

# The Spatial Dimensions of Development in Croatia – from Theory to Policy Vacuum

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## Abstract

It is generally accepted that, following the positive avis regarding Croatia's application to join the European Union, spatial dimensions of development will take on an increased importance. This text offers a broad introduction to the state-of-the-art of spatial economics in Croatia. In this context, it provides a basic overview of theories, policies and practices in spatial development in contemporary Croatia, setting these in an historical context, and outlining possibilities for the future. The paper addresses the complexities and spatial specificities of the Republic of Croatia in terms of geographical, historical, ecological, and socio-economic dimensions. The implications of this complexity, heterogeneity and regional diversity suggest that a plurality of approaches to spatial development is required.

The paper goes on to discuss the need for a clearer triangulation between development theories, research and education in Croatia, and addresses the relationship between national and international currents. Noting the legacy of theories of development under

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socialism, and going beyond a crude opposition between 'neo-liberal' and 'neo-Keynesian' theories, the paper sets out the basis for an integrated approach to development management and strategic development planning, itself requiring innovative, multi-disciplinary, research approaches and educational processes committed to the creation of new, flexible, competences.

The paper also focuses on aspects of the complex relationship between spatial development and good governance. The paper notes the distorting impact of a range of external assistance programmes and of international consultancies, and the continued tension between European and American approaches. Internal impediments to good governance are discussed in terms of their horizontal dimensions – policy confusion; the proliferation of institutions and strategic bodies; and tensions and inconsistencies between legal, political and administrative dimensions – and their vertical dimensions – in terms of the lack of fit between, and unsustainability of some aspects of, different tiers of government.

The concluding part poses a series of open questions regarding the future relationship between research, policy and practice in this area. Throughout the paper, reference is made to work undertaken by the authors on aspects of regional and local development policy and practice in Croatia.

**Keywords:** spatial economics, regional theory, strategic development planning, good governance

**JEL Classification:** R1, R5

# 1 Croatia's Specificity

## Basic Geography and History

Croatia is special. It is situated on the cross-roads between Central Europe and the Mediterranean, close to the developed and densely populated European countries. It extends from the foothills of the Julian Alps in the north-west and the Pannonian Plain in the east, over the Dinaric mountain range in its central region, to the Adriatic coast in the south. Its total area is 87,609 sq. km, 31,067 of which is territorial sea. Its coast is one of the most indented in the world. It totals 5,835 km. The mainland coast encompasses only 1,777 km (30%), and the remaining 4,058 km is the coast of the islands. There are 1,246 islands (some 45 are inhabited) making it the second largest archipelago in the Mediterranean.

In 2001 at the time of the last Census there were 4,437,460 inhabitants in Croatia (78.4 per sq. km) living in 21 counties, composed of 121 towns and 416 municipalities.<sup>1</sup> Population density varies across the counties – the highest is in Međimurje County (162.4) and the lowest in the County of Lika-Senj (10.0). The biggest population density is around the urban centres (Zagreb, Pula, Rijeka, Split, Osijek) which cover approximately 12 percent of the territory, and is home to approximately 63 percent of the total population.<sup>2</sup>

Demographic trends show that until 1991 Croatia had positive natural growth. During the Homeland war (1991-1995) the natural growth rate was negative, and only in the short period 1995-1997, was the birth rate higher than the death rate. After 1997 there was a sharp decline in the birth rate which resulted in negative natural growth. The natural growth rate in 2003 in the Republic of Croatia was negative reaching -2.9 (-12,907). The County of Split-Dalmatia had a positive growth rate, whereas a negative growth rate was recorded in all other counties and in the City of Zagreb. A positive natural growth rate was recorded in 79 towns/municipalities. Negative growth rates were recorded in 459 towns/municipalities and in the City of Zagreb, while 11 municipalities had a zero natural growth rate. The highest negative natural growth (-1,246) was recorded in the City of Zagreb.

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<sup>1</sup> *The numbers grew in the meantime. Today there are 124 towns and 426 municipalities.*

<sup>2</sup> *Izješće o stanju u prostoru Republike Hrvatske 2003.*

Forced migration caused by the War, especially migration towards Zagreb in the period 1991-1995, resulted in a concentration of population in the capital. According to estimates for 1999, 20 percent of the total population lived there. In the period 1994 - 2003, more than 716,000 people moved from one settlement to another within the Republic of Croatia. The largest share of the migrating population (11.8% - 84,000 persons) was recorded in 2003. With regard to the place of migration in the period 1994 - 2003, migration between counties accounted for the largest part (45%). In 2003, out of the total of twenty counties and the City of Zagreb, six counties and the City of Zagreb had a positive migration balance (the number of in-migrants was larger than the number of out-migrants). The highest positive balance was recorded in the County of Zagreb (more than 2,000 persons) and the County of Istria (around 800 persons). Fourteen counties had a negative migration balance, the highest being in the counties of Vukovar-Srijem (more than 1,000) and Slavonski Brod-Posavina (around 900).<sup>3</sup>

Croatia has always been a point of contact of different cultures and civilisations. Its regional identity is rooted both in geography and turbulent historical developments. For centuries the Mediterranean area was subjected to Italo-Venetian influence, while the Pannonian parts were subjected to influences coming from the central Ugro-Pannonian area. Northwestern Croatia was influenced by Germanic Central Europe. After centuries of difficult political struggle which culminated in the war of 1991-1995, Croatia obtained independence in 1991. In 1992 it became a member of the UN and in 1998 the last occupied parts of the country were reintegrated. War damages were immense in terms of population loss, as well as in terms of damage to the physical and natural environment.<sup>4</sup>

## Ecological Fragility

The mixture of continental European, Alpine and Mediterranean influences in Croatia results in rich ecosystems. Diversified landscape, climate and unique geological features contribute to a diversity of regional ecosystems and species. Forests cover about 44% of Croatia, primarily in the mountains and in the northern lowlands. Wetlands along the northern rivers provide important habitat for many species, particularly migratory birds. Furthermore, the bays and straits of the Adriatic are home to numerous rare and endangered fish species. Endemic species have found their habitat in small wetlands

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<sup>3</sup> [www.dzs.hr](http://www.dzs.hr) (Priopćenje 7.1.1 and 7.1.2).

<sup>4</sup> *Strategija prostornog uređenja Republike Hrvatske (1997)*.

including ponds on the Adriatic coast and islands, and moors in the mountains as well. A rich agricultural history has contributed to biodiversity and its management. Understanding of karst geology and hydrology is critical for an assessment of its biodiversity as karst covers 54% of Croatia.<sup>5</sup>

According to the Law on Nature Protection<sup>6</sup> there are eight categories of nature protection: national park, nature park, strict nature reserve, managed nature reserve/wildlife sanctuary, natural monument/natural landmark, protected landscapes and seascapes, park forest, and park architectural monument. There are 450 protected areas in Croatia, covering over 10% of the country. Only 8 such areas, covering about 1.7% of the country, are National parks. Three national parks are on islands (Kornati, Brijuni, Mljet); two represent karst hydrology and morphology (Plitvice lakes, Krka); three are mountainous areas (Risnjak, Paklenica, Velebit). Three out of ten nature parks are mountainous (Medvednica, Biokovo, Velebit), one is an island nature park (Telašćica) and two are wetlands (Kopački rit, Lonjsko polje).

