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**EU ENLARGEMENT AND INSTITUTIONAL REFORMS IN SOUTHEAST EUROPE**

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**Abstract**

This labour investigates whether Croatian regional politics (i.e., regionalisation and RDP) are really undergoing a process of transformation pursuant to the country’s all-type and excessive degree of ‘misfit’ and, if so, to what extent ‘Europeanisation’ is driving this process. Several approaches and theories are advanced in the literature of Comparative Politics to account for this phenomenon. Prominent among all in ‘Europeanisation’ studies is the New Institutionalism. Based primarily on Historical Institutional (HI) theoretical contentions, domestic variables such as veto-players’ constellations, issue salience and administrative capacities are, among other, examined as to whether they can explain (non-) transformation trends. Methodologically, the paper has adopted a quadruple framework aiming at securing triangulation: (i) process-tracing, (ii) periodisation, (iii) elite-interviewing, and (iv) within-case analysis.

The analysis shows a strong and important relation of Croatia’s new Regional Development Policy (RDP) and of ‘Europeanisation’ with the extent of establishing a new legal and institutional framework for managing future SF and CF monies and projects, while the coefficients for the ‘Europeanisation’ variables and for the issue of regionalisation are insignificant.

**Key words:** *Croatia, Europeanisation, misfit, RDP, regionalisation*

## Introduction

The extent to which EU has induced change on national regional policies, in the same way as other policy areas (e.g. competition, CAP etc.), has been an issue of growing concern in the scholarly literature on Europeanisation (Hooghe, 1996; Bache 1998; Hughes et al. 2000; Bailey and Propris, 2002; Bachtler et al. 2003; Bradley et al. 2005; Petrakos et al. 2005; Conzelmann, 2005; 2006). For instance, Jacoby (2005) and Sepos (2008) observed that 'Europeanisation' has effected change in the regional policies and structures of Hungary, Czech Republic and Cyprus respectively. On the other side, Hughes and his collaborators (2004) have, rather convincingly, highlighted the limited impact of EU conditionality on the territorial reorganisation politics of CEECs. Since regional policy (RP) is a highly structured policy area of the EU where 'direct effects' dominate through structural and cohesion funds' strict norms and rules (Brusis, 2003; Sasse and Hughes, 2002; Jacoby, 2005; Sepos, 2008), it is expected that the primal 'Europeanisation' mechanism at play within candidate states will be conditional incentives rather than socialisation or lesson-drawing (Schimmelfennig and Sedelmeier, 2005; Jacoby, 2005).

Contemporary regional policy essentially departs from the traditional policy approach since it has become much more strategic and cross-sectoral. The new regional policy in EU and its member-states is grounded on multi-annual programming, an enhanced role for the regional and local actors, multi-sector operations and strict policy evaluation and monitoring instruments (AMR, 2007). The focus is now on inducing nation-wide growth by exploiting the endogenous potentials and resources of *all* regions. The core logic of the new Structural Funds (2007-2013) is that by concentrating much of their resources in the least developed member states and regions, EU regional and cohesion policies can alleviate disparities while raising the competitiveness of the EU as a whole (Frohlich, 2007: 1). Generating regional competitiveness and growth through the setting up of an integrated cross-sectoral (e.g., education and training, innovation, entrepreneurship, infrastructure and environment) strategy has become thus the cornerstone of EU's new RP. In this sense, this new approach seeks to 'ensure that each sector is developed not in isolation but in the context of a coherent vision for the socio-economic development in the Member State or region concerned' (AMR, 2007: 7). Furthermore, due to its conceptual underpinnings (codified in the principle of partnership), EU cohesion policy is viewed as a catalyst propelling regionalisation and undermining the gate-keeping role of the central governments (Andreou, 2004: 3).

Therefore, EU structural and cohesion funds for a small state like Croatia may have essential effects on the country's competitive advantage and economic growth as well as territorial outlook (SCF, 2006). Although Croatia is a relatively small economy, there are significant socio-economic disparities between her 21 counties (NUTS 3 level) in terms of demographic trends, economic activity and growth rates (Puljiz and Malekovic, 2007a). Interestingly, the country lacks a strong tradition on regional development policy. Croatian RP is, therefore, still undergoing (parallel to or in congruence with EU accession negotiations) a process of setting up the first, necessary preconditions such as the necessary institutional and legal frameworks (i.e., NSRD and LRD). For instance, the country still lacks a coherent, integrated and nation-wide strategy (NSRD) or/ and act on regional development policy (LRD). Although the EU does not possess a single RP model for its member states, its impact on Croatia's regional development politics may be significant, multidimensional and groundbreaking should the said documents be adopted. In contrast, the EU's imprint on the country's territorial re-configuration does not appear significant (i.e., NUTS classification system) since the Union is hesitant to specify how candidate states (or/ and member states) should organise their sub-national units (Hughes et. al 2004).

This study shows that parallel (or even prior) to conditional incentives strong EU socialisation effects induced a realignment in the country's regional (development) politics by means of creating a 'misfit' between the EU RP and Croatia's related style. Although there was an explicit EU condition for a National Strategy (NSRD) and Law on Regional Development (LRD; see Accession Partnership, 2006), domestic change actors ('norm entrepreneurs') in co-operation with EU officials and experts socialised domestic policy makers - through the EU technical assistance projects (e.g. OBNOVA and CARDS) - over the necessity of those documents and their respective connection with Structural and Cohesion funds requirements. Although accession negotiations gained a new momentum in January 2008 (following the formation of a new coalition government and the successful resolution of the 'ZERP' question) the adoption of the NSRD and LRD is still pending. Partly due to the need to undertake the necessary revisions so that the new drafts reflect the country's 2007 NUTS 2 classification and partly because of Slovenia's blockage of the accession talks, the new updated versions of the said two documents are envisaged to be submitted to government and parliament procedures by the III or IV quarter of 2009.

The chapter is structured as follows. In the first three sections, a historical preview over the country's regional development and territorial legacies is provided. It is argued that Croatia's historical traditions (1948-1992; 1993-2001) have conditioned to a great extent her post-2000 regional reform trajectory. The next section of the chapter describes Croatia's inherited institutional and legislative regime in regional policy. This is followed by sections presenting the EU's imprint on the country's RDP and territorialisation. The chapter concludes with a summary of the basic lessons that the Croatian case provides to the Europeanisation literature. Basic empirical finding of this study is that a domestic institutional and legislative inadequacy was translated and edited by the 'social context' into an outstanding 'existential *misfit*' between the EU RP and Croatia's related practice. As a result, government officials were persuaded by the necessity to link the country's new NSRD and LRD with the SF provisions. In this sense, socialisation effects appear to complement conditional incentives; thus, change comes as a joint and sequential effect.

## **6.2 Historical preconditions**

Historically, Croatia has been a highly heterogeneous, fragmented, and non-unitary state-like entity, subjugated to the authority of various centres (I. Goldstein). Since the Middle Ages the country is considered a three-part state composed by the historical regions of Croatia, Dalmatia and Slavonia (Kopric, 2007: 351). Some areas of Croatia display, for geographical, historical and cultural reasons, higher levels of regional identity (e.g. Istria, Zagreb region, Međimurje, Slavonia and Dalmatia). However, their regional identities have not yet found full expression in development processes. Development perspectives of these regions are mainly defined by their natural resources and historical heritage. Therefore, Istria and Dalmatia (i.e., located in the Adriatic coast) are focused on tourism, Slavonia on agriculture and forestry and Međimurje on entrepreneurship and crafts while Zagreb is an industrial, financial and university centre (Svarc, 2008).

Croatia's legacies on regional development policies - although very weak - date back to the Socialist Federative Republic of Yugoslavia (1946-1991). As Puljiz and Malekovic note,

'In the former Yugoslavia, regional policy was conducted in centralised manner, relying mainly on grants for investments into industrial capacities in lagging regions' (2007: 8).

Responding to the growing regional and republican economic differentiations brought about by the country's (SFRY) excessive 'socialist urbanisation'<sup>1</sup>, the 1971 Act on the Promotion of Balanced Regional Development tried thus to effectuate, albeit with limited success, the socialist principles of egalitarianism and cohesion by creating special instruments (e.g., Regional Development Funds established at the federal and republican levels) for the sustainable and balanced growth of the *less-developed* regions/republics within the (con-) Federation (personal communication with Jaksa Puljiz February 2008). The principle of cohesion was respectively manifested in the federal budgets through which a re-channelling of funds from the richer republics/regions (i.e., Slovenia and Croatia) to the poorer ones (i.e. Macedonia, BiH and Kosovo; see Zuljic 1992) became the norm. Accordingly, a strong habitual trend of 'dependency' and 'state aid reliance' was forged in the assisted areas and localities which progressively were getting used by the uninterrupted external aid flowing downwards pursuant to the Federal fiscal policy.

The strong focus on the spatial/physical dimension of development rendered, however, regional planning a parallel and widely neglected policy area within the Federation. In this sense, Croatia's regional policy projects, to the extent they existed, were un-coordinated, deprived of a nation-wide strategic rationale and had a strict *sectoral* dimension - i.e., tourism and agriculture. In addition, they lacked effective steering, monitoring and evaluation technologies. Therefore, some of the investments into the industrial capacities of her lagging regions turned out to become major state failures marking the whole process as a fiasco (Puljiz and Malekovic, 2007a). At the same time, under the socialist system a radical urbanisation process took place which, in due course, created wide regional disparities and a crude population concentration (64%) in the country's urban centres, the majority of which is geographically located in the coastal zone (Bacic and Sisinacki, 2007: 6). As such, Yugoslavia's uneven spatial planning during communism meant an 'intensified polarisation' among Croatia's sub-republican units and the concentration of growth into few (four) 'city-

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<sup>1</sup> The derivative Marxist concept of '*socialist accumulation of capital*' crudely transplanted by the USSR to SFRY in late 1940s had long-lasting effects on the country's spatial, economic, environmental and developmental characteristics, let alone strategic planning culture. Its twofold objective, i.e., on the one hand to create fast economic growth and on the other, to get closer to the rival (capitalism), dictated a vast industrialisation of the country for which to be achieved a massive rural exodus was in order. Therefore, a massive re-location of peasants to the 'would-be' industrial 'city- poles' took place, albeit without any consideration of the respective spatial effects that such a process entailed. In short, uneven spatial distribution of population as well as economic activities contributed at large to the widening of regional developmental gap both at intra- and inter-republican scales. The absence of any link between the country's spatial/physical development plans and regional ones, meant in practice the latter's marginal role (if any present), whereas the country's frequent territorial reorganisation its centralistic expression ( see Sisinacki et al. 2002; De Villa 2004; Bacic and Sisinacki 2007). On the influence that the industrialisation process (initiated since the mid-twentieth century) had on the country's constant restructuring experiences see Pejnovic 2003. One of the best indicators for measuring the intensity of the said socio-economic transformations is the degree of urbanisation. According to Pavlakovic-Koci and Pejnovic 'the number of people involved in agriculture between 1953 and 2001 [was radically diminished] by some 2,000,000 or almost 90 percent' resulting henceforth to rapid spatial polarisation (2005: 8-9).

*poles*<sup>2</sup> (Magas, 2003; Cavrak, 2003; Bacic and Sisinacki, 2007: 17). Therefore, cities like Zagreb, Split, Osijek and Rijeka<sup>3</sup> would experience rapid economic growth, whereas islands and cities in the mountain zones enduring depopulation and decay.

Overall, the collapsing second Yugoslavia<sup>4</sup> would bestow to all of her seceding republics enduring legacies of a methodologically ill-conceived development planning culture, a strong emphasis on physical (instead of regional) planning, a persistent *sectoral* developmental approach, a culture of '*dependency and state aid reliance*', insufficient monitoring and evaluation reminiscences, and a striking hostility towards institutional analysis<sup>5</sup> and democratic participation.

