

# **3**

## **Croatia's regional development governance framework**

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This chapter examines recent advances in Croatia's regional development policy and how it could be strengthened. First, it looks at how the country has reformed its legislative and regulatory framework for regional development since 2014. Second, the chapter explores the tasks and responsibilities of the main public actors involved in designing and implementing the country's regional and local development planning documents. In particular, it focuses on the mandate of Croatia's 21 regional development agencies and their position in the country's multi-level governance framework. Finally, the chapter assesses the effectiveness of existing co-ordination mechanisms for regional development in ensuring vertical and horizontal policy coherence.

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## Introduction

Since joining the European Union (EU) in 2013, Croatia has taken significant steps to establish an extensive legislative and policy framework for regional and local development. Key legislative achievements include the adoption of the 2014 Law on Regional Development, which created a legal basis for place-based regional development policy making. These efforts were further supported by the passing of laws for the development of specific territories, including hilly and mountainous areas, and islands. Croatia also enacted the 2017 Law on the System of Strategic Planning and Development Management, which created a comprehensive and hierarchical framework for strategic planning across and among levels of government, while reducing the overall number of territorial development planning documents.

Together, these reforms established a clear range of long-, medium- and short-term national, county and local-level planning documents. These include the National Development Strategy 2030 (NDS), which identifies balanced regional development among its main strategic objectives. Medium-term county development plans that seek to guide regional and local development efforts have also been introduced.

Furthermore, the legislative and policy changes provided more clarity regarding the responsibilities of actors involved in the design, implementation, monitoring and evaluation of regional development plans and programmes. For example, Croatia's 21 regional development agencies (RDAs), which, prior to 2017, had existed as limited liability companies that predominantly focused on providing paid consulting services, were reconstituted as public regional co-ordinators responsible for regional development planning. Moreover, different horizontal and vertical co-ordination mechanisms were established to support regional development policy design and implementation. These include the national-level network of strategic co-ordinators and the county-level network of RDAs.

To capitalise on the results of the above-mentioned reforms and to support the effectiveness of its regional development governance framework, there are various areas that Croatia could further strengthen. First, there are opportunities to further streamline Croatia's regional development planning framework, for example by updating the Law on Regional Development so that it no longer mentions obsolete planning responsibilities. Second, RDAs have reported skills gaps in areas such as procurement, the digital and green transitions, and monitoring and evaluation that need to be addressed. Strengthening these skills would make it easier for the agencies to support subnational governments to design competitive project proposals and report on the implementation of their development plans. Third, the complex relationship that RDAs have to county administrations and the national government presents a series of challenges (e.g. in terms of accountability) that can hamper the agencies' ability to guide medium-term regional development efforts. Fourth, while there are specific benefits to Croatia's RDAs operating at the TL3 (NUTS 3) instead of TL2 (NUTS 2) level (e.g. to identify local development needs), it also affects their ability to address macro-regional development challenges, support the mobilisation of regional development financing, and pool expertise. Fifth, while Croatia has set up several co-ordination bodies for regional development, there is scope to improve the quality of exchange across and among levels of government.

This chapter focuses on the legislative and policy framework for regional development, as well as the multi-level governance structures that support place-based development in Croatia. It begins by analysing Croatia's progress towards establishing a more robust legal and regulatory framework for regional development. The chapter then assesses the roles and responsibilities of the main actors involved in the development and implementation of the country's regional development planning documents. In particular, it focuses on the role of the RDAs in supporting regional development planning. The chapter concludes with a discussion of the country's horizontal and vertical co-ordination mechanisms that support the design, implementation, monitoring and evaluation of territorial development plans and programmes.

### Box 3.1. Key recommendations to further strengthen Croatia's regional development governance framework

**To strengthen the current legislative and policy framework for regional development, Croatia is advised to:**

- Review and update the Law on Regional Development to ensure it is more closely aligned with the Law on the System of Strategic Planning and Development Management, in particular in terms of the planning requirements for national and subnational government bodies.
- Carry out periodic assessments of the planning responsibilities of national and subnational governments, and of their capacity to design, implement, monitor and evaluate such documents. On the basis of these assessments, the government could determine whether certain planning requirements may be excessive or too complex, and if so, streamline as appropriate.

**To enhance the capacity of subnational actors to support the implementation of regional development policy, Croatia could:**

- Conduct an annual training needs assessment for RDAs, in order to identify gaps in their knowledge and skills. On the basis of this assessment, the Ministry of Regional Development and EU Funds (MRDEUF) can develop an RDA capacity building plan that identifies training priorities and proposes concrete learning opportunities (e.g. MRDEUF seminars, workshops delivered by the State School for Public Administration).
- Clarify the complex relationship that RDAs have to county administrations and the MRDEUF, in order to address tensions over which strategic and operational tasks the RDAs should prioritise—those coming from the counties or from the Ministry.
- Implement an outreach campaign, led by the MRDEUF, to ensure increased understanding among county leaderships regarding the laws governing regional development and strategic planning, and how those apply to the counties and their RDAs.
- Conduct a formal assessment of the benefits, costs, legal and political obstacles to establishing the RDAs at the TL2 (NUTS 2) level. The purpose of the assessment would be to understand whether adjusting the territorial scale at which the RDAs operate could help address the financial, human resource and co-ordination challenges associated with RDAs operating at the TL3 level. Such an assessment should also consider intermediate alternatives that might achieve the benefits of scale without the full reconfiguration of RDAs (e.g. piloting the creation of one RDA at the NUTS 2 level).

**To strengthen the effectiveness of vertical and horizontal co-ordination and co-operation mechanisms for regional development, Croatia is recommended to:**

- Strengthen the impact of the Prime Minister-led regional development co-ordination body, which has been operational since 2016 by:
  - Ensuring that the body's meetings include the systematic participation of all national government bodies with portfolios that support regional development policy (e.g. Croatian Bureau of Statistics);
  - Reorganising the body into two chambers: one to support inter-ministerial co-ordination of regional development policy and the other to support the policy's vertical co-ordination among different levels of government.

- Incorporating the Prime Minister-led co-ordination body in the Law on Regional Development, replacing the Council for Regional Development, which has not been operationalised.
- Improve peer-to-peer learning and exchange opportunities among RDAs, for example by establishing a new forum or organisational unit within the Croatian Association of Counties that is dedicated to RDAs, or setting up a separate national RDA association.

## Croatia's legislative framework for regional development

Over the past decade, Croatia has taken important steps in setting up a comprehensive framework for regional and local development, enabling governments at all levels to play a role in designing and implementing regional and local development initiatives. Progress in this area has been closely linked to the adoption of the 2014 Law on Regional Development, which laid the groundwork for regional development policy in Croatia. Even more important, however, were a series of legislative changes between 2017 and 2018, including the adoption of the 2017 Law on the System of Strategic Planning and Development Management, which sought to streamline the country's multi-level strategic development system and clarify the roles and responsibilities of public bodies at all levels of government to support place-based development.

One challenge to the reform process, however, has been the fact that the Law on Regional Development identifies several planning documents (e.g. urban development strategies) that subnational governments are no longer expected to develop and/or have been replaced by separate planning documents (e.g. Integrated Territorial Investment strategies). This risks creating uncertainty regarding the planning responsibilities of respective stakeholders and undermining policy coherence (MRDEUF, 2024<sup>[1]</sup>). Going forward, moreover, to support good-quality planning, policy makers should ensure that the administrative burdens being imposed on national- and subnational-level stakeholders responsible for developing plans and programmes (i.e. strategic planning co-ordinators and RDAs) are not overly burdensome.

### ***Regional development policies and strategies across the OECD***

Regional development refers to a general effort to reduce regional disparities and foster balanced and inclusive growth in a country, an individual region, or a metropolitan, urban or rural area (OECD, 2022<sup>[2]</sup>). Over time, the main objective of regional development has evolved from top-down interventions designed to reduce regional disparities by compensating less developed areas, into a much broader approach aimed at improving regional competitiveness, often by adopting a strategy that builds on a region's unique development strengths and challenges. This perspective emphasises co-operation across and among levels of government, as well as leveraging the contribution of non-governmental actors.

OECD Member countries conceptualise regional development policy as a medium- to long-term, cross-sectoral, multi-level policy—composed of laws, regulations, as well as planning and budgeting instruments—that aims to improve the contribution of all regions to national performance and reduce inequalities between places and between people. It can do so by promoting long-term sustainable development in all regions through strategic and targeted public policy, investment and service provision measures that are tailored to the specific needs and opportunities of regions and their inhabitants (OECD, 2023<sup>[3]</sup>). The 2023 *OECD Recommendation of the Council on Regional Development Policy* identifies ten complementary pillars that support regional development policy making and implementation (Box 3.2).

### Box 3.2. OECD Recommendation of the Council on Regional Development Policy

The OECD Recommendation of the Council on Regional Development Policy, adopted by OECD Member countries in 2023, identifies ten complementary pillars to support regional development policy making and implementation. They include the following:

1. **Designing and implementing an integrated and balanced regional development strategy** tailored to different places.
2. **Targeting the appropriate territorial scale(s) for policy action** to account for all types of interdependencies across and within regions.
3. **Engaging actively with regional and local communities and stakeholders** throughout the policy-making cycle to gather and co-produce the knowledge needed to identify regions' needs and leverage their specific assets.
4. **Leveraging regional development policy to address the asymmetric impact of global megatrends and shocks**, and deliver on a sustainable and just green transition.
5. **Promoting the availability and quality of internationally comparable data and indicators** at different territorial scales to inform regional development policy and produce evidence for decision-making.
6. **Establishing sound multi-level governance arrangements** to foster coherent regional development policy.
7. **Strengthening administrative, strategic, and technical capacities** for regional development policy design and implementation at national and subnational levels of government.
8. **Mobilising diversified, balanced, and sustainable financial resources** to adequately fund regional development policy at the national and subnational levels.
9. **Promoting integrity, transparency, and accountability** in regional development policy to ensure the effective use of public resources and strengthen trust in national and subnational governments.
10. **Fostering robust performance management mechanisms** that promote evidence-based regional development policy.

Source: Author's elaboration, based on (OECD, 2023<sup>[3]</sup>).

A regional development strategy, by contrast, is a long-term planning instrument to achieve specified territorial objectives. It can bring together the strategies of diverse policy sectors to support their coherent implementation and contribution to a territory's productivity and attractiveness, not to mention the well-being of its citizens (OECD, 2020<sup>[4]</sup>). The effective implementation of a regional development strategy depends on several elements, such as sectoral policies. It also depends on the contributions of subnational governments with whom policy responsibilities may be shared, and non-governmental actors, including civil society organisations, the private sector, social economy organisations, civil society organisations, and citizens (OECD, 2022<sup>[2]</sup>).

Many OECD member countries (e.g. Brazil, Chile, Germany, Greece, Ireland, Mexico, the Netherlands, Portugal, Switzerland, the Republic of Türkiye and the United Kingdom) have a document outlining a strategic vision for their country. However, these often have a relatively short-time horizon (e.g. one to six years). Nevertheless, countries increasingly aim to develop strategies that span one to two decades or even longer (e.g. Costa Rica, Czechia, Finland, Hungary, Israel, Lithuania, Norway, and Slovenia) (OECD,

2020<sup>[4]</sup>). In countries where changes in government generally imply a marked shift in priorities, the development of a long-term strategic plan can contribute to policy continuity and improved outcomes.

### *Implications of top-down versus bottom-up regional development planning*

A country's approach to regional development can be top-down, bottom-up or a combination of the two. In the case of the former, the national government sets the development vision and takes a command-and-control approach to policy design and implementation. Conversely, a bottom-up approach implies that subnational governments or other subnational actors identify local needs, and establish and implement plans to meet them (OECD, 2022<sup>[2]</sup>). On their own, neither approach will likely be effective or sustainable. While top-down approaches tend to meet strong implementation resistance from local stakeholders, adopting an approach that focuses primarily on bottom-up development may limit policy coherence, lead to disconnected investments across territories, and face funding and financing constraints.

A key question policy makers need to answer is how to strike an appropriate balance between the two approaches (OECD, 2020<sup>[4]</sup>). There is evidence that strategies combining a bottom-up and top-down approach are among the most effective (Crescenzi and Giua, 2016<sup>[5]</sup>). The development and implementation of a national-level, long-term regional development strategy that is the result of extensive stakeholder consultation processes can promote policy coherence among sectors and levels of government, and enhancing the efficient use of resources. It can provide the framework for action that enables different actors to take responsibility for implementing the initiatives necessary to achieve a society's long-term development vision, and builds their understanding of the need for collaboration (Rojas, Cuadrado-Roura and Fernández Güell, 2008<sup>[6]</sup>).

