

# **New role for regional actors in supporting development in Croatia<sup>1</sup>**

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## **I INTRODUCTION**

Croatian regions are more closely witnessing and gradually beginning to participate in the new approach to managing regional development, to a great extent as the result of the accession process. The process of changes we are currently witnessing has two major and mutually connected sources. On the one hand, we can see changes in the policy approach which are exclusively driven by the obligations of the Croatian side with respect to the process of accession to EU.. i.e. the obligations from Chapter 22, which cover preparations for the EU structural instruments. On the other hand, there is an ongoing process of reshaping and modernization of the national regional policy, which includes significant changes also in those parts of the policy which are not strictly connected to the obligations from Chapter 22.

While many regional actors in Croatia perceive preparations for participation in Cohesion policy only from the standpoint of the new funding possibilities, the actual value of the policy transformation is somehow not yet fully perceived. One of the key reasons for this is that most of the policy transformation involves exclusively central-level institutions. Also, the full introduction of the new policy instruments such as programming, monitoring and evaluation, the payment system and other into the daily policy practice requires many substantial changes in the organisation of the involved institutions and this is a slow ongoing process. Regional actors are feeling the new policy trends mostly through the participation in the Instrument for Pre-accession (IPA) and other available EU programmes, but also through the changes in the national regional policy which has become much more open and inclusive for actors on sub-national levels than before.

The focus of our attention in this paper are some of the relevant trends and changes in supporting regional development at the EU level as well as the experience of new member states with the application of the new approach in regional policy. We reflect upon the new possibilities for regional actors to participate in or even formulate their own development policies. Also, we consider the latest changes in the Croatian regional policy and comment on how these changes will affect regional actors. We have also analysed some results of the recently carried out survey on the capacity of regional and local actors to participate in EU pre-accession programmes. In the last part of the papers we reflected upon some of the key findings and provided concluding remarks.

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<sup>1</sup> Some of the findings presented in this paper were presented at the LSE/IMO conference: Regional Policy and Decentralization in South East Europe, May, Zagreb, 2010.

## II CHANGES IN THE APPROACH TO REGIONAL DEVELOPMENT AND POLICY

### Shifting perception in regard to regional development

It would not be wrong to state that the approach in the perception of regional development has seen some major changes throughout Europe in the past two decades, with the inevitable impacts on development policy. Far from being a uniform approach, the implementation of the new approach is marked by notable differences in the different countries, and in particular between “groups” of countries, including old member states (OMS), new member states (NMS), but also the current accession countries.

Circumstances which, amongst other, triggered the change in approach should be looked for in the emerging of the “bottom-up” development model as far back as the end of the seventies of the last century, and the focus on endogenous development factors, resulting with a shift of policy makers towards local development resources, new role of local actors, the rising role of regional networking, local mobilization of development funding and generally local development initiatives<sup>2</sup>. The shift of approach towards local/regional development resources stressed the role of “new development factors” – local/regional knowledge, networking and local and regional research and innovation potential – with development objectives related to regional competitiveness thus coming to the forefront.

Experience from the more developed member states, but also some of the less developed countries confirmed that the role of regional actors and institutions was relevant in promoting socio-economic development and growth on the regional level<sup>3</sup> by way of establishing and supporting research and development institutions on the regional level, as well as supporting transfer of knowledge, regional networking and other initiatives contributing to regional competitiveness.

Among the many debates initiated by way of the mentioned new approach, it is noteworthy to mention one of the more recent ones – the debate related to the dichotomy of depressed in regard to prosperous regions – which was ongoing throughout the decade. What we are witnessing now is the adoption of a broader approach, which goes beyond socio-economic considerations, to include also competitiveness factors and views of regional potential and strengths (Yuill, Ferry, Vironen et al. 2008). As the authors point out, the mentioned shift from prioritised focus on the depressed regions throughout the whole of Europe has resulted with different considerations given in a number of states as well as regions to the promotion of regional competitiveness and growth, as well as an entrepreneurial environment favouring regional innovation<sup>4</sup> and investment. Evidently, we are witnessing orientations based both on

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<sup>2</sup> As elaborated extensively, by numerous authors in the past two decades, and, among other, by Stohr, Pyke, Begg, Bianchi, Brusco, Courlet, Garofoli, Maillat, Sengenberger, Schmitz, Storper, Torre, Francis, Taylor, Todtling, Poire, Sabel, Camagni, Haveri, Cook, Morgan, Becattini, and numerous other authors.

<sup>3</sup> Examples of a very proactive role of regional governments and institutions in this regard can be seen in numerous countries in the EU, including Italy, Germany, France, Austria, Scandinavian countries but also Spain, Portugal and other.

<sup>4</sup> More information on the importance of policies supporting innovation for regional development can be found on the web page: <http://ec.europa.eu/enterprise/ire/Innovating-regions/www.innovating-regions.org/index.2html>. For more details on concrete examples of successful regional projects supporting innovation see more in publication „Examples of regional innovative projects“ (European Commission, 2007), available at: [http://ec.europa.eu/regional\\_policy/cooperation/interregional/ecochange/doc/proj\\_samples.pdf](http://ec.europa.eu/regional_policy/cooperation/interregional/ecochange/doc/proj_samples.pdf)

balanced regional development as well as growth and competitiveness which have evidently affected shifts of perception regarding support to socio-economic development on the regional level<sup>5</sup>, with the respective new roles and responsibilities for the regional actors throughout Europe, including here our own country.