### 6.3 The 1990s

The Croatian political system since its foundation in 1990 has been highly centralised. Historically and culturally, Croatia is comprised of 5 geographical areas (Istria, Dalmatia, Croatia, Slavonia and Zagorije) but these have never constituted as basis for administration. Instead, a strong commitment to the unitary nation-state has been one of the most significant ideological pillars of the Croatian polity. Obsession of the state elites in Croatia with a rather justified fear of the breakdown of the state<sup>6</sup> facilitated the overt centralisation of the country during nineties. The goal of 'independent statehood' and the struggle for the national sovereignty provided a reason to President Tuđman for insisting on the need for a strong, centralised state as the very foundation and exemplification of the 'national unity'. As such, historically deep-rooted, ever-present and distinct geo-culturally differentiations among the Croatian lands were initially sidelined (1990-1992), later demonised and merciless fought (1992-1995), before they get embraced by the (*alarmed* over its electoral decay) HDZ establishment in the aftermath of the Erdut Agreement in 1997 (\*\*\*\*).

Upon Croatia's independence (1991), local self-government comprised of 102 municipalities, 11 inter-municipality communities and the City of Zagreb (Magas, 2003: 137; Bacic and Sisinacki, 2007: 8). The Law on Local Self Government, adopted in 1992, introduced a two-

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<sup>2</sup> As Lindstrom observes, 'this concept of polycentric development was a unique legacy of Yugoslav socialism, not found in other socialist states in the region' (2005: 4)

<sup>3</sup> The country inherited from SFRY a *four growth poles*' structure in which more than 50 percent of the total Croatian population currently lives in.

<sup>4</sup> Towards the end of the 1980s planning lost any significance for development management on the local level (Bacic and Sisinacki, 2007: 11)

<sup>5</sup> Put here the discussion on education: missing 'institutional economics' curriculum, urban economics or environmental economics see De Villa 2004: 638

<sup>6</sup> Croatia between 1991 and 1995 was practically partitioned

tier *local* government system. The first level regarded the central state, whereas the second the units of *local* self-government: (i) municipalities (Općina) and towns (Grad), and (ii) 20 + 1<sup>7</sup> counties (Županijas). No constitutional provision was made thus for an intermediate (regional) political tier. To the contrary, counties were crafted both as units of *local* self-government and state administration<sup>8</sup>. As such, the county prefect (Župan) apart from being the head of the county executive, he or she was also and most importantly the local ‘representative of the State authority’. The fact that his or her appointment had to be confirmed by the President of the Republic illustrates clearly the dual lines of accountability both to the county assembly and, most importantly, to the President himself (Kopric, 2006: 91). This functional dualism would constrain further the rather narrow self-government scope of local affairs, legally defined by the method of *enumeration*<sup>9</sup> (Masaric and Ljubanovic, 2000; uprava), and hence contribute by and large to the over-politicisation and centralisation of the Croatian sub-national system during 1990s. HDZ’s choice to create an additional tier of administration (counties) at the local level makes little sense in functional and organisational terms, but it is easily explained on the grounds of rent-seeking considerations: the creation of a new administrative level would provide new posts and opportunities to HDZ electoral clientele, thus expanding the power base of the ruling party (personal communication with Professor Kopric, February 2008). In view of that, the establishment at the county level (in parallel with the LSG units’ own administrative structures) of an extensive number of state *de-concentrated* offices and bodies (8 to 10 in each county) as well as branch ministerial offices, allotted with the real (*delegated*) administrative and executive powers, hypertrophied and fragmented the Croatian state administration<sup>10</sup>. No horizontal communication would be established between the LSGUs’ own administrative structures and the de-concentrated state offices, however. As such, confrontation rather than cooperation would characterise those two segments of administration (Antic, 1999: 302; uprava). Duplication of competencies and compartmentalisation was thus the direct, expensive and long-lasting result. This culture of confrontation, also manifested in the negative competition among the Croatian counties, appears to frame at large any contemporary debate over the country’s future and optimal regionalisation (i.e., amalgamation of the 21 counties into 5

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<sup>7</sup> On the special double status of the City and County of Zagreb see Augustinovic-Pavicic and Krpan 1999; Ivanisevic 2000; Hrenjak 2000, all in Uprava. On the position of the territorial structure of the County within the Croatian legal system (1992-1999) see Antic 1999 (uprava); Kopric 2001

<sup>8</sup> As Dragan Antulov argues ‘each county was supposed to represent a mid-level between the central government and the local, more autonomous entities of towns and rural municipalities’ (2000: 4). However, such provision was but very lately constitutionally recognised (Constitutional amendment 2000; LLRS 2001)

<sup>9</sup> On the legal method of *enumeration* see Augustinovic-Pavicic and Krpan 1999; Masaric and Ljubanovic 2000; Kopric 2005

<sup>10</sup> There were 175 county administrative departments, with 779 of their branch offices in 107 towns and more than 7.000 state civil servants and employees (1996); see Kopric 2006: 91

macro-regions<sup>11</sup>). During 1990s the *Župan* was transformed in practice to a state official neglecting at large his/her self-government responsibilities. In line with all these, the contemporary irrationality of the system and its consequent malfunctioning and inefficiency stemming from the outstanding lack of co-ordination and integration are but easily dictated.

In terms of the country's post-communist regional policy, environmental and inherited from the socialist past unfavourable features, such as disproportions in socio-economic development, rural exodus, deterioration and regression of many parts of the country (Toskic and Ilic, 1997; Toskic and Njegac, 2003), poor transport and technological infrastructure (Zuljic, 1992) as well as lack of capital for re-structuring (Frohlich, 2006: 3; see also Human Development Report, Croatia 1999, UNDP, p.48), hindered considerably Croatia's post-communist development prospects. Within a transient economic environment characterised by disequilibrium dynamics (i.e., warfare) and inherited hyper-inflationary trends the 'developmental peculiarities, problems and potentials of different regions and urban centres' were doomed to be sidelined by the Government's immediate need (1991-1993) to stabilise the country's macro-economic framework<sup>12</sup> (Puljiz and Malekovic, 2007a: 8; Bacic and Sisinacki, 2007). The Homeland War further deteriorated Croatia's economic, social, and demographic indicators<sup>13</sup> facilitating and legitimising as such the ruling party's (HDZ) strong centralisation agenda (Zivic et al. 2005). The re-integration of Croatia's 1/3 occupied (by the rebel Serbs) territory became the Government's primary focus between 1991 and 1995 sidelining thus the country's economic and political integrations with Central and Western Europe (Pavlakovic- Koci, 2004). In such circumstances the Government's political willingness to design and implement a coherent public policy with strong regional dimensions in the first half of nineties was simply absent. As Puljiz and Malekovic note,

'How much has regional development been disregarded during 1990s witnesses the fact that until signing the Stabilisation and Association Agreement with European Union the term regional policy could *not* be found among the official strategic, operational or legal documents and regulations' (2007a: 8; emphasis added).

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<sup>11</sup> Pejnovic (2003) proposed in his research paper a five-fold optimal division of the country that, among other, reflected Croatia's regional geo-economic differentiations.

<sup>12</sup> Following the implementation of the stabilisation programme in October 1993, aimed primarily at stopping hyperinflationary trends, the Croatian economy has recorded relatively stable growth path accompanied by a low inflation. The average growth rate in the period 1995-2006 amounted to 4.4 % (SCF, 2006: 13)

<sup>13</sup> The war of independence bequeathed to post-war Croatia a vast number of detrimental and lasting legacies best articulated in the Government's document 'Strategija prostornog uređenja Republike Hrvatske' of 1997. Among others, Croatia experienced excessive damages in terms of population loss, physical and natural environment as well as a forced domestic migration towards Zagreb, which meant the over-concentration (1/6) of the population to the capital.

The end of warfare (1995) bestowed to Croatia a ‘fragmented listing of regions [and localities] deemed to have special problems’ (Frohlich, 2006: 3). The reconstruction of the *war-affected areas* was accordingly articulated as the country’s response to her immediate restructuring necessities. Thus, after 1995 a considerable change in the government’s policy took place under the negative exigencies of the homeland war (1991-1995). The 1996 Act on Areas of State Special Concern (NN no. 44/96) became Croatia’s first legal measure aiming primarily at introducing incentives for the reconstruction of *particular* war-hit areas. It represented, therefore, the very first law specifically dealing with particular state aid for *one* part of the national territory (Puljiz and Malekovic, 2007a). Notwithstanding some significant positive results in the reconstruction of housing stock and physical infrastructure, the said law’s exclusive focus on former occupied or war-torn local areas meant, however, that the rest of the country was neglected. As Bacic and Sisinacki note,

‘Following economical but also political criteria, parts of Croatia were marked as lagging regions entitled for state aid so regional policy was *only* about redistribution of funds between state budget and lagged regions’ (2007: 11)

The concentration of state aid (in the form of direct subsidies) to particular territorial areas (most notably local units below the level of county<sup>14</sup>) accentuated even further the wide regional disparities of the country calling thus for immediate corrective measures. The Islands Act of 1999 (NN no. 34/99), the Act on Hilly and Mountainous Areas of 2002 (NN no. 12/02) and the special Act on Reconstruction and Development of City of Vukovar (NN no. 44/01) extended considerably the territorial coverage of regional policy (Kopric, 2007: 17; Frohlich, 2007). Although a cohort of legal measures dealing with individual territorial parcels is present in Croatia since 1996, the lack of a coherent framework law on regional development (LRD) covering the whole state territory has thus far failed to create and ensure the necessary synergies among them.

Thus, since 1996 an episodic, piecemeal and un-coordinated legal<sup>15</sup> and institutional apparatus on regional policy - lacking adequate administrative and financial resources,

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<sup>14</sup> Up to the present time, the designation of places as Areas of Special State Concern at micro level leads to a dispersed geographical distribution of target areas. This in turn gives rise to the disbursement of very small sums of financial support to those areas. The overall result is a dispersion of (scarce) financial and administrative effort in a sprinkling of small packets of financial support – which lacks critical mass and the potential for sustainable development – the outcome of which is, in the main, the ineffective use of scarce public resources. Overall, such a governmental policy of direct subsidies to small enclaves below the level of county served (and still does so) to maintain the status quo providing little incentive for a shift towards greater competitiveness (ECORYS, 2004: 91-94)

democratic and societal accountability, and an *integrated*, as opposed to sectoral and compartmentalised, organisational expression<sup>16</sup> (i.e., special Ministry) – has been institutionalised within Croatia. As its name suggests, the Ministry of Reconstruction and Development was primarily concerned with the country's complex and immediate post-war restructuring needs. Issues of regional development were seldom discussed within the said ministry or/ and the cabinet rendering hence regional development projects, to the extent they existed, an *ad hoc* initiative of local actors (personal comm. with Puljiz).

With respect to the institutional and organisational embeddedness of the said public policy, the elaboration of several documents and strategies by a cohort of central governmental institutions reflected the fragmentation of the overall structure treating regional developmental issues (Malekovic et al. 1999: 1-3). Reflecting partly a lack of understanding of regional planning and regional development and partly an 'institutional discontent' to anything that could be associated with Croatia's socialist experience ('social plans'/ 'programming'), no nationwide concept of regional development, let alone an 'umbrella' Act on Regional Development, would be adopted in the period under consideration (1990-1999). Accordingly, LSGU's growth initiatives (if any) were voluntary, stand-alone, spontaneous and sporadic in nature (Starc et al. 2004). Hence, it should not come as a surprise that up-until 2000 only one regional development agency existed in Croatia (Kersan- Škabić, 2005; Koprivic, 2006). Evidently, regional development politics were but a *low salience issue* domain for Croatian policy-makers during nineties and thus not placed among their political priorities.