## Regions

Croatian heterogeneity has led to quite a heterogeneous set of proposals as to how to divide the country into regions. As usual, the main obstacle is statistical data because the existing counties, towns and municipalities for which most of the data has been collected are not compatible with geographic, historical and economic regions.<sup>7</sup> Of the possible categorisations, i.e. those that are based on county and municipal data, two are of particular significance: economic categorisation and categorisation based on geographical features.

Croatian counties can be ranked according to the development index, which is based on four different groups of indicators: infrastructure, human resources, standard of living and the global efficiency of the economy. In this way the City of Zagreb, the County of Istria and the County of Primorje-Gorski kotar are ranked highest (ranks 1, 2 and 3). The

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<sup>5</sup> [www.mzopu.hr](http://www.mzopu.hr) (*Izveštće o stanju okoliša u Republici Hrvatskoj, 2003*).

<sup>6</sup> *Narodne novine 34/94 and 72/94.*

<sup>7</sup> *The history of territorial - administrative division is also rich. However, none of numerous divisions in the last 60 - 70 years followed geographic, historical and economic criteria seriously.*

County of Virovitica-Podravina, the County of Vukovar-Srijem and the County of Lika-Senj are at the bottom of the list ranking 19, 20 and 21 respectively.<sup>8</sup>

Categorisation based on geographic features leaves administrative boundaries behind and reveals three large spatial units – Central, Adriatic and Eastern Croatia. Central Croatia has the most developed economy, as well as infrastructure. Furthermore, it is characterised by a great concentration of cities of the Central European type. Adriatic Croatia can be divided into three different parts each one with specific development patterns and problems – underdeveloped hinterland, the urbanised coastal area, and islands with their specific development needs. The main feature of Eastern Croatia is agriculture-based economic structure and a well developed network of small settlements which provide the possibilities for more balanced spatial economic development.

Regional differences in economic and social development are usually defined in terms of unemployment rate and per capita gross domestic product in a region (RGDP), and are aggravated by structural changes, which have social and economic consequences. However, analysis of regional disparities in Croatian economic and social development has been limited due to lack of regional statistics, so that researchers have to rely upon various estimates. Two sets of figures were calculated here: the contribution of each region i.e. county GDP (RGDP) to the total GDP of Croatia and the ratio of RGDP per capita to the mean national per capita GDP.

In 2001, only three out of 21 Croatian counties had a per capita GDP above the national level. The per capita GDP of the City of Zagreb in 2001 was 56 percent above the national level, in Istria it was 21 percent above, and in the County of Primorje-Gorski kotar it was 31 percent above. In all the other counties estimated per capita GDP was below the national level. Per capita GDP varied between 67 percent of the national per capita GDP level in the County of Zagreb and 96 percent of the national per capita GDP level in the Dubrovnik-Neretva County.

Contribution of the RGDP to the total GDP has a similar distribution. The greatest part of Croatian GDP was produced in the City of Zagreb (27.4 percent in 2001). The smallest contribution was provided by the County of Šibenik-Knin (1.0 percent). The contribution of RGDP to the total GDP varied between from 1.6 percent in the County Požega-Slavonija to 8.5 percent in the County Split-Dalmatia.

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<sup>8</sup> For more details on methodology and list of indicators refer to *Izvješće o stanju u prostoru Republike Hrvatske (2003)*.

Table 1. <b>The contribution of RGDP to the total GDP, the ratio of RGDP per capita to the national GDP per capita, and unemployment rate by counties in 2001</b>			
	Contribution of RGDP to the total GDP	RGDP per capita/national GDP per capita ratio (national GDP per capita = 100)	Unemployment rate %
County of Zagreb	4.69	67	25.45
County of Sisak-Moslavina	3.28	78	33.84
County of Karlovac	2.65	83	33.59
City of Zagreb	27.40	156	13.43
County of Međimurje	2.30	86	20.44
County of Krapina-Zagorje	2.54	79	21.32
County of Varaždin	3.96	95	19.38
County of Koprivnica-Križevci	2.55	91	23.04
County of Brod-Posavina	2.75	69	36.29
County of Požega-Slavonija	1.63	84	29.20
County of Virovitica-Podravina	1.87	89	34.19
County of Osijek-Baranja	7.18	96	31.34
County of Vukovar-Srijem	3.23	70	41.35
County of Bjelovar-Bilogora	2.44	81	33.79
County of Istria	5.63	121	13.43
County of Lika-Senj	1.00	82	29.59
County of Primorje-Gorski kotar	8.99	131	18.43
County of Dubrovnik-Neretva	2.67	96	24.04
County of Split-Dalmatia	8.55	82	30.07
County of Šibenik-Knin	1.83	72	37.77
County of Zadar	2.85	78	31.42
Total	100.00	100	23.07

Source: Calculated on the basis of Central Bureau for Statistics data.

The second indicator of regional development and regional disparities is the regional unemployment rate. As there are no official statistics of unemployment rates at the county level, unemployment rates by counties also had to be estimated. The unemployment rate at national level in 2001 was 23 percent. At county level, there were some remarkable deviations from the national average. The lowest unemployment rate was in the City of Zagreb and the County of Istria (13.4 percent). The highest unemployment rates were recorded in the County of Vukovar-Srijem (41.4 percent) and in the County of Šibenik-Knin (37.8 percent). Regarding regional disparities, the capital or the capital regions usually demonstrate the lowest unemployment rates and respectively a higher RGDP. The counties with per capita GDP above national level also have lower unemployment rates (City of Zagreb, County of Istria, County of Primorje-

Gorski kotar). On the other hand there are quite a few rural areas characterized by increasing unemployment and falling employment opportunities.

## Spatial Development Management

In Croatia, as elsewhere in the world, the question about whether economic development should be managed is often put. Answers stem from neo-liberal (in its extreme, a plain 'no') to socialist which in its extreme leads to requirements for central control of the entire economic process. Discussions tend to be about the structure of the economy and are rarely about its regional aspect and spatial pattern in general. However, given the fact that economic development happens in space and that its spatial aspect is unavoidable, the neo-liberal perspective does not appear reliable. Suboptimal, if not heavily distorted, spatial distribution of population and economic activities as well as unsustainable (locally catastrophic) use of natural resources in the last 60 to 70 years of Croatian history clearly point out that there has always been a case for regional development management, environmental protection and urban-rural policy considerations. The governance of Croatian spatial economic development thus appears as a necessity.

It is therefore quite a challenge to inquire about spatial development policies in Croatia, their theoretical foundations, development measures and their effects, corresponding institutions and organisations and whatever else constitutes a spatial development policy. Have policy makers ever relied on theories, has the development itself proved that the spatial patterns appeared as the theories propose, and so on, are questions that have to be answered if the governance necessary for sound spatial development is to be introduced in Croatia.