Another interesting concept which is given all the more consideration from the part of a number of eminent authors, is “*territorial capital*”, (concept elaborated extensively, among other, by Camagni, 2007 and Capello, Caragliu and Nijkamp, 2009). This concept allows us to consider a series of territorial advantages – both tangible and intangible. This concept refers to traditional material assets, to more recent immaterial ones, covering thus factors which include the area’s geographical location, size, factor of production endowment, natural resources, quality of life or the agglomeration economies provided by the cities, business networks and other that reduce transaction costs as well as “untraded interdependencies” such as customs, informal rules, solidarity, mutual assistance and co-opting of ideas which can be seen within cluster and similar. In other words, the “environment which is the outcome of a combination of institutions, rules, practices, producers, researchers and policy makers that make a certain creativity and innovation possible” (OECD 2001, p. 15.).

It appears that collective learning, mutual understanding, trust and social commitment are among the factors which play a major role in determining long-run economic performance by magnifying the effects of knowledge creation and the previously mentioned locally bounded amenities and conditions provide efficiency enhancing contributions to growth (Capello, Caragliu, Nijkamp 2009). Discussions related to territorial development are by all means interesting in respect to the rising importance of the local and regional actors, not only in EU MS, but maybe even more so in the accession and candidate countries, in which the passing of regional development strategies on the central government level has been significantly delayed. According to this concept, the defining of development strategies should be based on local development resources in the widest sense - which are available in every region - as well as on their clever use. Precisely the different existing territorial capital in each region will result with the generation of larger returns from investments in one region in comparison with the same investments in another (due to better adaptability to specific available assets and potential)<sup>6</sup>. The regional level in this regard is evidently relevant, with the regional actors striving to support regional socio-economic development having the possibility of playing a major role in maintaining, effectively using and further developing their territorial capital.

The slow process of introducing the mentioned approaches, concepts and respective changes in accession and candidate countries, including Croatia have, among other, has, among other,

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<sup>5</sup> For example, the Croatian counties, while waiting for the Strategy for regional development to be adopted by the Government, – have considered regional competitiveness, support to innovation and technological development, along with support to entrepreneurial development and clusters among their main development priorities (as visible in their Regional Operational Programmes – currently being transformed to County development strategies, of, among other, the following counties: Istria, Zagreb, Medjmurje, Varazdnin-Zagorje and other). Stemming from the mentioned proposed programming documents, numerous projects have being proposed, with some of them already being initiated, related to, for example, establishment of technological parks and incubators, promotion of clusters and similar, with the aim of supporting growth and competitiveness in their regions.

<sup>6</sup> From this point of view ((Capello, Caragliu, Nijkamp 2009) it appears that the development role of territorial capital is to enhance effectivity and proeductivity of local activities, as well as good cooperation which is relevant for managing local development processes. This implies the development of new governance models – participative and inclusive, in order to reach maximum effectivity and benefit for all members of the local and regional community.

been the result of the visible absence of endogenous growth capacities, i.e. undeveloped capacity for the solving of problems and needs related to regional socio-economic development, but also the non-existence of the basic main preconditions for speeding up regional competitiveness in most regions – including here the lack of new knowledge, innovation potential and policy instruments as well as regional institutions which had a major role in promoting innovation, technological development, growth and competitiveness in the more developed EU member states.<sup>7</sup> In this regard, the first influence and gradually rising role of local and regional actors, could only be seen in a small number of the most developed regions in these countries<sup>8</sup>. This fact points to the needs for the sharing of experience and joint further activities of such actors both within their respective regions, as well as in the framework of cross-border and inter-regional cooperation programs.

### **Role of Cohesion policy and its impact on new opportunities for regional actors**

EU Cohesion policy had a relevant role in promoting changes in the way of supporting regional “empowering” and thus paving grounds for a new role and responsibilities for regional actors in supporting development in EU Member states, as well as the current accession and candidate countries. It was particularly the Delors’ reform of Cohesion policy in 1989 which marked the beginning of a new era of empowerment of local and regional actors in which Cohesion policy played a key role along with the process of decentralisation and regionalisation. As Leonardi (2006) put it when describing changes brought by the Cohesion policy in comparison to the existing national regional policies “...for the first time, the regions – as administrative and political institutions– were placed at the heart of the policy in terms of both decision-making and implementation.” There is no doubt that regions throughout Europe were increasingly empowered in terms of managing their own development due to the impact of Cohesion policy.

All above mentioned changes confirmed the departure from the hierarchical and centralized “territorial Keynesianism” (Bruszt, 2007) that gave the central state the task of governing territorial development and opened grounds for redefining the role, i.e., the withdrawing of the central state’s dominant role in determining the means and goals of sub-national development on its own. Bruszt in this regard refers to the model of networked governance (p.6), which did not simply propose the devolution of some rights of implementing policies from the part of the regions, but, rather, included regional state and non state actors in the design of national level programs affecting the regions, with simultaneous giving of rights to these actors to design and implement regional programs, under the condition of defining and monitoring jointly the principles of using developmental resources.

In the framework of such an approach the designing of the rules and principles of disbursement of SF did not allow governments to use EU resources in the previously adhered to hierarchical and centralized approach. These changes were particularly important to the NMS and accession countries, whose reliance on centralized planning, hierarchical imposing

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<sup>7</sup> Institutions such as specialised technology development agencies, technology centres, specialised sectoral development agencies, technology parks and similar, along with applied instruments in the framework of the research and development policy aiming to promote innovation, technology and information networks and linkages between firms, as well as research-industry linkages.