If into the above stated obstacles one adds the lack of horizontal and vertical communication (i.e., flow of information and common understanding regarding these issues) between developmental offices in the counties and responsible central institutions, the irrationality and ensuing weakness of the system underpinning regional development in Croatia becomes further evident. The inadequate number of local non-governmental (NGOs) and private economic support institutions (e.g., Small and Medium Enterprises) and associations – partly an effect of the inherited culture of local 'dependency and state aid reliance' and partly a consequence of Croatia's weak civil society - pinpoint also to the weak tradition of the

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<sup>16</sup> This *compartmentalised* way of doing local and regional (developmental) politics will emerge in 2000s as a very strong structural obstructing factor forging *ad hoc* and *sectoral* vested interests and as such hampering the on-time adoption and implementation of a NSRD and its respective legal framework, i.e., Law on Regional Development (for the extensive listing of the central governmental institutions that directly or indirectly treat regional development issues see Fröhlich 2007: 6).

European principle of *partnership* within Croatia. Frequent alterations in territorial and administrative setup of local government disabled the formation of statistical database<sup>17</sup> needed for analytical purposes but also as a ground for monitoring and evaluation of the existing regional policy (Bacic and Sisinacki, 2007: 17). In the light of this, the striking absence of monitoring and evaluation mechanisms across this policy field facilitated the building of informal, non-transparent and ad hoc networks that spanned all levels (personal comm.. with Puljiz). The ‘parallel’ or ‘mixed proportional-majority’ electoral system (applied for the election of local representative bodies from 1992 till June 2001) led overtime to the development of a sort of ‘*partisan-political*’ local self-government in Croatia (Omejec, 2000: 492 uprava) in which national level political events took precedence over the particular local needs. This structural reality matched with the fact that ‘local or regional development was in no way mentioned as a self-government task anywhere in the Constitution or other legislation’ (Kopric, 2007: 92) meant the full subordination of the local development needs to the centre’s own arbitrary and politicised priorities and as such to the de facto circumscription of the *subsidiarity* and *partnership* principles foresaw in the European Charter of Local Self-Government<sup>18</sup> (1985) which Croatia ratified partially only in 1997 and under the public criticism of the Council of Europe. In accordance with these developments, the inherited reactive attitude of most local self-government units and actors deriving from created dependency has led to their passive behaviour, inactivity and helplessness vis-a-vis the centre (Sumpor and Starc, 2003: 7).

Overall, RDP in post-communist Croatia (1990-1999) was (and still is) a parallel and neglected policy area expressed through a highly fragmented, un-coordinated and chaotic institutional and legal framework that seemed to favour specified units of local government or their parts (‘settlements’). The country’s irrational administrative-territorial division (Budak et al. 2004) and scarce financial resources (Arbutina 2000; uprava; Alibegovic 2007) constrained further Croatia’s regional and nationwide advancement throughout nineties. The negative consequences of the homeland war coupled with the ensuing strong emphasis on physical planning (‘reconstruction’) and the dominant sectoral perspective further exacerbated the already existing wide regional disparities by means of causing fragmentation of economic, social, environmental and spatial planning (Sumpor and Starc, 2003: 7). The lack of partnership, programming and evaluation of project efficiency and effectiveness

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<sup>17</sup> Socialist statistical offices were dissolved following Croatia’s independence.

<sup>18</sup> For more information on Croatia’s disharmony with the European Charter on Local Self-Government principles of subsidiarity, solidarity, cooperation etc, see Lauc 1999 (uprava); Masaric and Ljubanovic 2000: 321-346, Kopric 2000 uprava

highlight also Croatia's weak understanding of modern regional development. The development programmes and strategies, to the extent they existed, were developed with no implementation measures and responsibilities, with no monitoring and evaluation criteria and, above all, with no reference to one another (Sumpor and Starc, 2003: 10). At the same time, the incumbent nationalistic party (HDZ) enjoyed a wide leeway to decide at its arbitrary will which LSGUs were eligible of state assistance and which were not. For instance, the lack of concrete eligibility criteria for state aid entrenched within the Act on Areas of Special State Concern (1996) meant that the Government was free to choose its affiliate mayors and county prefects as its beneficiaries. Hence, LSG units ruled by opposition parties were left with minimal state aid (personal communication with Jaksa Puljiz, February 2008). Overtime, this highly politicised style, fragmented and incoherent structure of doing regional politics got crystallised as a powerful cluster of resistance to reform and modernisation. Thereby, in post-2000 Croatia the crafting, adoption and implementation of various strategic and legal documents related to regional development policy (as well as other policy areas) has become a daunting activity as it will be later shown in more detail.

#### **6.4 The EU's social influences during 1990s**

It would be a distortion of truth to argue that during 1990s no proactive 'bottom-up' developmental initiatives connected with EU-ropean regional projects existed in Croatia. The best known example of such 'anticipatory Europeanisation' regards the very early and voluntary mobilisation of the County of Istria. The said county, largely due to its historical and geo-cultural favourable characteristics<sup>19</sup> (Haberl, 1994 in Pavlakovic-Koci and Pejnovic, 2005), would almost immediately after the initiation of the Croatian transition espouse a pro-EC/ EU political vocabulary (i.e., utilised the language of democracy, human and minority rights, cultural differentiation and self-determination, etc.) which organisationally would be expressed in the creation of a hegemonic regionally-based political party, i.e., Istrian Democratic Assembly (Istarski Demokratski Sabor), whereas institutionally in a web of IDS's associational statuses in European Organisations and projects (e.g. member of the Assembly of European Regions in 1994). The best review on IDS's politicised regional identity, instrumental utilisation of the EU factor, and conflicting relationship with the country's dominant nationalistic political party (HDZ) is provided by John Ashbrook (2007). The author reveals in his paper how the said organisation was created and established itself as

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<sup>19</sup> sharing land borders with Slovenia and a sea border with both Italy and Slovenia, etc

a 'Western European political party' claiming to bring both the region (Istria) and hence the whole country nearer to EU membership (2007: 625). The party's outspoken criticism and mobilisation against HDZ's mono-cultural conception of the Croatian national identity and state was confronted with immense political pressures and frequent verbal attacks by the President himself. It is not accidental, then, that President Tuđman during his decade long rulership would never visit the accused of separatist intentions Istrian peninsula<sup>20</sup>.

Parallel to the anticipative and voluntary 'Europeanisation' of few well-off counties (i.e., Istarska County and Međimurje County), a burst of academic activity in the mid- and late 1990s led to the drafting of Croatia's first ever strategic document on regional economic development. Mandated by the Ministry of Economy, a 210-pages report referred to as 'Concept of Regional Economic Development of the Republic of Croatia' (*Koncepcija regionalnog gospodarskog razvitka Republike Hrvatske*; hereafter CRED) was elaborated in 1999 by EIZ (University of Zagreb Economic Institute). The said document's theoretical underpinnings reflected a controversial combination of neo-liberal, socialist and European principles on regional development (Pavlakovic-Koci and Pejnovic, 2005: 11). Although the objective of a *balanced* regional development was widespread articulated in the document, the strong emphasis on the *targeted* approach, that is, focusing on the most promising sectors within the locale, meant in practice a contradiction between the multiple principles informing the whole concept. The neo-liberal notion of competitiveness was eventually pointed as the concept's main prerequisite for the country's most equitable regional-economic development. Six more guiding principles were suggested: (a) the 'top-down' and 'bottom-up' growth approach, (b) the decentralised macroeconomic management, (c) the subsidiarity principle, (d) the horizontal development, (e) the dual definition of region as both economic and non-economic entity, and (f) the partnership principle (Malekovic et al. 1999: 5-6; Pavlakovic-Koci and Pejnovic, 2004: 12).

It is quite apparent from the above-mentioned listing that three out of seven principles mirror European normative influences: the subsidiarity and partnership guidelines as well as the horizontal development objective. CRED's main principles implied thus that EU RP norms had passed at least to the level of discourse. It should be also noted that the constantly increasing membership of Croatian scientists into European science associations, prominent

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<sup>20</sup> PM Ivo Sanader was the first HDZ leader to visit Istria in 2004. It was a symbolic action pinpointing both to the weakening of the nationalistic ideology of the party as well as its animosity towards regionalism.

among all the European Regional Science Association (ERSA), worked (and still does so) as a catalyst for their ultimate socialisation to contemporary European regional templates and norms. Thanks mainly to Sanja Malekovic and Frohlich's research papers on the European Union's regional policy models, the domestic scientific and professional discourse started to get acquainted with and internalise EU RP concepts and principles. It is not accidental, then, that a large amount of EIZ's research and policy papers reflected during nineties European-style regionalism. In other words, in the absence of any associational links with the EU Croatian academics and practitioners within a context of social learning and lesson-drawing - where there was an exchange of RP ideas, norms and 'best-practice' between European states - started to voluntarily adopt EU norms and beliefs because they recognised that these were of higher value to the domestic ones.

In brief, CRED can be seen as the first serious attempt of the Croatian RP and economic epistemic communities to engage themselves in regional politics setting henceforth a notable cornerstone for the country's future sub-national development. Contextualised in a political discourse characterised by a polarised antithesis between the outgoing political party (HDZ) and variable oppositional coalition schemes advocating strongly, on the one hand, the country's European integrations whereas, on the other, its decentralisation qua regionalisation, CRED was inevitable to reflect European normative influences. The late nineties' economic and banking crises (1998/9) led the incumbents to realise that the country's international (economic) isolation was too costly and efforts of bringing Croatia nearer to Europe were in order. Since 1998 the Government started to internalise (hesitantly) in its political vocabulary the European integration discourse with regional development being but a part of it. To be fair, this shift on the salience of the RP issue should also be attributed to the Government's growing awareness that up-to that moment central state edifice's attempts to foster local development had remarkably failed to gear socio-economic changes (SDF, 2006: 41).

This domestic unfavourable structural reality got further deteriorated by the growing global and regional competitive pressures exerted upon the country which, in due course, unveiled how ill-prepared and hence unprotected (due to their inadequate administrative and fiscal resources) were the Croatian local units. Notwithstanding such a pressing situation, Croatian policy-makers would never adopt CRED. Two basic reasons stand up for this: (a) the HDZ was never genuinely *persuaded* by the appropriateness of the country's Europeanisation

process and, (b) the 2000 general elections' result which brought in office a new coalition government. In consequence, CRED became of a little use and hence ended-up in a drawer (personal communication with Zlatan Frohlich, March 2008) as it is the common Croatian practice with respect to national (and local level) strategies (personal communication with Paul Stubbs, February 2008).

Notwithstanding CRED's sidelining, the presence and active mobilisation of norm entrepreneurs (epistemic and policy communities) influenced crucially the domestic approach on the issue of regional development and regionalisation by highlighting the outstanding Croatian heterogeneity vis-a-vis the European practice. Therefore, the country's post-2000 policy shift with respect to RP appears as being – at least partly- a result of voluntary attempts for 'Europeanisation'. No direct pressure exerted upon the Government to alter either the country's territorial setup or regional development schemes can be reported during nineties, however. Therefore, in the light of an absent conditionality, low domestic visibility and importance of the said policy and of a cultural and administrative environment characterised by striking hostility to reform and resource-shortages norm entrepreneurs' dynamic advocacy for 'Europeanisation' and EU-like RP stands as a significant factor influencing later (post-2000) actions.