## 2 Not Long Ago - Socialism

### Primary Accumulation

Although the first physical plans in Croatia were produced already in the 1930s there is hardly any evidence of regional, urban or any other kind of spatial economic policy in the period between the two World Wars.<sup>9</sup> The first Croatian post-war period appears thus

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<sup>9</sup> *So called regulatory plans produced in the 1930s marked the beginning of more than a half a century long practice of producing physical plans with insufficient economic planning inputs.*

as the best point in time to start the analysis. Socialism was newly established in Yugoslavia and Croatia within it immediately after the Second World War. The Soviet (at the time Stalinist) influence was very strong particularly in economic policy. The basic idea and the measures that followed were rather simple: the labour surplus that existed in the agricultural sector had to be transferred to an industrial sector that lacked workers. This would allow for fast industrialisation, secure warranted rapid economic growth, enlarge the working class and thus improve the class structure of society. The way to achieve this was also simple (or looked simple on the central planners' desks) but painful: the compulsory purchase of agricultural products was introduced so that peasants had to sell food to the state at prices that were way below those obtained on the food market. The food was then sold in the stores that belonged to the state retail network. It was, of course, cheap which meant that industrial wages did not have to be high and that "accumulation" generated by the industrial sector could be used for further industrial investments. The policy did work. Deprived of the means of survival, peasants went to work in industry. The class structure seemed to have improved as requested and the annual growth rates were amongst the highest in the post war socialist countries (Stipetić, 1968). Foreign loans played their part too, but this was rarely mentioned in the Federal Planning Committee reports.

What is of particular interest here is that this dramatic policy stands as a rare example of deriving policy measures almost directly from a theoretical concept. The theory was named the "socialist accumulation of capital", a derivative of Marx's famous concept of "primary accumulation". Its author Evgenij Preobraženski formulated the model in the Soviet Union in the 1930s<sup>10</sup> inspired by the urge for fast development and the requirement to catch up with capitalism as quickly as possible.<sup>11</sup> Yugoslav planners copied it in the late 1940s but, just as the Soviet planners before them, failed to consider its spatial aspects. The planners seemed not to care that a transfer from the agricultural to the industrial sector inevitably triggered a massive departure of peasants who stormed the "would be" industrial cities and that the requirement to have factories of large capacity meant that machines often had to be transported from various places and concentrated in urban areas. Compulsory purchase was lifted in the early 1950s and

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<sup>10</sup> *The model was criticised by Nikolai Bukharin who proposed development of small scale labour intensive units evenly distributed in space. The discussion was about optimal economic structure and about its spatial distribution but ended with actual implementation of Preobraženski's proposal, which had to do mainly with the structural aspects. It simply fitted better in the centralised Soviet power structure.*

<sup>11</sup> *Preobraženski (1980).*

primary accumulation was finally dropped from the socialist development agenda in the early 1960s. The piling up of the rural population in the cities continued, however, and produced congestions that characterised socialist urbanisation to the end.

## Provinces, Departments, Municipalities and Districts

Paradoxically at first glance, central socialist planning was paralleled with a vast territorial administrative decentralisation. In 1947, the territory of Croatia was divided into 81 departments, 18 towns (and town districts) and 2,278 local councils. Two years later Croatia was re-divided into 6 provinces (Dalmatia, Bjelovar, Karlovac, Osijek, Rijeka and Zagreb), 89 departments, 24 towns with 9 districts, 5 towns and 2,338 local people's councils. The newly formed provinces were said to have represented economic-geographical entities out of which some had homogeneous economic-political characteristics. Provinces were cancelled in 1951 on account of strengthening the role of departments' and towns' people's councils. However, the next Republic law passed in 1952 brought a new territorial division of 58 departments, 6 towns, 60 town municipalities, 637 municipalities and 13 so-called "outer municipalities" i.e. territories which for some reason could not be included into a town municipality but represented economic and cultural unity with the town.

The next division came about in 1955. Croatia now has 27 departments and 299 municipalities, which meant getting closer to a concept of a two-level system of local administration. In the period of 1955-1962, the number of departments remained the same but the number of municipalities decreased. The next law passed in 1962 brought a further decrease in the number of municipalities and departments and defined 9 departments (a later amendment reduced departments to 8), 11 municipalities and the Town of Zagreb. A municipality was defined as a community of interest of producers and consumers. Criteria taken in account were mainly of a political and an economic-technical nature. The geographical and historical factors came second.

The most significant changes in the territorial organisation of Croatia came with the cancellation of departments in 1967, which was explained by the fact that departments had not developed as political, economic and cultural centres. The same year the municipalities were enabled to merge into a community of municipalities and the Constitution of the Socialist Republic of Croatia of 1974 established communities of municipalities as an obligation. With amendments to the Constitution of 1988, this

obligation was transformed into an option. Finally, the Constitution of the Republic of Croatia, of 1990, completely ruled out any possibility of forming an association of municipalities (Šišinački et al., 2002).

Obviously, a regional policy, if any, could have been formulated and implemented only at the central Republic level, the only one that remained the same throughout this period. Also, it can be seen that the territorial administrative reforms were most frequent when the power and development decision making was centralised most. The fact that such tinkering with municipalities, towns and districts could only strengthen the central development management, was observed early enough but the reforms went on providing enough grounds for doubts that the whole process had a hidden agenda in favour of centralisation rather than decentralisation.

## Theories and Policies

Theoretically backed central planning coupled with territorial decentralisation backed with no theory lost momentum already in the late 1950s. The policies that followed in the 1960s were announced without theoretical explanations and development documents were produced without the usual first chapter on socialism, a transitory stage on the way to communism. It is thus interesting to review how western regional development theories fit with socialist policies after World War II. The picture is somewhat blurred and certainly less dramatic than the "primary accumulation" phase, because the planning directives of the 1940s and 1950s were replaced with measures that to a certain extent allowed for the introduction of the market. Since the rationale for particular measures was hardly ever explained to anyone and since there was no monitoring of their development effects, it is hard to see whether planners and decision makers ever first read a theoretical book and then designed a policy. It is more likely that spatial development came about due to the spontaneous reaction of the population and entrepreneurs to mainly structural economic measures.

Čavrak (2003) mentions that spatial development corresponded to growth pole theory as proposed by Perroux (Perroux, 1955) because industries concentrated in a couple of cities and could have been considered as carriers of development in certain regions. There is no evidence whatsoever that the Federal Planning Committee consulted Perroux's writings but the actual effects would certainly have not been welcomed by Perroux himself. An unbalanced spatial economic structure that developed as a result of

the primary accumulation policy and persisted until today proved not to be resistant to the transition crisis in the 1990s. Such development had major negative consequences on the decline of output, employment and income in those regions that had a higher share of large industrial sites.

In certain periods spatial development resembled the application of Rosenstein-Rodan's (1943) big push theory. Already in the 1960s, parts of Croatia were marked as underdeveloped and the transfer of savings (investments) was earmarked in the state budget. The criteria were economic but also political so that the results were "castles built in the desert" which in most cases proved unsustainable, and a constant burden for the state budget. In contrast to federal Croatia, the neighbouring federal Slovenia had a quite different spatial development as this republic put much more emphasis on balanced urban-rural growth. Such a development can be linked to early considerations of centre-periphery theory, leading nowadays to a smaller urban-rural divide in Slovenia. On the other hand and on the other side of the Yugoslav Federation, Macedonia reminded us of central place theory. The main investments and social infrastructure construction were located in the capital city which triggered vast in-migration. In the beginning of the 1970s half of the Macedonian population concentrated there.