In order to help achieve long-term regional development objectives, in many OECD Member countries national-level strategic documents are complemented by regional and local development strategies, plans and projects designed by subnational actors (OECD, 2016<sup>[7]</sup>; OECD, 2019<sup>[8]</sup>). This is also the case in Croatia.

### ***Croatia's legislative framework for regional development***

The foundations of Croatia's current legislative framework for regional development (Table 3.1) were laid in 2014, when the government passed the Law on Regional Development. The law regulates the goals and principles of regional development in Croatia. In particular, it stipulates that the overarching aim of regional development policy is to create conditions in which all territories can strengthen their competitiveness and fulfil their development potential with a view to supporting the country's sustainable socio-economic development (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>). In pursuit of this goal, the Law states that policy makers should focus particularly on:

- Linking regional and local development needs with national-level priorities and EU Cohesion Policy objectives;
- Helping to address development challenges in economically lagging areas;
- Adopting specific measures to support the development of territories in border areas; and
- Promoting territorial co-operation and an efficient use of EU funds to support regional development.

A key component of the Law on Regional Development is its regulation of the national and subnational plans and bodies involved in supporting regional development policy. For instance, the Law tasked the MRDEUF with developing a national-level regional development strategy. Simultaneously, county administrations were made responsible for designing and adopting county development plans. City and municipal administrations were granted the option of designing and adopting their own local development plans. The Law also tasked the country's 21 RDAs, which are integrated into each of the county

governments, with supporting the design, implementation, monitoring and evaluation of regional development policy (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>).

### *2017-2018 adjustments of the legislative framework for strategic planning*

In 2017 and 2018, the government took legislative action to improve the coherence with which strategic planning is conducted among levels of government. First, the government recognised the need for a long-term development strategy for the country as a whole. Second, it identified an excess of planning documents. For example, there were 110 overlapping strategies and plans at the national level (OECD, 2023<sup>[10]</sup>), which created uncertainty regarding the country's sectoral and multi-sectoral development aims. This could have led to fragmented implementation processes and a sub-optimal use of public resources, while complicating monitoring and evaluation efforts. Third, the process for designing the different national and subnational planning documents was not co-ordinated or streamlined, resulting in parallel planning processes for different purposes. Finally, there was limited clarity regarding which actors were responsible for implementation and whether the results set in the different planning documents could, in fact, be achieved (OECD, 2023<sup>[11]</sup>; OECD, 2023<sup>[10]</sup>).

To help address the multiple challenges related to Croatia's development planning and implementation mechanisms and processes, the 2014 Law on Regional Development was amended in 2017. First, the amendments established RDAs as public institutions (whereas previously many of them had been established as private companies) and made them responsible for supporting the co-ordination of Croatia's strategic planning system among levels of government (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>).

Second, and for the first time ever, the government adopted a new Law on the System of Strategic Planning and Development Management in the same year (Official Gazette of Croatia No 123/2017, 2017<sup>[12]</sup>). The Law regulates strategic planning across and among levels of government. In particular, it establishes a clear hierarchy between the different long- (10+ years), medium- (5-10 years) and short-term (1-4 years) planning documents that need to be developed at national and subnational government levels in order to ensure greater policy coherence. Furthermore, the Law stipulates that the strategic planning documents must be linked to relevant budgets. Lastly, the Law outlines the actors responsible for the design, implementation, monitoring and evaluation of plans (Official Gazette of Croatia No 123/2017, 2017<sup>[12]</sup>). Table 3.1 provides an overview of the main laws governing regional development in Croatia.

**Table 3.1. Main laws governing regional development in Croatia**

Legislation	Description
2014 Law on Regional Development (amended in 2017 and 2018)	<ul style="list-style-type: none"> <li>Regulates the goals and principles of regional development in Croatia.</li> <li>Stipulates that the aim of regional development policy is to create conditions in which all territories can strengthen their competitiveness and realise their development potential in order to support the country's sustainable socio-economic development.</li> <li>Introduced the Regional Development Index, a composite indicator system used to monitor and evaluate the level of development of local governments.</li> <li>Identified functional areas in need of special attention and support (e.g. 'assisted areas').</li> </ul>
2017 Law on the System of Strategic Planning and Development Management (amended in 2022)	<ul style="list-style-type: none"> <li>Regulates strategic planning at all levels of government.</li> <li>Establishes the hierarchy between the different long-, medium- and short-term strategic planning documents and defines their link to public budgets.</li> <li>Defines the actors responsible for the design, implementation, monitoring and evaluation of plans, as well as the period for their design and implementation.</li> </ul>

2018 Law on Assisted Areas	<ul style="list-style-type: none"> <li>• Regulates the management of development in assisted areas.</li> <li>• Mandates the design and implementation of short-term programmes at national level that guide projects for 'assisted areas' at the regional and local levels.</li> <li>• Requires all counties, cities and municipalities to ensure the necessary preconditions for strengthening the competitiveness of the assisted areas and realising their development potential.</li> <li>• Stipulates that RDAs must assist in strengthening the capacity of counties, cities and municipalities located in assisted areas.</li> </ul>
2018 Law on Hilly and Mountainous Areas	<ul style="list-style-type: none"> <li>• Regulates the management of development in hilly and mountainous areas.</li> <li>• Defines hilly and mountainous areas.</li> <li>• Mandates the design and implementation of 1) short-term programmes at the national level that guide measures and 2) projects for hilly and mountainous areas.</li> <li>• Tasks all counties, cities and municipalities with providing the necessary preconditions for strengthening competitiveness of hilly and mountainous areas and realising their development potential</li> </ul>
2018 Law on Islands (amended in 2020 and 2021)	<ul style="list-style-type: none"> <li>• Regulates the management of development for Croatian islands and islets, including the manner in which their assets can be sustainably used and developed.</li> <li>• Sets out a classification of islands according to geographical criteria and territorial jurisdiction.</li> <li>• Establishes island development indicators used to evaluate development in these areas.</li> <li>• Stipulates the establishment of an Island Council, an advisory body to be consulted during the creation and implementation of programmes.</li> <li>• Introduces the National Island Development Plan and a further Island Development Plan at regional level.</li> </ul>
2001 Law on Local and Regional Self-government (amended 13 times since its adoption)	<ul style="list-style-type: none"> <li>• Regulates counties, cities and municipalities, their scope and organisation, the way their bodies work, the supervision of their acts and works, and other matters of significance for their work.</li> <li>• Allocates responsibilities in a wide range of domains to counties, cities and municipalities.</li> <li>• Outlines the conditions necessary and the bodies in charge of co-operation agreements between Croatian local governments, and those between Croatian local governments and those of other countries.</li> <li>• Outlines the main sources of revenue and the financial responsibilities of counties, cities and municipalities.</li> </ul>

Source: Authors elaboration, based on (Official Gazette of Croatia No 118/18, 2018<sup>[13]</sup>; Official Gazette of Croatia No 118/2018, 2018<sup>[14]</sup>; Official Gazette of Croatia No 123/2017, 2017<sup>[15]</sup>; Official Gazette of Croatia No 123/2017, 2017<sup>[12]</sup>; Official Gazette of Croatia No 144/2020, 2017<sup>[16]</sup>; Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>; Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>).

### *Strength of Croatia's current legislative framework for regional development*

Croatia's current legislative arrangements supporting regional development provide policy makers at the national and subnational levels with a clear framework that guides the design, implementation, monitoring

and evaluation of place-based planning documents. This is evident in several key areas. First, the Law on Regional Development forms a legal basis for regional development policy, and for a place-based approach to policy making that aims to address territories' specific development challenges. The Law also identifies regional development as a cross-cutting government priority, with the MRDEUF tasked with ensuring its co-ordination across and among levels of government. It also stipulates that RDAs should drive county and local development.

Second, the government's place-based approach to regional development has been reinforced by supplementary legislation, such as the 2018 laws on Islands, Hilly and Mountainous Areas and Assisted Areas, which establish strategic objectives for both types of territories. For example, the former law calls for the stable economic development of islands, a fair distribution of social opportunities for all island communities and an increase in their resilience to climate change.

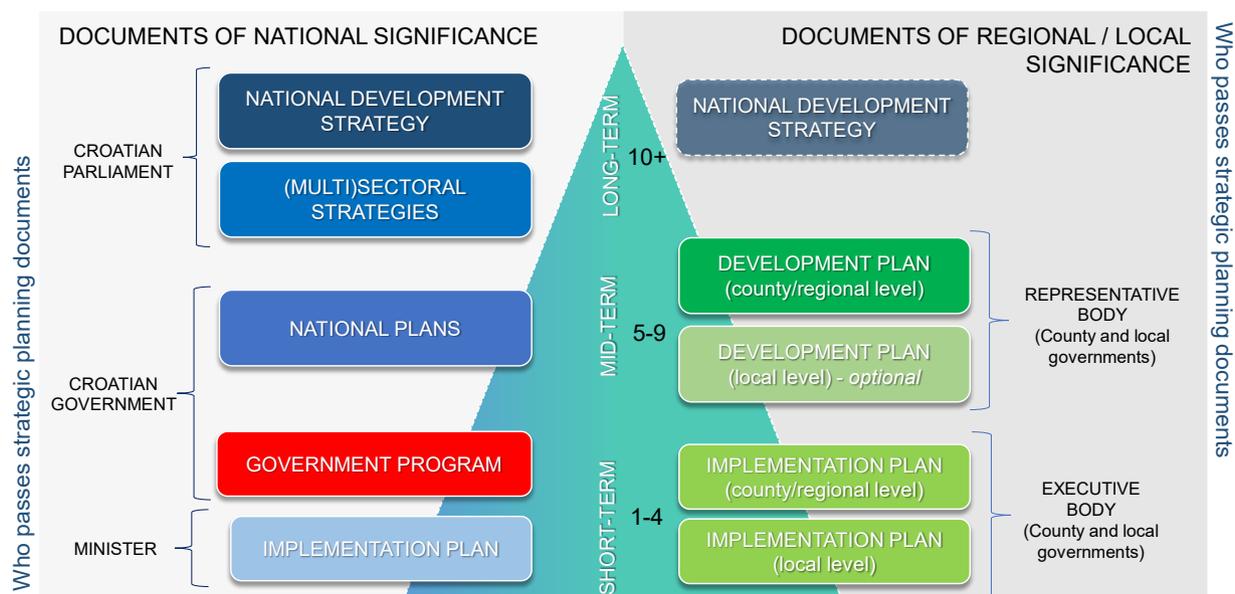
Third, the Law on the System of Strategic Planning and Development Management created a comprehensive and hierarchical framework for strategic planning across and among levels of government. This has limited the significant overlap that previously existed among national and subnational government planning documents.

Fourth, the Law on the System of Strategic Planning and Development Management has introduced a legal basis for cross-government monitoring, evaluation and reporting of the strategic planning system (Official Gazette of Croatia No 123/2017, 2017<sub>[12]</sub>). Under the provisions of the law, the MRDEUF has developed a standardised Library of Indicators. The Library is a registry that is regularly maintained and updated with new indicators, which must be used by all public authorities in order to ensure standardised performance measurement across government (OECD, 2023<sub>[18]</sub>; OECD, 2023<sub>[10]</sub>).

### ***Main strategic planning documents supporting Croatia's regional development framework***

As stated, the Law on the System of Strategic Planning and Development Management provides a clear overview of key long-, medium- and short-term planning documents to be developed and implemented at the national and subnational levels (Figure 3.1). The Law on Regional Development established a number of additional planning documents to be developed, including a national-level regional development strategy, medium-term programmes for different development territories (e.g. assisted areas, hilly and mountainous areas), and urban development strategies for the country's major cities. However, it has not been updated to reflect the planning requirements that were set out in the 2017 Law on the System of Strategic Planning and Development Management. As a result, certain planning expectations set out in the former Law are out of date (MRDEUF, 2024<sub>[1]</sub>).

Figure 3.1. Croatia's system of strategic planning documents



Source: Author's elaboration based on (MRDEUF, 2023<sup>[19]</sup>).