## **The Europeanisation of Croatian regional policy**

### **The 'Misfit'**

Following the new institutionalist reasoning (Risse et al. 2001; Borzel and Risse, 2003; 2007), adaptational pressures is hypothesised to be proliferated in situations of misfit. Therefore, before considering Croatia's 'adaptive' responses to EU RP requirements the country's perceived degree of institutional and policy 'misfit' needs to be assessed. The Candidate Republic of Croatia needs to frame its regional development policy objectives, harmonise its legal edifice and build the necessary institutional apparatus in line with the SAA's (see Title VIII; Article 105<sup>21</sup>) and Accession Partnerships (2006; 2008) related provisions and the respective requirements emanating by the EU Competition and Structural policies expressed via the negotiating Chapters 8 (...) and 22 (Regional Policy and Coordination of Structural Instruments).

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<sup>21</sup> See Pecotic at al. 2005?: 42

It should not be overlooked, however, that the EU lacks itself a concrete *acquis* with respect to the said public policy. Put simply, Chapter 22 obligations concern, first and foremost, the setting up of the necessary institutional instruments for the efficient management of the Union's structural and cohesion funds. In other words, the European Commission operates within certain limits and generally respects the rights of member states to develop their own basic regional policy structures and frameworks (Jacoby, 2005: 93). Similarly, Thomas Conzelmann notes that,

'[...] both the EU's regional funding regime and the operation of regional state aid control do not add up to a prescriptive EU policy model, against which the 'goodness' or 'badness of fit' could be gauged' (2006: 254).

Therefore, in the absence of an explicit EU-level regional model candidate states' adaptational responses should regard solely the institutionalisation of the necessary structures for the effective, coordinated, and transparent management and implementation of structural funds. However, such a narrow understanding of the EU competence in the policy area of regional development should be treated with some caution. It is rather well documented in the literature on 'candidate Europeanisation' (Sedelmeier, 2007) that the European Commission since 1997 has formulated a supranational uniform model of regional governance as part of its conditionalities. According to Hughes et al. (2000), the European Commission through its RP and SF conditions actively promotes a new functionalist EU model for the re-configuration of the territorial dimension of governance. What is more, the Commission's requirement for an effective and efficient 'regional administrative capacity' – as essential for both the implementation of the *acquis* and the dispersion of structural monies – runs in parallel with SF's seven basic principles (concentration, programme planning, additionality, partnership, subsidiarity, coordination and effectiveness) constituting all together a coherent archetype of EU's RP.

Thus, the Croatian government in order to prepare for the absorption and management of the structural and cohesion funds – and in accordance with the Commission's Annual and Screening Reports as well as Accession Partnerships – was required to pursue important reforms in the country's territorial division as well as institutional and legislative frameworks.

In the case of Croatia the degree of adaptational pressures were quite high because

- (a) The country's inherited legal framework with respect to regional policy did not contain a single act that systematically dealt with the issues of regional development for the whole territory of the state. Instead, there was a range of acts<sup>22</sup> that were relevant to the regulation and implementation of the Regional Development Policy (NPPEU, 2004);

And,

- (b) 'The institutional setting for managing development at the national and sub-national level ... [was] fragmented. There [was] no coherent policy framework for national or regional development. There [were] no overarching institutional structures or mechanisms, nor formal co-ordination mechanisms [...] there [had] been no single institution in charge of co-ordinating a regional development process. As a consequence, various ministries and agencies- often supported by different donors – [worked] on regional and local development issues in parallel to each other, in an uncoordinated manner. Development efforts [were] thus often *ad hoc, compartmentalised, duplicated or contradictory*' (TOR, 2003: 3; emphasis added).

At the same time, the regions are the main implementers of EU policies. Croatia up-to-2001 lacked, however, a formally recognised regional territorial level. The Law on Local and Regional Self-Government (OG 33/01, 60/01), adopted in 2001, did but very little in institutionalising a rational territorial division. Although it upgraded the country's 21 counties into *regional* self-government units, it failed to meet the European standards of regionalism. In this context, the DG Regio and Eurostat made clear to the Croatian authorities that the country's 21 counties<sup>23</sup> (Županija) were '*too many and too small*' in west European terms to account for *structural regional* units (NUTS II). Therefore, Croatian counties were deemed by the Commission not capable of '*meet[ing] the regulatory and operational requirements stemming from Community cohesion policy*' (PR, 2007: 47-48; emphasis added) and, consequently, the Government was confronted with substantial pressures (by Eurostat) to adapt its territorial mapping (at least on paper).

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<sup>22</sup> Islands Act (OG 34/99, 32/03), Act on Areas of State Special Concern (OG \*\*/96, 26/03), Act on Hilly and Mountainous Areas (OG 12/02, 32/02, 117/03), Act on the Reconstruction and Development of the City of Vukovar (OG 44/01) and the Act on the Regional Development Fund (OG 107/01)

<sup>23</sup> The 2001 Law on Local and Regional Self-Government institutionalised a *mezzo-level* by granting counties the constitutional authority for *regional* -as opposed to their previously assigned *local* (LLSGA 1992)- self-government. Counties' functions as units of local (state) administration were hence lifted. No matter the good intentions of the then left-wing law-crafters to democratise the country by decentralising it, the new law instead of rationalising and systemising the 1992 sub-national system it further fragmented it by recognising the 21 counties as regional parcels.

For although the Commission in its *Avis* (2004) on Croatia's application for membership did not formally call for the development of either a National Strategy on Regional Development or corresponding act (LRD) it, however, did so explicitly and as a short-term priority through its Accession Partnerships with Croatia (AP, 2006; 2008). In so doing, the Commission attempted to prevent the emergence of an EU-supported regional policy that could run in parallel with Croatia's segmented domestic policies. As Puljiz and Malekovic note,

'Without modernising and adjusting current regional policy to Cohesion policy principles, Croatia could end up having *two parallel systems* of supporting regional development based on entirely different logic and practice' (2007a: 16; emphasis added).

Accordingly, the need for a National Strategy for Regional Development and the respective 'umbrella' framework law (i.e., Law on Regional Development) were illustrated as an explicit and short-term conditions in all of the Commission's annual communications on Croatia to the Council of Ministers and the European Parliament (see PR 2005; 2006; 2007). The Commission, taking into consideration this excessive Croatian incompatibility in the domain of regional policy, reiterated in its screening report on the Chapter 22 the country's all-dimensional 'misfit', setting henceforth a tough *benchmarking* for the opening of bilateral talks (Screening Report, 2007). Croatian authorities were, therefore, requested to develop an Action Plan summarising the necessary (institutional and legal) steps to be made (prior to accession) for the successful use of structural funds and the Cohesion Fund<sup>24</sup> upon accession.

To recap, the necessary policy framework to encapsulate the European legislation and principles on regional development, for example a coherent and single national strategic document<sup>25</sup> and respective legal body, is lacking in Croatia. Hence, the institutional misfit logically and easily follows and appears as being of a high endurance. To make things further complicated, the country's highly fragmented territorial organisation and existing incoherent regional development system appears as to obstruct the future smooth implementation of regional development programmes necessitating thus their immediate rationalisation. It becomes more than apparent thereby that 'Croatia is one of the few countries aspiring to

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<sup>24</sup> Within the framework of negotiations on Chapter 22, Croatia started preparing an Action Plan to meet the requirements of the EU cohesion policy. The Action Plan is a document defining goals in accordance with the requirements of the regulation on the use of structural funds and cohesion policy, together with the related implementing measures and time schedules (NPPEU, 2008: 358)

<sup>25</sup> The National Strategy for Regional Development will be a very significant tool at the government's hands in terms of strengthening the institutional base for the management of the Structural and Cohesion Funds. As Zlatan Frohlich argues the NSRD 'will address the internal disparities which are damaging the overall development prospects of the country' and as such will contribute in the smooth introduction of EU Structural Funds (2006: 2)

become an EU member with no clearly defined regional policy' (Ott 2005: 7) and as such an excellent case-study to test institutionalist hypotheses in an environment characterised by an astounding misfit.

## Post 2000

The decade of nineties bequeathed to Croatia a vague legal and policy framework with respect to regional development policy characterised by fragmentation, disorder, a sectoralist approach, low issue importance and institutional/ administrative weakness. The question of the country's regionalisation was pending as well. These two horizontally overlapping issue-areas eventually emerged at the core of the so-called 'Six-Armed Government' agenda immediately after its installation in office in February 2000. A new structure of the cabinet was institutionalised in 2000 reflecting, at least in principle, the multiple policy dimensions of Croatia's first ever macro-term strategic reform document, i.e., 'Croatia in the 21<sup>st</sup> century'<sup>26</sup>(2001). Within this mammoth new apparatus (19 ministries and 4 Deputy PMs) the decentralisation qua regionalisation issue of Croatia's setup found on the one hand its organisational expression inside the giant Ministry of Justice, Administration and Local Self-Government (hereafter MoJALSG) whereas, on the other a normative reasoning as a distinct Chapter (i.e., Public Administration Reform) within the above-mentioned strategic text pinpointing hence to its high salience and domestic visibility.

On the contrary, regional development continued to be considered a multi-sectoral, as opposed to *integrated*, policy area and thus tackled through an enduring compartmentalised<sup>27</sup> organisational edifice<sup>28</sup>. Also the low salience of the regional development case can be derived from the fact that its importance (if any) lacked a distinct strategic expression within the broad Strategy for the 21<sup>st</sup> century. Instead of being a separate Chapter, it was marginally tackled within three sectoral strategies: (a) public administration reform, (b) macro-economic development, and (c) the strategy of external relations (TOR 2003: 5). Notwithstanding their differential weight in the new Government's reform agenda, both policies would be to an

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<sup>26</sup> With respect to the elaboration of strategic documents the Government Office for Strategic Planning in year 2001, managed the preparation of a broad Strategy for 21<sup>st</sup> century. The said document was composed by 19 sectoral strategic chapters prepared by different group of experts for the specific sector areas, following different methodological tools (see TOR 2003: 5)

<sup>27</sup> As of December 2002 the overall institutional setup for Croatia's Regional Policy was not very clear. Variable line Ministries, agencies, institutions and local and regional actors were directly or indirectly responsible for regional policy development and programme implementation in line with their sector competences. (TOR 2003: 4). Only

<sup>28</sup> Put here the ministries...and regional funds etc see frohlich etc

extent pushed forward by the country's 'Europeanisation' process initiated formally in the year 2001 pursuant to Croatia's first ever contractual and associational scheme with the Union, i.e., the Stabilisation and Association Agreement (2001). Professor Koprivic summarises the variable ways through which the EU has essentially propelled Croatia's new regional development policy as well as potential regionalisation as follows:

'[T]he first [way] concerns the attempt to design a new framework law, new institutions and a new strategy of regional development. The second one involves designing the statistical regions, because currently there is no real chance for establishment of the regions that could act as proper and strong regional self-government units. The third [route of intrusion] is connected with the pre-accession funds (PHARE, ISPA, and SAPARD)' (2007: 98)

Having provided on the one hand the post-2000 discursive environment within which the issue of regional development was embedded, whereas on the other the Union's multiple routes of intrusion to Croatia's regional politics the discussion goes on to assess first the degree of the country's institutional adjustment to NUTS Classification requirement before analysing the extent to which Croatia's RP and institutional arrangements have been transformed by the EU factor due to the existence of a striking 'all-dimensional' misfit.