In the 1970s the distribution of funds towards backward regions became an unquestioned policy measure. Regional development funds were established both at the Federal level and at the level of the Republics. Dependent areas were evolving and gradually getting used to continuous external support. Even today, a major number of these localities are considered as areas of special state concern in Croatia reminding us, above all, of dependency theory. In those days large companies located in the most advanced Yugoslav areas performed development projects in underdeveloped parts of the country. Obviously, funds were actually flowing in the direction of their headquarters widening rather than closing the gap.

What is also visible today in the Croatian context is the strong focus on comparative advantages fuelling policy debates to highlight agriculture and tourism as strategic futures of the country. Further, policies with the aim to strengthen the export base in urban areas during the 1980s were brought about by the occurrence of an economic crisis and the need to pay off a very high foreign debt. However, policy makers overlooked the fact that measures aimed at a particular economic sector usually have regional effects too. In a country as heterogeneous as Croatia, incentives to tourism will be felt only on the coast and on the islands, agricultural measures will affect only the continental parts

of the country, and so on. This intermingling of structural and spatial policy effects is illustrative here because policy makers do not need a theoretical background to see them.

Šimunović (1992) stressed that the affiliation of political and economic sovereignty led to the reduction of economic criteria and created ineffective economic units copied into less developed areas. Another contribution to this was the function of the central fund; i.e. the function of the financial transaction and on this base created autonomy and sovereignty in investment activity in less developed areas.

From the perspective of contemporary approaches to development, it is interesting that Bogunović (1984) mentioned already in the early 1980s that planning implies the tendency to encompass all conditions of life and work of working people, including equal treatment of economic, social and spatial developmental components. He also pointed out the importance of including the regional component into the development policy of the whole country and the development policy of the bearers of planning. Clearly, early indications of the sustainable development concept can be identified to have evolved at the turn into the 21st century.

The economic planning itself became less and less significant. Five years plans were replaced by so called "Social plans" which dealt with the general directions in which the structure of the economy should be developed and how fast GDP, investments and employment should grow. Already in the 1970s municipal social plans were produced as well. They stated the targeted growth of employment and GDP in the municipality but rarely had any operational dimension. Towards the end of the 1980s they lost any significance for development management on the municipal level. They are remembered as probably the least implemented development documents in socialism.

## Physical Planning

Regulatory plans produced in the 1930s marked the beginning of a long practice of physical planning in Croatia. They also marked the beginning of two planning practices: as opposed to economic planning which started as a firm centralised activity and gradually relaxed and got decentralised, physical planning gradually grew into a hierarchical multi-level system; physical plans have always been made at state, regional, municipal and sub-municipal levels.

Unlike social plans, physical plans were compulsory from the very beginning and there has always been a law about them. Once adopted, physical plans have always had a legal force and their preparation has always been reserved for licensed planning firms and institutes who have to follow a prescribed procedure. A public hearing as a form of ex post citizens' participation has been a part of the preparation of municipal and regional plans for decades. On the other hand, detailed plans that usually cover quite a small part of a municipality have to be in accordance with the municipal plan which in turn has to be consistent with higher level plans. No plan can come into force without approval from all higher levels.

This hierarchical and centralised system was established already in the 1950s but due to frequent changes of territorial administrative division and weak institutions, a hierarchical monitoring and evaluation mechanism was never developed. The system perpetuated itself successfully. By the end of the 1980s it had been well established with a strong professional group of physical planners who studied at one of the five Yugoslav Faculties of Architecture. Unapproved construction on the outskirts of big cities and in the tourist areas revealed the inability of the authorities to enforce planning recommendations and land use regulations. Due to a lack of monitoring, the extent of these violations have rarely been recorded. Hardly any data on the implementation of physical plans has ever been gathered either. Furthermore, physical plans hardly ever referred to existing social plans and vice versa. It was never known whether enough space was reserved for the expected growth of the municipal and/or the wider regional economy, if there was enough space for residential housing reserved for an increase of the labour force, and so on. A comprehensive warranted spatial development policy that would cover physical and structural planning never existed under socialism. Ever increasing physical planning and ever decreasing structural economic planning existed almost independently.

In the 1980s the situation became a little more complicated. In 1982 a regulation on environmental impact assessment was passed in Croatia, and a new document – the Environmental Impact Statement (EIS) - became a compulsory part of project documentation for particular investments. This was a pretty straightforward application of US legislation on Environmental Impact Assessment (EIA) and soon gained momentum. By the end of the 1980s a new profession emerged - physical planning firms extended their expertise (some even specialised) and started producing EISs, with some 200 EISs produced by the end of the 1980s. This activity was never consistently incorporated into the physical planning system. Permits issued by authorities that take

care of building management can still be overruled by denials issued by authorities that deal with environmental protection.

## Education

The educational dimension of spatial economics in socialist Croatia forms the shortest part of any review of spatial development governance. In the 1960s there were five Faculties of Economics and one course in Regional Economics. Students that happened to study at the Faculty of Economics in Zagreb could take it during the second academic year and that was all. The course was dropped from the curriculum in the 1970s. In spite of all the problems brought by socialist urbanisation, no courses in urban economics were ever offered. As for environmental economics, the Faculties of Economics in Rijeka and Split were the only ones to offer non-curriculum courses in the late 1980s. The few that were interested in the subject read the few available books or enrolled at a university abroad. The vicious circle which starts with no spatial economic education and ends with no spatial economic policy was closed already in the 1950s extending its undesirable effects till today.

Towards the end of the 1980s, in the last years of socialism, self made Croatian spatial economists could only observe that:

- in spite of early socialist theoretical concepts about economic development and how to make it faster, socialist spatial development has never been conceptualised;
- theory free economic development management has been detached from physical planning which is in turn detached from environmental impact assessment;
- regional policy, as a supposed part of the overall economic development policy, has been reduced to non transparent, heavily politically influenced, financial aid to underdeveloped regions;
- lack of monitoring coupled with frequent changes of territorial administrative division has made any spatial development policy almost impossible to implement; and
- there has been almost no education in the field of spatial economics whereas education for physical planners has been adequate but not sufficient.

### 3 Transition

The great experiment of transition made a great virtue of the liberalisation of all possible sins that a socialist state could have had before (Kolodko, 2000). Combined with the break-away from Yugoslavia, Croatia built a strong centralist state to protect this first time opportunity of freedom. Centralism was additionally justified by the war that the country was forced into right after achieving statehood. Neo-liberal rhetoric proved more than useful at the time. The party in power as well as the new rapidly growing administration used it to justify how centralisation of the development management functions and privatisation of socially owned<sup>12</sup> assets can go together. The same rhetoric was used to explain the complete lack of regional policy that characterised the overall macroeconomic management in the early 1990s. It was convincing for many: decentralisation of power to regions will strengthen the separatist tendencies and the young state will be seriously endangered. It should be added that regional development policy was remembered as a purely redistributive state activity linked to planning, i.e. a part of the socialist legacy. In this way private property and free entrepreneurship that were to replace socialism had much to do with a strong guardian state and nothing to do with funding the underdeveloped, subsidising the weak, and so forth.

