation of ESF grant schemes has been designed as a three-step procedure, consisting of (1) identification, (2) development, and (3) document preparation. Each step provides its own outputs – grant scheme identification sheets for the 1st step, grant scheme development plans for the 2nd step, and a full package of documentation for the 3rd step. A total of 58 ESF grant schemes were identified. They underwent an analysis with the purpose of assessing and deciding which of them could be merged, so that a lower number of grant schemes would emerge.

The merging exercise proved to be an effective tool for reconsidering the submitted identification sheets once more, after some time had elapsed. In particular, the need to prepare a grant scheme pipeline for the IPA 2010-2011 program came up as well, while at the same time it was acknowledged that there was a need for the identification of national projects to be financed under IPA as well as ESF. The line ministries therefore proceeded to analyse all potential grant schemes in two ways: (a) according to their most desired source of financing, and (b) according to their most realistic implementation modality (a grant scheme or a national project). The EU actively assisted ministries with this process through participating in a number of working group meetings.

Given the decision to extend the present IPA 2007-2009 program until 2011, it became necessary to prepare grant schemes for the IPA 2010-2011 programming period. The EU has assisted line ministries with this task. From the list of grant

schemes for ESF, various schemes were selected for an earlier start, to be financed through IPA. This is not merely a technical task, but requires extensive adaptations given the different amounts, scope, time periods and implementation rules applicable under IPA. In the end, it was decided to adapt 10 ESF grant schemes in such a way that they fit the IPA rules and regulations. All these grant schemes will also continue under ESF, because none of them will be able to fully address the issues under IPA. For this reason, with EU assistance for each of these grant schemes, two separate development plans were prepared; one for IPA, and one for ESF. The grant schemes are:

IPA grant schemes titles	
1	Improving access to the labour market for highly educated long-term unemployed persons
2	Local employment development initiatives
3	Improving access to the labour market for disadvantaged groups
4	Establishing support in social integration and employment of disadvantaged and marginalized groups
5	Supporting inclusion of Roma
6	Integration of disadvantaged groups in the regular education system
7	Broadening the network of social services in the community
8	Further development and implementation of the CROQF
9	Developing new VET curricula in line with the changing needs of the labour market/economy
10	Capacity building of potential beneficiaries by enhancing knowledge in project preparation and implementation

The result is visible: the pipeline of ESF projects and grants valued at around 180 million € is strong, detailed and has been accepted by the Commission without major comments.

5. Conclusion

NUTS 2 regions are a technical issue, regions are a possibility
Minister Božidar Kalmeta, 14 October 2005

This statement¹⁶ best illustrates the level of awareness about the condition of regional policy in Croatia. It would be preferable if a wider discussion was held in Croatia about the reorganization of the county structure, where the new (regional) territorial units might also be NUTS 2 regions for the needs of EUROSTAT.¹⁷ In addition, and importantly, the narrow understanding of the concept of NUTS 2 regions as a merely technical issue indicates a complete lack of understanding of basic principles of the Union's regional policy, i.e. the principle of partnership.

Croatia has to be ready for an effective future regional policy and tackle its absorption capacity, particularly in areas where severe difficulties have been identified. This process must be facilitated by a wide consultation process, and a participative approach in programming the Structural & Cohesion Funds interventions, both at the sectoral level and in the regions. Only then will the final result be a set of clear objectives and targets to guide the implementation of the country's structural development policies of and prepare it for post-accession opportunities.

Following the model presented in **Table 3**, the conclusions are short, and they are not positive:

- 1 Croatian efforts toward formulating a proactive and sustainable regional policy failed. Significant delays of political elites in the acceptance of any kind of strategy and law on regional development point in the direction of the retrenchment option presented in **Table 1**. The Croatian way is not to have a regional policy.
- 2 Veto players, mostly institutions of the central state, play a pivotal role in the process of regional development. Their unwillingness to change blocks any prospect of reform.
- 3 The political and, especially, organizational culture in Croatia is a significant burden to regional development programs. The Croatian state administration is reactive, (mostly) professionally incapable and heavily dependent on political pressures.
- 4 Facilitating institutions, such as regional partnership committees in all counties, are rare but welcomed innovations. Unfortunately, they are incapable of significant changes at the fragmented county level.

¹⁶ Given during the presentation of the proposal of the Croatian Strategy for Regional Development.

¹⁷ This could (possibly) mean the change in the existing division of Croatian territory into three NUTS 2 classified units.

It is, thus, not unrealistic to expect a (partial) application of the Irish model of regional development (the key role of the central state) in Croatia. Unlike Ireland, Croatia will have a significantly lower level of resource absorption, due to the weaker administrative capacity of the Croatian state administration.¹⁸ One of the possible paths for the Croatian regional policy might be the strengthening of the role of cities as engines of regional development. There is not a single (territorially) small European country with strong regional administrative structures, so the mentioned model is a possible way out of the *Croatian-Irish* stand-off (Petak, 2005).

LIST OF ACRONYMS

CARDS	Community Assistance for Reconstruction, Development and Stabilization
CBA	Cost-benefit analysis
CES	Croatian Employment Agency
CF	Cohesion Fund
CFCA	Central Finance and Contracting Agency
CODEF	Central Office for Development Strategy and Coordination of EU Funds
EC	European Commission
EPOP	Operational Programme for Environmental Protection, 2007-09
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
HRDOP	Operational Programme for Human Resources Development, 2007-09
IB	Implementing Body
IPA	Instrument for Pre-Accession Assistance
IPA MC	IPA Monitoring Committee
IROP	Integrated Operational Programme for Regional Development
ISPA	Instrument for Structural Policies for Pre-Accession

¹⁸ The annual reports by SIGMA and the European Commission on the Croatian progress towards a full EU membership are objective indicators of Croatian administrative capacity. All existing documents repeatedly emphasize the necessity to reform public administration and strengthen administrative capacities. See the European Commission (2009) Croatia 2009 Progress Report: 49-51.

MA	Managing Authority
MELE	Ministry of Economy, Labour and Entrepreneurship
MEPPPC	Ministry of Environmental Protection, Physical Planning and Construction
MRDFWM	Ministry of Regional Development, Forestry and Water Management
MSES	Ministry of Science, Education and Sports
MSTI	Ministry of Sea, Transport and Infrastructure
NIPAC	National IPA Coordinator
NPPIEU	National Programme for the Integration of the Republic of Croatia into the EU
NSRF	National Strategic Reference Framework
NUTS	Nomenclature for Territorial Statistical Units
OG	Official Gazette of the Republic of Croatia
OP	Operational Programme
RCOP	Operational Programme for Regional Competitiveness, 2007-09
SAPARD	Special Pre-Accession Assistance for Agriculture and Rural Development
SCF	Structural and Cohesion Funds
TOP	Operational Programme for Transport, 2007-09

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