#### *Croatia's national-level planning documents supporting regional development*

The highest-level national strategic planning document supporting Croatia's regional development framework is the National Development Strategy (NDS) 2030 (Box 3.3). It identifies balanced regional development as one of its four strategic axes. To support the implementation of the NDS, national government bodies are responsible for adopting a set of medium- and short-term planning documents. For example, the Government Programme 2020-2024 is a whole-of-government planning document that covers the duration of the current administration and reflects its political priorities. One of its core aims is to support balanced regional development and decentralisation (Government of Croatia, 2020<sup>[20]</sup>). In particular, this priority area focuses on supporting greater fiscal decentralisation, and more extensive inter-regional and inter-municipal co-operation, as well as investing in broadband and transport infrastructure (e.g. railways).

### Box 3.3. Croatia's National Development Strategy 2030

Developed by the MRDEUF and published in 2021, the NDS is a long-term, whole-of-government strategy that delineates four strategic axes for Croatia:

1. Building a sustainable economy and society;
2. Strengthening crisis resilience;
3. Promoting the green and digital transition; and
4. Supporting balanced regional development.

With regard to regional development, two broad strategic objectives have been identified: i) supporting the development of assisted areas and areas with development specificities; and ii) strengthening regional competitiveness. All national and subnational level planning documents have to be aligned with the NDS.

Source: Author's elaboration, based on (Official Gazette of Croatia No 13/2021, 2021<sup>[21]</sup>).

In addition to the NDS 2030 and the Government Programme, are a series of medium- and short-term strategies, plans and programmes that have a distinct territorial focus. For example, to support the smart specialisation goals outlined in the NDS, the Croatian Ministry of Science and Education is developing a Smart Specialisation Strategy (S3) 2029. The S3, which includes plans for specific TL2 regions, aims to improve the competitiveness and industrial transformation of Croatia's territories by building innovation capacity (Croatian Ministry of Science and Education, 2022<sup>[22]</sup>).

Croatia has also adopted different planning documents for territories that require specific attention. This includes the National Island Development Plan 2021-2027, which was developed by the MRDEUF and sets out the goals of the NDS in relation to island development (MRDEUF, 2021<sup>[23]</sup>). In 2022, Croatia also published separate short-term programmes for assisted areas and for hilly and mountainous areas, both of which were developed by the MRDEUF for the 2022-2025 period (MRDEUF, 2022<sup>[24]</sup>).

The implementation of the NDS, including its objective of balanced regional development is further supported by different national plans that are directly linked to EU funding mechanisms. These include:

- **The Competitiveness and Cohesion Programme 2021-2027** was developed to enable Croatia to secure EU Cohesion Policy funds. The Programme identifies a number of priorities for supporting the development of assisted, and hilly and mountainous areas (MRDEUF, n.d.<sup>[25]</sup>).
- **The Integrated Territorial Programme 2021-2027** was developed to secure funding through the European Regional Development Fund and the Just Transition Fund. The Programme has four main objectives that support territorial development, including supporting the industrial transition of Croatian regions, as well as the development of urban and island areas (MRDEUF, n.d.<sup>[25]</sup>).
- **The National Recovery and Resilience Plan 2021-2026** was developed to receive and allocate EU funding to support recovery in the wake of the COVID-19 pandemic (European Commission, 2023<sup>[26]</sup>). One of the objectives of the plan is to improve the institutional capacity of county and local governments, including on topics such as strategic planning (Government of Croatia, 2021<sup>[27]</sup>).

### *Croatia's county and local-level planning documents supporting territorial development*

At the subnational level, the main strategic planning documents are (medium-term) county development plans, which must be adopted by county administrations. However, in light of the limited human resource capacity of many city and municipal governments, local administrations have the option of designing and adopting local development plans. All subnational governments (including city and municipal administrations) must, however, develop a short-term implementation programme that identifies policy measures that can help to meet their objectives (as well as the objectives of higher-level strategic plans) (Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). In the case of cities and municipalities that do not have their own medium-term development plans, the local implementation programmes need to be vertically aligned with the county development plan. Legislation also prompts certain local governments to develop an urban development strategy. These include: i) urban agglomerations (Zagreb, Split, Rijeka and Osijek); ii) large urban areas (i.e. other cities with more than 35 000 inhabitants); iii) small urban areas (cities that have between 10 000 and 35 000 inhabitants or are the seats of the county government) (Official Gazette of Croatia No 123/2017, 2017<sup>[12]</sup>). In practice, this planning responsibility has been supplanted by Integrated Territorial Investment strategies, which have been developed for Croatia's major urban areas (see chapter 5) (MRDEUF, 2024<sup>[1]</sup>).

In addition, as part of Croatia's strategic framework for improving regional competitiveness (and under the auspices of Croatia's NDS and the S3), counties are required to co-operate with the MRDEUF to develop macro-regional Plans of Industrial Transition. Such plans aim to increase the competitiveness of TL2 regions—which lag behind the EU average—by strengthening regional value chains, boosting innovation through strategic partnerships, and supporting new upskilling, reskilling and training initiatives. In particular, the objective of the Plans of Industrial Transition is to equip workers with skills that are expected to be valuable and in-demand in the future. Three Plans of Industrial Transition have been developed, covering Pannonian Croatia, Northern Croatia and Adriatic Croatia respectively (OECD, 2023<sup>[10]</sup>). The plans were designed by the MRDEUF with support from the RDAs, based on a participatory process involving representatives from public bodies, and the private sector, academia, civil society and government, following the quadruple helix model. Co-ordinating councils comprised of the prefects of each TL2 region supervised the development of the plans and approved them (MRDEUF, 2024<sup>[1]</sup>).

### *Opportunities to further streamline Croatia's multi-level planning framework for regional development*

There are, however, a number of areas that Croatia could explore to strengthen its multi-level planning framework for regional development. For instance, despite having streamlined planning requirements through the 2017 Law on the System of Strategic Planning and Development Management, the Law on Regional Development has not been adjusted to reflect these changes (e.g. it still mandates the development of urban development strategies). This creates a measure of uncertainty regarding the planning responsibilities of various actors, although in practice, national and subnational actors typically derive their responsibilities from the Law on the System of Strategic Planning and Development Management, in recognition of the fact that the Law on Regional Development is out of date (MRDEUF, 2024<sup>[1]</sup>).

Nevertheless, the government has acknowledged this issue, and is planning a review and update of the Law on Regional Development (MRDEUF, 2024<sup>[1]</sup>). As part of this exercise, the government should conduct a mapping of existing planning responsibilities at the national and subnational levels, in order to evaluate whether there are any possibilities to further streamline existing planning requirements. In so doing, it should also consult with representatives from respective levels of government regarding their capacity to support the design, delivery, monitoring and evaluation of existing planning obligations.

## National and subnational actors supporting regional development

The governance setup supporting regional development policy matters. A clear assignment of responsibilities across and among levels of government in areas such as strategic planning, economic development, and education is particularly crucial. This clarity ensures that all levels of government know their role, responsibilities, and the expectations placed upon them, for example in terms of guiding policy design, funding or ensuring the implementation of specific projects.

Moreover, it is essential for tasks and responsibilities to be allocated at the appropriate level of government, in order to maximise their impact. However, identifying the level of government at which tasks should be allocated requires policy makers to navigate a series of trade-offs. For instance, while assigning tasks to a lower level of government may enable policy makers to more effectively leverage local knowledge and networks when identifying development needs, assigning tasks to a higher level of government may help to deliver other benefits (e.g. economies of scale in public investment and service delivery).

Another important element that supports an effective governance setup is ensuring that the public bodies charged with advancing regional development policy have the necessary funding and skilled personnel to carry out their mandates. Without sufficient resources, even the most well-designed regional development plans can fail to achieve their intended outcomes.

The legislative changes Croatia undertook in 2014 and 2017-2018 have sought to improve the governance setup for regional development. In particular, they have helped to provide significant clarity regarding which bodies should lead or contribute to regional and local development planning and implementation. Despite these advances, however, several challenges have strained the effectiveness of Croatia's governance arrangements supporting regional development. These include the complex relationship of the RDAs with their respective county administration and with the MRDEUF, which largely guides and oversees RDA work. Other challenges include the relatively local territorial level at which the RDAs operate and the high degree of municipal fragmentation, which limits their financial and human capacities to support development planning and implementation.

### ***National-level actors involved in supporting Croatia's regional development governance framework***

A wide array of public actors is involved in Croatia's regional development governance framework (Table 3.2). These include the Croatian Parliament, which adopts key long-term strategic planning documents (e.g. NDS and the national-level regional development strategy). They also include central executive bodies, including a variety of line ministries (e.g. the MRDEUF and ministries of Economy and Sustainable Development, Agriculture and Science and Education). These executive bodies are typically responsible for adopting national mid- and short-term planning documents that identify sectoral priorities and lines of action to achieve them, as well as contribute to the fulfilment of higher-level, long-term strategic objectives (e.g. those outlined in the NDS). To support coherent strategic planning at the national level, including for regional development, each line ministry has a strategic planning co-ordinator, which assists ministerial units with the design, implementation, monitoring and evaluation of planning documents.

**Table 3.2. Main national-level government bodies involved in regional development planning**

Actor	Responsibilities
Croatian Parliament	The Croatian Parliament adopts the NDS and other long-term (10+ years) strategic planning documents, such as sectoral and multi-sectoral strategies. It also approves monitoring reports on the implementation of the NDS. The Parliament is also charged with adopting a national-level regional development strategy.
Government of Croatia (general)	The Government of Croatia adopts medium-term (5-9 years) planning documents such as National Plans, and short-term strategic planning documents such as the Government Programme.
Line ministries	Line ministries adopt and implement short-term (1-4 years) planning documents, such as implementation programmes, which contribute to the fulfilment of higher-level strategic objectives (e.g. those outlined in the National Plans or the Government Programme).
The Ministry of Regional Development and EU Funds (MRDEUF)	<p>The MRDEUF is responsible for co-ordinating the overall system of strategic planning in Croatia, including managing the design, implementation, monitoring and evaluation of the NDS. Other responsibilities include:</p> <ul style="list-style-type: none"> <li>• Submitting an annual report to the government on the implementation of the NDS;</li> <li>• Developing a legal framework, guidelines and methodology for the drafting, implementation, monitoring and evaluation of strategic planning documents across government; and</li> <li>• Determining the compliance of national-level strategic documents (e.g. sectoral and multi-sectoral strategies, national plans and implementation programmes of central government bodies) with the NDS.</li> </ul> <p>The MRDEUF also chairs the network of strategic planning co-ordinators and provides feedback on the alignment of strategic sectoral planning documents with the NDS. Finally, the MRDEUF is in charge of and manages the allocation of EU funds.</p>
Strategic planning co-ordinators	Strategic planning co-ordinators are organisational units within line ministries that are responsible for overseeing strategic planning activities, and assisting other ministerial units with the design, implementation, monitoring and evaluation of strategic planning documents, including those related to regional development. They are also tasked with reporting to the MRDEUF on the implementation of strategic planning documents within their own government departments (through the network of strategic planning co-ordinators). Strategic planning co-ordinators could, in principle, help to ensure a regional lens is applied to sectoral planning documents and their implementation.

Source: Author's elaboration, based on (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>; Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>).

The MRDEUF, however, is the key body responsible for the country's regional development policy and for co-ordinating the overall system of strategic planning in Croatia. Its set of responsibilities include leading the design, implementation, monitoring and evaluation of the NDS (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>; Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). Specific responsibilities include preparing regulations and other support material to guide the design, monitoring and evaluation of county and local development plans and implementation programmes. Also included are reviewing and commenting on draft county development plans that provide technical advice and channel financial support to the RDAs.

### **Subnational actors supporting regional development**

At the regional level of government, county administrations are in charge of developing and leading the implementation of the county development plans in co-operation with local governments (Official Gazette of Croatia No 144/2020, 2017<sup>[16]</sup>; Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). Counties are responsible for several tasks of regional importance, including maintaining county roads, supporting the development of regional public transport networks, and managing secondary education, and secondary healthcare (e.g. hospitals) (Official Gazette of Croatia No 144/2020, 2017<sup>[16]</sup>). To fund these responsibilities, counties receive a share of personal income tax, and depend heavily on earmarked intergovernmental transfers (e.g. for education, healthcare). As such, they have limited financial flexibility to orient service delivery to meet specific, territorially-differentiated needs (see chapter 5) (OECD, 2023<sup>[18]</sup>).

