

KARLO KOSTANJEVEC¹

Croatia: A country study

The current public finance system and territorial organization of Croatia emerged during early 1990s when country gained its independence. Croatian public finances and multi-level governance are centralized and are accompanied with fragmented three-tier territorial organization. In the Croatian context this is concretely reflected in three distinctive facts: firstly, 90% of all financial resources are located at the central government level; secondly, public functions are mostly in the hands of central government and thirdly, there are 577 subnational units in Croatia, of which 71% are smaller than 5000 inhabitants (the number which is considered to be the lower limit for providing minimum public services at minimum quality). Additionally, there is an obviously weak fiscal autonomy of subnational units in Croatia and that is exemplified in the fact that the Croatian subnational units have no authority in the tax-base and tax-rate determination except in the area of one tax: rate on the use of public surface (which is less than 1% of subnational revenues). The causes of this problematic situation are numerous, but most usually mentioned causes are: Croatian War for Independence 1991–1995, inherited centralistic elements from Yugoslavia and political calculations of Croatian political elites. Due to the centralization in Croatia, problems in public service provision and problems of debt and deficit caused by the recession that started in 2008 are mainly on the central government level and not on the subnational level. This fiscally centralized and territorially inefficient structure was addressed through the decentralization policy since 2001, but as the situation largely remained the same, the policy is considered a failure. Previous literature has widely acknowledged this failure, however the question of why and how this policy failed remained mainly unanswered. In order to also answer this important question, this paper uses qualitative methods and demonstrates that the sources of policy failure were twofold: 1. flaws in the formulation stage of the policy, and 2. structural-underlying effects of local political-clientelism and centralism present in the system.

¹ Institute of Public Finance Zagreb; e-mail cím: kkostanjevec@yahoo.com.

Description of the country

Croatia (officially: Republic of Croatia) is a unitary democratic parliamentary republic situated in Europe. Croatia stands at the crossroads of Central Europe, Southeast Europe, and the Mediterranean. The Croatian history dates back to the early part of the 7th century AD when Croats arrived in the area of present-day Croatia. The Croatian Kingdom in Middle Ages was founded in 925, and after 1102 Croatia was a part of various political organizations: personal union with Hungary, a part of the Habsburg Empire and the Austro-Hungary Empire. After 1918 Croatia was a part of the Kingdom of Yugoslavia. During World War II a fascist puppet state existed, and after Second World War Croatia was a federal constituent of Second Yugoslavia. In October 1991 Croatia became an independent state. In recent history Croatia became a member of the European Union (EU), United Nations (UN), the Council of Europe, NATO, World Trade Organization (WTO) and is a founding member of the Union for the Mediterranean.

The Croatian capital city is Zagreb, which forms one of the country's primary subdivisions, along with the twenty counties. Croatia covers 56,594 square kilometers (89,810 square kilometers with the Adriatic Sea) and has diverse, mostly continental and Mediterranean climates. The country's population is 4.28 million, most of whom are Croats (90,4%), with the most common religious denomination being Roman Catholicism.

Croatian economy is mostly service based with tourism as a significant source of revenue during summer. The service sector of the Croatian economy is followed by the industrial sector and agriculture. The state controls a significant part of the economy, with substantial government expenditure. The European Union is Croatia's most important trading partner. Internal sources produce a significant portion of energy in Croatia while the rest is imported. Croatia provides a universal health care system and free primary and secondary education. Croatian GDP (PPP) in total is \$80.620 billion and per capita GDP (PPP) amounts to \$18,314. The International Monetary Fund classified Croatia as an emerging and developing economy, and the World Bank identified it as a high-income economy. Furthermore, Croatia has a high Human Development Index.

Multi-level governance in Croatia

Process that created the current state of multi-level governance in Croatia

Croatian multi-level governance can be described as centralized in two ways. Firstly, this means that public finances in Croatia are centralized, i. e. 90% of all financial resources are located at the central government level; secondly, it also means that public functions are mostly in the

hands of central government. There are two distinctive elements which define the creation of this problematic centralization. The first peculiarity is related to the fact that the end of the 20th century is marked with the decentralization wave in the world (Oates 1999: 1120). In order to improve the performance of the public sector, both developed and developing states are increasingly turning to the policy of decentralization (Oates 1999: 1120; Ebel – Yilmaz 1999: 3). This process was particularly visible in the ex-socialist countries of Central and Eastern Europe in the context of achieving standards of market economy and democracy (Bird et al. 1995; Peteri 2002). However, Croatia did not follow this trend and it experienced the opposite process of centralization in 1990s (Petak 2011: 73). The centralization process in independent Croatia decreased the subnational share in total public expenditures from 35% to, roughly, less than 10% (Petak 2011: 73-75). Two main reasons for this centralization process can be identified. First, the extensive war in Croatia in the 1991–1995 period highly centralized the state and public finances (Petak 2006; 2011). Second, the war period induced the central government to promote the national and central-political unity, not leaving much room for local autonomies in the times of war and nation-creation (Petak 2011: 78).