<sup>8</sup> For example, in Croatia, till recently, a marked role of such local actors was visible only in several of the more developed counties, but also municipalities, which, due to existing capacity, but actually more as the results of initiatives of a small number of regional „visionares „ and development „initiators/practitioners“. We might even say enthusiasts, initiated the first local/regional projects led by a different development approach.

of development instruments and reluctant opting for devolution of power and adherence to the subsidiarity principle were much more pronounced than in old MS. The Cohesion policy had thus a relevant role in speeding up the process of conceptualisation and (re)designing of regional policies in these countries.

The influence of new approaches, concepts and trends in supporting regional and local development in EU member states was also reflected on regional policies in the accession and candidate countries. Namely, the shift of policy focus from regional disparities towards regional competitiveness issue as visible in a number of EU member states (Yuill, Ferry, Vironen et al., 2008), which was reflected in the framework of Cohesion policy is gradually to be seen also in the new policies and policy approaches in some of the more developed accession countries, including Croatia, which are giving their first considerations to growth and competitiveness issues as well as to the environmental, energy-related and similar (for these countries) new development issues

The non-existence of strategic development programming in these countries, as well as the absence of new industrial and technological development policies were also among the factors which substantially delayed the shift of attention and approach in the current accession and candidate countries. Rather, the focus of support was more on introducing new forms and models of governance, as well as on the introducing of EC Cohesion policy principles<sup>9</sup>, which, among other, also speeded up the institutionalization of a new role of regional actors, as well as regional institutions.

After all, it was the local and regional institutions which were among the first to tackle concrete regional development problems and initiate programming on the regional level in both the EU 12 and current accession countries – all in circumstance of the still lacking policy framework and instruments on the national level.<sup>10</sup> In this regard, in Bruszt's words (2007, p. 7) it is interesting to reflect that “the concept of network governance played a powerful role in the process of setting the principles, rules and guidelines of the Structural Fund policies, and these principles guided several of the representatives of the Commission who have helped and directed preparation of the accession countries for the SF policies.

The new debates related to EU SF in the sense of their contributing to “stronger regions” in the new member states, by way of building regional structures and competence, are in line with the above mentioned, as well as with the assumption that such regions are a particular strength of the funds. Such arguments rightly point out the influence of EU on regional institutional development, and, quoting Bachtler and McMaster (2007, p.23) : “the scope of SF to develop the role of regions and encourage “bottom-up” regional involvement in promoting economic development is based on several factors, linked to legitimacy, institution building and capacity development”. Cohesion policy and pre-accession funds have had a relevant role in raising the above mentioned factors in the new member states and accession countries, even though the experiences and achieved results were achieved with more or less success and have substantially varied over time in these countries. Quoting Bachtler and McMaster (2007, p 24): “an increasingly stable framework of regional institutions, including

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<sup>9</sup> This support was provided through technical assistance in the framework of pre accession support programmes.

<sup>10</sup> This process was promoted in the first phases of transition, as well as accession, by way of technical EU, as well as their assistance - in the framework of UNDP, ILO, USAID and other development programmes. This process was followed at later stage by pre accession assistance with concrete impact for raising capacity for strategic planning and programming on the local and regional level with the aim of enabling and raising absorption capacity for SF of the accession countries.

regional development agencies, regional self-governments, and specifically formed regional councils, are responsible for the regional implementation of some components of SF programmes, by generating, selecting and monitoring projects". Precisely these new roles of regional development agencies and regional self-governments, triggered by SF policies paved the way for a radically new perception of the importance of the regional level and regional actors in the current accession and candidate countries.

The encouraged role of local and regional institutions is partly the result of central government administrations in these countries, aware that absorption capacity needs to be raised particularly at the sub-national levels, since the regional (and particularly the municipal) levels will be the ones to draw the bulk of the available funds upon accession. Looking at this issue critically, it is hard to refrain from commenting that the devolution which is actually gradually taking place in this regard, was "allowed to happen" since there was no alternative for "capturing" the inflow of pre-accession funds as well as the expected ones in the framework of SF. In this regard, it would be interesting to deepen research and analyse the extent to which substantial devolution and real empowerment actually happened, not only in our own country, but in the new accession countries altogether. A further challenge we see in determining the concrete development impacts of this process for the effective socio-economic development of the respective regions. Another segment interesting for further policy research would be whether the exclusive adherence to Cohesion policy approach and propositions, led by obligations in the framework of accession process in the SEE countries, guided, as well as substantially speeded up by the accession process – was the very best option for the considered countries.

We are aware that the new member states went through a more gradual process of adjusting their policies to EU Cohesion policy, while in the new accession countries the drafting of regional policies was to a major extent led exclusively by SF policy and accession obligations. This question also touches upon another critical issue - the non existence of coherent new industrial, as well as technological and innovation policies in these countries. It is currently still impossible to fully comprehend the effectiveness of each of these interlinked sectoral policies since effective ones, compared to those in the OMS, are still non-existing in the considered countries.

### **III NEW POLICY ENVIRONMENT FOR REGIONAL DEVELOPMENT IN CROATIA**

#### **Main characteristics of the previous regional policy**

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

Till recently, the approach to regional development can be termed as inconsistent, with no overall policy with clearly defined goals, actors and instruments. An unflexible and static approach, based on central planning, reactive actions, often on an ad-hoc basis<sup>11</sup>, were among its basic elements till very recently. In such circumstances the focus on outdated instruments and development of physical infrastructure, with hardly any attention till recently being given to competitiveness and growth was not surprising. A further characteristic was its inertness in regard to new circumstances created by the accession process and the non-existence of strategic development planning.