At the local level, Croatia’s territorial-administrative structure includes two units of local government—cities and municipalities—both of which are responsible for supporting local development efforts. Croatia’s territory includes 127 cities (excluding Zagreb City) and 428 municipalities<sup>1</sup>. According to the law, cities and municipalities are responsible for carrying out tasks of local importance, including maintaining local roads and managing primary education, as well as primary healthcare (Table 3.3). However, legislation also allows for an asymmetric assignment of responsibilities at the local level. In particular, a city or municipal administration can decide to transfer certain tasks and responsibilities to the county level. For instance, despite primary education formally being a local competence, this task is managed by county administrations in all but 35 cities (OECD, 2022<sup>[28]</sup>). Unlike counties, cities and municipalities can generate own-source revenue by leveraging different taxes (e.g. on real estate transactions, consumption, vacation homes and public area use) (OECD/UCLG, 2022<sup>[29]</sup>). This provides them with additional leeway to direct local funding to meet specific local needs.

**Table 3.3. Division of selected tasks and responsibilities at the subnational level in Croatia**

Sectors and sub-sectors	Regional level	Local level
Administrative services	Regional administrative services; issuance of construction and renting permits (except for large cities)	Local administrative services; issuance of construction and renting permits (only for large cities)
Public order and safety	Civil protection	Firefighting (only for large cities); civil protection
Economic affairs	Economic development	Not applicable
Roads and public transport	Maintenance of county and local roads (except for large cities); transport and traffic infrastructure	Maintenance of local roads (only for large cities)
Healthcare	Secondary healthcare (e.g. hospitals); preventative healthcare; primary healthcare*	Primary healthcare (e.g. general practitioners)
Education	Secondary education; primary education*	Primary education

Note: An \* indicates that the county delivers the task when the local government considers that it lacks the administrative or financial capacity to do so.

Source: Author’s elaboration, based on sources including: (Official Gazette of Croatia No 144/2020, 2017<sup>[16]</sup>; OECD/UCLG, 2022<sup>[29]</sup>; OECD, 2022<sup>[28]</sup>; Official Gazette of Croatia No 20/2021, 2021<sup>[30]</sup>).

The distribution of sectoral tasks and responsibilities indicates that both counties and local governments can influence policy areas relevant for regional and local development (e.g. economic development, education), and support the implementation of the county development plans. However, as counties are more dependent on earmarked intergovernmental transfers than cities and municipalities, they have less flexibility to orient spending to specific regional needs. This risks placing the onus for ensuring place-based implementation of territorial development initiatives on cities and municipalities.

Moreover, while in certain sectors (e.g. utilities), there is no overlap in competence between counties, and cities and municipalities, in others their mandates are very much aligned and may even overlap (e.g. roads and public transport). This reality requires counties and local governments to have a very clear understanding of what their specific responsibilities are and where they overlap. It also requires good co-ordination mechanisms to prevent a duplication of efforts.

### *RDAs are critical to subnational development planning*

County administrations have various planning obligations that are linked to regional development. In particular, they are responsible for adopting and implementing county development plans (medium-term) and county implementation programmes (short-term). All plans are subject to ex ante approval by the

county assembly (MRDEUF, 2023<sup>[31]</sup>; Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). To help them carry out these tasks, county administrations rely on their RDAs.

In 2017, the RDAs became regional co-ordinators after previously having operated as Limited Liability Companies (OECD, 2022<sup>[28]</sup>). The RDA reconfiguration served two purposes. First, it sought to shift the focus of the RDAs from providing paid services to boost local economic development, to guiding strategic planning for regional development. The change was meant to strengthen the ability of counties to support the subnational implementation of national policies, as well as the 2017 National Strategy for Regional Development. Second, by curtailing their ability to provide paid services, the government sought to address concerns that RDAs had an unfair competitive advantage over private sector consultants. As public entities, RDAs could potentially access resources (e.g. financial support from county governments) and information (e.g. on upcoming calls for projects) that were not as readily available to private firms. Per the 2017 amendment, all county administrations were mandated to establish an RDA and ensure sufficient funding for their activities.

Key RDA responsibilities in the field of strategic planning include (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>; OECD, 2023<sup>[18]</sup>):

- Drafting county development plans and other strategic documents on their county's behalf and supporting implementation, while contributing to the design of national-level planning documents related to regional development (e.g. S3);
- Verifying the compliance of county planning documents with higher-level strategic planning documents (e.g. the NDS);
- Monitoring and reporting on the implementation of county planning documents, as well as regional and local development projects, to the county administration and the MRDEUF.

In addition, RDAs are responsible for helping counties, cities, municipalities and non-governmental actors to identify relevant EU and national funding calls and providing them with support to develop project proposals (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>). The combination of tasks and responsibilities of Croatian RDAs, which emphasises their leading role in supporting strategic planning, sets them apart from many of their peers in OECD Member countries, where RDAs focus primarily on business development and job creation, and have a less active role in territorial development planning (Box 3.4).

### Box 3.4. Regional Development Agencies across the OECD

Regional development agencies (RDAs) operate in many OECD Member countries. They are generally charged with increasing economic development and regional attractiveness. However, there is much variation in the way RDAs are constituted (e.g. whether they are created by the national government or by a group of regional and local public and non-governmental actors), the levels at which they operate (e.g. TL2 or TL3 regions), and how they are funded (e.g. through membership fees, grants and/or project-based funding). Furthermore, RDA tasks and responsibilities also vary significantly – from supporting strategic planning for regional development and managing EU Cohesion Policy Funds, to promoting business internationalisation and managing public service delivery. The RDAs that operate in Belgium, the Netherlands, Romania and Spain illustrate this diversity.

#### Wallonia, Belgium

The Wallonia region in Belgium has eight territorial development agencies (*Agences de développement territorial*) that generally operate at the TL3 level. These RDAs are consortiums of regional and local public actors that seek to promote regional attractiveness and encourage investment in the regional economy. They offer a wide range of services (e.g. coaching, organising business events and providing financial support) to help businesses settle and grow in Wallonia's different regions. Several RDAs support municipalities in their urban and rural development planning. For example, subnational public bodies can contract the Regional Development Agency of Picardy Wallonia (IDETA) to carry out project application, appraisal, implementation, and monitoring and evaluation processes. This includes identifying project funding opportunities, conducting impact assessments and report writing. In addition, several RDAs manage specific public services, or own business parks and industrial land, which they can sell or rent out. For instance, the Regional Development Agency Charleroi and South Hainaut (IGRETEC) operates regional wastewater treatment plants, and functions as an energy purchasing centre for public bodies located in the region (e.g. cities and towns).

#### The Netherlands

The Netherlands has eight RDAs, which generally operate at the TL2 level, that function as territorial development corporations with public shareholders. The aim of the RDAs is to strengthen regional economies and increase employment, for example by encouraging innovation, investment and internationalisation activities. They do so by helping local and international businesses identify funding opportunities and employees, and by building their business networks. The RDAs can receive funding from the national government, provinces, municipalities, as well as non-governmental organisations such as research institutions. Most revenue is spent on investing in innovative businesses, and the (re)development of industrial estates and business parks.

#### Romania

In 1999, Romania established eight development regions that align with the country's TL2 territories. It also formed a regional development council and agency in each region, along with a framework to elaborate, implement and assess regional development strategies. The RDAs, which operate as non-governmental organisations, are responsible for encouraging territorial development and boosting regional attractiveness. They are charged with drafting and implementing territorial development strategies, plans and programmes (including smart specialisation strategies). They also support the implementation of regional development projects financed by the EU. In addition, the RDAs contribute to attracting foreign investment, offer business support services and promote innovation. The oversight of each RDA falls under a regional development council, composed of elected county and local

government officials, and can include representatives of non-governmental organisations. The councils are responsible for reviewing and approving their RDA's regional development planning documents.

Since 2021, the RDAs also act as regional Managing Authorities for EU Cohesion Policy funds, which means they are entrusted with the design and implementation of the EU-funded Regional Operational Programme 2021-2027. This shift in responsibility renders the agencies responsible for managing EU funds exceeding EUR 1 billion per development region.

### Spain

Spain has 19 RDAs that operate at the level of Spain's autonomous regions (TL2 level). While there is some variation across Spanish RDAs in terms of their mandate, their objective is to support regional economic development and citizen well-being. Their main fields of activity include: providing technical advice to businesses, including on internationalisation; managing investment funds, subsidies and loans; developing and managing industrial parks; and facilitating networking and exchange among public bodies, the private sector and research institutes. For instance, the regional development agency Andalucía TRADE has established a Project Accelerator Unit to fast-track investment attraction for strategic projects by providing preferential administrative procedures and technical support throughout the investment process.

In terms of planning, the RDAs are generally responsible for the design and implementation of the regional S3. The governments of Spain's autonomous regions, of which the RDAs are part, are responsible for overall strategic regional development planning, as well as the design and management of regional Operational Programmes for the EU 2021-2027 programming period. The main sources of RDA revenue to operate and support project implementation are funds from Spain's regional governments, as well as EU funds.

Source: Author's elaboration. Belgium: (IDETA, 2023<sup>[32]</sup>; IGRETEC, n.d.<sup>[33]</sup>; Wallonie Developpement, n.d.<sup>[34]</sup>); the Netherlands: (Netherlands Chamber of Commerce, n.d.<sup>[35]</sup>); Romania: (ROREG, 2022<sup>[36]</sup>; EURADA, n.d.<sup>[37]</sup>; OECD, 2023<sup>[38]</sup>); and Spain: (Andalucía TRADE, n.d.<sup>[39]</sup>; Foro ARD, n.d.<sup>[40]</sup>).

### *While RDA human resource capacity has increased sharply, skills gaps remain*

There is a significant variation in the financial and human resource capacity of RDAs to carry out their responsibilities (Figure 3.2). As of 2023, for example, while some RDAs had more than 50 employees (e.g. Zadar County RDA), others had as few as 11 (e.g. Bjelovar-Bilogora County RDA and Istria County RDA). The variation in staffing numbers can affect their ability to ensure similar levels of support to county, city and municipal administrations (MRDEUF, 2023<sup>[41]</sup>).

County-based comparisons can help to highlight this disparity. For instance, while Primorje-Gorski Kotar and Zadar counties include a similar number of cities and municipalities (36 and 34 in total, respectively), their RDA staff numbers are quite different. In 2023, Zadar County RDA had 56 employees, compared to only 20 in Primorje-Gorski Kotar County RDA. This suggests that, at least on paper, the capacity of Zadar RDA to provide tailored support to cities and municipalities, such as helping them identify EU funding opportunities and prepare competitive project proposals is significantly greater than that of other RDAs.

Figure 3.2. Staffing of RDAs, 2018 and 2023

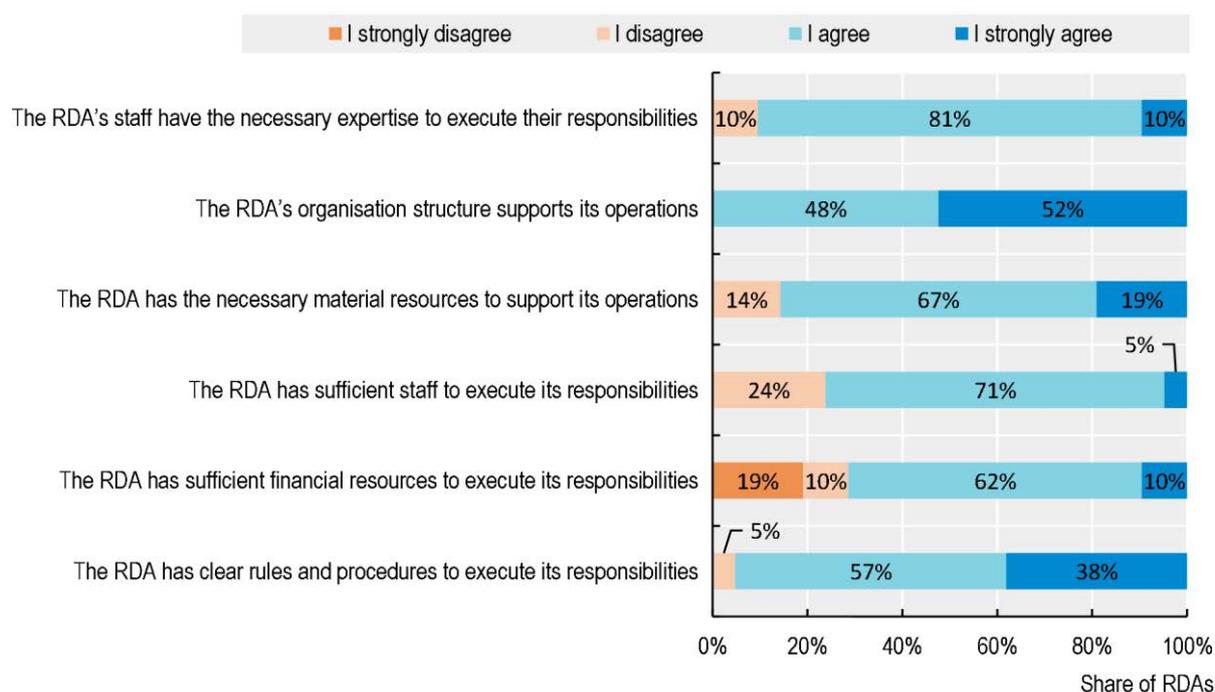


Source: Author's elaboration, based on (OECD, 2022<sup>[42]</sup>; MRDEUF, 2023<sup>[43]</sup>).