#### Counties, Towns, Municipalities

Denial of regional policy and even of regionality as such was oddly coupled with further changes of the territorial administrative division. The newly formed Republic of Croatia inherited the division of the 1980s and had 103 municipalities and the city of Zagreb. On average, 46,000 inhabitants lived in the territory of one municipality ranging from 1,228 in the municipality of the island of Lastovo to 207,147 in the municipality of the coastal town of Split (Hrženjak, 1993).

The legal framework of the new system of local and regional self-government was set up by the Constitution of the Republic of Croatia towards the end of 1990 and a couple of corresponding laws<sup>13</sup> which were passed by the end of 1992. The new legislation

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<sup>12</sup> *The category of social ownership was never properly defined in socialist Croatia. All assets that had that status were brought under state ownership in 1991 and offered to buyers.*

<sup>13</sup> *The Law on the Area of Counties, Towns and Municipalities in the Republic of Croatia, the Law on Local Self-Government and Administration, the Law on the City of Zagreb and by passing of the Law on the Election of Members of Representative Bodies of the Units of Local Self-Government.*

introduced a two-tier system of local government in the Republic of Croatia: municipalities and towns were units of local self-government; while counties were units of local self-government and government. By the end of 1992 Croatia had 21 counties, 70 towns, 418 municipalities and 2 districts. However, the new laws allowed that communities i.e. parts of municipalities, groups of villages or even single villages can claim municipal status or even a township because of historical, economic or geographic reasons even if they do not meet the criteria stipulated in the laws. Consequently, the division of existing municipalities into two or three started right away so that already by 1993 there were 21 counties 71 towns and 419 municipalities. In 1995, 8 new municipalities and 5 new towns were formed. In 2004 the Republic of Croatia consists of 21 counties, 124 towns and 426 municipalities.

### Capital Formation

At the same time, the first steps in redefining, restructuring and rebuilding the economy on healthy grounds were made. The first part of this was the establishment of a stable macroeconomic framework. In 1993 a quite successful stabilisation programme was created and partially implemented (Anušić et al., 1995). "Partially", because the second phase of the programme that referred to structural adjustment was somehow forgotten in the process. Inflation was halted - that was the first and major goal of the programme. However, industry collapsed and never really recovered. Foreign direct investments bypassed Croatia and other former Yugoslav countries in a big loop primarily due to unstable political conditions. Macroeconomic stability was stubbornly maintained except for the unwarranted but unavoidable and constantly increasing growth of the balance of payments deficit. The State could borrow more and more funds on the international financial markets according to more and more favourable conditions. Financial markets were more or less stable, but persistently undeveloped. The banking system suffered a major crisis at the end of the 1990s, when a number of banks collapsed due to major plunders within the banking system and the economy. The part of the liberalisation concept was more or less fulfilled during the 1990s since liberalisation of financial markets and privatisation was well underway. Privatisation can not be considered successful, however. Tycoons bought to sell, not to maintain the production and most of the major industries vanished, without proper replacement.<sup>14</sup> Today, most of the banking sector is in foreign ownership - Italian, Austrian and German.

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<sup>14</sup> *More on bandit capitalism in post-socialist countries see in Sokol (2001).*

During the 1990s the two major schools of economic and political thought were coexisting and influencing the Croatian development. Clearly, the neo-liberal stream was and still is heavily promoted by international financial institutions such as the IMF, World Bank and EBRD. The European Union policy makers started the unification of the market and the liberalisation of the movement of people, capital, goods and services. At the same time, the growing importance of EU structural funds and cohesion policy actually revealed a significant neo-Keynesian legacy. Through the importance of cohesion policy, regional development policy received again high attention in the European Union at the turn of the century. This also affected Croatian policy makers.

Theoretical foundations for a modern regional policy (EC, 2004) evolved by changing development theory concepts, which moved from growth towards sustainable development. Spatial developmental aspects could not be avoided this time because the integration of economic, social and environmental dimensions into a new "triangulated" development concept simply could not leave aside the heterogeneity and fragility of the space in which development takes place. Such a paradigm shift calls for an interdisciplinary approach, and invites specialised, individualistic and sector-oriented scientists to widen their scope.

## Development Management in a New Context

Contemporary regional development theory has been influenced by two strong streams of thought: on one side the neoclassical, sectoral and very analytically oriented stream; and on the other a new stream of integrated development thought calling for interdisciplinary and more qualitative approaches. As Croatia is a quite young state and data on the local or regional levels are either not available or unreliable, the second qualitative approach appears more appealing and applicable in the Croatian context. On the other hand, the political leadership is more attracted by quantitative research results as they supposedly can be transformed into political arguments more easily than qualitative ones.<sup>15</sup>

Provided that the path of sustainable development has indeed been taken, regional development management has to be considered in the new context. The triangulation of the development dimensions leads to a new concept of regional development planning

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<sup>15</sup> *Most of the governments from 1991 till today revealed their centralist approach to development policy formation and implementation. They have been often labelled neo-liberal which does not necessarily imply that they were conversant with the doctrine itself.*

and management that is integrative and holistic in nature. Through various documents and guidelines, the European Commission introduced the programming principle that is applied throughout European regions.<sup>16</sup> Programming according to EU principles was piloted in Croatia as well, mainly through technical assistance projects.

Croatian authors set a cornerstone for modern regional and local development management already in the early 1990s. Fröhlich (1992) has elaborated on the functioning of big urban agglomerations and the organisation of information systems for regional planning. Šverko (1995) wrote on regional development, highlighted the importance of its sectoral and territorial aspects and proposed a complex regional development management. Also by the end of the 1990s, a group of authors worked on the first concept for regional economic development in Croatia (Fröhlich et al., 1999). Significant contributions on contemporary regional development research were presented also by authors such as Fröhlich on “bottom-up” and “top-down” development, Maleković on the European Union regional policy, Filipić on decentralised macroeconomic management or Črnjar on the need for integrated regional planning (Sundać, ed., 2001).

From recent experiences in the application of new development management approaches in Croatia, Dräger et al. (2003) identified some important findings. Activities such as programming, implementation, monitoring and evaluation, and regular revisions cannot be conducted successfully without techniques of development management covering the fields of: decision-making, motivation, communication, moderation, steering and organisation. The sequence of the main planning phases and management techniques is similar to project cycle management, but has to be considered in a broader sense. These findings implicitly address so-called soft management aspects. These include institutional, organisational and managerial aspects, finance and new public management, as well as networking and multi-level governance.

Application of contemporary development theory is already visible in Croatia in the National Island Development Programme (Starc, 1997) and the related legislation - the Island act and its by-law "The regulation on the content and methodology on the elaboration of sustainable island development programmes".<sup>17</sup> Constant avoidance of

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<sup>16</sup> *The European Commission methodological working paper Vademecum for Structural Funds Plans and Programming Documents 2000-2006 is probably the most comprehensive reference.*

<sup>17</sup> *Narodne novine 34/1999 and 94/2002.*

implementing this very demanding legislation can be considered as a significant finding in terms of Croatian institutional weaknesses and lack of administrative capacities. This can also be considered as a new field of research within regional development theory that is becoming more and more important in the Croatian research community.