Further, the lack of political will for introducing a modern and coherent regional policy and establishing a new institutional framework for its implementation was persistent throughout the past decade and the lack of capacity for effective governance only accentuated the persistent problems. Among other characteristics of the recent regional policy the following can also be mentioned: poor fiscal capacity of local and regional units<sup>12</sup>, poor horizontal and vertical coordination between central state as well as other bodies and institutions dealing with regional development<sup>13</sup>. Needless to say, effective monitoring and evaluation of ongoing and implemented development projects did not take place, meaning that there was no basis for improving and further developing the policy as well as the implemented measures and government support. In such circumstances it is not surprising that the role of local actors, “practitioners” and “initiators” was very important. They triggered a relevant number of development initiatives throughout Croatia, with their initiatives contributing to the establishment of the first local and regional development agencies, business support centres and incubators. Furthermore, they supported the preparation and implementation of numerous successful development projects with impact for the socio-economic development of their regions. However, their role was limited from point of view of the above mentioned circumstances and obstacles on the central government level, including very poor existing resources, as well as instruments for supporting regional development.

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<sup>11</sup> Implemented measures and support were more focused on ineffective alleviating of pressing problems than on creating favorable circumstances and environment for sustainable and balanced development, with due attention also being given to regional competitiveness

<sup>12</sup> Poor fiscal capacity in the very start meant that there was no basis for promoting development.

<sup>13</sup> It is necessary to stress however that inter-sectoral cooperation has substantially improved in the past 2-3 years in comparison to the situation at the beginning of the decade, partly also as the result of pressure coming from EC, but also other international institutions.

## Basic elements of the new regional policy

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

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

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

The designing and adoption of the Strategy (SRR), i.e. new regional policy presumes the creation of the necessary environment for a different and new role of local and regional actors in initiating local and regional development, in line with the currently applied approach to regional development. The new regional policy is based, among other, on the following new elements, to which we can also refer to in the sense of the basic pillars for its further implementation (Maleković; Puljiz 2010; Đulabić 2010)

- **Establishment of a coherent approach of supporting development.** The process of defining development priorities on different territorial levels – from county to the level of the statistical regions, to national level – are for the first time clearly formalized and harmonized. The county development strategies have thus gained their institutional backing, and regional (county) stakeholders are being given clear guidelines regarding the elaboration of these strategic documents which are harmonized and linked to the nationally defined development priorities. Further, the development priorities are for the first time being defined on the level of the statistical NUTS 2 regions – a very relevant fact from point of view of reaching a wider inter-county consensus on main development objectives and priorities of a wider territory.
- **Institutionalization of regional (above county level) bodies for considering development.** The establishment of partnership councils on the level of the NUTS 2 regions presents a major breakthrough for supporting regional development. According to the new Law on regional development, these Councils are to have an important role in the defining of development priorities on the level of NUTS 2

regions and proposing lists of development projects. The creation of such regional bodies, in line with similar bodies established in EU member states, as mentioned in the previous chapter, is expected to have positive effects on raising responsibility and “ownership” of local and county bodies for the development of the wider regions.

- **Support to the culture of partnership.** The introducing of the Partnership Councils on the NUTS 2 level and the obligation to draw county development strategies as main strategic programming documents on the regional level, in line with the principle of partnership, is expected to have long term positive effects on the development of dialogue and effective cooperation among different local and regional stakeholders and actors in segments of key importance for the development of their regions. Along with the mentioned practice in EU member states, the representatives of these Councils will also encompass local and regional self-governments, economic chambers, the private, research as well as non-governmental sector and other. This approach will strengthen the democratization of the overall system of managing regional development and provide opportunities of the relevant actors to have a proactive role in designing their development policy. This will simultaneously contribute to the ownership of the partners in regard to key strategic development documents as well as development projects, which is very important from point of view of their implementation. Such a strengthened role of partners on the local, regional and central level contributes to social cohesion as well as further strengthening of mutual cooperation of local and regional self-government units.
- **Introducing of evaluation of development impact of development programmes and projects.** The introducing of this principle in line with a very well elaborated system of criteria is of strategic importance for the further and continuous upgrading of the regional policy. One of the tasks of the Ministry in charge – Ministry of Regional Development, Forestry and Water Management is to raise the awareness as well as capacity related to the importance of the mentioned evaluation not only on central government level, but by all means on the regional level also – where a relevant role can be played from the part of regional actors.

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

## IV CAPACITY OF REGIONAL ACTORS TO PARTICIPATE IN EU COHESION POLICY

Building capacity for the effective participation in Cohesion policy is a top policy priority on all territorial levels due to the fact that after accession Croatia expects a ten to fifteen fold increase in the available funding from the EU funds.<sup>14</sup> In this chapter we provide a short analysis of the capacity for project preparation and implementation at the county level on the basis of a survey which has been carried out in April 2010.<sup>15</sup> The main aim of the survey was to assess the institutional capacity and key obstacles for its improvement. When referring to “institutional capacity”, we refer to the ability, i.e. knowledge and skills existing in the institutions on the county level to participate in EU pre-accession funding schemes. We have decided to focus on the project preparation and implementation activities, since regional actors in general have at the moment only minor experience with other aspects such as programming, programme management and monitoring.<sup>16</sup> The respondents were high level representatives of the county development agencies (CDA) and county administration.<sup>17</sup> County level institutions are among the most active regional and local players in preparation and implementation of EU funded projects. They also play a very important coordination and supporting role for other actors in the county such as local self-government units, NGOs, business organisations, etc., by providing them education, informing them and promoting their participation in EU programmes.

