

## INSTITUTIONAL SUPPORT SYSTEM IN ISTRIAN COUNTY AS A FACTOR OF REGIONAL DEVELOPMENT MANAGEMENT

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### ABSTRACT

The activities and roles implemented by the institutions whether on local, regional, national or European level are necessary and important because they create an institutional system which generates and accelerates development, increasing thereby constantly standards of living of the entire population. In order to create conditions for development, national policies involving different sectors, such as education and science, administration system and its barriers, business support institution system and business infrastructure or regional development need to be adjusted and strengthened. Institutional framework of regional development in Croatia still hasn't been clearly defined and regulated by law. This resulted in a lack of coordinated development planning and in insufficient connection and networking between national, regional and local stakeholders, when speaking of development initiatives, information sharing and harmonizing national, regional and local development goals and priorities with the aim of using in the most efficient way national development resources. Good leadership has to be able to identify basic changes in the internal and external environment by creating regional economic plan and has to create conditions for implementing regional development strategies through creation of its own institutional support system. In spite of all mentioned disadvantages, problems and low level of decentralization in the Republic of Croatia, Istrian County developed and created an efficient institutional business support system, mostly by founding different development institutions described in this contribution; Istrian Development Agency – IDA, Agency for the Rural Development of Istria – AZRRI, Fund for the development of agriculture and agritourism, Istria Golf Design, Istrian Tourism Development Agency – IRTA, Istrian Region Energy Agency – IRENA, MIH (Made in Histria) public company. Development and implementation of new models of regional management will lead to better economic development, thus increasing employment possibilities, promoting in-

vestments, upgrading tourism and rural development. In one word, regions which apply institutional business support system will become more competitive than the regions which don't apply it. Accordingly, this article presents systematic approach as a basis for further research activities and confirming the results in practice.

JEL classification: R11, R58,

**Key words:** regional management, regional economic development, institutional support

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## 1. INTRODUCTION

The activities and roles implemented by the institutions whether on local, regional, national or European level are necessary and important because they create an institutional system which generates and accelerates development, thereby constantly increasing the living standard of the entire population. Creating development conditions asks for well-adjusted national policy covering actions on different fields from science and education, the elimination of administrative barriers and over-regulation to strengthening entrepreneurship support institutions and business infrastructure as well as regional development. Good leadership has to recognize changes in both the internal and external surrounding and implement the knowledge in regional economic planning, creating its own support institutions and generate conditions to ensure the execution of the development strategy and enhancing the management of the region. In spite of mentioned insufficiencies and the current low decentralisation level in Croatia, the Istrian County stands out and succeeded in founding a system of institutions to support entrepreneurship and development as described in this contribution.

## 2. NEW INSTITUTIONAL ECONOMY

The neoclasical approach to economy sees the state and its policy as an exogenous factor that has no influence on the allocation of resources that are guided by the "invisible hand" of the market. The evolutionary-institutional approach holds that economic efficiency is also a reflection of the "invisible hand" here being the institutional and socio-cultural environment. The influence of state and policy is inevitable because of its role in creating the institutional framework that enables and/or accelerates development.

Institutions are generally defined as “rules of the game” or “deliberately designed limits that form the interaction of people” (North, 1992.; OECD, 2001.). It is important to distinguish between the formal institutions that include formal rules (statutes, laws, directives) and organizations (political parties, development agencies, unions, schools, etc.) and informal institutions, which include rules of behaviour - customs, collective habits, values etc. Informal institutions, especially trust, reciprocity and limited solidarity, constitute the basic socio-cultural capital, which is the catalyst, “glue” of institutional changes as the essential basis of socio-economic progress. Today it is quite clear that “social and cultural factors have the same importance to economic growth as do the traditionally leading but narrower technological and economical growth factors” (Freeman, 2002.). In this context, the role of the state, the political elite and management in general, plays an important part in economic development and growth.<sup>1</sup>

In contrast to the neoclassical approach, the evolutionary-institutional economics has offered practical solutions of organization and management of scientific and research resources aimed at economic growth. These solutions are based on the ability to manage the institutional environment that fosters creation and diffusion of knowledge and innovation. The institutional environment, i.e. the establishment, organization, interaction and co-evolution of institutions, has a decisive influence on the speed and efficiency of the transformation of knowledge into innovation. This makes them essential for economic growth.<sup>2</sup>