The second peculiarity was the organization of the completely new territorial structure of the country. Croatia inherited from Yugoslavia the territorial structure that consisted of 100 communes and 1 city – Zagreb (Petak 2011: 77). The new territorial organization established 21 regional counties, 418 communes and 69 cities (this number increased even further afterwards) and it was organized in a way that “enabled the ruling elite a much easier control over the territory, because a number of local governments were established with the center right-wing political parties (HDZ, HSS) as ruling political parties” (Petak 2011: 77). The average population of communes fell from 45 000 to 3145 (Petak 2011: 77). Hence, the 1990s territorial reorganization in Croatia was a clear example of gerrymandering and electoral engineering (Koprić 2014: 13). Additional to this undemocratic element, it is important to note that until 2001 the governors of the Croatian counties had to be confirmed by the President after the local elections. After 2001, this undemocratic stipulation was canceled, and both local and regional governors are elected in local elections without the need of confirmation from above.

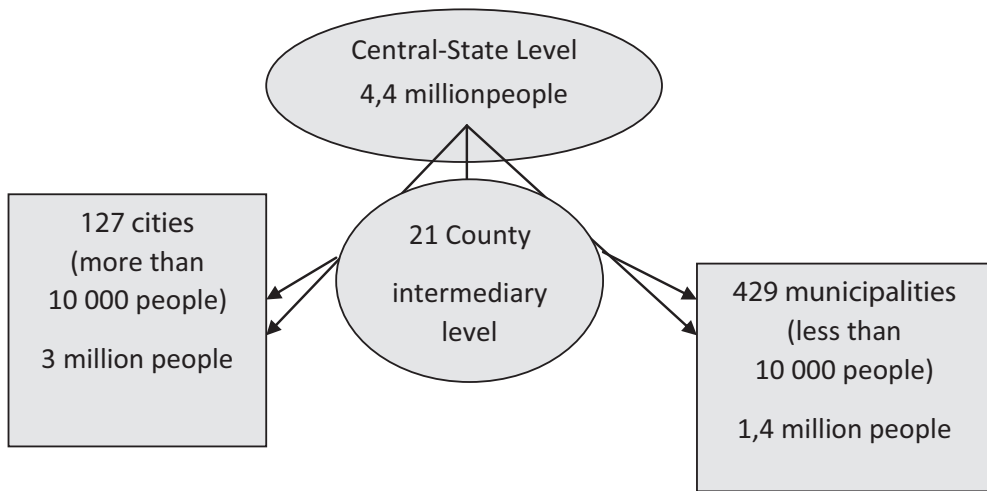
Taking into consideration the size and the population, Croatia has a large number of small subnational units (Bajo 2007: 55). The Croatian subnational units were mostly established based on political motivation and they do not contain functional, economic-fiscal, minimum inhabitant number or expert criteria (Žuljić 2001: 13–16; Koprić 2014: 12; Alibegović 2014). The territory became fragmented, meaning that a large part (35%) of small subnational units are incapable of financing their essential operating expenditures and providing essential public services (Bratić 2008: 142). In Croatia, 71% (around 400) subnational units are smaller than 5000 inhabitants – the number which is considered to be the lower limit for providing

minimum public services at minimum quality (Davey 2002: 35). Additionally, one of the consequences of financially weak and fragmented subnational units is the prevention of the multi-centric development in Croatia (Šantić 2014: 6). Other disadvantages of small fragmented subnational units are: loss of economy of scale, smaller financial capacity (due to a smaller number of taxpayer), loss of autonomy due to need of financial help from central government, lack of professional staff because small subnational units do not have resources to employ external experts and thus rely on the local population, which leads to the increased risk of unprofessionalism, nepotism and corruption (Dobrić 2009: 46–47).

Therefore, two peculiar processes in Croatia created an immense centralization, not only in terms of financial resources, i. e. roughly, more than 90% of financial resources were in the hands of central government; but also in terms of control over a long list of public services that had previously been provided by subnational government (Petak 1992: 104–105; 2011: 77–78).

Current state of multi-level governance in Croatia

As explained, in the early 1990s the three tier territorial structure was established in Croatia, along with centralized public finances. The territorial structure of Croatia is clearly illustrated in *Figure 1*. The first tier of government in Croatia is the national-central government tier that is dominating in most public functions (Konjhodžić – Šuman 2009: 239). Units of local and regional government are established in the second and third tier (Bajo 2007: 54). The second tier consists of counties (županije) with the regional self-government function (Bajo 2007: 54). The third tier is municipalities (*rural communities-općine*), large cities and towns with the local self-government function (Bajo 2007: 54). Moreover, some local areas are declared as being of “special state’s concern” due to economic hardship, isolation and/or the consequences of war in 1990s and they have certain benefits. Additionally, the city of Zagreb also has a special city-county status (Alibegović – Slijepčević 2012: 3). In terms of numbers, Croatia currently has 429 communes and 127 cities and 21 regional counties in 2010 (see *Figure 2*) (Petak 2011: 77). Croatia is a country with relatively small population and declaratively decentralized public administration that is composed of central, regional and local government (Bajo 2007: 54). Furthermore, the central government administration is deconcentrated and is constituted of central offices for public administration in all 20 counties. Although administratively divided in three tiers, the local and regional government is commonly described as “having a limited role” (Petak 2011: 73).

Figure 1: *Administrative – territorial organization of Croatia*

Source: Bajo (2007: 55)

Public service provision in Croatia

As already noted, Croatia is financially centralized, but also, it is centralized in terms of providing public services. The distribution of public functions among levels of government in Croatia is summarized in *Tables 1* and *2*. From *Table 1* it is clearly visible that central government level is present in providing almost all public functions in Croatia, and furthermore, it is dominating in most of it. Only public functions where central government level is not present are: housing and utilities; and recreation, culture and religion. The legislative framework of competencies and the subnational financing of government levels in Croatia are regulated in the Constitution, laws and many regulations. Most important of them are: Law on Local and Regional Self-Government; Law on Financing of Local Units and Law on Budget (Bajo 2007: 54). In *Table 2*, there is a more detailed overview of mandatory functions of Croatian regional and local government units.