The results of the survey showed that 310 personnel are currently engaged in the preparation and implementation of EU funded projects at the county level, i.e. around 15 employees per county.<sup>18</sup> If compared with the situation three years ago when a similar research has been conducted (Maleković et al., 2007), an increase by 40% has been recorded, confirming thus a continuous growth of employment in EU programmes-related activities at the county level. This high increase reflects partly new employment and partly the engagement of the existing staff on new tasks related to the EU programmes, meaning that the actual new employment for the purpose of participation in EU pre-accession programmes is at a somewhat lower level.<sup>19</sup> Another marked feature of the employment structure is that the distribution of the number of engaged staff between the counties is highly unbalanced. In that respect, the situation has hardly changed since 2007, as shown by Chart 1. The first five counties employ nearly half of the total number of all staff engaged. On the other hand, three counties employ less than 5 persons engaged in the preparation and implementation of EU projects.

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<sup>14</sup> According to EC proposal, Croatia may expect around 2,4 billion EUR from the Structural and Cohesion Funds in the first two years upon the accession (European Commission, 2009), with a gradual increase in the next few years. For comparison, the current level of IPA yearly funding is around 150 million EUR.

<sup>15</sup> The respondents were high-level employees working in 19 regional development agencies and twenty-one county administrations on the preparation and implementation of EU funded projects.

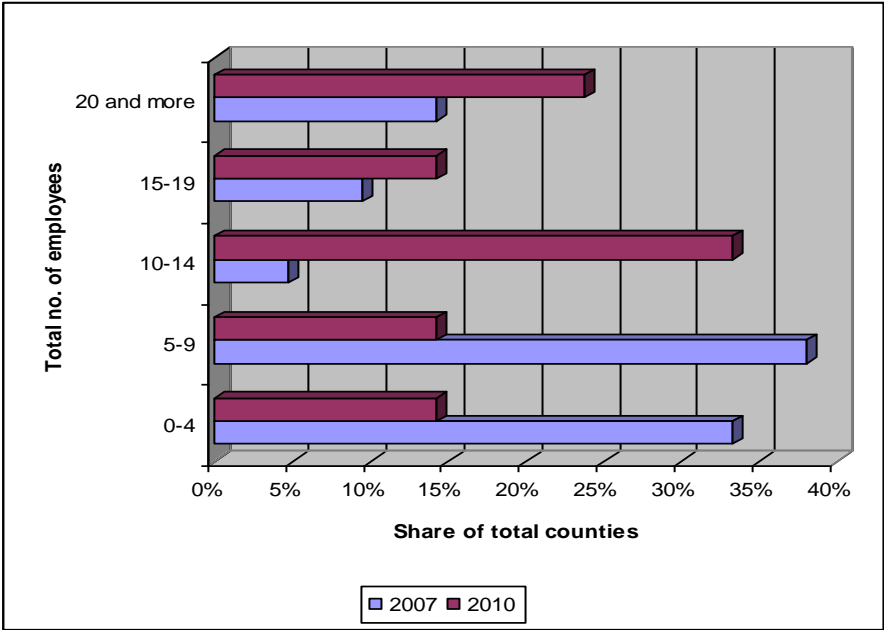
<sup>16</sup> Some counties have indeed gained experience in these other fields through the participation in preparation and management of cross-border programmes. Nevertheless, this can be marked as very restricted capacity building, since only a small number of persons from the counties have been actively involved in the process.

<sup>17</sup> The survey covered all twenty one counties. In total, 21 county administrations, 20 county development agencies plus 1 multi-county development agency have participated in the survey.

<sup>18</sup> Several respondents have indicated that some of the reported employees are only occasionally engaged in preparation and implementation of EU funded projects.

<sup>19</sup> However, we were unable from the survey to calculate exactly how much of the total increase is due to the one or the other factor.