Notwithstanding the above-mentioned disparity, it is important to note that the payrolls of RDAs surged following the 2017-2018 legislative changes to Croatia's regional development and strategic planning frameworks. Figure 3.2 suggests that the total number of RDA employees across Croatia increased from 360 to 545 between 2018 and 2023, with staffing levels in several RDAs rising by more than 75% (e.g. Požega-Slavonia RDA, Lika-Senj County RDA and Krapina-Zagorje County RDA). This change reflects the funding from EU Technical Assistance available to RDAs during this period, which many RDAs used to attract staff (see chapter 5) (OECD, 2023<sup>[18]</sup>).

The increase in RDA staffing levels has helped strengthen their capacity to carry out their mandate—to support the design of county development plans, to identify funding opportunities for counties, cities, and municipalities, and to facilitate the implementation of strategic regional initiatives. In response to an OECD questionnaire completed by all 21 RDAs, 76% of RDAs considered that they had sufficient staff to execute their responsibilities, and 91% of RDAs indicated that their staff had the necessary expertise to carry out their mandate (Figure 3.3). However, there are also concerns among national government representatives that the RDAs may in fact be overstaffed, raising questions about the sustainability and cost-effectiveness of their operations, especially in the context of future funding uncertainty (OECD, 2023<sup>[10]</sup>).

**Figure 3.3. Self-reported resource capacity of Croatia RDAs**



Note: Questionnaire question: To what extent do you agree with the following statements? Full statements: The RDA has clear internal rules, procedures and mechanisms in place to carry out its various tasks; The RDA has sufficient financial resources to execute its responsibilities; The RDA has sufficient staff to execute its responsibilities; The RDA has the necessary material resources (e.g. office space, computers) to support its operations; The RDA's organisation structure supports its operations (e.g. having dedicated units for various tasks); The RDA's staff have the necessary expertise to execute their responsibilities; Does your RDA have the necessary human resources (including expertise) to effectively carry out the following tasks related to the regional development planning process? N=21.

Source: Author's elaboration, based on (OECD, 2022<sup>[28]</sup>).

While these data portray a very positive image of RDA resource capacity, they reflect a particular point in time. In 2022, RDAs were still receiving significant funding through EU Technical Assistance. Moreover, in 2021-2022, many RDAs were primarily focused on the design of county development plans, an activity that demands particular skills (e.g. strategic planning, stakeholder consultation). Now that all county development plans have been adopted, the workload of the RDAs has shifted more towards issues such as monitoring and reporting, and helping county, city and municipal administrations to identify and apply to EU and national funding calls. Such activities require a different skill set.

Despite the increase in staffing levels since 2018, interviews with RDAs revealed skills gaps in areas such as public procurement, monitoring and evaluation, and advancing the green and digital transitions (OECD, 2023<sup>[18]</sup>). Enhancing skills in these areas is crucial for effectively implementing, monitoring and evaluating county development plans. Moreover, EU funding and financing opportunities at the regional and local levels are increasingly focused on projects linked to renewable energy, energy efficiency, and digital innovation. Improving RDA knowledge and skills vis-à-vis green and digital initiatives is vital, given an expertise gap within city and municipal governments that limits their ability to develop strong project proposals, and access relevant funding and financing opportunities. Furthermore, while RDAs receive ample requests from cities and municipalities to support their strategic planning processes (e.g. to prepare implementation programmes), they also signalled having limited expertise in financial and strategic planning at the local government level (OECD, 2023<sup>[18]</sup>).

To overcome these challenges, the MRDEUF and RDAs should consider conducting a periodic, potentially annual, training needs assessment. On the basis of the assessment, an RDA capacity building plan could

be designed to identify training priorities for the upcoming period and propose concrete training opportunities. For example, the MRDEUF could expand its current training offer to RDAs, including on official guidelines for progress reporting and changes to EU funding for regional development projects (OECD, 2023<sup>[18]</sup>). The MRDEUF should also identify which other national bodies would be best placed to provide training on additional topics (e.g. public procurement). For example, capacity building initiatives could be delivered by training institutes such as the State School for Public Administration, which offers capacity building on topics such as strategic planning and management of EU funds (OECD, 2023<sup>[10]</sup>). For example, the State School could create a series of training opportunities specifically targeted to subnational government bodies, including RDAs.

The capacity building plan could, however, also feature training offered by national and international non-governmental organisations such as the Institute of Economics, Zagreb and the European Association of Development Agencies (EURADA). The latter represents regional and local development agencies across Europe and offers training opportunities, including through international peer-to-peer exchange (OECD, 2024<sup>[44]</sup>). Finally, the training plan could also identify opportunities for peer-to-peer exchange across Croatian RDAs, building on the particular expertise that some agencies may have developed.

### *Oversight of RDAs is shared between county administrations and the MRDEUF*

The oversight structures of Croatia's RDAs are complex, with the latter having legal, functional and financial ties to both the county administrations and the national government. Their dependence on both types of public bodies, which represent different interests, presents a series of accountability challenges.

Croatia's RDAs are formally part of the county administrations, which are generally their sole founder. As such, the *de jure* accountability of Croatian RDAs is typically to county governments, and not to the national government, cities or municipalities. The formal ties between the county and RDA are underscored by the fact that their directors are appointed by the county prefect to a four-year term and that core RDA funding comes from the county budget (see chapter 5). These arrangements make the RDAs accountable to the county administrations.

There is, however, a concern among RDAs that the county administrations do not fully understand: i) the purpose of strategic planning for regional development; ii) the counties' responsibilities under the Law on Regional Development; and iii) RDA mandates. This lack of understanding could lead to a number of negative outcomes, such as county leadership teams not placing sufficient importance on strategic planning for regional development or failing to provide the RDAs with the tools or information to carry out their mandate. For example, RDAs indicated that county departments have not always provided timely information that the agencies need to draft monitoring reports (OECD, 2023<sup>[10]</sup>).

There are also reports of county executives insisting that their RDAs draft project proposals for specific local governments to help them apply to EU funding, despite RDAs knowing that such proposals would not be successful (e.g. because it was not sufficiently connected to the topic of the call). Such examples illustrate the way in which RDAs' lack of an arms-length relationship with county administrations can undermine their effectiveness in guiding regional development (OECD, 2023<sup>[10]</sup>).

At the same time, RDAs are also accountable to the MRDEUF, for example for the EU Technical Assistance funds that the Ministry channels to the RDAs. Moreover, the MRDEUF needs to formally accredit the RDAs before they can act as regional co-ordinators. In practical terms, this means that the RDAs must comply with a set of national-level requirements relating to, for example, their human resource management, as well as accounting and transparency procedures (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>).

The complex relationship that RDAs have to county administrations and the MRDEUF creates tension over which strategic and operational tasks the RDAs should prioritise – those coming from the county leadership

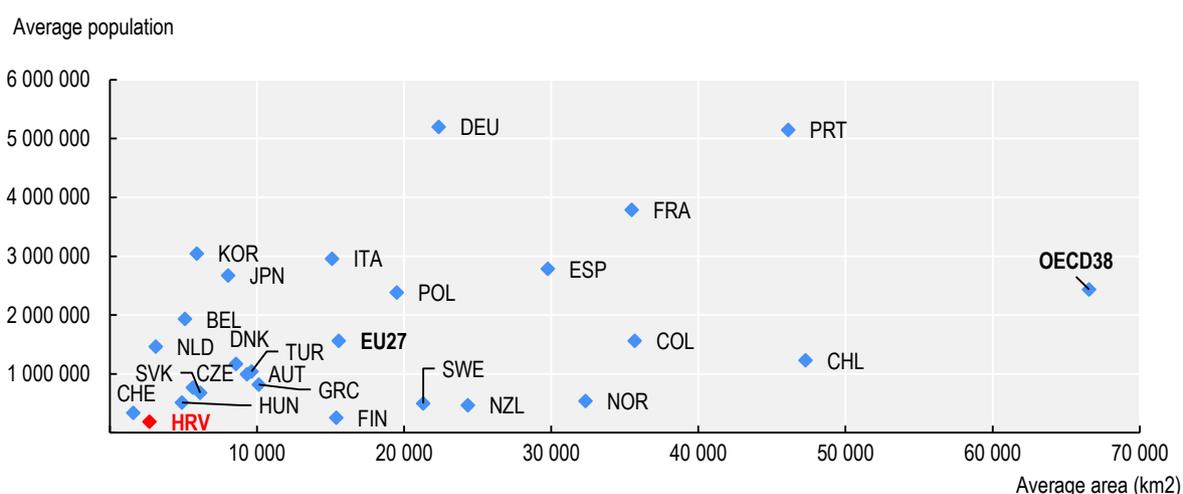
or from the Ministry. This can be particularly challenging when the parties in power at the county and national levels are different.

To resolve the complex positioning of the RDAs vis-à-vis the county administrations and the MRDEUF, a number of measures could be taken. For instance, the government could reassess the division of roles and responsibilities among the RDAs, county administrations, and the MRDEUF. This would involve adapting the Law on Regional Development and relevant regulations to provide additional detail on the strategic and operational tasks for which RDAs are responsible, while also clarifying RDA accountability towards both counties and the MRDEUF. This should be coupled with an outreach campaign, led by the MRDEUF, to ensure that the county leadership deepen their understands of the laws governing regional development and strategic planning, and how they apply to the counties and the RDAs. Such an outreach campaign could include organising briefings with county prefects, deputy prefects and county heads of department. Such meetings would ideally be conducted after county-level elections. Moreover, the MRDEUF and RDAs could prepare and disseminate briefing material that explains the value added of regional development strategic planning and the work of the RDAs to county leaders, including practical examples.

### *Croatia's RDAs operate more locally than many of their international peers*

A further challenge that risks constraining the effectiveness of RDAs, and Croatia's regional development policy more broadly, is related to the territorial scale at which the RDAs operate. Counties in Croatia are geographically and demographically smaller than OECD Member countries on average (with the exception of Swiss cantons) (Figure 3.4). Moreover, in many OECD Member countries and EU Member States, RDAs operate at a TL2 level, serving areas with a larger average population and territorial size than those in Croatia (Table 3.4). There can be benefits to organising regional development planning and investment at the TL3 level. For example, the proximity of the RDAs in Croatia and Slovenia to local governments, civil society organisations, local businesses and citizens can help them design development plans and investment strategies that closely match local development needs, priorities and capacities.

**Figure 3.4. Average population and area extension per region in OECD countries and Croatia**



Note: Australia, Canada, Mexico and the United States are not shown on the graph because of the large average size of state governments. The UK is also not displayed due to the low number of regional governments (i.e. Northern Ireland, Scotland, Wales). In Türkiye, regional average sizes include the special administration provinces and the provincial metropolitan cities. The average regional size in France does not include the five overseas regions.

Source: Author's elaboration, based on (OECD/UCLG, 2022<sup>[45]</sup>; OECD, 2023<sup>[46]</sup>).

Table 3.4. RDAs and similar bodies in different EU and OECD countries

Country	Number of RDAs	Average population per RDA	NUTS/TL level at which RDAs operate	Average surface area in km <sup>2</sup> per RDA
Costa Rica	6	860 506	TL 2	8 517
<b>Croatia</b>	<b>21</b>	<b>184 713</b>	<b>TL3</b>	<b>4 194</b>
Netherlands	9	1 948 156	TL2 and above	4 616
Romania	8	2 390 508	NUTS 2	29 800
Slovenia	12	175 584	TL3	1 707
Spain	19	2 491 134	TL2	26 630

Source: Population data (2021), except for Scotland: (OECD, 2022<sup>[47]</sup>). Population data for Scotland (2021): (UK Office for National Statistics, 2022<sup>[48]</sup>); Costa Rica: (OECD/UCLG, 2022<sup>[49]</sup>); Lithuania: (OECD/UCLG, 2022<sup>[50]</sup>); Netherlands: (Netherlands Regional Development Corporations, n.d.<sup>[51]</sup>); Portugal: (EURADA, n.d.<sup>[52]</sup>); Romania: (ROREG, 2022<sup>[36]</sup>; EURADA, n.d.<sup>[37]</sup>); Slovenia: (Republic of Slovenia, 2023<sup>[53]</sup>); and Spain: (Foro ARD, n.d.<sup>[40]</sup>; EURADA, n.d.<sup>[54]</sup>).