### **Croatia's unfinished regionalisation process and the NUTS debate**

The new coalition Government of PM Račan (2000-2003) pursuant to its programmatic declarations proceeded immediately after its installation in office with the implementation of its modernisation projects. Prominent among all the proposed reforms was the controversial issue of decentralising a highly centralised and power-concentrated statecraft seen as the first and foremost solution to Tuđman's ills. Therefore, amendments were put forward by the Sabor's new 'constitutional majority' succeeding by late 2001 to change twice the Constitution (2000; 2001) and 'correct' the country's territorial and administrative system. The new Constitution and respective legal framework, i.e., Law on Local and Regional Self-Government (LLRSG), recognised the 20 counties plus the City (and County) of Zagreb as *regional* self-governing entities *deprived* of any delegated state tasks. As such local (124 towns and 426 municipalities) and regional (21 *Županijas*) units became responsible of performing solely their respective self-government tasks which, in due course, were increased pursuant to the 'administrative decentralisation' blueprint in operation<sup>29</sup>. Since 2001, the 21

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<sup>29</sup> As a part of the decentralisation process, 32 of the stronger local and all regional (counties) self-government units gained greater responsibilities in education, health and social care, for which they receive also (limited) fiscal support through the equalisation fund (Bakaric et al. 2005: 11). As Marijana Sumpor observe, after the separation of offices at county level, the county self-governments found

county prefects (Župan) have become politically strong players within the Croatian multi-tier governance edifice enhancing henceforth the number of the country's *de facto* veto-players substantially. The new LLRSG (OG 33/01, 60/01) other than leading to the rationalisation of Croatia's highly fragmented territorial system through, for instance, a compulsory amalgamation of the 21 counties into 5 macro-regions (Pejnovic, 2003); it further multiplied the sub-national tier without genuinely regionalising it. Therefore, the country's irrational (in functional and fiscal terms) new territorial division is perceived by both domestic experts and external donors (World Bank, UN, EU, and USAID) as an obstacle to Croatia's long-term development.

Two basic factors located at Croatia's both sides of power pendulum largely account for such ill-conceived and ill-executed regionalisation: from above, both national and regionally-based political parties were not honestly conducive to a genuine regionalisation because they got used of the existing setup and in a path-dependent resulting situation that ultimately provided them with several electoral successes first at the sub-central level (i.e., many counties and numberless LSG units came under their control since 1995) they have become justifiably *hesitant* to pull out from what they have gained so far. In other words, the inherited system allowed each of Croatia's parliamentary parties (regional and national) to gain strong hold and organisational expression within the LSG units and as such to privilege a *pluralisation* of the executive authority that an excessively fragmented territorial system such as that of Croatia's implies so, rather than a *monopolisation* one that a rational regional setup (5-6 macro-regions) would most likely entail. Therefore, it is not accidental that no political party rallying at the national level has thus far advocated the merging of the *too many* counties into larger macro-structures. Instead, they all campaign a decentralisation process *within* the current regional apparatus. The same holds true for Croatia's variable<sup>30</sup> regional political schemes as well. The only exception might be Glavas' opportunistic HDSSB which among other things advocates the country's regional reorganisation<sup>31</sup> (see [www.hidra.hr](http://www.hidra.hr)). In short,

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themselves in a situation of lacking personnel, funding and real authority. With the emergence of regional development practices supported by the EU and other transnational donors, counties started to strengthen their economic and social development roles and position throughout the Croatian territory (2007: 10).

<sup>30</sup> Croatia's cultural and geo-historic heterogeneity is largely reflected in the multiple regional political schemes rallying at both the national and regional level. The list is quite extensive, however. Among others contains: The Alliance of Primorje-Gorski Kotar (Primorsko goranski savez); the Autonomous Regional Party (Autonomna regionalna stranka, ARS); the Croatian Dalmatian Home (Hrvatski dalmatinski dom, HDD); the Croatian Democratic Assembly of Slavonia and Baranja (Hrvatski demokratski sabor Slavonije i Baranje, HDSSB); the Democratic Party of Zagorje (Zagorska demokratska stranka (ZDS)); the Dalmatian Liberal Party (Dalmatinska liberalna stranka, DLS); the Democratic Prigorje-Zagreb Party (Demokratska prigorsko-zagrebačka stranka); the Istrian Social Democratic Forum (Istarski socijaldemokratski forum) and the Adriatic Social Democratic Party of Croatia (Jadranska Socijaldemokratska Stranka Hrvatske)

<sup>31</sup> <http://www.hidra.hr/strankee/programi/035250e.htm>

local and regional power dispersion between all political parties was at stake. Hence, the 2001 '*regionalisation*' experiment of the 21 counties becomes largely understandable.

From below, local and regional (county) actors did not seem either to favour the country's optimal division on the grounds that such an action would have entailed the immediate loss of their power bases. It is well documented by the literature on France's statecraft, for example, that a highly fragmented territorial setup nurtures wide numbers of sub-central actors that naturally obstruct the potential rationalisation of the state in question. Hence, the significant number of 21 *Župans* and of few hundred mayors in the Croatian case, institutionally represented by the Association of Cities and Municipalities and Association of Counties, appears as an additional 'blocking' formal institution to potential (future) regional reforms. Put simply, for the regional actors regionalism starts with the constitutional recognition of their right to self-government and ends with the governmental acknowledgment of their existing territorial-administrative borders, i.e., 20 + 1 counties. Neither a forced nor a voluntary amalgamation process seems for the time being as being accepted, let alone facilitated by the persistent culture of inter-county and inter-municipality confrontation. Overall, domestic formal institutions were not facilitating in Croatia's regionalisation case.

Accordingly, in the light of these arguments, the establishment of NUTS II regions, pursuant to EU NUTS requirements, reasonably became a very delicate and controversial issue within Croatia as it implied its future territorialisation (personal communication with Neven Mimica, April 2008). This controversy triggered an intense political debates into two levels even before the opening of accession negotiations in 2005: one among the Croatian Governments and the EU's responsible institutions (i.e., DG Regio and Eurostat), and the other between the central Government and the regional tier, that is, some outspoken county *lords*.

On the one hand, there was a political strife between Eurostat and the national Government(s) with respect to the country's most optimal statistical division into, for instance, five, four or three NUTS II structural units. The first proposal submitted to Eurostat for consultation, as early as 2003, envisioned the formation of five new macro-statistical units<sup>32</sup> at the second level reflecting to an extent domestic epistemic communities' reasoning over the country's polycentric spatial distribution (Rasic and Starc, 2003; see also Basic and Sisinacki, 2007:

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<sup>32</sup> The 2003 proposal reads as follows: (i) North Croatia, (ii) Central Croatia, (iii) East Croatia, (iv) West Croatia and (v) South Croatia. This division appears to correspond largely with the country's geo-economic differentiations and could have been seen as a precursor of the Croatia's later most optimal regionalisation (i.e., five macro-regions; see Pejnovic 2003).

14). However, Eurostat rejected such proposal on the grounds that it did not satisfy the population size threshold, that is, the population residing in a proposed NUTS II structural unit should vary between the minimum of 800,000 and the maximum of 3,000,000 people. According to the last Census (2001) Croatia's total population were 4,437,460 inhabitants qualifying evidently for, at best, a *triple* division. The next proposal sent to the Commission by the new minority Government of HDZ (2003-2007) in the year 2005 suggested Croatia was divided into four units with Zagreb City and County<sup>33</sup> qualifying as a separate statistical structure. Apparently political considerations were dictating such partition; the more numerous the division the greater the chances for a long-term flow of structural and cohesion funding as Croatia's overall GDP per capita stands at 49 percent of the EU-27 average, measured according to the country's 2004 PPS (Croatian Economic Outlook Quarterly; April 2007: 6). Again this proposal was not formally accepted by Eurostat (personal communication with Jaksa Puljitz, February 2008). Instead, guidelines to reduce the number of units were sent back to Government and Croatian Bureau of Statistics (hereafter CBS) for further consideration. The sensitivity of the said issue and its respective political salience can also be derived by PM Ivo Sanader's 2006 decision to dismiss CBS's general Director of his duty pursuant to his voluntary initiative to inform Eurostat over the domestically negotiated but not yet decided triple subdivision. Eurostat accepted the Director's proposed classification and immediately uploaded the recommendation into its official web-site. Eventually the Government complied with Eurostat's adaptational pressures notwithstanding some counties' loud objections. It should be mentioned that neither individual counties nor their official representative body, the Association of Counties, were consulted at any stage of the negotiations by the Government as the partnership principle requests so.

According to the 2007 provisional<sup>34</sup> Classification, Croatia consists of three statistical '*wider-regions*' at level II: North-Western Croatia, Central and Eastern Croatia and Adriatic Croatia (Croatian Economic Outlook Quarterly; April 2007: 6). The whole country is set as a unit on the first (I) level, whereas the third level includes its 21 counties as they were considered by the Commission to be '*too small and too many*' to qualify as regions at level II.

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<sup>33</sup> Special regime

<sup>34</sup> The Government and epistemic community privilege the country be divided into four units with Zagreb being a separate NUTS II structure. The 2011 census ..... (personal comm. With Zlatan Frohlich, April 2008)

Figure : Croatia's three NUTS-II Statistical Regions

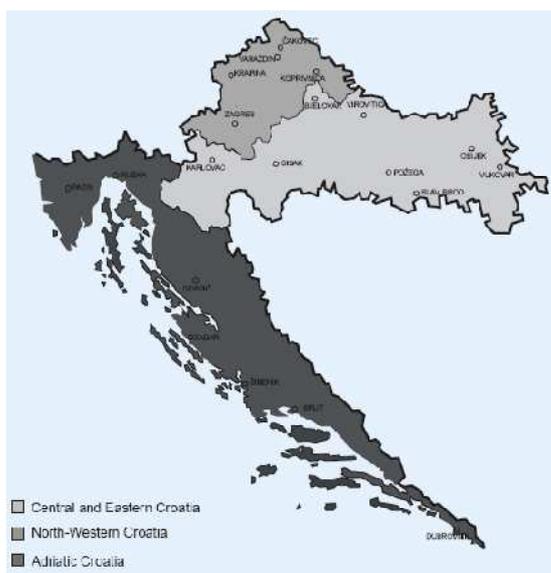


Figure : Croatia's 21 NUTS III units



It should not be disregarded, however, that such provisional division appears to serve essentially HDZ's anti-regional politics as well<sup>35</sup>. With Croatia being divided into three, as opposed to five, exclusively statistical 'wider-regions' any chances for the country's genuine regionalisation are radically reduced (at least in the med-term) given the fact that such configuration disregards Croatia's historical and cultural differentiations. Put otherwise, the EU NUTS II conditionality has not led to the establishment of any sort of functional politico-administrative macro-regional structures within Croatia. Instead, the draft NSRD envisages the creation of three 'wider-regions' at the level of NUTS II but does not contain any provision for the establishment of any administrative or political bodies. Thus, 'wider-regions' exist solely on paper. Nonetheless, following the NUTS II division of the country in 2007 in various counties in Croatia an increasing interest for regional development in an EU-context can be noticed at the political level. On the one hand, several counties are already represented in Brussels and some have taken actively part in transnational institutions and projects<sup>36</sup> whereas, on the other, very recent (2007) bottom-up initiatives at the level of 'wider-regions' such as the *Regional Development Initiative* (North-West Croatia NUTS II region), *Adriatic Development Agencies* (Adriatic NUTS II region) and *Panonian Regions*

<sup>35</sup> In 2005 following a heated internal dispute the HDZ leadership under Ivo Sanader openly denounced Glavas' political platform, which among others advocated a new administrative-territorial organisation of the country so that his homeland, i.e., Slavonia, gets further empowered as a genuine region, and ejected him from the party. Most of the local HDZ organisation followed Glavas and on May 6, 2006 formed the Croatian Democratic Assembly of Slavonia and Baranja (HDSSB). Previously in the local and regional elections of 2005 they had succeeded to win a relative majority in the Osijek-Baranja County and the City of Osijek assemblies. The HDSSB clearly used the European discourse of multi-level governance, as it is the case also for the IDS, in order to endorse and justify its initiatives for territorial reforms, making a visible connection between regionalisation and Europeanisation.