### 3. THE MANAGEMENT MODEL OF THE ISTRIAN COUNTY

Guided by the basic desire and intention to lead Istria into the 21th century with the best possible preconditions for development and to ensure growing prosperity, the management of the Istrian County decided at the beginning of the 90-ies to start a system that will know and be able to create, support and if needed, direct development. The system will be based, primarily on knowledge, then the cooperation and collaboration of local administration and government, and as such will provide organizational and financial support to development projects with the possibility to, at any time, identify new directions of development.

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<sup>1</sup> Source: Social Research Journal for General Social Issues issue: 3 / 2006, page: 322

<sup>2</sup> Source: Social Research Journal for General Social Issues issue: 3 / 2006, page: 323

Years of economic stagnation as a result of the change of economic systems, centralized state controlled economic policy and neglect for regional and technological development led to a situation in Istria, characterized by low production level of new products, whilst existing products met no demand on the current market. Taking into account the above-mentioned facts, the management of the Istrian County decided that the time was right to take concrete actions towards starting a development cycle. With scarce funding possibilities of the local administration, the County of Istria managed to implement a row of projects such as the 180 million kuna worth crediting program for entrepreneurs. Through the newly established agricultural and rural tourism fund, another 6 million kuna has been allocated for seedlings and the revitalization of inland Istria. Therewith inland Istria was included in Istrian tourism offer. The structure of the Government was no longer able to keep up with the pace Istria was setting with already implemented and planed projects. By the end of 1998, county vice president Drandić with his team concluded that a flexible system in synergy with local government and authorities, can achieve much greater effects in the realization of development programs. In addition to the execution of projects, modelled on similar European systems, the new system predicted the possibility of inclusion and connection with European institutions that stimulate employment programs, provide social assistance, etc., thus creating the kind of infrastructure that would prepare Istria for EU programs.

The goal was to create a system that will affect society as a whole, on the economic as well as on the social plan, models for the functioning of the private and public sectors were also sought for. These specific actions will be known as the IQ policy, which besides promoting Istrian products and services of high quality it also promotes the creation of business favourable climate. The basis of this development lies in sustainable development that protects human, natural and manufactured capital to secure sufficient capital for future generations to be able to exceed prosperity of current generations. The concept of sustainable development thus implies that the prosperity of future generations is based on current prosperity. Support institutions to be founded will be aimed to aid in the launching of sustainable development. This was a unique development system, called "Istria 21", with mutually linked and coordinated programs, with a structure compatible with similar existing systems within the European Union. The system was based on functions that are being implemented on contract and status (corporate) basis, which are harmonized with each other and act together in synergy. It was a global system, which includes the public and private sector and assessments of the overall development

of the society, based on sustainable development, which was intended to create a vision of development and to determine the development direction. Structured in such a way, the development system had the task, in addition to providing support in certain segments, to take an active role in development where needed.

I am pointing out that this was not supposed to be a parallel system, but a system functioning adaptively to the work of local administration and government and institutions in Istria participating in economic activity. Moreover, due to scarce funds, qualitative organization and communication, it was supposed to contribute to the optimal use of all available resources with the main task - to continually raise the welfare of citizens of Istria.

#### **4. DEVELOPMENT OF THE ISTRIAN COUNTY THROUGH SUPPORT INSTITUTIONS**

In Croatia, the regional differences in development continue to increase, due to the impact of various factors. With the delayed decentralization process, which is very closely linked to regional policy and the implementation of the principle of subsidiarity, the level of decentralization in Croatia is currently expressed through the figure of 6-9% of non-purpose funds of the budget given to the Counties. At this stage counties should be decentralized to the level of 20-25% up to the final 50-70%. Currently only sectors of healthcare and education are decentralized. Also, in Croatia there is still no clear, complete, and legally defined institutional framework (in terms of institutions) for the implementation of regional policy. Underdeveloped institutional framework has resulted in a lack of coordinated planning and lack of connections with the central, county and local level regarding development initiatives, information flow and coordination of national, regional and local development goals and priorities - with the goal of optimal utilization of resources and overall development potential of the country. In spite of mentioned problems, the Istrian County has been known for a successful system of institutions that provide support for entrepreneurship, such as IDA - Istrian Development Agency, AZRRI - Agency for Rural Development of Istria and others, which will be presented below.