Operating at the TL3 rather than the TL2 level can also present daunting challenges. First, it can lead to a suboptimal use or fragmentation of investment funds, as many small projects designed by and implemented at the county level might tackle similar issues that could benefit from inter-regional intervention (OECD, 2022<sup>[2]</sup>). In fact, small scale development projects can result in lower returns on public investment (OECD, 2019<sup>[55]</sup>). Small scale projects may even have an insufficient minimum scale for the investment to be eligible for financing (e.g. by the European Investment Bank) (OECD, 2023<sup>[18]</sup>).

Second, operating at the TL3 level comes with funding challenges. First, due to the relatively small populations and territories (in km<sup>2</sup>) covered by RDAs operating at the TL3 level, the latter are more likely to have access to smaller pools of funding, directly affecting their ability to offer competitive salaries and benefits. In fact, interviews showed that many RDAs struggle to attract and retain highly skilled professionals (OECD, 2023<sup>[18]</sup>).

Third, having 21 TL3-level RDAs also risks disproportionate levels of spending on basic administrative functions. Each RDA needs its own administrative setup, including management, financial, and support staff. In countries where RDAs operate at the TL2 level, such roles and functions can be shared more efficiently, potentially freeing up funding to attract specialised professionals, for example with expertise in areas such as the green and digital transitions.

Fourth, having many RDAs operate at the TL3 level also implies important co-ordination costs. For example, RDAs may inadvertently compete for scarce national or EU funding or implement similar projects that would benefit from collaboration (e.g. in transport, waste and water management) without the benefits of collaboration. Furthermore, despite their significant geographic, population and economic diversity, many neighbouring counties in Croatia face similar development challenges (e.g. population decline, industrial transition) and can thus benefit from joint action. The ability of county-level RDAs to work together on such issues can be hampered by administrative boundaries, differing priorities of county administrations, and the complexities of managing inter-regional collaboration. In contrast, TL2 RDAs, by virtue of their larger scale, may facilitate more streamlined co-ordination in their territories, enabling more efficient resource use and alignment with overarching development strategies.

#### *Croatia could consider the feasibility and benefits of RDAs working at a larger territorial scale*

To address the challenges associated with RDAs operating at a relatively local scale, Croatia could consider conducting a cost-benefit analysis of establishing the RDAs at the TL2 level. In theory, such a reconfiguration could involve reducing the number of RDAs from 21 to four, one for each TL2 area. By covering larger areas, which often face similar socio-economic and development challenges, reconfigured

RDAs could facilitate Croatia's efforts to create territorial development strategies that address challenges facing multiple counties.

Furthermore, the reconfiguration could help the RDAs to pool financial and human resources. This would increase their capacity to carry out a broad set of tasks and responsibilities, going beyond their current set of activities. Indeed, their remit could be extended to include the design and management of a regional investment strategy. A reconfiguration could also enable them to allocate additional human and financial resources for various purposes such as engaging with the private sector, and academic and research institutions. Such non-governmental actors can make significant contributions to regional development, including in terms of productivity, innovation and digitalisation. Interviews with local stakeholders indicated that the RDAs currently have limited time available to engage systematically with non-governmental actors such as SMEs (OECD, 2023<sup>[18]</sup>).

Establishing the RDAs at the TL2 level could also help regions attract additional EU financing for macro-regional investment projects, for example from the European Investment Bank and the European Bank for Reconstruction and Development, which do not lend for relatively small projects (e.g. below EUR 25 million in the case of the European Investment Bank). The reconfiguration could, in time, open the door to the EU designating RDAs as Managing Authorities for European Union Cohesion Policy funds in the 2021-27 period, as was the case with the Romanian RDAs (Box 3.4). Operating at a broader scale could also reduce administrative overhead and duplication of efforts, as a smaller number of RDAs would require fewer administrative staff overall. Such personnel could be reskilled to support other RDA tasks or possibly be integrated into other parts of the county administration.

In addition to mapping potential benefits of establishing the RDAs at the TL2 level, the assessment should explore possible costs and legal and political challenges. For example, there may be resistance from current RDA directors and staff, who fear job losses or diminished influence. Moreover, county, cities and municipalities may have concerns over losing direct access to RDAs and the potential dilution of their local priorities. To mitigate these challenges, a phased transition plan could be developed, offering retraining and redeployment opportunities for affected staff within the new organisational structure. The establishment of satellite or liaison offices in major cities within each TL2 region could maintain the vital link between RDAs and local governments. These offices would ensure that cities and municipalities maintain easy access to their respective RDAs, and that local needs and insights could continue to inform regional development planning. Such measures would help preserve the benefits of proximity to local stakeholders while capitalising on the advantages of operating at a larger scale. In addition, the assessment should identify the different laws and regulations that would have to be modified to allow for the restructuring of the RDAs. This would also require the assessment of which actions are needed to ensure that counties maintain essential strategic planning capacity when RDAs are no longer part of their organisational structure.

Furthermore, the assessment should reflect on how the possible reconfiguration would impact the accountability structure for RDAs. For example, establishing the RDAs at the TL2 level could imply reconfiguring them as non-governmental actors that are supervised by regional boards composed of the representatives of county and local governments, as in Romania. Such a configuration could help the RDAs to become less vulnerable to political changes, both at the national and subnational levels. Another option would be to establish the RDAs as regional-level extensions of the MRDEUF. However, such a setup could result in a weakened link between RDAs and county and local governments and make the RDAs too dependent on central government funding and the political priorities of the national government.

Finally, this assessment should also consider an intermediate alternative that might achieve the benefits of scale without a full reconfiguration of RDAs. Exploring options for increased formal collaboration and co-ordination across the existing 21 RDAs could provide a pathway to realising some of the efficiencies and strategic advantages of operating at a larger scale. Such a step could include establishing formal partnerships among RDAs to share expertise, pool resources for larger projects, and jointly pursue funding

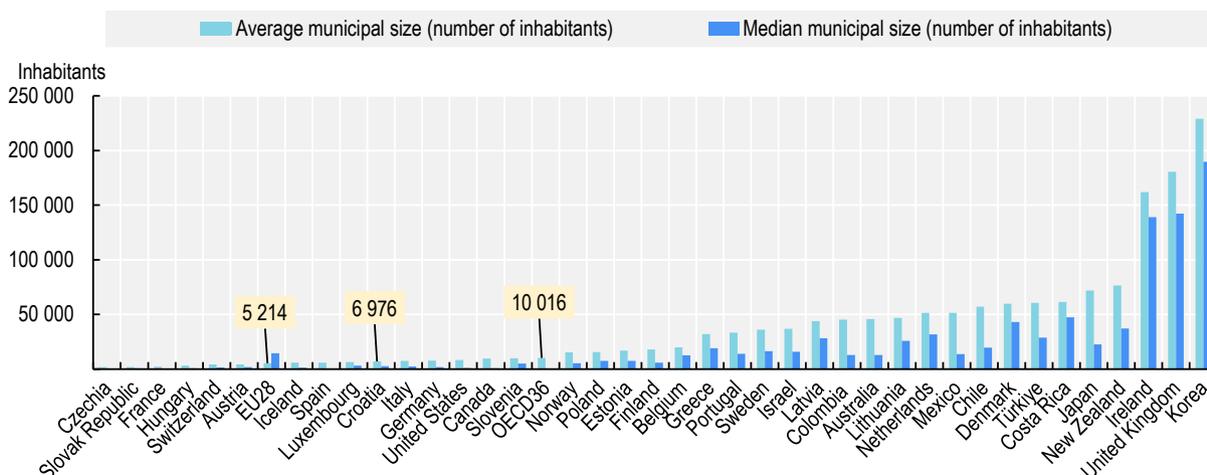
opportunities. One way to encourage such co-operation would be through the MRDEUF, thus creating specific funding windows for projects that are prepared by more than one RDA. This approach could allow for a gradual transition, enabling stakeholders to adjust to new modes of operation and collaboration while preserving the local focus and expertise that RDAs currently offer. It would also provide valuable insights into the practical benefits and limitations of increased inter-RDA co-operation, informing future decisions on the optimal structure and scale of RDAs in Croatia. A final intermediate step could involve piloting the creation of a single macro-regional RDA for the next EU programming period. This pilot would test the feasibility, benefits and costs of consolidating RDAs at a larger territorial scale, providing a practical model and insights to guide the potential further reconfiguration of RDAs in Croatia.

### **Cities' and municipalities' planning capacities are strained**

At the local level, the development of a medium-term development plan is optional for cities and municipalities. Both are, however, mandated to develop a short-term implementation programme, which identifies concrete measures that can help to meet their objectives (Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). The local implementation plans need to be aligned with the county development plans (OECD, 2023<sup>[18]</sup>).

The fact that local governments are not mandated to design or adopt medium-term development plans is linked to their relatively high level of territorial fragmentation (e.g. in terms of their average population). The average local-level population in Croatia is nearly a third lower (30.3%) than in the OECD (Figure 3.5) with some having a population that is as small as 0.03% of the OECD average (OECD, 2023<sup>[46]</sup>; Croatian Bureau of Statistics, 2023<sup>[56]</sup>). Moreover, with 37% of municipalities having have fewer than 2 000 inhabitants and only 5% with have more than 20 000 (OECD, 2023<sup>[46]</sup>).

**Figure 3.5. Average number of inhabitants per municipality in OECD countries and Croatia**



Source: Author's elaboration, based on (OECD, 2023<sup>[46]</sup>; Croatian Bureau of Statistics, 2023<sup>[56]</sup>).

As a result of the large number of small local government units and the shrinking local labour pool, many local administrations often lack the necessary human resource capacity to design a local development plan and support its implementation (OECD, 2023<sup>[18]</sup>). The high degree of territorial fragmentation also affects local service delivery, with many municipal administrations (as well as certain city administrations) lacking sufficient financial and human resources to fulfil the tasks and responsibilities that are assigned to them by law (Croatian Ministry of Justice and Administration, 2022<sup>[57]</sup>; OECD, 2023<sup>[18]</sup>).

To address the limited local capacity, cities and municipalities can enter into multiple inter-municipal co-operation agreements. This is supported by a financial incentive whereby local governments can obtain co-funding grants of up to 75%<sup>2</sup> from the national government when they co-operate on administrative tasks (e.g. a joint administrative department or sharing the remuneration of a civil servant working for both municipalities) (Official Gazette of Croatia No 88/2022, 2022<sub>[58]</sub>). In addition, city and municipal administrations that co-operate to deliver a public service can also secure national co-funding grants of up to 25%. Both grants are available to cities and municipalities for up to five years after they enter into a co-operation agreement. Interviews with local stakeholders indicated that since the grants were launched in 2022, the Ministry of Finance has approved inter-municipal co-operation agreements for 132 cities and municipalities, or nearly a quarter of the total number of cities and municipalities (OECD, 2023<sub>[10]</sub>).

The most generous financial incentives, however, are offered to city and municipal governments that choose to amalgamate with one or more neighbouring local governments. The incentives include, for example, a one-time grant to repay the debt obligations of the city or municipal government whose territory is being merged into another, coverage of the financial costs of the merger, and capital and operational grants for a five-year period (Official Gazette of Croatia No 88/2022, 2022<sub>[58]</sub>). Despite these incentives, no municipal mergers have taken place to date, in part owing to concerns around a loss of political control (OECD, 2023<sub>[10]</sub>).

*Few cities and municipalities have a local development agency to support local development planning*

Cities and municipalities are strongly encouraged to collaborate in the field of local development planning. For example, in order to help cities and municipalities develop and implement local development plans and projects, they can establish local development agencies (LDAs). LDAs can be created by one or more cities and municipalities. As such, cities and municipalities can pool resources to ensure they collectively have the necessary human resources to steward local development efforts.

The main strategic planning responsibilities of LDAs include co-ordinating the development of local strategic documents and action plans, as well as monitoring their implementation. They also support the development of local project proposals, and co-operate with other LDAs and RDAs to identify opportunities for joint projects (Official Gazette of Croatia No 147 et al., 2018<sub>[9]</sub>). In 2023, there were only 22 LDAs, which operated in 12 out of 21 counties. While twenty were established by cities alone, two were created by several cities and municipalities. Many local governments, and in particular municipalities, consider the costs to establish and run an LDA too steep (OECD, 2023<sub>[10]</sub>; MRDEUF, 2023<sub>[43]</sub>).