### Policy Confusion

A very interesting and much debated aspect of policy creation arose in Croatia - the conflict between sectoral policies and regional policy. Since a coherent regional policy has never existed in Croatia, sectoral policies have always dominated the Croatian development arena. The spatial aspect is handled through spatial planning only which proved to be unable to integrate physical and socio-economic aspects. Development of regions and localities is not considered in the contemporary development management context, but exclusively in terms of financial support to areas affected by war and undeveloped areas such as mountain, border or island areas (Đokić, Sumpor, Starc, 2003).

In the research community and amongst politicians<sup>18</sup> a confusion of policy approaches can also be observed. One strand of policies is based on the neo-liberal perspective with a strong sectoral approach. Economic development is the focus of both research and policy, while social aspects are marginalised. Such views favour small and medium sized enterprises (SME) and cluster related development research and activities, while ignoring almost everything else. Croatia has already had a highly specialised Ministry for SMEs (2001-2004). The SME policy managed by this Ministry significantly interfered in regional and local development initiatives such as co-financing arrangements with local and regional self-governments for SME promotion or promotion and co-financing of industrial and business zones, centres, incubators. Cluster development is now promoted extensively (National Competitiveness Council, 2003). At the same time, it is obvious that Environmental policy is considered as expensive and not politically relevant, while Social policy is seen as residual help for the poor, marginalised and unemployed – an expensive and not development related burden.

The second approach to contemporary regional development management integrates all the above-mentioned aspects - economic, social, spatial and environmental as well as

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<sup>18</sup> *The two groups do overlap as economists often leave academia to take high positions in the government. However, there are very few examples of economists in power who managed to implement what they proposed in the classroom.*

institutional development. Accordingly, the broad participation of stakeholder groups and citizens is the key to the identification of real problems and achievable development goals (Dräger et al., 2003). Regional development policy in this context is viewed actually not as a separate policy helping poor regions, but as a framework channelling existing and needed sectoral policies from above according to needs and requirements from below. This approach has been introduced by foreign consultants from both sides of the ocean that come to provide financial and technical assistance. However, the nature of the assistance depends on where the consultants are from and which school of thought they belong to. So far they brought significant improvements but also contributed to policy confusion.

On the path to EU membership, Croatia will have to develop a coherent development policy framework in which regional policy will be an important counterpart to sectoral policies. These will have to be integrated into a National Development Plan, which will represent the basis for future national development activities and structural funds support. In order to set-up a coherent policy framework, Croatia will have to work on creating a well-functioning coordination mechanism. This mechanism will have to have a formal part integrated into the legislation, and an informal part also referred to as the open method of coordination (Ahonen, 2001) that provides actions based on common goals and projects.

### Supranational Actors and Regional Policy

Following Marks, regional policy is, in many ways, “the leading edge of multi-level governance in which supranational, national, regional and local governments are enmeshed in territorially overarching policy networks” (Marks, 1993; 402-3). Since it is now somewhat axiomatic that ‘governance’ is much more than ‘government’, it is important to replace Marks’ notion of governments with a wider concept of ‘actors’ including a whole range of non-governmental, non-state actors, acting independently of state actors or, more usually, in complex ‘partnerships’ or ‘contractual’ arrangements (Stubbs, 2003). In Croatian transition supranational and transnational actors have not been just neutral arbiters of ‘good governance’, but key players within a complex and contested multi-level governance environment. These actors include, but are not limited to:

- 1) Global Supranational Organisations such as the United Nations and its agencies, and the Bretton Woods Institutions or International Financial Institutions (IFIs), namely the World Bank and the International Monetary Fund.
- 2) Regional Supranational Agencies including the European Commission and the Council of Europe, as well as more temporary arrangements such as the Stability Pact for South-Eastern Europe.
- 3) Donor agencies of other governments (usually termed bilateral agencies) such as USAID for the USA, SIDA for Sweden, GTZ for Germany, DFID for the UK, and so on.
- 4) Non-state private aid and development organisations, usually playing a role of implementing partners of one or more of the above, including international non-governmental organisations and, increasingly, international private consultancy companies.

Croatia is a somewhat specific case in terms of the story of the influence of international agencies and actors on regional policy, which is, perhaps, much more complex, contested, confusing, and radically unfinished than in other parts of Central and Eastern Europe (CEE) as well as Southern and Eastern Europe (SEE). There are three key reasons for this. Firstly, most supranational agencies began their activities in Croatia during the war. Hence, their interventions were initially framed within a 'humanitarian' rather than a 'developmental' paradigm and were concentrated, in particular, on 'war affected areas'. This represents a kind of 'implicit' regional development policy with somewhat distortive long-term consequences, not least in terms of unsustainable expectations of external cash injections.

Secondly, many international actors tend to subsume development programmes within a broader democratisation discourse both in terms of support for a pluralistic development regime including the role of so-called 'civil society', and an uneven pattern of support for different political configurations at national, regional and local levels. Thirdly, the rapidly shifting relationship of Croatia to EU accession and associated programmes and policies, necessitates a very fast learning curve. Croatia was, only very briefly, included in the PHARE programme and then for political reasons its membership was blocked in 1995, following military actions. Later, the CARDS programme framed Croatia in terms of the Stabilisation and Association Process for the so-called countries of the Western Balkans. Now, with a positive avis and membership negotiations beginning in early 2005, a very different set of imperatives prevail.

Over time, the European Union has become the dominant supranational actor 'steering' regional development policy in Croatia, even sub-contracting UNDP as an implementing agency for some of the Regional Operational Plan (ROP) development. The World Bank and USAID remain, however, important actors, tending to focus more on local development at the municipal and city levels. In addition, a long term co-operation between GTZ and the Institute of Economics, Zagreb (EIZG) has sought to introduce a strategic dimension to local development planning, gaining wider acceptance over time. Current EU programming, attempting to learn lessons from the fragmented preparation for structural funds management in the new member states, is focused on institution building at national and county levels, with a consultancy currently funded designed to support a consensus on a National Regional Development Strategy (Hauser, 2003).

A number of issues and concerns are raised by the role of international organisations in the governance of regional development in Croatia. It is not clear whether there is genuine co-ordination and complementarity of effort between these agencies or, as sometimes appears to be the case, more competition and confusion. This relates to the complexities of the interests and value-base of diverse agencies, with distinctions between 'neo-liberal', 'Keynesian' and a hybrid, technocratic, approach reproduced between, but also within, agencies.

In addition, the dangers of what might best be termed the 'projectization' of regional development, in terms of a race to show results, which often involves cutting corners, not learning lessons, and utilising informal networks of influence, ironically contributes to a lack of transparency in projects which they were, in fact, set up to challenge. An alternative approach, emphasising processes, feedback loops, mutual learning, and a recognition of problems and failures, to an extent found in the GTZ/EIZG project, runs counter to the 'success culture' of external assistance programmes.

A complex role in development projects is being played by 'new intermediaries' often with power but no legitimacy, able to facilitate communication and action between levels. In addition, external actors provide opportunities for new vertical alliances in which certain discourses lacking national or local credibility can become favoured because of their amplification internationally. There are also problems caused by the rigid sub-contracting rules of the 'new public management', accurately described recently as the 'little brother' of neo-liberal economic ideology (Voipio, 2003, p. 360), which encourage a fetishism of form over content, a proliferation of agencies and approaches, and also contributes to competition and confusion.