<sup>36</sup> Indeed, in 2007 AZRA (Varaždin County) initiated the establishment of the Croatian Regions office in Brussels in which none other regions in Croatia participate. The objective of the office is to represent Croatian regions and towns in the European arena, to inform their members on relevant developments in Europe, to establish networks with other European regions and towns, and to lobby for support for programmes and projects that will improve the socio-economic situation in Croatian regions (RDCBF, 2007: 20)

*Association* (Panonia NUTS II region) show a preliminary and increasing awareness and understanding among regional and local actors regarding the significance of working in *partnership* for strengthening the socio-economic situation of their regions. Such initiatives at the level of 'wider-regions' may remedy for the well-documented present poor inter- and intra- county co-operation and communication. Although currently there is no platform where regional development actors can meet and discuss the situation in Croatia regarding RD issues, some regional actors are seriously considering to set up a national organisation (i.e., Croatian Regional Development Forum) that will establish a platform for debate in the area of RD (RDCBF, 2008a: 17). The Commission through its CARDS 2004 'Regional Development Capacity Building Facility in Croatia' strongly advocates in favour of such institutional arrangement which will give for the first time ever a formalised 'say' and 'voice' to regional actors in Croatia.

With respect to the second level of confrontation, i.e., between the national Government and the counties, the latter's objections to the final triple division read as follows: firstly, they objected such categorisation on the grounds of statistics. This argument concerns primarily the counties aggregated in order to form the *North-Western Croatia* statistical unit (i.e., Kaprinsko-Zagorska Zupanija, Varazdinska Zupanija, Koprivnicko-Krizevacka Zupanija and Medjimurska Zupanija). Radimir Čaćić, currently the president of the Croatian People's Party and former Varaždin County Župan, actively and loudly opposed the Government's threefold proposal arguing that the addition of Zagreb City and County to the most advanced periphery of the country (north-western Croatia) would lift the latter's GDP at the 62 percent of the EU-27 average and as such imply its short-term eligibility for Objective 1 structural funding (personal communication with Jurlina-Alibegovic Dubravka, April 2008). Second, such division was unacceptable by some 'regionalists' on the bases that entails the further concentration of power in Zagreb as the Commission's centralistic approach to regional development programming and funding privileges the 'gate-keeping' role of the central Government. Data from the interviews point out that the Commission seemed to prefer a centralistic mode of SFs management as it made clear from the outset that it could not accept the 21 counties as its counterpart regional partners. Hence the absence of a 'decentralisation' dynamic from the DG Regio standpoint (Degert 2006: 77) seems to correlate with the HDZ's decision not to devolve any administrative or/ and political competences to 3 NUTS II 'wider-regions'.

## **Croatia's new Regional Development Policy and institutional apparatus, 2000 - present**

The previous discussion showed that the EU's NUTS adjustment pressures had but a modest impact as regards the country's regionalisation politics. Bearing this finding in mind, this section analyses to what extent Croatia's institutional and policy arrangements have been adjusted to the Union's requirements emanating by its explicit condition for a single and coherent strategic document on regional development (NSRD) and respective legal framework (LRD). The analysis has showed an excessively incompatible domestic RD edifice. Given the fact that Croatia exhibits an astounding institutional and policy 'misfit' high transformation pressures are heretofore hypothesised to be exerted upon the country.

As of 2009 and despite successive governments' decentralisation initiatives regional policy-making and apparatus is still widely segmented and centralised in Zagreb. Indeed, regional development policy is still implemented as before, based on partial laws and bylaws targeting specific undeveloped or war torn areas. The EU's pre-accession strategy (2005- present) and its precursor the Stabilisation and Association process (2000-2005) has helped, however, Croatian sub-national entities to gain valuable experience and 'know-how' in regional development programming via initially the Community Assistance for Reconstruction, Development and Stabilisation technical projects (2001-2004)<sup>37</sup>. When Croatia was granted the candidacy status in 2005 it became eligible for funding under PHARE, ISPA and SAPARD programmes<sup>38</sup>. The process tracing methodology espoused here has pointed out that most of Croatia's LSGUs - especially the war-hit ones - were more concerned in nineties with their post-war reconstruction rather than optimal economic development. Therefore, Croatian regions (counties) and localities were (and still are) characterised by a considerable lack in regional development policy expertise, administrative shortages and a methodical approach to strategic planning (see Sumpor and Starc, 2003; Bakaric et al., 2005; Kersan-Škabić, 2005). This situation slightly changed in 2000/1 as Croatia experienced a paradigm 'correction' with respect to its political system (i.e., from a semi-presidential to a semi-parliamentary one; see chapter 3), finalised its reconstruction projects and began negotiations with EU on SAA. Change came first from below, only to be gradually and hesitantly followed by the central level.

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<sup>37</sup> Between 2001 and 2004 Croatia was eligible for 255 million Euros in project funding, rising from 58 million Euros in 2001 to 76 million Euros in 2004, see Pecotic *et al.* 2005: 52

<sup>38</sup> As of January 1, 2007 these three pre-accession Funds have been merged into one overall scheme called Instrument for Pre-Accession (IPA). One of the reasons for this amalgamation was to make it possible for administrations in the accession states to stimulate management and programming conditions for EU Structural Funds (after accession) as far as possible during the pre-accession phase (Frohlich 2006: 6)

From below, under CARDS 2002 project: ‘*Sustainable development in Areas of Special State Concern*’, two counties were initially selected (i.e., Zadar and Šibenik) as pilot cases for developing the capacity to prepare and implement European style Regional Operational Programmes (ROPs; TOR, 2003: 6). This project complemented, however, parallel institution-building initiatives sponsored either from the national government or by other external donors such as the UNDP (see UNOPS<sup>39</sup>) and USAID<sup>40</sup>. Hence, EU CARDS programmes at county based development provided ample opportunities to particular Croatia’s sub-national actors to get socialised with the Union’s way of doing regional development programming based on the principles of partnership, co-financing and strategic development planning, and thereby ‘Europeanise’, to an extent, their project application and project implementation approaches (Puljiz and Malekovic, 2007b: 15). Despite the fact that the process of ROP development has successfully spilled-over to the rest of counties<sup>41</sup>, the majority of them are still lacking the necessary capacity to *effectively* participate in SF operations (ibid: 17). There is a wide consensus among academics that the main reason behind such incomplete ‘Europeanisation’ is the absence of any linkage between the said ROPs and the higher-level obsolete policies and plans (Pecotic et al. 2005: 48; Puljiz and Malekovic, 2007b: 21). Indeed, the astounding lack of a National Strategy for Regional Development and corresponding legal framework (i.e., LRD) has meant two basic things: firstly, that ROPs are weakly linked to sectoral ministerial plans for development<sup>42</sup> and as such the parallel existence of two ‘worlds’ managing development: ‘one based on EU rules and practice and [the] second one, based on old-fashioned instruments’ (personal communication with Jakša Puljiz, February 2008). Put simply, the accession process could accentuate Croatia’s regional disparities (Puljiz and Malekovic, 2007a) in the absence of a NSRD and Law on (balanced) Regional Development as stronger inflow of FDI seems to be directed to most advanced regions (NSRD (draft) 2005: 14), solidifying henceforth the country’s east-west division (Puljiz and Malekovic, 2007b: 5).

Changes were also initiated from above partly because the first Račan government (2000-2002) recognised the country’s need for a coherent (instead of segmented) and nation-wide

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<sup>39</sup> Partly EU financed.

<sup>40</sup> The USAID-financed Local Government Reform Project had assisted 71 local governments to elaborate Economic Development Strategic Plans (EDSPs) by March 2006 (Pecotic et al. 2005: 49).

<sup>41</sup> As of 2008 20 out of 21 counties have elaborated ROPs. The Zagreb county still lacks a development programme (personal communication with Zlatan Frohlich, March 2008)

<sup>42</sup> As we have already shown these attempts of building development capacity at the local and regional level have been ad hoc, sporadic and episodic, see p.

development on the basis of a strategic vision and partly because it realised that the country's RDP was at a crossroads as it is tightly associated with the accession strategy. To that end, the document 'Development priorities of the Republic of Croatia 2002-2004' (Government of RC, 2001b) was adopted in 2001. The following were emphasised among goals of RD: (i) harmonisation of the regional system with the EU system; and (ii) establishment of a regional policy in order for the country to start utilising resources from the EU funds for RD in the shortest period (Kersan- Škabić, 2005: 261). It should be mentioned, that the first Račan government was essentially influenced by the recommendations of EIZ<sup>43</sup> (found in the 1999 policy document CRED) with respect to RDP. Put simply, the Government was socialised and persuaded by the EIZ-located epistemic community over the need for a single and coherent strategy on RDP in Croatia based on the early recommendations of CRED (p.c. with \*\*\*). Accordingly, the Government expressed its need in the consultation process with the Commission to elaborate a national strategy for regional development (NSRD) as well as the related framework law (LRD; Sumpor, 2007: 16). In consequence, the Commission taking seriously into consideration Croatia's apparent institutional and policy incongruence with the Union's RP practice entrenched within its Annual Reports and Accession Partnerships the country's obligation for a coherent strategic document and the related general law on regional development. Eventually, the NSRD and LRD elaboration process started in 2003 with the Commission's technical assistance support financed from the CARDS 2003 'Strategy and Capacity Building for Regional Development' programme.

However, Croatian authorities were considerably belated in their responses. A large listing of unfavourable constraining factors both (and most importantly) domestic and external account for such remarkable hesitancy. As it will be shown from the following analysis both structural and agent-based factors appear to obstruct Croatia's smooth adaptation to EU SFs' policy requirements.

Until 2003 Croatia lacked a competent institution (i.e., Ministry) to take on the overall coordination of regional policy (TOR 2003: 4). Instead, a fuzzy and compartmentalised institutional web<sup>44</sup> lacking both a horizontal (between line ministries and state bodies) and

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<sup>43</sup> It is noteworthy that, an important number of EIZ technocrats was appointed by the Račan Government in senior administrative position within ministries (level of state secretaries and assistant ministers)

<sup>44</sup> Apart from the MPWRC and its DISRD other line ministries and bodies with crucial role in RD were: Ministry of Crafts and SMEs, Ministry of Agriculture and Forestry, Ministry of Environment and Physical Planning, Ministry of Finance, Fund for Regional Development, Central Bureau of Statistics, Government Standing Committee for the Areas of Special State Concern, Government Office for Strategic Planning and Fund for Development and Reconstruction of the Town of Vukovar (TOR 2003: 4)

vertical (between territorial units) steering technology was (and still is) in place which practically slowed down any further development at the level of RDP. Under mainly the ‘socialisation’ pressures exerted via the EU OBNOVA 2000, CARDS 2001 and 2003 projects<sup>45</sup> PM Račan’s (2000-2003) entrusted the then Ministry for Public Works, Reconstruction and Construction (hereafter MPWRC), headed by HNS’ president and renowned entrepreneur Damir Čaćić, with the primal role in RDP. Accordingly, the Directorate for Island and Regional Development (hereafter DIIRD) was institutionalised within the said Ministry with the mandate to manage regional development issues. Interviews revealed that both the Ministry and the DIIRD lacked adequate administrative resources as well as know-how on planning and programming according to EU principles of regional policy. RDP was very rarely in the Ministry’s daily agenda as Čaćić’s primary concern was infrastructure-related public works and state-sponsored housing projects for young families. Put otherwise, regional development funding flowing downwards both directly by the State Budget and indirectly through the Regional Development Fund (established in 2001 and started operating in February 2002), was primarily earmarked for the implementation of the projects related to hard infrastructure (i.e., highways, transportation, industrial zones in each county) and as such rendered RDP a side-policy area of the country’s historically well-advanced physical planning sector<sup>46</sup> (personal communication with Vedran Djulabic, April 2008).