*Additional incentives for inter-municipal co-operation may be needed to build local strategic planning capacities*

To ensure cities and municipalities have the necessary capacity to support the design and implementation of regional development policy, it may be necessary for Croatia to adopt additional measures to support inter-municipal co-operation. For instance, Croatia could consider improving outreach to cities and municipalities about how the existing incentives for inter-municipal co-operation could be used to help support joint strategic planning activities or help set up joint planning departments.

In addition, collaboration among different municipalities (e.g. in the design of local development strategies) that currently do not have a local development strategy could be made a precondition to receiving competitive grant funding from the MRDEUF (see chapter 5). Furthermore, Croatia could consider exploring some of the policy measures adopted by Ukraine between 2014 and 2020, which drastically reduced municipal fragmentation. Key incentives offered to Ukraine's local governments willing to merge included expanding their mandate for service delivery and increasing their opportunities for generating additional own-source revenue. Merged local governments also gained access to additional regional development funding opportunities through the State Fund for Regional Development (OECD, 2022<sub>[2]</sub>).

Croatia could also consider increasing the capacity building support offered to cities and municipalities in areas related to regional and local development, including strategy design, EU and national funding and financing, as well as monitoring and evaluation. This could involve increasing the number of training sessions offered by the MRDEUF and the School of Public Administration for local civil servants (see chapter 4). These possibilities could be coupled with the development of a strategic planning toolbox, available online, to enable city and municipal staff to learn at their own pace.

## Regional development co-ordination in Croatia

In Croatia, as in several OECD Member countries, the strategic planning cycle for regional development at all levels of government depends on co-ordination and communication mechanisms that dependably contribute to ensuring horizontal and vertical policy coherence. At the national level, for example, horizontal co-ordination mechanisms can include inter-ministerial bodies or committees for regional development, which help to align interests and priorities across ministries. With regard to vertical co-ordination among levels of government, mechanisms to align relevant public and non-governmental stakeholders can include dialogue platforms, inter-governmental consultation boards and contractual arrangements. At the subnational level, horizontal co-ordination mechanisms typically include inter-regional and inter-municipal co-operation arrangements, as well as metropolitan governance bodies (OECD, 2018<sup>[59]</sup>).

### ***Croatia's vertical and horizontal mechanisms for regional development***

In recent years, legislative developments in Croatia have established a diverse set of co-ordination mechanisms that can support the co-ordination of regional development policy.<sup>3</sup> Foremost among these is the national-level network of strategic planning co-ordinators, the Council for Regional Development, and the network of RDAs. Their work is supported by other co-ordination mechanisms, including county and local government associations, macro-regional partnerships (e.g. development councils), as well as partnership councils and local action groups. The current system provides a solid foundation for multi-level dialogue and consultation among national and subnational levels of government. At the same time, there is room for improvement, including by formalising mechanisms for the co-ordination of regional development policy across line ministries, and strengthening exchange and information sharing opportunities related to regional development among different levels of government.

#### *National-level co-ordination mechanisms supporting regional development*

There are a number of co-ordination mechanisms established at the national level to advance regional development. To support cross-sector co-ordination, there are strategic planning co-ordinators—specific units located within all central government bodies that perform and co-ordinate planning tasks, and their network is chaired by the MRDEUF (Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). The strategic planning co-ordinators regularly report to the MRDEUF on the design and implementation of their ministry's planning documents (including sectoral and multi-sectoral strategies, national plans and implementation programmes) (Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>).

In turn, the MRDEUF provides comments to strategic planning co-ordinators on the planning documents that are developed and implemented by their line ministries. Such comments may include opinions on the alignment of strategic documents with Croatia's national planning framework, or recommendations on how to strengthen the design, monitoring and evaluation of such documents to improve their quality and impact (OECD, 2023<sup>[18]</sup>; OECD, 2023<sup>[10]</sup>).

A second mechanism for co-ordination among levels of government is the Council for Regional Development (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>). The Council was established by law as a platform for multi-level dialogue and consultation to help align strategic priorities and co-ordinate the

implementation of policies, programmes and public investments for regional development (OECD, 2023<sup>[11]</sup>). Members include the MRDEUF, representatives of the Ministry of Physical Planning, Construction and State Assets, county and local government representatives, RDAs, a member of the Committee of the Croatian Parliament responsible for regional development and EU funds, representatives of the scientific and professional communities, as well as representatives of other ministries and public institutions of particular importance for regional development (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>; OECD, 2023<sup>[11]</sup>).

The Council, which was established in 2019, has never been operationalised. In practice, its work is carried out through meetings between the Prime Minister and relevant ministries, county prefects and representatives from the Croatian Association of Cities and the Croatian Union of Municipalities (hereafter the Prime Minister-led regional development co-ordination body). Such joint meetings have generally taken place on a biannual basis since 2016 (Karlovac County, 2023<sup>[60]</sup>; OECD, 2023<sup>[61]</sup>). They facilitate high-level political discussions on the co-ordination of territorial development between representatives from different levels of government, thereby carrying out similar tasks to those assigned to the Council for Regional Development.

*Subnational co-ordination mechanisms, supporting exchange across jurisdictions and with the national government*

A key subnational-level co-ordination mechanism is the network of RDAs that helps align policy objectives between national and county governments. The network is chaired by the MRDEUF and includes RDA representatives from all 21 counties. It meets once every three months and serves primarily as a platform for the MRDEUF to engage in downward communication with RDAs, including to outline new legislative or financial developments that are relevant for RDAs, counties, cities and municipalities (OECD, 2023<sup>[10]</sup>; OECD, 2022<sup>[28]</sup>).

Other vertical and horizontal co-ordination mechanisms play a supporting role in ensuring coherence in the design and implementation of regional development policy. In particular, the Organic Law on Regional and Local Self-Government allows counties and local governments to establish associations in order to promote and achieve common territorial interests (Official Gazette of Croatia No 151/22, 2022<sup>[17]</sup>). Currently, three such bodies exist: the Croatian County Association (comprising all 20 counties and Zagreb City), the Croatian Association of Cities (comprising 127 out of 128 cities) and the Croatian Union of Municipalities (comprising 327 out of 428 municipalities) (European Committee of the Regions, n.d.<sup>[62]</sup>). The Croatian County Association has particular relevance for the RDAs as they are allowed to participate, thus enabling them to receive regular updates on laws, regulations or funding calls (OECD, 2023<sup>[18]</sup>).

Moreover, certain vertical co-ordination mechanisms are in place to help manage specific macro-regional partnerships. For instance, strategic projects for macro-regional investment can be funded under development agreements between the national government and at least three county governments (Official Gazette of Croatia No 147 et al., 2018<sup>[9]</sup>). One such example is the 2017 Development Agreement of Slavonia, Baranja and Srijem (Government of Croatia, 2022<sup>[63]</sup>). A Council of Slavonia, Baranja and Srijem has been established to support the vertical (among the national government and counties) and horizontal (across counties) co-ordination of related investments. The Council, which meets biannually, is chaired by the Prime Minister, vice-chaired by the MRDEUF (which also acts as the Council's lead co-ordinator across government), and its members include line ministries, relevant county prefects, RDAs and associations (Official Gazette of Croatia No 21/2017, 2017<sup>[64]</sup>).

In addition, partnership councils have been created at the county and local levels to support the design and implementation of subnational development plans (e.g. county development plans, the plans for island development, Integrated Territorial Programme) (MRDEUF, 2024<sup>[11]</sup>). Partnership councils, which meet at least twice a year, typically function as advisory bodies that help the county, city and municipal administrations identify strategic priorities and projects for regional and local development and support

their implementation. Partnership councils are generally composed of both governmental and non-governmental actors at the county and local levels. Their consultation is mandatory before county governments can adopt strategic plans, in order to ensure that the latter take local needs and priorities into account (OECD, 2023<sub>[10]</sub>). In several counties, the work of the partnership council is complemented by additional *ad hoc* co-ordination meetings. For example, in Osijek-Baranja, the county prefect meets the representatives of city and municipal authorities on a monthly basis to discuss relevant development challenges and needs. The RDA, through its ties with the county administration, can help shape the agenda of such meetings (OECD, 2023<sub>[10]</sub>).

Finally, guided by EU regulations, many cities and municipalities have established local action groups (LAGs) and fisheries' local action groups (FLAGs) (European Network for Rural Development, 2020<sub>[65]</sub>). Their territorial delineation is decided by their members (local authorities and private actors) according to functional, rather than administrative considerations. County authorities are not involved in these groups. Both types of action groups bring together public and private actors from at least five cities or municipalities. In particular, LAGs and FLAGs support the design, implementation and monitoring of local development plans that reflect the interests of the various socio-economic groups in their area, and include specific objectives for rural infrastructure development. LAGs can also develop proposals for projects to support the economic competitiveness of the area (e.g. local infrastructure), in order to be considered for sectoral grant funding by line ministries (OECD, 2023<sub>[10]</sub>; Croatian Network for Rural Development, n.d.<sub>[66]</sub>). There are 406 local governments in Croatia that are currently members of LAGs or FLAGs (OECD, 2023<sub>[11]</sub>). The 54 LAGs created during the EU programming period 2014-2020 spanned 90% of Croatia's total territory (OECD, 2023<sub>[10]</sub>).

Together, the aforementioned mechanisms complement one another in supporting place-based regional development at different levels of government. The RDAs and the regional development co-ordination body (led by the Prime Minister) can help align priorities among national and subnational levels of government (as do partnership councils between county and local levels of government). Simultaneously other mechanisms, such as Council of Slavonia, Baranja and Srijem, LAGs and FLAGs support macroregional and supralocal planning processes. Croatia's different associations of subnational governments, in turn, support learning and exchange between county and local governments, which can strengthen their ability to support strategic planning-related activities for regional development.

### ***Challenges to the co-ordination of regional development in Croatia***

There are a number of areas where existing co-ordination mechanisms could be reinforced in order to further improve the coherence of strategic planning for regional development across government. First, there are opportunities to further strengthen the Prime Minister-led regional development co-ordination body, in particular by ensuring effective inter-ministerial and inter-governmental co-ordination. For example, it lacks clearly formulated objectives for council meetings, which risks limiting its focus and impact. Moreover, the participation of key actors responsible for implementing regional development policy across government, including certain line ministries and RDAs that need to be a part of any such multi-level dialogue, in council meetings is not always guaranteed.

Second, co-ordination and exchange across RDAs needs to be institutionalised, including to support peer-to-peer learning. Third, there is a general sense among RDAs and local governments that relevant information on regional development (e.g. on legislative and regulatory changes, funding opportunities, development data) is often not shared consistently or in a timely manner by other levels of government.

*The organisation of the Prime Minister-led regional development co-ordination body could be adjusted to improve its impact*

There are a number of elements that could be adjusted to improve the impact of the Prime Minister-led regional development co-ordination body. First, it is recommended to establish formal objectives for the

body. For example, its aim could be to support periodic reviews of Croatia's regional development policy priorities and funding mechanisms at different levels of government. Second, and relatedly, the body could be reorganised into two chambers: one to support inter-ministerial co-ordination of regional development policy and the other to support the policy's vertical co-ordination among different levels of government. This second body could include national-level line ministries and subnational actors such as county, city and municipal governments and RDAs.

Creating two chambers could allow for a specialised focus on different aspects of regional development. The separation into two chambers could ensure that one can concentrate on fostering high-level, inter-ministerial co-ordination of regional development policy and funding. Simultaneously, the other chamber could focus on the vital task of vertical co-ordination, bringing together a diverse range of stakeholders from national and subnational levels. This structure could enable targeted discussions and decision-making, addressing the specific needs and contributions of various public actors involved in regional development.

With regard to inter-ministerial co-ordination, the body's impact could be further strengthened by ensuring the systematic participation of ministers and/or state secretaries from all relevant line ministries (e.g. the ministries of Regional Development and EU Funds, Finance, Agriculture, Economy and Sustainable Development, Environmental Protection and Energy and Fisheries). Given that many ministries either directly or indirectly contribute to regional development, ensuring high-level ministerial participation in the Prime Minister-led regional development co-ordination body is important for two reasons. First, it can provide a forum for sectoral perspectives on regional development to be heard. Second, it can ensure that regional development is being incorporated as a cross-cutting issue within different line ministries. Given its remit in the field of regional development, the MRDEUF could be assigned the task of preparing the agenda for the meetings and co-ordinating follow-up on the meetings' outcomes.