Table 1: *Division of functions among different levels of government in Croatia*

	Central government	Municipalities	Cities	Counties
1. General public/ administrative services	•	•	•	•
2. Defense	•			
3. Law and order	•			
4. Education	•	•	•	•
4.1. Pre-school		•	•	
4.2. Elementary	•	•	•	•
4.3 Secondary	•			•
4.4. Tertiary (university)	•			
5. Healthcare	•			•
6. Social security and welfare	•	•	•	•
7. Housing and utilities		•	•	
8. Recreation, culture and religion		•	•	•
9. Agriculture, forestry, hunting and fishing	•			•
10. Mining, industry and construction	•	•	•	•
11. Transport and communications	•	•	•	•
11.1. Road transport	•	•	•	•
11.2. Rail transport	•			
11.3. Air transport	•			
12. Other economic affairs and services	•	•	•	•

Source: Konjhodžić – Šuman (2009: 239)

Table 2: Mandatory functions of regional and local government units in Croatia

Local government level		Regional government level
Municipalities and towns	Large cities and county centers	Counties
<ul style="list-style-type: none"> - community and housing planning - physical planning and zoning - utility services - child-care - social welfare - primary health care - primary school education - culture, physical culture, and sports - consumer protection - protection and improvement of the natural environment - fire protection and civil defense - local transport 	<ul style="list-style-type: none"> - community and housing planning - physical planning and zoning - utility services - child-care - social welfare - primary health care - primary school education - culture, physical culture, and sports - consumer protection - protection and improvement of the natural environment - fire protection and civil defense - local transport - public roads maintenance - issuing of building and location permits 	<ul style="list-style-type: none"> - education - health care - physical planning and zoning - economic development - traffic and transport infrastructure - planning and development of the network of educational, medical, social and cultural institutions - issuing of building and location permits and other document in relation to construction in the county area excluding the area of the big city

Source: Alibegović – Slijepčević (2012: 4)

Financing of public service provision at subnational level

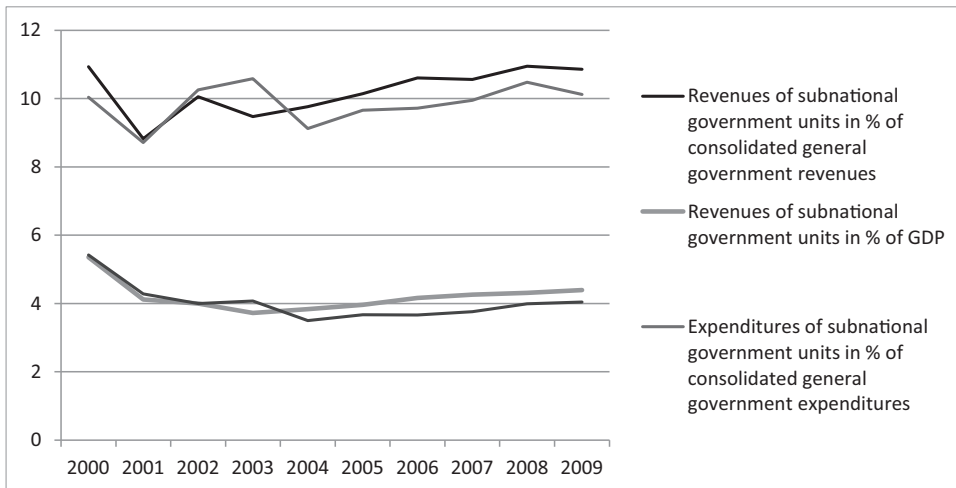
Croatia is fiscally very centralized state. In other words, this means that financing of public functions is mostly done from the central government level and that subnational units have a secondary role. As a signal of the fiscal centralization and the low fiscal strength of subnational units four concrete indicators can be used: the share of revenues and expenditures of subnational government in the revenues and expenditures of the consolidated general government and in GDP (*Table 3* and *Figure 2*). These are one of the most common and most important data for measurement of “the relative importance of sub-national levels of government in the provision of public goods/services” (Konjhodžić – Šuman [2009: 241]; see also: Bajo – Bronić [2004]).

Table 3: Revenues and expenditures of subnational government in revenues and expenditures of the consolidated general government and in GDP

Year	Revenues of subnational government units			Expenditures of subnational government units		
	Outturn in Thousand Croatian Kuna's	In % of consolidated general government revenues	In % of GDP	Outturn in Thousand Croatian Kuna's	In % of consolidated general government expenditures	In % of GDP
2000	8,155,966	10,93	5,35	8,263,723	10,04	5,42
2001	6,953,953	8,82	4,12	7,321,974	8,71	4,28
2002	8,332,799	10,05	4,00	8,335,141	10,25	4,00
2003	8,456,146	9,47	3,72	9,239,693	10,58	4,07
2004	9,407,683	9,76	3,83	8,599,052	9,12	3,50
2005	10,458,468	10,14	3,96	9,713,927	9,66	3,67
2006	11,901,172	10,60	4,16	10,469,573	9,72	3,66
2007	13,379,019	10,56	4,26	11,819,047	9,95	3,76
2008	14,747,477	10,95	4,31	13,650,745	10,48	3,99
2009	14,615,102	10,86	4,39	13,460,196	10,12	4,04