##### **4.1. MIH Ltd. Poreč**

MIH Ltd. is the first company that was established by the County of Istria. MIH is an abbreviation and stands for "Made in Histria". The goal of its establishment

was to achieve adequate evaluation and recognition of original Istrian products, and to provide assistance to agriculture in Istria. Istrian County, in the framework of activities to be implemented within the economic policy of Croatian areas of agriculture in the part related to the development and promotion of the private agriculture sector as the priority tasks since 1994, was the first county to implement a program of incentives to increase long-term crops. The above program has become recognized not only in the Istrian County, but also in other parts of the Croatian Republic, while other counties adopted a similar model. In the past eleven years Istrian County has co-financed planting material from its budget in the amount of 19,342,317.50 kuna. In addition, county funds, farmers, municipalities and cities bought 325,430 olive seedlings, 81,370 pieces of fruit seedlings and 1,825,014 pieces of vine plants. With these seedlings 1174.84 ha of olive groves were planted, 162.74 ha of orchards and 456,253.25 ha of vineyards.<sup>3</sup> In 2005 production of olives with geographic origin (ISTARSKA BJELICA, BUŽA, CARBONERA, MORAŽOLA and POREČKA ROSULJA) started. Activities and investments to increase long-term plantation created the precondition of maintaining and developing the existing production and survival of agriculture as an industry in Istria.

#### **4.2. Fund for Agricultural Development and Rural Tourism**

The Fund for agricultural development and rural tourism was established by the Decision of the Assembly of the Istrian County and by opening a special account of the County Government on the 24 th March 1995. The purpose of its establishment was to establish an effective system of finding and providing financial assistance to agriculture in the Istrian County to stop the negative trends in all segments of primary agricultural production and putting into operation all available food resources, especially agricultural land. From 1995 until the end of 2009 from the Fund for the Development of Agriculture and Rural Tourism, 918,003,821.17 kuna was invested through 839 projects in the County of Istria.

#### **4.3. Istrian Development Agency - IDA Ltd. Pula**

The Istrian Development Agency (IDA) Ltd. is the first regional and one of the leading development agencies in Croatia. Established on December 14 th 1999 as an operational body for the implementation of development programs of the County of Istria, and the consortium for the development of "Istria 21". The

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<sup>3</sup> Source: [www.mih.hr](http://www.mih.hr)



founders of the IDA are Istria and nine istrian cities: Buje, Buzet, Labin, Novigrad, Pazin, Poreč, Pula, Rovinj and Umag. Today IDA is an unavoidable factor in the development of istrian economy. Its primary role is encouraging the development of small and medium enterprises in Istria, and through the provision of financial support, and implementation of education, entrepreneurial development of infrastructure, information and business consulting, providing services to potential foreign investors and implementing various interregional and international projects aimed at creating a favourable entrepreneurial climate in Istria.

#### **4.4. Agency for Rural Development of Istria – AZRRI Ltd. Pazin**

AZRRI - Agency for Rural Development of Istria Ltd. headquartered in Pazin, was founded in 2003. The task is connecting the public and private sectors and to prepare and implement projects in rural areas. It is the first agency of its kind in Croatia, with the specific task of coordinating the production activities in the rural region of Istria. The aim of the agency is initiating economic and development programs in rural areas of Istria. The founder of the agency is the County of Istria, which owns 100% of it.<sup>4</sup>

AZRRI directs activities and creates development programs in the rural area of the County of Istria, in order to achieve equal development of the coastal and inner part of Istria County. AZRRI has an important role in enabling economic operators in rural areas towards creating new jobs and animate the younger generations to live in rural areas. Activities that AZRRI conducted since its establishment until today are primarily focused on family farms and providing services, training and application of modern technology and aid towards them adapting market conditions. Significant activities were directed at the development strategies of rural development of the Istrian County, raising long-term plantation, creating projects that were nominated for international funding as well as training its own staff to function as assistance in development programs in rural areas of Istria, and to candidate projects to EU pre-accession funds for co-financing.