The current emphasis on combining project-based grant aid with 'capacity building' including the positioning of foreign advisors in key positions within Government departments can be a valuable form of policy transfer. However, tensions and mistrust can be created by foreign advisors earning considerably higher sums than their domestic advisee counterparts, but often ignorant of key domestic realities. This can be compounded by the multiplication of advice, advisors, projects, and capacity building workshops, again contributing to confusion. A further paradox is that advice tends to function best on a human scale, with one advisor working with a small group of senior civil servants in one department, but this is the least likely to have widespread impact in terms of a whole government, joined up, integrated response.

More research is needed on the role of external agencies in the construction and implementation of regional development policy in Croatia. At this stage, it would be wrong to make detailed policy recommendations. Certainly, a more collaborative environment needs to be created in which local and national interventions are supported by external assistance rather than the other way round. Greater awareness of the need to address inevitable value dissensus, learn lessons, and strive towards a vision of Croatian regional development in a European context requires longer-term, more transparent, arrangements than currently found.

### Institution Building Frenzy

Instead of a rational, carefully chosen, 'shaping of institutional choices' (Dimitrova, 2001) regarding regional and local development, it often seems as if Croatia is in the midst of an institution building frenzy. In terms of the concept of 'multi-level governance' discussed earlier, much of this involves the diffusion of authority through the creation of autonomous or semi-autonomous agencies and funds which operate at arm's length from central government Ministries. At first glance this 'agencification' (Pollitt et al., 2001) appears to resemble that which has occurred, to varying extents and in varying forms, in most of the OECD countries, as part of a move to improve the performance of the public sector, sometimes termed 'distributed public governance' (OECD, 2002) often equated with modernisation and the new public management.

However, as Beblavý (2001) has pointed out with regard to Central and Eastern Europe, the pace of this reform has been much more rapid and, in addition, has tended to ignore the increasing criticisms, and retrenchment which has occurred regarding the model, in many of the Western democracies. His concern that 'agencification' represents a quick

fix, short-term, sectoral solution to complex questions, often based on uncritical transplanting of models from other countries and cultures, certainly applies to regional and local development policy in Croatia. The push for the proliferation of agencies rests, it seems, on an alliance of external actors from key international agencies and internal actors, often the technocrats of the newly created agencies, frustrated by the slow pace of decision-making and administrative restructuring.

Croatia's regional development scene now resembles that of an 'institutional jungle' (Hauser, 2002) with a vast array of new, and proposed new, agencies vying for position, influence, and mandate, alongside more 'traditional' actors such as Ministries, counties, and municipalities. Recently established agencies, often with the backing of external actors, include:

- Local Economic Development Agencies (LEDAs);
- The Fund for Regional Development of the Republic of Croatia;
- The Fund for Environmental Protection and Energy Efficiency;
- The Fund for Development and Employment;
- The Fund for the Reconstruction and Development of the City of Vukovar.

Currently there are discussions regarding the possibility of establishing a national Regional Development Agency, as well as more Regional Development Agencies, alongside the Istrian and Međimurje development agencies, which currently exists. This excessive faith in institutional solutions to intractable problems appears to be contributing to problems of accountability, of sustainability, and of policy distortion and confusion, all of which have been noted by Beblavý (2001). Whether this will lead to a backlash as traditional structures respond to an erosion of their autonomy, as he predicts, remains to be seen in Croatia.

## Tiers of Government

When the Croatian Government introduced its Work Programme in 2000, a huge reform of the public sector was announced, directed towards decentralisation. It was planned to stop the expansion of public administration, to introduce horizontal and vertical decentralisation, to provide an analysis of the effectiveness of the state administration, and to perform a territorial reorganization of regional and local units. Through a project 'Decentralisation of Public Administration' an operative execution of the planned

activities started in 2000 (Perko-Šeparović et al., 2003). Four years later a general comment can be made that initial steps in the decentralisation process have been taken but at the same time legal acts that supported decentralisation did not follow recommendations from the project. (Antić, 2002, p. 69). This notably relates to the documentation that had to support decentralisation: beside the Government Work Plan and the Project, the decentralisation process (seen as a tool to achieve specific goals) misses supporting documents that will secure its successful implementation. Above all, Croatia does not have a national spatial/regional development strategy through which the directions of its future regional development should be indicated. The decentralisation process thus started without analytical and strategic support of the administration. In practice, even a certain resistance was observed.

On the local level the decentralisation process was not welcomed for several reasons: the local administration did not have enough human and institutional capacity and also they were not trained enough to meet new requirements. Deconcentration of responsibilities was not followed by adequate fiscal decentralisation for all local government units. The question that arose was: if a local government unit cannot execute its responsibilities, what are the mechanisms to force it to cooperate with other local government units and if this is not the case can the unit (i.e. a town or a municipality) go bankrupt? Both questions are still unanswered.

The main issues concerning governance of local development are the following (Perko-Šeparović et al., 2003):

- local/regional governments do not have a clear and strong enough position in the overall legal infrastructure;
- the scope of responsibilities is defined without any distinction of the size, population, achieved development and, financial strength;
- a centralist orientation is still present in the territorial administrative system;
- the monitoring process is demonstrating severe weaknesses; and
- institutional capacity is inadequate.

There is no clear division of functions among the different levels of government, because of non-transparent and unclear regulations that govern the area of competence of local units. Although there is an outlined division of the affairs of local administration between the state, the county, and the city/municipality, it is very difficult to say which level is meant to undertake a given function (Ott and Bajo, 2002b, pp. 107-122).

Whereby the levels of responsibility are not specified in detail and seen as such might cause confusion, as many of the listed tasks interrelate with tasks of other levels of government. At the same time, details are thoroughly defined in a broad number of special laws, where expenditures are assigned specifically to each relevant level of government, highlighting as well central government responsibilities. Financial relationships are so excessively complex that in most cases the financing of individual functions is undertaken from all three levels.

The decentralisation process has not influenced the current system of state administration neither has it reduced the number of its employees. Reorganization of administration that took place on the regional and county level resulted in a decrease of the number of employees at that level.

### Decentralisation Promised

In spite of the increasing number of municipalities Croatia has remained a highly centralised country. Two main indicators, the share of revenues of local self-government in gross domestic product, and the share in the total government budget revenues, clearly support such a statement. In 1999 the share of local budget revenues in consolidated revenues of the general government budget totalled 10.32%, and their share in GDP amounted to 5.42%. In 2000, the year before the launch of the first phase of the decentralisation process in Croatia, the share of local budget revenues in consolidated revenues of the general government budget totalled 10.93%, and their share in GDP amounted to 5.18%. (Jurlina-Alibegović and Šišinački, 2004).

The attempted decentralisation of self-government competencies was accompanied by attempted fiscal decentralisation. In its first phase, 32 financially stronger towns and all the 21 counties in Croatia were assigned additional local responsibilities. The effects of fiscal decentralisation that was legally provided in 2001 are difficult to measure particularly in such a short period of time. However, from the institutional analysis perspective, estimates about financial strength of local self-government units (LGU) to manage their own development are quite discouraging. About one third of LGUs in Croatia can not cover current expenditures with current revenues, while basic responsibilities to be financed are equal for all LGUs. There is a strong dependence on central government transfers to provide mandatory services, or these services are not provided at all under the assumption that no sanctions will apply. Subsidies and grants

consist of approximately 8% of the total revenues of all local budgets, which leads to the conclusion that local self-governments are dependent on central state aid (Budak et al., 2004).