Chart 1: Distribution of staff engaged in EU programmes at the county level

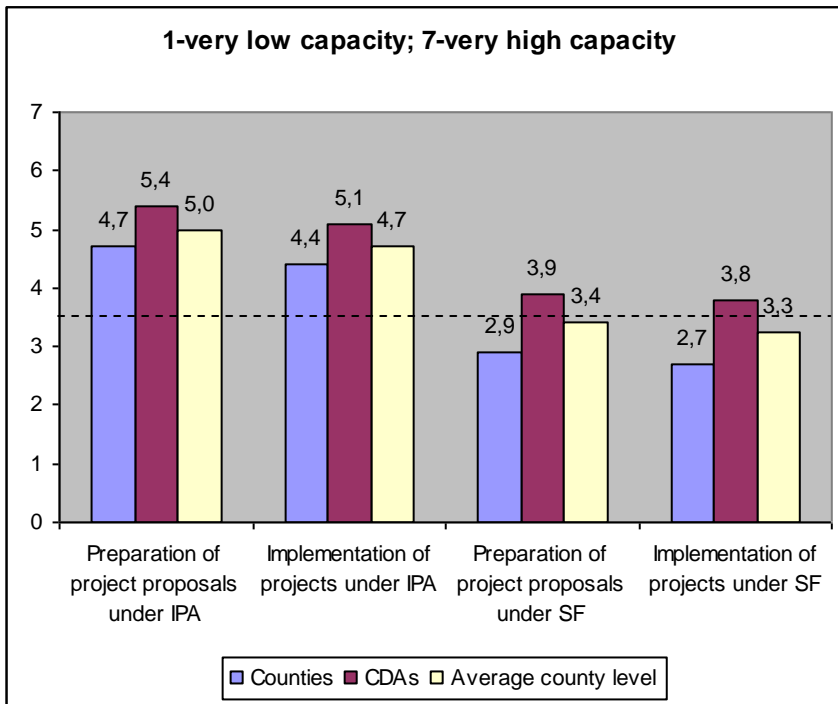


Note: Includes total number of staff engaged on preparation and implementation of EU co-funded projects in county administration and CDA.

On the basis of the survey’s results, it appears that the distribution of employees between the county administration and CDAs is quite balanced, with a slight advantage for the counties (53% of total personnel). It is interesting to note however that in comparison with situation in 2007, counties have recorded two times higher growth of engaged staff than the CDAs. Stronger employment dynamics of the counties relate to the spreading of the involvement in “EU projects” in county departments which have previously been oriented basically on domestic sources and programmes.

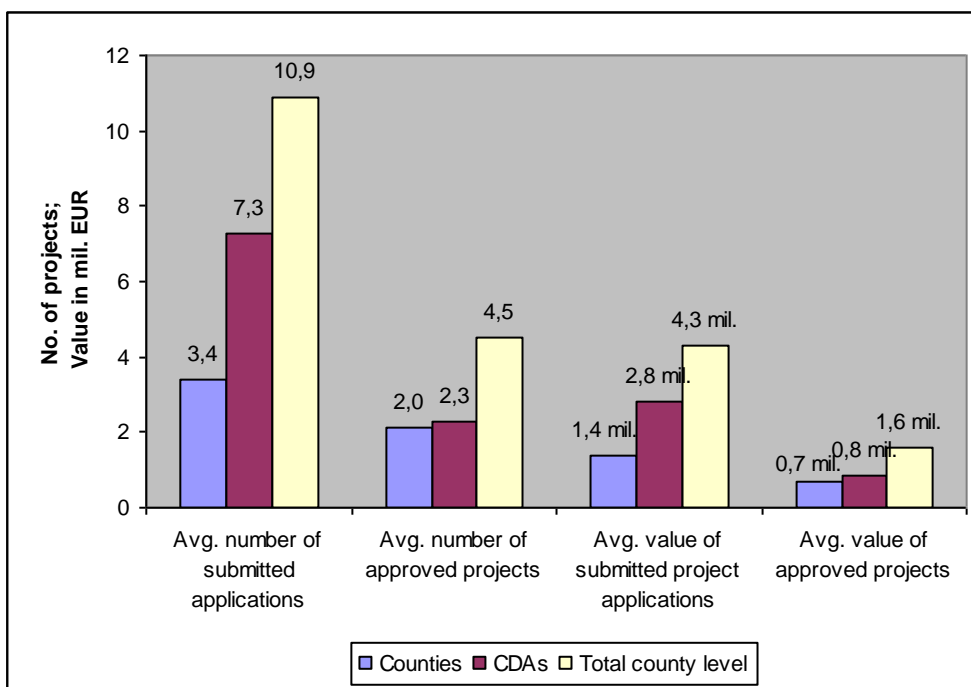
On the basis of the results of the self-assessment of the level of readiness for the preparation and implementation of EU-funded projects, it is visible that regional actors see themselves as being rather well prepared for the pre-accession funds. In range between 1 and 7, where 1 indicates a very low level of preparedness and 7 a very high level, where no external assistance is necessary, the average score of the county level institutions regarding capacity to prepare high quality project proposals under IPA is relatively high: 5,1. Such high scores could be understood as a sign that the IPA programme has been well accepted and comprehended by the county actors. There are some differences in scores between the county administration and CDAs. CDAs perceive themselves in general as better prepared than the county administration, despite the slight advantage for the county administration in terms of the number of staff engaged. We can presume that the main reason for this difference is more experience and more focused work in the participation in pre-accession programmes in case of CDAs.

Chart 2: The self-assessment of the capacity to prepare and implement EU funded projects



The scores are expectedly lower related to the preparedness for the Structural Funds, although not that low as one might expect when taking into account the huge expected increase in the funds available in two years from today. Chart 3 shows that the average score of 3,4 for project proposal preparation and 3,3 for project preparation seems a very optimistic view, particularly if we take into account the level of the existing experience with preparation and management of IPA projects.