Source: Alibegović – Slijepčević (2012: 21)

Figure 2: Croatian subnational government in revenues and expenditures of the consolidated general government and in GDP

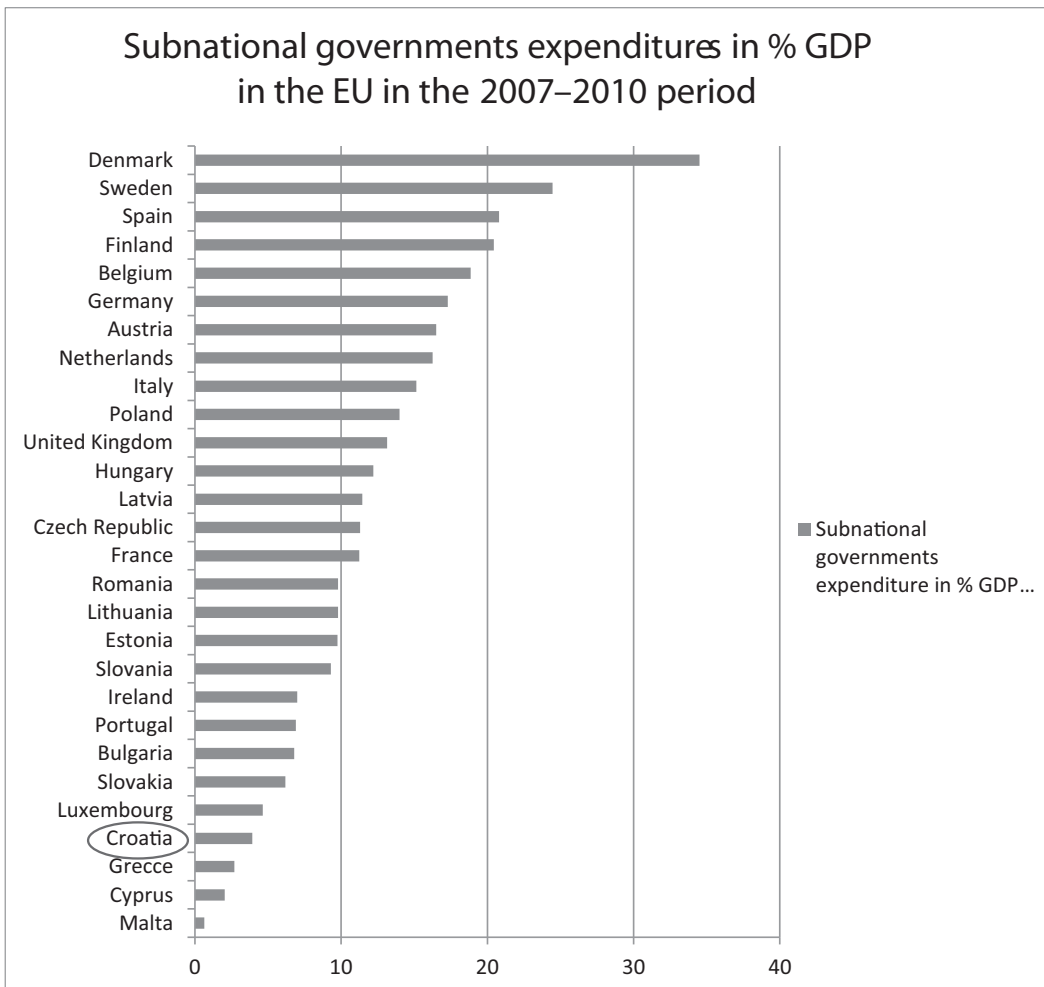


Source: Alibegović – Slijepčević (2012: 22)

From the *Table 3* and *Figure 2* it is clearly visible that the share of revenues and expenditures of the Croatian subnational government in the revenues and expenditures of the consolidated general

government and in GDP is low. Subnational revenues and expenditures make only around 9–10% of revenues and expenditures of the consolidated general government. Furthermore, revenues and expenditures of Croatian subnational government make only around 4% of the Croatian GDP in the period between 2000–2009. As Konjhodžić and Šuman conclude: the share of the Croatian subnational government in the revenues and expenditures of the consolidated general government and in GDP “confirm the fact that very low degree of decentralization has been achieved in Croatia...” (2009: 255). Hence, the presented “data clearly show that Croatia is still a highly centralized country” (Alibegović – Slijepčević 2012: 22). The degree of centralization in Croatia can also be observed from the comparative perspective, as shown in *Figure 3*.

Figure 3: Croatian subnational government in comparative perspective



Source: Alibegović – Slijepčević (2012: 21); European Commission, Economic and Financial Affairs, Workshop (2012: 5)

Revenues of the subnational units in Croatia

Subnational units in Croatia generate revenues through: own sources, shared taxes, grants and borrowings (Alibegović – Slijepčević [2012: 7]). *Table 4* contains a brief summary of the current system of subnational government financing in Croatia.