The European Commission realising that the country’s authorities have done little in implementing OBNOVA’s 2000 and CARDS 2001 early policy recommendations with respect to the formulation of a conceptual framework for Croatian regional policy concomitant with EU-style regionalism, initiated in 2002 a new CARDS programme on ‘*Strategy and Capacity Building for Regional Development*’ having as its overall objective, this time, ‘the development and implementation of Croatia’s regional policy in line with EU principles and practice’ (TOR, 2003: 7). Thus, the country’s adjustment to EU regional policy conditionality started through this very technical project. This time the Commission got very serious over its intentions to make Croatian authorities work hard in achieving the contract’s

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<sup>46</sup> In the specific area of spatial planning, the Croatian Sabor adopted as early as 1994 a special Law on Spatial Planning, which entrusted the LSG units with the elaboration of regional and local spatial plans. The 2000/1 decentralisation initiatives further devolved competences through the new Law on Spatial Planning, which extended the authority of local self-government to issuing building permits. It should be mentioned that the latter competence used to be a decentralised function of the socio-political communes under SFRY. With respect to physical planning the Parliament adopted in 1997 the Physical Planning Strategy, and in 1999 the Programme of Physical Planning. No provision had been made in linking all these legal texts under a coherent and integrated strategic plan for the country’s optimal and sustainable long-term regional advancement.

five-fold goals: (a) development of a National Strategy of Regional Development (hereafter NSRD) and corresponding Action Plan, (b) creation of an appropriate legal basis for regional policy in Croatia, which meets EU SF requirements, (c) establishment and strengthening of appropriate institutional structures, co-ordination mechanisms, capacities and procedures for strategic regional planning at national, regional and local level; including for cross-border co-operation, (d) fostering a culture of partnership among institutional and other stakeholders on and between national and regional levels, and (e) elaboration of relevant related projects (ibid: 7). Notwithstanding the Commission's sincere efforts to assist the country in its preparations for successful adjustment to SF's policy's thresholds, two main domestic factors appeared early on to hinder Croatia's on-time and full compliance: (i) the lack of Government commitment to support and adopt the NSRD and the framework Law on Regional Development (hereafter LRD) and (ii) the striking lack of effective co-ordination and acceptance of NSRD as the principle scheme for regional policy in Croatia (ibid: 8).

It is not accidental then that until 2003 Croatia's overall setup lacked a specific institution to assume the role of a national co-ordinator for regional policy despite the Commission's public criticism, let alone a strong political will to overthrow the pre-existing fragmented and non-transparent system. When this shortcoming was eventually addressed in mid-2003 it did not lead, however, to any significant changes as regards the country's overall way of doing regional politics. Hence, the very first drafts of the country's NSRD and LRD will only be ready in 2005 and under a new Government's mandate.

On coming to power in 2004, HDZ - renowned for its centralist as well as nationalist conception of state organisation and consequent hostility to regionalism during nineties - absolutely reversed its negative standpoint over the country's 'Europeanisation' process. PM Sanader's very first step with respect to regional policy was the establishment of a 'mammoth' new Ministry of the Sea, Tourism, Transport and Development (MSTTD)<sup>47</sup>. An extensive reshuffle took gradually place within the said institution reflecting at large NSRD's preconditions for achieving the goals of the RDP. Showing its determination to comply with EU RP requirements the Government restructured the Ministry's Development Sector by dividing the existing Directorate for Regional Development into two new Directorates: (i) the

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<sup>47</sup> As stipulated by the Act on structure and scope of central state administrative bodies the MSTTD is competent for planning and implementation of regional development policy, proposing changes in the regional development management system, proposing and harmonisation of implementation of measures, programmes and projects of state aid, and assessment of their functioning. In addition, the Ministry is competent for ensuring necessary conditions for all the inter-ministerial working groups dealing with regional development, as well as their coordination (Frohlich 2007: 3)

Directorate for Integrated Regional Development (DIRD), (ii) the Directorate for Regional and Local Infrastructure (Frohlich, 2007: 4; Action Plan of NSRD (first draft) 2005: 15). Evidently, the country's strong habitual pattern of sectoralist solutions did get its way once again. Instead of having one overall Directorate for Integrated RD sufficiently staffed and empowered, the parallel existence of the Directorate of Islands (largely an institutional response to the pre-existing Law on Islands and its respective strategic document, National Island Development Programme) meant in practice the further compartmentalisation<sup>48</sup> of the regional development sector.

With respect to the formulation of a NSRD and corresponding legal act (LRD), the MSTTD working closely, on the one hand, with the line Ministries whereas, on the other, with the Dutch Agency ECORYS managed to elaborate under the technical and financial assistance provided by the CARDS 2003 project '*Strategy and Capacity Building for Regional Development*' two drafts of the said documents by September/October 2005 (personal communication with Franka Vojnovic, April 2008; see also Hajdukovic 2006). Following the said documents provisions Croatian regional policy goal reads as follows:

'To have functioning regional development policy in Croatia contributing to sustainable national development and competitiveness by 2013' [NSRD (draft) 2005: 20-21]

In other words, the NSRD is intended to introduce and implement a more 'joined-up' approach to the sustainable socio-economic cohesion of all parts of the country, specifically focusing on the additional encouragement of the development of the areas that fall behind the national average (ibid: 19; LRD (draft) 2006: 2; see also Frohlich 2006: 8). To that end, it has adopted CRED's 1999 conceptual toolkit of a concerted 'top-down – bottom-up' technology of a shared responsibility between the centre and the local over development that overtime it is envisioned to lead to the reduction of the country's wide socio-economic disadvantages and empower sub-national socio-economic actors to achieve and manage the optimal development potential of their places (LRD (draft) 2006: 1). Furthermore, the country's inherited polycentric modelling appears as a macro-term facilitating factor by means of

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<sup>48</sup>Zlatan Frohlich provides a detailed listing of Croatia's institutions regulating RDP issues: 'Because of a strict sectoral approach to the institutions of the central government, several line ministries are competent for preparation of development policy, programming, implementation of programmes and their monitoring. Beside the MSTTD, the central level institutions having a significant role relating to regional development are the following ones: Regional Development Fund; Fund for Development and Employment; Fund of Reconstruction and Development of the Town of Vukovar; Ministry of Finance; Central State Administrative Office for Public Administration; Ministry of Agriculture, Forestry and Water Management; Ministry of Economy, Labour and Entrepreneurship; Ministry of Environmental Protection, Physical Planning and Construction; Ministry of Science, Education and Sports; Ministry of Health and Social Welfare; Croatian Employment Office; Croatian Bank for Reconstruction and Development; Croatian Bureau of Statistic [and Central Office for Development and Coordination of EU Funds]' (2007: 6)

enabling the formation of the so-called '*wider regions*' which are seen to be conducive to fostering the missing inter-county cooperation through the preparation and implementation of Joint Development Projects<sup>49</sup> (SDF, 2006: 42; NSRD (draft), 2005: 21; Frohlich, 2006: 10). The NSRD foresees also the creation of a number of novel instruments among which most relevant are (i) development contract (DC), (ii) county development strategies (CDS that will replace existing ROPs) and (iii) county development agencies (CDAs). Although the NSRD and the related LRD has not yet been adopted (see below), several provisions of those documents are already executed. With respect to the programming principle, twenty out of twenty-one counties (with the exception of the City and County of Zagreb) have by 2009 elaborated county development strategies (CDSs) or an equivalent county development planning document. Moreover, twenty county development agencies (CDAs) have thus far been established. As Puljiz and Malekovic writing in 2007 argue,

'[By] taking into account these and other developments at county and local level it can be concluded that some parts of the NSRD are already being implemented despite the fact that the NSRD and the Law on regional development have not yet been officially adopted' (2007a: 15).

The Croatian Government has further specified the Strategy's overall vision by setting two distinct objectives and priorities to be achieved by 2013:

**Strategic objective 1:** 'all counties and wider regions enabled to contribute to sustainable development and competitiveness-and reduced social and economic disparities across the country'

**Strategic objective 2:** 'have an efficient management framework for regional development in place' (ibid: 21-25)

According to the 2005 draft version of the Law on Regional Development (LRD) structural policy and regional development are to be centrally managed via three agents: (i) the Government, (ii) the Central Office for Development Strategy and Coordination of EU Funds (CODEF), and (iii) and the Ministry in charge<sup>50</sup>. For the purpose of steering the overall policy, a Structural Policy and Regional Development Council is envisioned to be established as the transitory institutional arrangement of the existing Inter-Ministerial Coordination Committee on Regional Development established in January 2008. With respect to the

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<sup>49</sup> The instrument for these projects is the County and Wider Region Development Programme. This programme provides support for inclusive and representative county based partnerships and their development bodies (NSRD (draft) 2005: 22)

<sup>50</sup> Following the November 2007 and the formation of a new coalition government in January 2009 the new Ministry of Regional Development, Forestry and Water Management (MRDFWM) has been granted with the responsibility of regional development policy.

partnership and cooperation principles, a (national) Partnership Council on Regional Development, composed of the representatives of the public, private and civil sectors, has also been established (in alignment with NSRD related provision) for the purpose of providing ‘advice related to the preparation, implementation and monitoring of the SP & RD, coordinating various subjects and participation in the development planning’ (LRD (draft) 2006: 5). Apparently, it is meant to be an exclusively *advisory* body with limited, if any, power to influence significantly central Government’s policy directions or/ and objectives. In other words, the draft Law does not set a co-decision mechanism or any other kind of veto instrument at the Partnership’s disposal rendering it as such largely an *ex post* legitimising structure. It has to be mentioned, however, that the draft Law largely reflects and internalises EU principles and practices<sup>51</sup>.

Put simply, the draft Strategy and the draft Law can be seen as being largely the outcome of a joint process of persuasion and conditionality. In other words, Croatian authorities were gradually persuaded, thanks to the active mobilisation of domestic epistemic communities, by the ‘appropriateness’ of the said strategic documents (and their linkage to EU SFs requirements) in tackling pending issues of a balanced and sustainable nationwide, as opposed to the present *ad hoc*, development. The CARDS 2003 and 2004 projects provided hence the missing institutional framework and synergy (i.e., IMCG and the Partnership Group) for reaching a *consensus* on the main elements of the needed regional development reform. However, as of January 2009 both the NSRD and the LRD are still waiting to be submitted to be officially adopted and promulgated.

The Government’s 2005 National Plan for the Integration of Croatia to EU (NPPEU, 2005) envisioned that the said documents would be adopted by Fall 2006. However, this did not happen. Following new institutional theory’s insights such reluctance seems to be determined by a complex domestic constellation of administrative, structural and actor-based unfavourable to adjustment factors. Despite the fact that regional policy has continued during 2000s to be an issue-area of low (public) salience (exception might be the heated but episodic debates over the country’s NUTS Classification), its delicate status and respective significance has not meant its sidelining, however. To the contrary, inherited by the 1990s strong vested interests across all levels (central, regional, local), having been nurtured inside

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a non-transparent regional development design, have overtime formed informal networks that have naturally obstructed the adoption of a modern and 'Europeanised' legal outline which in practice leads to their destruction. Put simply, upon adoption of the said Law a new coherent, integrated and aligned with Structural Funds (and national Strategic Development Framework for 2006-2013) standards and practices country-wide system of development planning and allocation of public funds will be installed. Hence, for the first time ever all potential beneficiaries (counties and municipalities/cities) will abide to the same inclusive and objective criteria when it comes to apply for money. The present unclear requirements of state aid, which so far have enabled every Government to 'pick and choose' its sub-national partners at its arbitrary will, will be thus replaced by a modern, transparent and uniform national listing of criteria aiming at shifting the 'accent of assistance towards a more proactive set of development measures which in a more direct manner contribute to socio-economic development' (Frohlich 2007: 9). Evidently, European integration sets in place a new structure for managing regional policy which largely contrasts with Croatia's existing setup and as such feeds resistance which in turn leads to the slowdown of national adaptation.