#### **4.5. Istrian Tourism Development Agency – IRTA Ltd. Poreč**

IRTA - Istrian Tourism Development Agency was established in 2003. The Company is 46.30% owned by the County of Istria and 53.70% owned by the

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<sup>4</sup> Source: [www.azrri.hr](http://www.azrri.hr)

Istrian tourist enterprises. The basic reason for creating IRTA Ltd. was to enable the private sector for a competitive market position, ensure faster and more efficient restructuring, harmonize development of tourism, change the situation in the public sector towards quality service for the private sector, encourage the creation of new products and actively participate in the process of raising quality level. In this sense, IRTA Ltd. is the only tourist institutional link between the private and public sector with the primary aim of creating a synergy of action in resolving and efficiently finding optimal solutions, in accordance with the findings and settings of the Master Development Plan for Tourism in Istria.<sup>5</sup> Late 2008 the IRTA has claimed responsibility for the creation of one of the major tourist projects of innovative character in the segment of raising the competitiveness of Istria as a destination. It is a project of establishing a contact and sales centre of Istria.

#### **4.6. Istra Golf Design – IGD Ltd. Poreč**

Istra Golf Design Ltd. was established in 2006 by the Istrian Development Agency in order to promote the development of golf in the County and work on all aspects of the development of this form of 'top tourist offer' and to offer service to investors. From the very beginning the IGD is working hard on the promotion of golf in Istria through the forests of vague regulations, bureaucratic-administrative barriers. It is in its plans to form a consortium and to connect future participants in the realization of the program. IGD expands opportunities for development of this, for Istria, new product. The number of potential locations for the implementation of golf projects increased to 22. The term "golf project" involves not only the construction of golf courses, but also golf centres equipped with multiple complementary and accommodation facilities. In fact, it is about creating a completely new tourist product, and on the other hand, it means opening new markets, the arrival of new guests and ultimately creation of a totally new image for the tourist region of Istria.<sup>6</sup>

#### **4.7. Istrian Regional Energy Agency – IRENA Ltd. Labin**

IRENA - Istrian Regional Energy Agency for energy affairs was founded upon the decision of the founder, the County of Istria, in 2009. IRENA has the task of examining energy business in Istria differently than it was done before. The use

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<sup>5</sup> Source: <http://www.irta.hr/ZastoIRTA/HR>

<sup>6</sup> Source: <http://www.istra-istria.hr/index.php?id=273>



of energy on Istrian peninsula in the future and renewable energy sources as well as environmental protection is the focus of this agency. Its task is to implement a strategy for EU energy supply, support the transition to sustainable energy systems, energy management advisory and information role, and so forth. Istria is preparing a number of alternative energy sources such as the processing of waste oils, biogas production from olive oil production residue, modern waste disposal, solar energy and wind power, which is in the design stage. It is also necessary to educate the population about the use of energy saving building materials.

## 5. CONCLUSION

In addition to these shortcomings, problems and the current low level of decentralization in Croatia, the Istrian County stands out by having a successful system of institutions that provide support for regional development. The Istrian County, cities and municipalities and associations of citizens in the previous period, initiated a series of institutions that provide support for different segments and sectors. Namely those are: Pula Center for Entrepreneurship, Business Incubators in Labin, Pula, Rovinj, Pula Port Free Zone, BPW - Business and Professional Woman - Pula, Ruralis - a consortium of rural tourism in Istria. In the forthcoming period, Istrian County plans to establish the following institutions to promote regional development: Istrian cultural agency - IKA, Business Incubators in Vodnjan and Buzet, Environmental Protection Agency, Istrian Development Agency - Poreč and the Istrian Fair.

Regional development institutions are the holders of the development of their counties. Development and application of new models of governance in the region, will generate and promote economic development, increase employment, encourage investment, promote tourism and rural development, in a word, it will become more competitive relative to those regions that do not apply such a model. The Assembly of the Istrian County and the President of the County have to, continue on the basis of successfully implemented projects in the past, to invest in research and development, human resources, stimulate employment programs, create new jobs, build a stronger link with universities and regional development agencies from Croatia and Europe, in order to prepare the Istrian County for EU programs and EU membership.

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