Table 4: *Review of revenue sources of subnational units in Croatia*

Tax revenues	Municipal, town and city taxes: Surtax on income tax Consumption tax Tax on vacation homes Tax on firm or name Tax on the use of public surfaces County taxes: Tax on inheritance and gifts Tax on motor vehicles Tax on boats and vessels Tax on gambling machines
Nontax revenues	Revenues of local government units' for which the purpose is set in advance (roughly 20 local government nontax revenues such as charges and fees).
Capital revenues	Financial asset revenues (profit revenues of municipal owned company) Non-financial asset revenues (rental revenues)
Shared taxes	1. Personal income tax: Central state – 0% 3 type of distribution: Standard Distribution: 15% county; 52% municipality/city; 12% government level that have taken decentralized functions; equalization fund 21% Capital city: 79% Zagreb; equalization fund 21% Areas of special national concern (war damaged areas, hill and mountains areas, islands): 10% county; 90% municipality/city 2. Tax on real estate transaction: Central state – 40% Municipalities and towns – 60%
Grant revenues	Grant revenues from the state budget (personal income and profit tax returns) allocated to the subnational units which belongs to the “special state concern” area. Grant revenues from the state budget to the subnational units for the local development projects. Grant revenues from the state budget as equalisation fund allocated to the subnational units for financing decentralized functions.
Borrowing	Requisite of the previous approval by the Croatian Government for sub-national government borrowing. Total borrowing limits for subnational governments: up to 20% of outturn of current revenues and up to 2.3% of outturn of current revenues of all sub-national government units

Source: Alibegović – Slijepčević (2012: 7); Konjhodžić – Šuman (2009: 250)

Most importantly, subnational government own-autonomous revenue sources in Croatia include: income from county, city, town or municipal taxes; from fees, fines and charges collected within their area; and income from subnational governments' own property (Alibegović – Slijepčević 2012: 8). However, there are two main indicators of weak fiscal autonomy of subnational units

in Croatia. Firstly, the Croatian subnational units have no authority in the tax-base and tax-rate determination except in the area of one tax: rate on the use of public surface – which is less than 1% of subnational revenues (Alibegović – Slijepčević 2012: 8). The rates of non-tax revenues are set by the subnational units but are earmarked for certain purposes and (communal) expenditures and are within the limits stipulated by the central government and, thus, cannot be perceived as the best example of autonomous revenue (Bajo 2007: 60-61; Alibegović – Slijepčević 2012: 9). Secondly, as Alibegović and Slijepčević indicate, the most important revenue sources of the subnational units in Croatia are: tax revenues which are primarily shared with and determined by the central government (61,1%), subsequently, non-tax revenues (18,4%) and then grants (8,7%) from the state government (2012: 12–14). This structure also shows weak fiscal autonomy of the subnational units. Much more than half of the total subnational government revenues consist of revenues completely outside of subnational governments' reach (Alibegović – Slijepčević 2012: 19). Moreover, there is a problem of uneven financial capacities of Croatian subnational units. This problem is confirmed in following figures: all 429 municipalities generate only 15,8%, all 20 counties only 15,4%, 126 cities/towns 39,9% and Zagreb alone generates 28,9% of total subnational revenues (Alibegović – Slijepčević 2012: 14). Nevertheless, all subnational units (except cities over 35 000 people) have equal responsibilities (Alibegović – Slijepčević 2012: 26). Regarding the borrowing of subnational units it can be said that there is no problem of debt on the subnational level and that the debt is centralized on the central government level. The most important factor causing this are stipulations and limitations on subnational borrowing which are presented in the *Table 4*. Thus, the financing of public functions – even those that are declaratively in the jurisdiction of subnational government – is still mostly done from the central budget revenues (Alibegović 2012: 19–23). In practice, this means that decisions about public money in Croatia are still made at the central level (Bratić 2008: 152).

Effects of economic downturn

The centralization of public finances in Croatia also has a consequence regarding the effects of economic downturn that started in Croatia in 2008. In the last decade Croatian economy was marked by two opposite trends: moderate growth until the start of the recession in 2008–9 (in the 2005–2008 period GDP grew at an average rate of 4.1% per year) and significant and concerning economic downturn since the start of the recession (in the 2009–2013 period GDP was falling at an average rate of 2.5% per year) (World Bank 2014). Croatia was severely hit by the recession and it lost around 12% of GDP until 2014. The effects of mentioned economic downturn are mostly visible on the central government level. Subnational finances were not loaded with new extreme problems, such as huge deficits, debts or bankruptcies. These and similar public finance

problems are centralized in Croatia. This is highlighted in the growth of the state's public debt at the central level. At the end of the 2009 the public debt was around 35% while at the end of the 2014 it is 68% (Savić 2014; Sopek 2010). The size of the debt is still not critical, but what is critical is the rate at which the debt is growing. The main reason of such a concerning debt-growth rate are larger deficits since the 2008. These deficits are mainly caused by the lack of the adjustment in the expenditures in the public budget. In other words, main public services that are, as described, in the competence of the central government – most importantly: healthcare, social security and welfare, education, expenses of public administration – are provided at the same expenditure level as before. Therefore, the same level of expenditures on the public services coupled with lower revenues of the public budget due to the economic downturn is producing the accumulating deficit that is, after 6 years, clearly manifesting itself in the 30% increase of public debt in Croatia. In summing this up it is important to highlight two important factors: first, all public services in Croatia are virtually in the central government jurisdiction; and second, the issue of borrowing and debt is also centralized in Croatia. These two factors have simple consequence regarding the economic downturn: problems of debt, deficit, public service provision and similar caused by the recession that started in 2008 are mainly on the central government level and not on the subnational level.