Different OECD Member countries have set up similar inter-ministerial co-ordination bodies. Poland, for example, has established a Co-ordinating Committee for Development Policy to support decision-making related to the implementation of regional development policy across government. Members of the Committee include a representative of the Prime Minister's Office, as well as ministers and state secretaries from relevant line ministries. Various thematic subcommittees, which include representatives of subnational governments, academia and the private sector, support the committee's work by focusing on technical questions related to regional development policy (Government of Poland, n.d.<sup>[67]</sup>; OECD, 2019<sup>[68]</sup>).

With regard to supporting vertical co-ordination, the work of the Prime Minister-led regional development co-ordination body could be strengthened by guaranteeing the participation of RDAs, which are currently excluded from its activities. Supporting their participation in a second chamber on vertical co-ordination could create a forum for RDAs to act as a partner in policy discussions. Technical working groups could also be established, for example to assess different aspects related to regional development, including funding and financing, monitoring and evaluation, and engagement with non-governmental actors. Inter-governmental dialogue bodies in Poland and Sweden provide examples of how such arrangements can work (Box 3.5).

### Box 3.5. Multi-level dialogue bodies in Poland and Sweden

#### Poland

Poland's Joint Central Government and Local Government Committee supports co-ordination, consultation and negotiation among levels of government. This body is composed of the minister responsible for public administration and 11 representatives appointed by the Prime Minister, together with representatives of national organisations of local government units (e.g. regions, counties, cities, metropolitan areas). National and local-level representatives work together in eleven 'problem teams' and three thematic working groups, and are supported by expert analysis.

The Committee aims to systematically support the development of common policy positions related to the functioning of local government. Key tasks performed by the Committee include:

- Developing a common position between national and local governments on subnational-level economic and social priorities;
- Conducting reviews and assessments of the legal and financial conditions that underpin local government;
- Analysing information about prepared draft legal acts, documents and government programmes regarding local government issues, in particular, the expected financial consequences;
- Giving opinions on draft legislation, strategic and other government programming documents that affect local governments.

#### Sweden

In Sweden, it is the job of regional development policy makers to convince other ministries that they should apply their 'territorial lenses' when planning and designing sector policies. The Forum for Sustainable Regional Development 2022-2030 is one important co-ordination platform that supports this objective. It is positioned to support the implementation of the National Strategy for Sustainable Regional Development throughout Sweden 2021-2030. The forum is chaired by the Secretary of State for Regional Development. It is divided into two groups: one that promotes dialogue between national- and regional-level politicians, and one that fosters dialogue between national- and regional-level civil servants (director-level).

Source: Author's elaboration, based on Poland (OECD, 2020<sup>[69]</sup>; Government of Poland, n.d.<sup>[70]</sup>; Government of Poland, n.d.<sup>[71]</sup>; Lublinska, 2017<sup>[72]</sup>); Sweden: (OECD, 2023<sup>[73]</sup>).

The existing network for strategic planning co-ordinators could play an important role in supporting the activities of the revamped Council for Regional Development. For instance, co-ordinators could support the preparation of the thematic working groups, summarise key findings and share them with the Council to support more informed, high-level regional policy making. Such activities could be complementary to their current work to support the design and implementation of planning documents. In particular, having greater exposure to the Council's work could help to improve their understanding of cross-cutting government priorities, such as balanced regional development. These priorities are required by law to be reflected in the strategic planning documents of their respective ministries and other national-level public bodies (Official Gazette of Croatia No 13/2021, 2021<sup>[21]</sup>).

Finally, to further institutionalise the work of the Prime Minister-led regional development co-ordination body, Croatia should consider incorporating the body into the Law on Regional Development, to formally replace the official Council for Regional Development. The revision of the Law could also be used to

guarantee the participation of specific central government bodies, and the RDAs, as well as to establish the two-chamber structure proposed above.

*Further institutionalising co-operation across RDAs can improve peer-to-peer exchange*

At the subnational level, an important challenge relates to the limited formal mechanisms for exchange and dialogue among RDAs. In principle, the Croatian Association of Counties provides county government bodies, including RDAs with a forum for policy dialogue and peer-to-peer exchange, including on topics such as EU funds, economic development, agriculture, education, as well as health and social policy (OECD, 2023<sup>[10]</sup>). However, interviews indicated that the peer-to-peer exchange opportunities offered through the association are often more closely linked to the needs and priorities of county prefects rather than the RDAs (OECD, 2023<sup>[18]</sup>). While RDAs are established and partially funded by county governments, they also have some distinct needs and priorities that need to be articulated and shared. These include challenges related to aligning county development plans and programmes with national priorities, conducting monitoring and evaluating activities, and identifying funding and financing opportunities for regional development projects (OECD, 2023<sup>[18]</sup>).

For the above-mentioned needs and priorities to be met, the Croatian Association of Counties could consider setting up a forum or organisational unit that expressly aims to support knowledge exchange among RDAs. For example, it could provide opportunities for training and peer-to-peer learning on topics that are relevant to day-to-day RDA responsibilities in the strategic planning cycle, including: i) how to better support the implementation of planning documents; ii) how to enhance the quality of monitoring and evaluation (including data collection and analysis); iii) how to better identify funding and financing opportunities for programmes and projects, and iv) how to engage more effectively with cities, municipalities and the private sector.

An alternative to creating an RDA forum within the Croatian Association of Counties would be setting up an association of RDAs, following the example of other European countries (Box 3.6). Such an association of RDAs could have a rotating presidency and assign leadership for the development of training material (as well as lobbying and advocacy activities) to different RDAs, depending on their fields of expertise.

### Box 3.6. Associations of regional development agencies in Europe

Associations of RDAs have been set up in several OECD Member countries and EU Member States. In general, the associations aim to strengthen regional development through co-operation among RDAs. They also constitute important platforms to amplify the voices of RDAs at the national and international levels. However, their objectives vary however (e.g. providing a space for exchange, lobbying for better regional development policies, securing EU funding). Consequently, the services they provide also vary. Furthermore, their organisational structures differ with certain associations operating under a more complex governance structure than others. The associations that operate in Bulgaria, Romania and Spain illustrate this diversity.

#### Bulgaria

The Bulgarian Association of Regional Development Agencies (BARDA) was established in 1997 at the behest of Bulgaria's RDAs. It is a legally independent, non-governmental umbrella organisation, acting as a network for RDAs and regional business centres. Its mission is to improve the economic environment in Bulgaria by promoting entrepreneurial initiatives in accordance with the strategies of its members. The association ensures capacity building for RDAs so that they can better support SMEs and are better informed about developments at the EU level, for example. The association facilitates information networks and partnerships with other countries to share good practices with its members. It also participates in several national and regional co-ordination bodies such as the working group for Bulgaria's National Development Plan.

#### Romania

The Romanian Association of Regional Development Agencies (ROREG) was established in 2005. Its members consist of the country's eight RDAs. ROREG plays an important role in ensuring that RDAs are represented at the national and international level. It lobbies to improve legislation for regional development in Romania and advocates for a favourable attitude towards regional development among citizens, public administration and other institutions of public interest. It also supports the capacity building of RDAs, hosts conferences and training sessions, and facilitates collaboration across regions through common work streams and communication mechanisms. The association is managed by a Board of Directors consisting of a president and two vice-presidents elected from among the RDA directors.

#### Spain

The Association of Spanish Regional Development Agencies (Foro ADR) was formally established in 2007. It is a co-operation network made up of RDAs, public companies and management centres of Spain's Autonomous Regions and the two autonomous cities of Ceuta and Melilla. Its main objective is to provide its members with a space for joint reflection and exchange. It holds an annual forum to address the main issues connected to entrepreneurship, as well as several events related to financing.

FORO ADR also includes working groups covering topics such as competition and cohesion policies, public policy evaluation and circular economy. It also publishes news items to keep RDAs up-to-date on relevant developments. It plays an important role in advocating for RDAs, as well as lobbying for business support policies. The work of the association is supported by a Board of Directors, and a Management Team composed of up to three representatives designated by each of the partner entities.

Source: Author's elaboration, based on Bulgaria: (Bulgarian Association of Regional Development Agencies, n.d.<sup>[74]</sup>); Romania: (Association of Regional Development Agencies of Romania, 2024<sup>[75]</sup>); and Spain: (Foro ADR, n.d.<sup>[76]</sup>).

### *Strengthening communication between the MRDEUF and RDAs*

A further co-ordination challenge relates to the need for more timely and effective exchange and information-sharing among levels of government. For example, there could be scope to further improve the quality of upward exchange between the RDAs and the MRDEUF (OECD, 2023<sup>[10]</sup>). It should be noted that a number of government mechanisms already exist to support this process. For instance, RDAs have the right to respond to public consultations on draft laws or regulations during a prescribed 30-day period, like any other public body (Official Gazette of Croatia No 25/2013, 2013<sup>[77]</sup>). Moreover, on certain occasions, as part of the network of RDAs, the MRDEUF has proactively held meetings to discuss proposed amendments to the legislative framework (e.g. regarding the Law on the System of Strategic Planning and Development Management) (OECD, 2023<sup>[61]</sup>).

Nevertheless, interviewees indicated that RDAs do not always feel that they are consulted in a timely manner on adjustments to certain legislation, regulations or guidelines (OECD, 2023<sup>[10]</sup>). For instance, despite the Library of Indicators having been developed by the MRDEUF as a standardised system that would guide performance measurement among all levels of government, RDAs were not given the opportunity to provide feedback on the initial list of indicators (OECD, 2023<sup>[10]</sup>). Regulations are, however, in place that allow RDAs to propose the inclusion of new indicators (see chapter 4).

If they feel rushed, RDAs may not be able to process the information provided by the Ministry, consult with relevant stakeholders (e.g. cities and municipalities) or articulate regional priorities/needs to the MRDEUF (OECD, 2023<sup>[18]</sup>). In order to address this issue, and ensure that national-level policy making on regional development is more systematically informed by regional and local priorities, the MRDEUF could broaden its practice of proactive consultation with RDAs to cover a wider range of legislative and regulatory topics.

## Conclusion

Through a series of legislative and regulatory reforms adopted by Croatia since 2014, the country has set up a robust regional and local development governance framework. In particular, the reforms resulted in the development of clear planning procedures at the national, county and local levels, and a clear assignment of responsibilities for regional development planning, implementation, monitoring and evaluation. Moreover, the reforms resulted in the creation of 21 RDAs—first as limited liability companies and later as regional co-ordinators—that were tasked with leading the design of subnational development plans and programmes that reflect local needs and capacities, while also contributing to national priorities. Several vertical and horizontal regional development co-ordination mechanisms (e.g. macro-regional development councils, LAGs and FLAGs) are in place to help ensure that relevant public actors at all levels of government can discuss territorial development challenges and support the design of place-based development plans, programmes and projects.

Despite the substantial progress that has already been made, Croatia needs to address several challenges to ensure that its regional development governance framework can support the government's objective of balanced regional development. Challenges identified in this chapter include the reported skills gaps within RDAs, including in relation to key planning-related activities such as policy implementation, and monitoring and evaluating development plans. Additional challenges requiring attention include the relatively local territorial level at which RDAs operate, as well as municipal fragmentation, both of which appear to spread financial and human resources for strategic planning too thinly.

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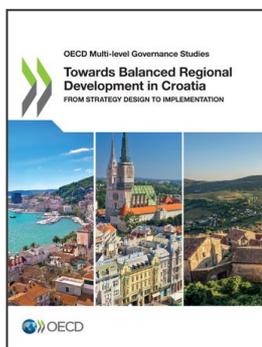
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## Notes

<sup>1</sup> The Law on Local and Regional Self-Government defines specific criteria for the classification of a local government unit as a city or a municipality. Generally, local governments that serve as the county capital, and units with a population of more than 10 000 inhabitants are classified as cities. Those with fewer inhabitants are typically classified as municipalities (Official Gazette of Croatia No 123/2017, 2017<sub>[15]</sub>).

<sup>2</sup> City and municipal governments with fewer than 1 000 inhabitants can be awarded co-funding of up to 75%. City and municipal governments with 1 000 inhabitants or more can be awarded co-financing of up to 50% (Official Gazette of Croatia No 88/2022, 2022<sub>[58]</sub>).

<sup>3</sup> In addition to the co-ordination mechanisms identified and discussed in this report, a series of co-ordination mechanisms mandated by the EU also operate in Croatia, including the monitoring committees for the EU-funded Programme for Competitiveness and Cohesion and the Integrated Territorial Programme 2021-2027.



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