Chart 3: The experience of county actors with absorption of EU funds during 2007-2009



Results from chart 3 indicate that during the 2007-2009 period counties have on average submitted 10,9 applications, worth 4,3 million EUR, out of which 4,5 applications worth 1,6 million EUR have been approved.<sup>20</sup> In the case of submitting the applications, CDAs were much more active, but the difference in the approval rate is much smaller, both in terms of the number and value of the projects. While a success rate of 41% at the county level seems a fairly good result, the average value of the approved project suggests that EU funding still represents only a minor part of the total investment financing at the county level.<sup>21</sup> The question which now arises is why this has been the case. Is it due to the small absorption capacity of the county actors or due to the small amount of EU funds made available for the local and county level? Data on the absorption of EU funds reveal that absorption has been particularly high in those programmes which have been opened for the regional and local actors, such as cross-border programmes, grant schemes for supporting business infrastructure, etc.<sup>22</sup> In that respect, the absorption capacity seems to be a less important factor in this period. But, if we take into account the total size of the EU funds available to the county and local actors so far, we might conclude that the low volume of EU funds available has been an important constraining factor leading to the relatively small amount of EU funds spent so far at the county level.<sup>23</sup>

Success in absorbing very limited funding opportunities available under IPA partially explains the relatively high level of confidence in their own readiness. Despite the organisational and other problems encountered during the preparation and implementation phase, available funds were so limited that county actors were in general able to absorb at a high level. In that respect, the experience with IPA can not be taken as a reliable indicator of the readiness of county actors for the participation in SF programmes, since a ten to fifteen times increase in the amount of the available funds will surely represent a “shock”, including those currently most prepared counties. Once again, we have to emphasize the significant differences existing between the counties regarding the “absorption” capacity. Namely, according to the respondents, in six counties (28,5% of the total number), administration and CDAs reported no approved projects since 2007. On the other hand, four leading counties were responsible for 71% of the total value of the approved projects.

Chart 4: Value of approved projects financed through EU programmes, 2007-2009

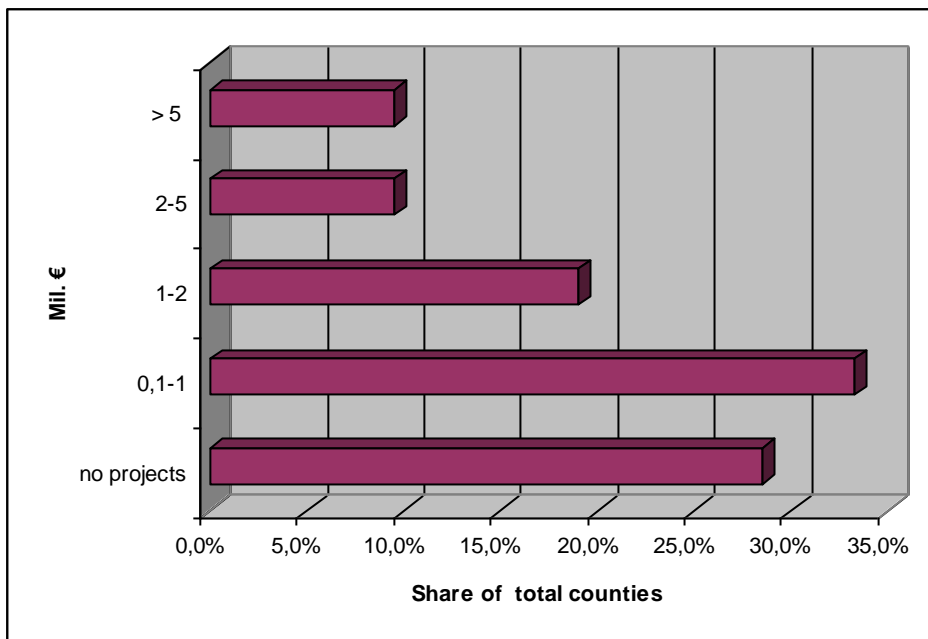
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<sup>20</sup> These figures relate only to the applications where county or CDAs were acting as the applicant. There are also many other submitted and approved projects where county and CDAs were acting as partners, but which are here not taken into account. Also, some applications are still under consideration by the programme management bodies, so the share of the approved application is actually higher.

<sup>21</sup> Just for comparison, according to data from the Ministry of Finance, the revenues of the average county (excluding city of Zagreb) in the same three years period were estimated at around 75 million EUR ([www.mfin.hr](http://www.mfin.hr)).

<sup>22</sup> In several grant schemes the absorption rate was above the 95%. More details about the absorption of EU funds can be found in regular semi-annual reports prepared by the Central Finance and Contracting Agency ([www.safu.hr](http://www.safu.hr)).