Public policy attempt regarding the Croatian centralization

No significant change happened in Croatia regarding the centralization of public finances and territorial organization in the last decade. Exactly this lack of reform is the main problem. However, Croatian government launched the policy attempt to reform centralization and territorial organization of Croatia in 2001 that ended in failure. In sum, based on primary sources² and secondary literature sources (Petak 2011; Konjhodžić – Šuman 2009; Alibegović – Slijepčević 2012; Koprić 2008), the decentralization policy in Croatia had two main goals:

- first, to endow subnational levels of government in Croatia with new functions and tasks in five areas: primary and secondary education, social welfare, healthcare and fire fighting,
- second, to create a certain degree of fiscal decentralization by allocating new financial resources to subnational levels of government so they can perform newly assigned functions.

² The most important primary source regarding the Croatian decentralization policy is the Law on Local and Regional Self-Government (2001) passed in July 2001 in Croatian Parliament after which the decentralization policy was initiated. Important primary sources for individual areas of the decentralization policy are also: Law on Primary Education (2003); Law on Secondary Education (2003); Law on Social Welfare (2013); Law on Obligatory Healthcare (2013); Law on Firefighting (2004).

If we conceive that policy fails “if it does not achieve the goals [...] set out to achieve” (McConnell 2010: 356) than the decentralization policy in Croatia can essentially be understood as a policy failure (see for the same conclusion: Konjhodžić – Šuman 2009; Alibegović – Slijepčević 2012; Petak 2011; Bajo – Bronić 2004; Koprić 2014). Unfortunately, although even described as “the most favored reform policy priority among the Croatian politicians of all options” (Konjhodžić – Šuman 2009: 233) the decentralization policy in Croatia did not achieve two above mentioned goals.

First goal, assigning new responsibilities in providing public functions/services at the subnational level was unsuccessful due to the fact that only 54 units of subnational government out of 576 accepted new responsibilities (Alibegović – Slijepčević 2012: 5). The failure is even more obvious in the following quantitative indicator: only 9% of the total number of subnational units in Croatia accepted new functions. Another 91% of subnational units simply rejected the administration of intended public services (Petak 2011: 79). The initial intention in 2001 was to further decentralize public services in the future. However, “most of the existing (...) public functions are still under jurisdiction of the central state” (Alibegović – Slijepčević 2012: 23).

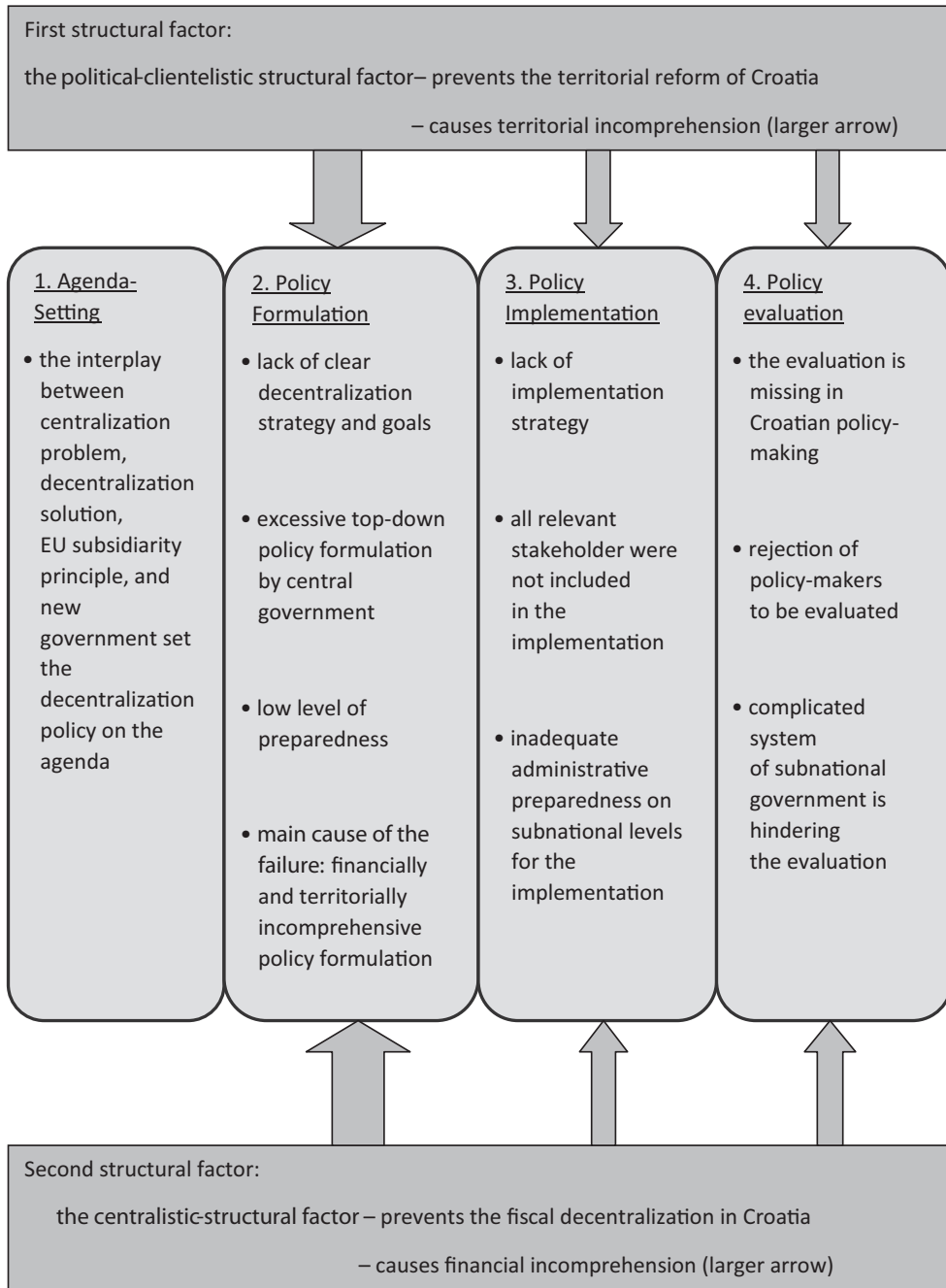
Failure in the first goal is linked with the failure in the second goal of the decentralization policy – the policy failed to endow more fiscal resources to subnational units. Hence, subnational units do not have enough resources neither they have enough autonomy to truly accept new responsibilities. The tax-base and tax-rate determination of the Croatian subnational units did not increase and it stayed the same as described. Likewise, the increase of subnational government units’ ratio in total government revenues, expenditures and in total GDP of Croatia also did not happen.

