Governance and Local Economic Development: In search of an appropriate governance structure in Croatia

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1. Theoretical basis for local and regional economic development
2. The institutional framework for local economic governance in Croatia
3. Local economies and economic governance in Croatia
4. Fiscal capacities for local economic development
5. Conclusion - local economic governance structures in Croatia
1.1 Specificities of locations in regional development theory

- Fundamentals of contemporary regional development theory - concentration and agglomeration, importance of institutions and structural considerations
- Recognition of economic importance of certain locations (regions) and their developmental effects/impacts on the surrounding territory (positive & negative)
- Focus has shifted towards complex relations of competitiveness, cohesion and sustainability

1.2 Governance and good local governance defined

- Governance - "the exercise of political, economic and administrative authority to manage a society’s affairs" (UNDP, 1997)
- Good governance - emphasis on characteristics reflecting values and principles, norms and practices that derive from putting people first and at the centre
- Good local governance - institutional system for managing local public affairs, characterized by three dimensions: performance, participation, partnership (“3 P”, Romeo, 2002)
1.2 Governance and good local governance defined – cont.

- **government** became more variegated within different levels of government (Carmichael, 2002)
  - horizontally differentiated, provided by multiple agencies;
  - vertically differentiated, conducted on multiple levels
- **multi-level governance** stresses the complexity of policy making, implementation and responsibilities among different governmental and societal actors in their activities on different levels
- **Changes in governing** towards multi-level governance are a result of changes in the modes and nature of public sector activities

2.1 The administrative-territorial structure of local governments in Croatia

- **1992** – Law on local self-government and government (cities and municipalities, counties - dual status)
- **2001** - new Law on Local and Regional Self-Government (LLRSG)
  - regional self-government – 20 counties + city of Zagreb
- **Main changes**: new role of counties – dual status abolished, new deconcentrated offices of national government on county level
2.2 The territorial size and population of the units on different government levels

- **Croatia - continental surface** 56.5 th. km² and 31.4 th. km² Adriatic Sea;
- **Total population** 4.4 mil.; average density 78 inh./km²
  - Max.: 1. city of Zagreb (1,217 inh./km²); 2. County of Medjimurje (162 inh./km²);
  - Min.: County of Lika-Senj (10 inh./km²)
- **Concentration of inhabitants in 4 cities (>100,000):** Zagreb, Split, Rijeka, Osijek
- **Differences in GDP** - 53% of national GDP produced in 4 counties: City of Zagreb (30%), Primorje-Gorski Kotar (8%), Split-Dalmatia (8%) and Istria (6%)
2.3 Functions of local governments

- **LSGs** should perform tasks of local importance, which directly address the needs of citizens, and which are not assigned to state bodies by the Constitution or by law;
- **RSGs** should perform tasks of regional importance, and cities >30,000 inhabitants can provide services that are county responsibility, if they have sufficient resources for their provision;
- **Economic development**, as a task is not explicitly a task of local self-governments, but a task of counties (RSG), while many LSGs are active in economic development.

**LLRSG only lists mandatory functions of local and regional self-governments**

- Details on actual responsibilities of levels of government defined in **broad number of special laws, by-laws, regulations**
- As many **responsibilities** are **shared** between levels of government, **implementation problems** on local level are common due to unclear definition, lack of communication, frequent changes or financing is not ensured.
3.1 Employment and active companies across sectors and counties

Croatia - Active population by counties (2001)

Croatia - Unemployment rates by counties (2001)
Croatia - Employment structure by sectors (2001)

- Public sector: 24%
- Services: 44%
- Agriculture: 3%
- Manufacturing: 29%

City of Zagreb - Employment structure by sectors (2001)

- Public sector: 26%
- Services: 71%
- Agriculture: 1%
- Manufacturing: 23%

Šibenik-Knin - Employment structure by sectors (2001)

- Public sector: 30%
- Services: 43%
- Agriculture: 1%
- Manufacturing: 26%

Šibenik-Knin - Legal entities by sectors (2001)

- Public sector: 19%
- Services: 72%
- Agriculture: 2%
- Manufacturing: 12%

Virovitica-Podravina - Employment structure by sectors (2001)

- Public sector: 21%
- Manufacturing: 41%
- Agriculture: 12%
- Services: 26%

Virovitica-Podravina - Legal entities by sectors (2001)

- Public sector: 5%
- Services: 56%
- Agriculture: 5%
- Manufacturing: 18%
### 3.2 Economic performance on county level

**Regional GDP per capita (USD) and Export/Import of goods - coverage (2001)**

- Graph showing the distribution of GDP per capita across different regions.
- Each bar represents a different region, with the height of the bar indicating the GDP per capita.
- Graph showing the export/import coverage, with different regions plotted along the x-axis and coverage values on the y-axis.

#### Sisak-moslavina - Employment structure by sectors (2001)

- **Services**: 30%
- **Manufacturing**: 44%
- **Agriculture**: 3%
- **Public sector services**: 23%

#### Sisak-moslavina - Legal entities by sectors (2001)

- **Public sector services**: 14%
- **Agriculture**: 1%
- **Manufacturing**: 11%
- **Services**: 74%
3.2 Economic performance on county level

<table>
<thead>
<tr>
<th>City</th>
<th>Exports</th>
<th>Imports</th>
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<tr>
<td>Istria</td>
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<td>Šibenik-Knins</td>
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</tbody>
</table>

3.3 Local economic governance in Croatia

- Legislation – prepared, adopted and managed at national level
- Implementation – top-down (deconcentrated national institutions, government offices) or delegated to RSGs or LSGs
- Economic development programmes - implementation managed across levels of government
  - SMEs – domain of LSGs and RSGs
  - Big industry – domain of the national government
4.1 Fiscal analysis based on the consolidated general government data

- LSGs that are more developed and have economic advantages due to concentration of businesses are in better position to collect more revenues
- Strength of the major urban centres was considered first phase of decentralization in 2001–2003 LSGs (out of 546) and all RSGs
- Though decentralization initiated, no significant changes in local fiscal data occurred
  - Share of local budget revenues in consolidated general government budget in % of GDP was 5.2% in year 2000 and 4.7% in 2003*

* Data only for 32 LSGs and counties (approx. 70% of total)

4.2 Fiscal capacity of the local government in Croatia

- On aggregate level for all LSGs, the share of cities/towns in total revenues was 73% and counties only 13%
- With regard to capital revenues and expenditures, most significant share generated by the cities/towns
- Counties received 49% of the total grants for all local governments and can not cover current expenditures with current revenues
- 66% of public officials work in cities/towns and only 10% in counties
4.2 Fiscal capacity of the local government in Croatia – cont.

- On the case of 3 counties and their centres (Virovitica-Podravina, Sisak-Moslavina, Šibenik-Knin) – assumption confirmed that counties are weak compared to their centres
- Total revenues of the all cities/towns in the counties significantly exceed the total revenues of the respective county self-governments
- Šibenik and Sisak managed to collect alone more revenues than their RSGs (Virovitica 28.3 mil. HRK, Virovitica-Podravina county 35.9 mil. HRK)
- All 3 towns have more staff than their RSGs

Conclusion - local economic governance structures in Croatia

- Cities/towns that keep the position of the county economic center are clearly stronger and more able to take care of local economic development than the county administrations
- Growth poles can be identified: Zagreb, Split, Rijeka, Osijek and other regional centres Šibenik, Sisak, Virovitica
- By ignoring the important development role of urban centres and relying on institutionally weak counties, it is not surprising that local economic governance structures are not adequately set up to foster development throughout the country.