On the other hand the fiscal decentralisation process in Croatia brought some improvements. They can be observed in the following areas: division of functions and responsibilities, budget classification, fiscal capacity indicators, allocation of grants, consolidation of local governments' budgets, accounting system, budget planning, national treasury system, tax reports, long-term capital planning, financial control over borrowing system and participation of citizens (Ott and Bajo, 2002a). In spite of that, the existing organisation of local and regional self-governments is not efficient in terms of fiscal capacity.

## Education

Self made Croatian spatial economists benefited a lot in the first decade of transition. The inflow of theoretical, methodological and practical knowledge increased considerably while pilot projects lead by foreign consultants brought incoherent but nevertheless valuable practical experience. Membership in international science organisations (the European Regional Science Association, the Regional Studies Association, and similar) also helped. Those that tried to study spatial economics were at a complete loss, however. Education got worse and after a decade of transition there are no signs that it will improve soon. Spatial economics education is still reduced to extra curricular courses in environmental economics at Faculties of Economics in Rijeka and Split and there are no regional economics courses offered anywhere in the country. After decades of turmoil and highly problematic urbanisation no courses in urban economics are offered either. Another important discipline - institutional economics - is also missing from the curriculum. The latter is a clear legacy of socialism in which nothing of the kind was ever mentioned, let alone studied. The only exception is the University in Osijek where a promising postgraduate programme on "The Management of local and regional development" has been launched in October 2004.

After almost a decade and a half of transition, self made Croatian spatial economists can only observe that transition appears as "too young a phenomenon" to be theorised about and that numerous modern theoretical concepts developed elsewhere have a very limited application. A significant though sporadic development of methodologies of managing

local development still faces serious institutional obstacles both at the governmental and self-government level. Overall economic policy has become highly dependent on foreign actors and remains detached from strong and almost petrified physical planning which is in turn still detached from EIA. They would also observe that regional policy is non transparent, heavily politically influenced and still reduced to financial aid to the underdeveloped. The lack of monitoring coupled with frequent changes of territorial administrative division has made any spatial development policy almost impossible to implement. Finally, they would note that there has been almost no education in the field of spatial economics whereas education for physical planners has been adequate but not sufficient.

#### 4 Concluding Remarks

Transition amazes. The fundamental changes that it brought about were expected to erase the various shortcomings and inconsistencies that were embedded in the socialist system and its ideology. It was also timidly expected by many that civilisation achievements brought about by socialism will remain in whatever system was to follow it. Quite a few expectations revealed only wishful thinking. Quite a few were founded in the analysis of what was called "real socialism" i.e. the actual performance of the socialist social and economic system. The latter grew in 1970s and 1980s all over the socialist world and led to conclusions that seemed unquestionable. All shortcomings and development bottle necks were blamed on the lack of democracy, lack of a free market, lack of active civil society and individual freedom, insufficient exchange of technologies and whatever intellectual achievements had occurred within the capitalist world and, last but not least, to environmental negligence. The last years of socialism supplied evidence in favour of such conclusions as all socialist countries entered a crisis which seemed fundamental and irreparable in the context of the existing system.

Discussions on regional policy and its ill performance in socialism were perhaps least frequent but they also gained momentum towards the end of socialism. In Yugoslavia and Croatia within it, the Federal fiscal policy was most often blamed for the suboptimal growth of the most developed parts of the country. Discussions about money earned in Croatia and spent somewhere else were quite frequent. Lack of regional policy or rather the wrong regional policy was explained again by lack of democracy, lack of expertise, the interests of ruling social strata in Yugoslav socialism, and particularly by Serbian hegemony over fiscal transfers.

Today, after more than a decade of transition, most if not all of the lamented obstacles have been wiped away. Democracy has been introduced, the door for "western" theories and methodologies has been wide open, the market has been institutionalised as well as private property, and the socialist ruling strata are history. Even the EU, the only goal that unifies all Croatian governments since 1990, favours regional policy and includes it in the long list of accession requirements. However, Croatia still does not have a regional policy, and similarities with socialist regional development management are vivid, almost striking.

The discussion about troublesome regional development governance is thus reduced but not made easier. The question: "if not the usually suspected obstacles, than what?" has to be put more seriously than before and the answers, no matter how theoretical, should have an operational value. The common explanation that all the shortcomings are just leftovers of socialism that will inevitably vanish simply because there is no more socialism around, does not hold simply because most of the problems proved persistent. The reasons are much more complex and should be sought for both in socialist legacy and in transition practice. It should not be overlooked that new institutions and corresponding organisations introduced in the 1990s have been coupled with quite a few ex-socialist institutions and organisations that survived the tough early years of transition and have even reinforced their position. Another explanation that is often put forward deals with competence. Administrators in ministries, agencies, county and municipal departments and whoever else is supposed to manage regional development are often said to be not competent enough and definitely not up to the job. Although the transition years brought enough evidence about incompetence in particular cases and concerning particular persons, the lack of regional policy can hardly be explained by lack of knowledge and skills. Had there been real intentions to establish such a policy, a decade and a half was more than enough to acquire necessary capacity either by training or by relying on foreign expertise.

The explanation that deserves much more attention deals with centralised governance and its relation to regional development management. The government that took power right after the Republic of Croatia was constituted was highly centralised which could have been justified by the need to preserve the young statehood and, of course, by the Homeland war. Already in the late 1990s all reasons for centralisation of this kind ceased to exist, but the centralisation tendencies remained strong and felt in most of the existing policies. This could be explained only by internal reasons i.e. the concern of an ever growing state administration to maintain its position and the interest of politicians in

power to maintain control of the distribution of funds earmarked for regional development. Such explanation sheds additional light on territorial administrative decentralisation as well. Quite a few communities that had won municipal status or even became a town in 1992 and subsequently, soon found out that decentralisation brought dependency on the central state budget and that one form of centralised development management was replaced with another, somewhat more subtle.

What is to be done? The answer to the famous development question should be put in the contemporary context: define a vision, derive goals and find ways to achieve them. As usual, the vision seems easiest to define and creates least problems as the state of affairs it pictures reaches far and high enough not to interfere with current interests. Important nevertheless, the vision that has to be defined here has to do with top-down and bottom-up policies and the balance between the two. Croatian regional development has hardly been ever managed but the measures that were aimed at certain regions were all top-down in their design. Bottom-up efforts were initiated only recently and the balance of the two, necessary for efficient regional development management, has not yet been achieved. As local self-government is not institutionally, organisationally and financially ready for good governance, the central government should gradually transfer tasks and the power to deal with them, build local self-government capacity, help both financially and in terms of expertise and, not least, do all this in a non-paternalistic way. In such a process lack of competence, socialist leftovers and the like are clearly not the obstacles. The main problem is the (lack of) willingness of those who have centralised the power to decentralise it.

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