Taking into consideration these facts, the important question arises: why and how did Croatian decentralization policy fail? There are two main reasons of failure, hence, there can be two streams of explanations of this failure. The first stream will be explaining the failure from the policy cycle perspective.³ There were numerous flaws in the policy cycle of the decentralization policy in Croatia that contributed to the overall policy failure. The second stream of explaining the decentralization policy failure in Croatia will be concentrated on, what will be termed as, *structural factors*. It is inspired by the structure-agency dichotomy in social sciences, where the structure is the context, conditions and external frame surrounding, limiting and influencing the actions of actors and events surrounding them (in our case, around the Croatian decentralization policy) (see Marsh – Stoker 2002: 271–292). This stream can be understood as additional explanation besides policy-cycle stream explanation, which is justifiable if we know that every “policy has multiple dimension” (McConnell 2010: 345) and that the policy cycle model has often

³ Policy cycle perspective is the idea that the process of a certain policy can be divided into discrete stages (Werner – Weigrich 2007: 43). According to the policy cycle framework, the common model of a policy process is as follows: 1. Agenda-Setting; 2. Policy Formulation and Decision-Making; 3. Implementation; 4. Evaluation and Termination.

been productively combined with other approaches (deLeon 1999: 26–27). The main purpose of employing the structural explanation is to include factors that also contributed to the failure but are less linked with failures in the policy cycle process. The two reasons of failure of the Croatian decentralization policy are summarized in *Figure 4*.

Figure 4: Summarized answer on the question: why and how did the Croatian decentralization policy fail?



In the *Figure 4* it is possible to see two main sources of the policy failure in the Croatian decentralization policy: first, the mistakes done by policy makers in each policy cycle of the Croatian decentralization policy; and second, two structural factors that were partially causing and partially promoting these mistakes. Firstly, policy-cycle source of the failure starts with the agenda setting stage where the interplay between centralization problem, decentralization solution, EU subsidiarity principle and new government set the decentralization policy on the agenda. In this first stage there was no main source of the policy failure, but the external pressure from the EU and not the inherent Croatian initiative for decentralization could explain the lack of motivation for the true decentralization policy in Croatia. Second stage of the policy cycle is the main source of the policy failure, due to the following factors: formulation of the decentralization policy in Croatia lacked clear decentralization strategy and goals; there was an excessive top-down policy formulation by central government and low level of preparedness. However the *main cause of the failure was* financially and territorially incomprehensive policy formulation. Decentralization is not just assigning new responsibilities to subnational levels. The decentralization reform in every context is a protracted, difficult and extensive policy reform which requires a comprehensive but clear program and sustained determination (Davey 2002: 35; Petak 2002: 2). None of this was present in the Croatian case. Based on interviews (interviews by the author with Alibegović, Bajo, Koprić, Petak, Primorac) and literature especially dedicated to decentralization reform in Central and Eastern Europe (Davey 2002) the Croatian decentralization package was incomprehensive in two main aspects.

The first incomprehensive factor can be named “financial”. Not enough financial resources were transferred to subnational levels of government and their share in overall state’s revenues, expenditures and in GDP stayed the same. The second incomprehensive factor can be understood as “territorial”. The decentralization policy in Croatia did not include the reform of the territorial structure that is fragmented, expansive, unsustainable and with too many small subnational units without adequate financial capacities (see Alibegović – Slijepčević 2012; Žuljić 2001). Although often invoked as “having negative consequences” (Konjhodižić – Šuman 2009: 235), territorial reform was not included in the policy. The un-comprehensive nature of Croatian decentralization is also confirmed from the theoretical point of view by Davey (2002), who mentions territorial structure reform, finance reform and assignment of competencies reform as parts of any viable decentralization policy. Only one of these three reforms happened in Croatia: the transfer of competencies in five areas.