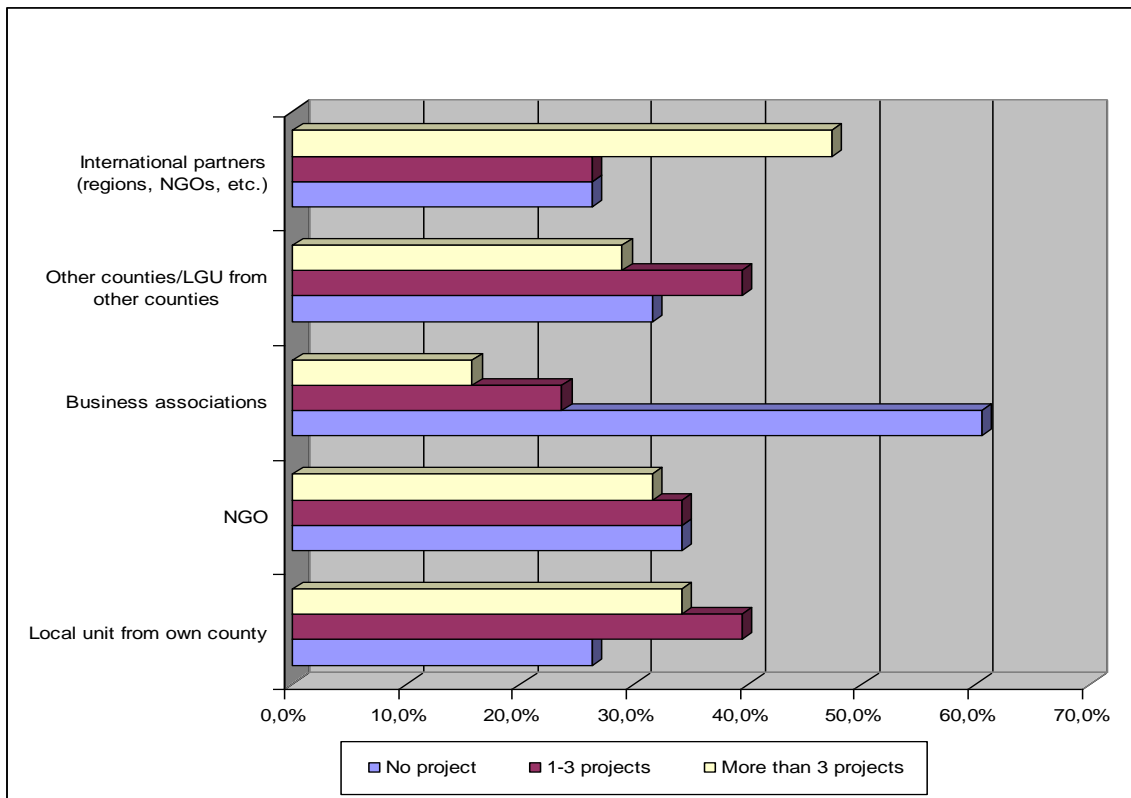
<sup>23</sup> This is especially the case with actors from more developed counties which did not have the opportunity to participate in several Calls designed only for counties lagging behind.



Such a high concentration of “successful” counties and a high number of “less successful” ones provides an additional perspective on the readiness of the county actors. It seems that some of them are indeed ready at a high level and are reaping the maximum benefit out of the available programmes. On the other hand, a significant number of counties are much less capable and experienced in preparing high quality project proposals, already in the IPA period, which makes their successful participation in SF programmes very questionable. Relatively high scores related to their own readiness, even in cases where there is a clear lack of practical experience, allows us to conclude that some counties overestimate their own capacities. Just for illustration, the average score of the capacity to prepare high quality project proposals for IPA of those six counties without approved projects is 3,9, i.e. above the average.

A further very important aspect of the participation in EU programmes is the experience with partnerships. Partnerships are especially relevant from the point of the capacity building and transfer of knowledge, where regional and local actors can compensate the lack of their own capacity by forming a partnership with stronger partners. Partnerships are also an excellent tool for building mutual trust and reaching synergy between various developmental actors in the region. The experience of county-level actors in Croatia with partnerships in EU programmes can be seen on chart 5.

Chart 5: Experience of counties and CDAs with project partnerships, 2007-2009



Nearly 50% of the counties/CDAs have indicated cooperation with international partners on more than 3 projects in the last three years, which confirms that international partners are among the most preferred. A high intensity of international partnerships is the direct consequence of the successful participation in cross-border programmes with neighbouring EU countries (and since lately other IPA countries). Cross-border partnership with partners from EU member states has been an excellent opportunity for Croatian actors to see and learn how projects are prepared and managed.

Also, when taking into account that cross-border programmes were among the major EU funding opportunities for regional and local actors, such intensive international cooperation is not surprising. On the other hand, least intensive cooperation is visible in the case of business associations. Almost 60% of all county administrations and CDAs had no project with business associations. While strong public-business sector relationships are seen as one of the key components of the modern development policy and are particularly important for the use of SF, this has obviously not yet been the case at the county level in Croatia. The survey does not provide sufficient data to explain the reasons for such a lack of cooperation, but it would be recommendable, that, as more experienced partners in EU programmes, county level actors promote and support such types of projects more strongly.

As for the cooperation with local self-government units and actors from other counties, around 70% of the county actors have reported at least one partnership project in the last three years, showing that within-county and inter-county cooperation is progressing and that concrete results of this cooperation can be seen in the majority of counties. Still, a significant problem remains with 5-6 counties which have not reported a single project which includes partners from their own or another county. A similar situation is visible in the case of cooperation with NGOs, where around 65% of the county actors implemented at least one such project, but than again, 35% of the actors had no experience with such projects. All

together, the majority of county-level actors has been very active and successful in the participation in EU-funded programmes by way of developing intense and high-quality partnerships.

## V CONCLUSIONS

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

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

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

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

Substantial experience is also to be seen related to cooperation and building of partnerships with other actors. Despite the progress being made so far, there remain several crucial problems. First, there is a highly unbalanced regional distribution of the number of employees and even more unbalanced distribution in terms of the absorbed funds. Even at this stage of

the accession process, when accession can be expected in two or three years, some counties do not possess any relevant experience with project management. This is something which deserves attention not only at the county level, but also at the central level institutions in charge for regional policy and preparation for the SF. It should be once again emphasized that the pre-accession funds, with the current level of funding, are indeed only an exercise for the SF. The low level of funding available for the counties and complicated procedures negatively affect the willingness of the county-level politicians to invest more substantially into institutional capacity. Still, the counties have to be patient and have a long-term perspective of their participation in SF in mind and the capacity building “exercises” as well as all investments into training and raising of specific knowledge and experience will by all means make the whole process of adjustment to EC requirements more effective, enabling the regions to reap optimal results in the framework of Structural funds.

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