Other scenarios can be thought of as well: apart from unfavourable (informal) institutional variables, actor-based preferences seem to have encouraged such hesitancy as well. Being more precise, the Croatian Government under the immense pressure that sub-national (2005) and general elections (2007) put upon a political system characterised by a striking polarisation, chose to delay the adoption of the (first) draft Law in the fear of losing power at both levels (personal communication with Vedran Djulabic, April 2008). In other words, the 2006 envisaged adoption of both documents got sacrificed by the incumbent Government's short-eyed considerations. Being placed chronologically among two electoral campaigns the draft Law was inevitably doomed to be sidelined as the MSTTD did not want to mobilise strong and outspoken regional *lords* (i.e., county prefects) against the Government. Some county prefects, who meanwhile got empowered pursuant to the new LLRSG (2001) decentralisation provisions, obstructed the espousal of the draft Law in question in fear that the latter will ultimately set a new playing field for regional development and as such challenge their entrenched advantages. As a result, the acceptance of the LRD was postponed and transferred to the new Sabor's mandate starting at January 2008.

The 2007 general elections were also characterised by a significant shift in the overall political discourse with respect to the issue of regional development policy. Almost all

Croatian parliamentary parties, save the renowned of its anti-regionalist policies HDZ, were advocating the establishment of a distinct department of regional development under the bitter realisation that negotiations on the respective Chapter 22 have not been initiated and there were no signs that the Commission was keen on opening the talks. Given the fact that substantial profit or loss of Structural and Cohesion monies is at stake, interest groups and initially hesitant political elites were finally alarmed. The so-called 'yellow-green' coalition (Croatian Peasants' Party (HSS)-Croatian Social Liberal Party (HSLs)), was strongly advocating regional development politics setting as its post-electoral requisite for cooperation with HDZ the formation of an institutionally distinct Ministry of Development, should it participated in the new cabinet. The same holds true for the Independent Democratic Serbian Party (SDSS) which strongly pressed HDZ leader and Premier Ivo Sanader (during the negotiations about the composition of the new cabinet) to consent to the establishment of a special department for regional development. Hence, regional politics reached their apogee during the 2007 elections elevating from a low salience issue to a high one. A further contributing development was the emergence of new forms of bottom-up regionalist initiatives such as the recent creation of Glavas' HDSSB with its successful mobilisation at the level of Slavonia and Baranja (a geographical amalgam of five counties at Croatia's most eastern territory). The said right wing regionalist party proposed a new territorial organisation of the country accompanied by claims for further political autonomy and self-administration in line with the European principle of subsidiarity and the concept of 'Europe of the regions'. Evidently, HDSSB used the European discourse of multi-level governance in order to legitimise its advocacy for territorial reforms, making hence a clear association between regionalisation and Europeanisation. The fact that the said party has a special office in Brussels pinpoints additionally to its affiliation with the EU organisations and practices as it can directly lobby the latter overriding henceforth the central level (personal communication with Jaksa Puljiz, February 2008).

Prime Minister Sanader, despite his party's evident displeasure to anything 'regional', not only ultimately concurred, under the immense pressures exerted upon him by all his potential coalition partners, to the formation of a special Ministry of Regional Development, Forestry and Water Management (hereinafter MRDFWM) but also to the creation of distinct Deputy Prime Ministerial office for Regional Development, Reconstruction and Return headed by a SDSS parliamentarian. Milorad Pupovac's (vice-president of SDSS) words corroborate at large our hypothesis. When asked if it is realistic to expect a special department for regional

development, considering that PM Sanader does not favour the idea, he replied that ‘everyone that is participating in the coalition agree that the ministry is needed, and we are not the only ones’ ([www.javno.com](http://www.javno.com); January 9, 2008). In other words, the active mobilisation of both regional and national level political groupings coupled together with persuasive norm entrepreneurs’ steady advocacy for a distinct organisational structure on RD led overtime to the formation of a strong ‘*domestic win-set*’ structure which in the end led Premier Sanader to comply with its objectives. Given the fact that since 2000 all Croatian Governments are coalition associations and hence conducive to consensus-building and burden-sharing politics, PM Sanader’s decision to internalise the proposed domestic structural changes under the fear of losing his office appears largely plausible. In short, the high salience of regional development politics, triggered by the converged interests and preferences of multiple domestic actors, led ultimately to successful structural adaptation and as such to the creation of an *institutional central interface* between the DG Regio on the one hand and the Croatian regional actors on the other.

The new giant MRDFWM is headed by a HDZ parliamentarian (despite strong pressures by the HSS to gain that ministerial seat), pinpointing thereby to PM’s evident attempt to maintain control over this highly delicate policy area. The institutionalisation of a special DP Ministerial seat responsible for RD apart from highlighting the salience of the issue in question, it also means a further compartmentalisation and possible conflict of interest between the two bodies as two previously opponents (i.e., the HDZ and the Serbian SDSS) are forced to co-operate and communicate. However, this de facto co-operative mechanism may eventually lead to the overriding of the predominant culture of confrontation that still characterises at large the transitory Croatian politics. Organisationally the new Ministry is the result of an amalgamation process between the former Ministry of Agriculture, Forestry and Water Management and the MSTTD’s Developmental Sector. Interviews revealed that the new Ministry is considerably understaffed, pursuant to the frequent organisational reshuffles characterising the regional sector, a structural deficiency which coupled together with the persistent sectoralist approach to the issue of development (i.e., the Directorate of Islands remained organisationally within the Ministry of Sea, Transport and Development) complicates considerably the already messy and inadequate absorbing capacity of the Croatian authorities.

With respect to the current status of the NSRD and the draft LRD, Minister Čobanković has requested (following the Commission's critical remarks) the revision of the said documents under the technical assistance provided by the CARDS 2004 'Regional Development Capacity Building Facility in Croatia' project and the Dutch Agency ECORYS. Such a decision was partially dictated by the new reality that the country's NUTS Classification created so in 2007 as well as the Commission's sceptical stance, if not public criticism, as regards the highly legalistic, positivistic and hence detailed nature of the proposed Act. Being more precise, both of these texts need, on the one hand, to include and reflect the country's new statistical division at NUTS II level following Cohesion policy's concrete requirements, whereas, on the other to be as general and as 'framework' as they can, meaning that by-laws (i.e., which are susceptible to easier amendment and do not request parliamentary consent) are needed to effectuate their provisions.

For although the Coalition Agreement (adopted by the Parliament on 12 January 2008) explicitly stated that the (revised) NSRD and LRD would have to be sent for approval/ adoption by Croatian Government and Parliament in the course of 2008, this once again failed to happen. Two main reasons account for such failure: (i) the well-documented administrative shortages within the Development Sector of the MRDFWM<sup>52</sup> (and especially with reference to the Directorate in charge of the revision of NSRD/LRD, the implementation of IPA and PHARE, and the preparations for the SFs, i.e., DIRD); and (ii) the Ministry's decision to order two strategic studies for the evaluation of the potential impact of NSRD/LRD<sup>53</sup>. Due to decision to undertake the said strategic studies and incorporating the results in the revised NSRD, the final drafts of NSRD/LRD were presented to the Croatian Government in December 2008. However, the Government's intention to send these final documents to county and local stakeholders for consultation (within a framework of partnership) has considerably altered the time schedule of adoption. In the meantime, Slovenia's tough stance towards Croatia on a bilateral cross-border issue has resulted in a formal freeze of accession talks. For although Baroso's Commission has since May 2008

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<sup>52</sup> Like some other parts of the government administration the Directorate for Integrated Regional Development at MRDFWM is confronted with considerable challenges in meeting the tasks in relation to the revision of NSRD/LRD, the implementation of IPA and Phare, and the preparations for the SFs. Given the limited number of staff and several experienced persons that have recently left the DIRD, there was much pressure on the remaining experienced personnel to cope with day-to-day activities, leaving too little time to manage and train younger colleagues and to prepare strategic issues at central and regional level (RDCBF1st Interim Report, 2008: 4)

<sup>53</sup> In the beginning of the first half of 2008 considerable work was done on the revision of the NSRD/LRD. However, on the basis of discussions in the MRDFWM it was later concluded that there was a need to strengthen the analytical base of the NSRD, detail the development priorities for each NUTS II region and evaluate the regional development measures that are currently in use. For that purpose, the Ministry initiated two strategic studies in July, i.e., a study on the development priorities in the wider-region (NUTS II) and an assessment of the measures that have been used to foster the development in lagging areas in Croatia. The studies were undertaken by a consortium of the Economic Faculties of Zagreb and Split (RDCBF2nd Interim Report, 2008: 2)

adopted (after lengthy talks) the Croatian Government's Action Plan for meeting EU Cohesion policy requirements and expressed its willingness to complete the entry talks before the termination of its current mandate (November 2009), Slovenia's blockade has created considerable problems. As of January 2009, the opening of negotiations in Chapter 22 has been postponed despite the considerable progress of the Croatian authorities. In light of these events, the adoption of NSRD/LRD documents is scheduled for the third or fourth quarter of 2009 (p.c. with Dr. Frohlich, January 2009).

## **Conclusions**

This study investigated whether Croatian regional politics (i.e., regionalisation and RDP) are really undergoing a process of transformation pursuant to the country's all-type and excessive degree of misfit and, if so, to what extent 'Europeanisation' is driving this process. The analysis showed a strong and important relation of Croatia's new RDP and of 'Europeanisation' with the extent of establishing a new legal and institutional framework for managing future SF and CF monies and projects, while the coefficients for the 'Europeanisation' variables and for the issue of regionalisation were insignificant.

With respect to the causal weight of 'misfit' in explaining transformation patterns, the analysis pinpoints to its essential validity. A word of caution is in order here, however. For although Croatia's outstanding policy and institutional incongruence with EU RP practice was evident and existent, EU ideas diffusion and adaptational pressures with respect to the adoption of a national strategy on regional development and corresponding single framework law were only manifested after domestic policy-makers and EU officials reached a 'normative consensus' over the necessity of those documents and their related linkage with EU SFs and Cohesion policy requirements. Put simply, grounded on an 'existential' policy and institutional inadequacy domestic epistemic communities socialised and persuaded jointly with EU experts Croatian policy-makers on the need for a new RDP grounded on EU-type regionalism. Thus, as a joint sequential effect of socialisation and conditional incentives, the revised NSRD and LRD endorse and reflect now considerably EU principles and norms. Partly due to the preliminary work of national RP epistemic communities located in EIZ (i.e., CRED 1999) and partly due to accession negotiations, Croatia is about to acquire its first single act capable of systematically addressing problems in regional development for the entire territory.

Therefore, the main conclusions of this study are that ‘Europeanisation’ has reinforced an already existent awareness for a coherent and infused with EU values new Croatian Regional Development Policy framework. Should the NSRD and the related act on regional development be adopted, the EU’s impact would seem significant, multidimensional and groundbreaking. However, the ‘Europeanisation’ effect on the country’s politics of regionalisation pursuant to the NUTS system is regarded as being but minimal. For although Croatia has introduced by 2007 a classification establishing three statistical and planning ‘wider-regions’ at NUTS II level, in line with the relevant regulations and with the Commission’s recommendations, no administrative or political bodies have been thus far established in that level. Croatia has opted for a centralised management of IPA funds and there legitimate speculations that the same centralised structure will manage post-accession SFs and CF monies and projects. As regards the European principles of subsidiarity and partnership, they remain inadequately institutionalised since the NSRD/LRD are not yet officially adopted.