The incomprehensiveness of the Croatian decentralization package in the financial and territorial aspects *causally prevented the success of decentralization reform*. As explained by one of the interviewees, this is due to: “if the decentralization policy reform in Croatia is ever to succeed, it needs to go in one of the two directions: it either needs to increase the financial

resources of subnational units⁴ so they can finance their greater responsibilities and tasks in new areas; or decentralization reform needs to decrease the number of subnational units and extensively merge many of them in order to increase their financial capabilities⁵ so they can finance greater responsibilities in that way” (Koprić, interview). However, as the Croatian decentralization policy-maker in the central government did not set on and start any of two mentioned directions, the reform was destined to become a policy failure from the beginning of its formulation phase. Furthermore, deficiencies in the implementation and evaluation phase of the policy, such as the lack of implementation strategy, inadequate administrative preparedness on subnational levels for the implementation and the lack of the evaluation in the Croatian policy-making aggravated the problem even more.

In the previous analysis of the flaws in the policy cycle of the decentralization policy in Croatia, most of the factors contributing to that failure were explained. However, there are still some other elements which also contributed to the decentralization policy failure. The two most important structural factors for our purpose will be highlighted.

The first and the most important structural-underlying factor contributing to the decentralization failure in Croatia is what will be termed as *the political-clientelistic system structural factor*. This is the main reason that the decentralization policy formulation did not include territorial reform of Croatia. It has to do with “vested interest” problem, which is not unusual in decentralization reforms (Davey 2002: 35). Every subnational unit in Croatia, no matter how small, has at least 5–10 employees (Bajo, interview), who are very often employed as local associates of political parties due to their various political connections (Petak, interview). This also has a certain social function because some people are employed and are receiving a salary that otherwise they would not (Bajo, interview). The consequence of this is a strong opposition to abolition and/or merging of subnational units to an economically reasonable number, because that would imply the reduction of subnational political employees and the loss of future political leverage for political parties (Petak, Koprić, Alibegović interviews). As Koprić (2014) emphasizes: many interests at all levels of government and society are connected to the existing territorial structure in Croatia. The survival of numerous subnational units is important for minimally 100 000 people (alderman, subnational governors and public

4 In this case, the most direct way to increase the subnational financial resources would be to transfer larger amounts of central government revenues (e.g. some of the taxes) to subnational levels.

5 In this case, the most direct way of increasing the subnational revenues in Croatia would happen through merging the subnational units. This would increase the size and population of every subnational unit. Consequently, the number of tax-payers in every subnational unit would also increase (increasing the subnational revenues) and would have an economy of scale effect (decreasing the average cost of providing the same public service because of the larger number of users). It is not in vain to repeat that at the beginning of 1990s Croatia had 101 and not 577 subnational units – the territorial structure that was “quite modern” (Koprić 2014: 10).

officials) plus the interests of [national] political parties whose alderman, governors and public officials are in question, along with institutional interests of subnational units' associations, entrepreneurs with formal and informal connections with numerous subnational units, central government officials that could feel the consequence of eventual territorial reform and many other (Koprić 2014: 11–12). Overly detailed and simultaneously vague regulations and “open channels” allowed them to easily influence national decisions (Koprić 2014: 12). Therefore, the “lack of political will” (Šantić 2014: 3) to make the necessary changes regarding the decentralization issue is now more understandable.

The second structural reason hindering the decentralization policy in Croatia is what will be termed as *the centralistic-structural factor*. This is the main reason why the decentralization policy formulation did not include larger transfer of financial resources from central to subnational units. As Šantić reports, there are obvious “centralistic tendencies of Croatian political elites” (2014: 7) The centralistic framework is inherited from the centralistic ruling tendencies in the Austro-Hungarian and the communist Yugoslavian state, but is also a consequence of the late state-creation in Croatia as states tend to adopt centralism initially (Šantić 2014: 7; Petak 2002).

However, there is also a more material reason for centralism in Croatia: there is a fear of central government that it will lose the dominant role in decision-making and in the distribution of resources in the context of corruption and clientelism between central and subnational levels of government (Šantić 2014: 7). As one of the interviewees reports: “in one hand, there are a great deal of weak and helpless subnational units and, on the other hand, high central government official (like ex-prime minister Ivo Sander) who like to present them-self like persons who ‘solve the problems in Tito style’ in order to improve their political prestige. Thus they distribute resources arbitrarily to many subnational units for expenditures such as repairing the roofs of the churches – and that created a system of interdependence, mutual benefit and capillary corruption” (Koprić, interview). Naturally, this is a particularly productive way of getting the central government grants, if the subnational government is the same party as the central government (Primorac, interview; Koprić, interview). The centralistic mannerism is also visible in the fact that Croatian decision-makers were not eager to implement models “prepared by various policy experts sitting outside the government” (Petak 2011: 80). Instead those policy models in Croatia are mostly used for “symbolic usage” (Petak, interview). The centralistic tendencies and opposition to decentralization regarding the public finance system are also present in the Croatian Ministry of Finance (Koprić 2008: 118) – something that is often present in decentralization policy reforms (Davey 2002). Šantić justifiably highlights the centralistic political culture in citizens who did not extensively pressure the central government with decentralization requests (2014: 7).

Additionally, many subnational government units are not interested in decentralization.

This is either due to their awareness of insufficient subnational capacities or due to fact that decentralization would “imply more responsibilities and work for the same payment” (Koprić, interview) – something for which subnational public officials are not too eager (Koprić 2008: 117). Finally, a most recent structural reason preventing the fiscal decentralization is the contemporary economic crisis, which prevents the indebted central governments to allocate more resources out of its own budget to subnational budgets (Šantić 2014: 8). All of these “centralistic tendencies” prevent the transfer of public finances from central to local level, in other words it prevents the fiscal decentralization in Croatia.

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