

ROLE OF DEVELOPMENT AGENCIES IN THE REGIONAL DEVELOPMENT OF THE REPUBLIC OF CROATIA

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ABSTRACT

The regional development issue is a relatively new area of public policy, which was not developed in many countries, especially the transition countries, such as the Republic of Croatia. The regional development policy represents one of the EU policies, known as Cohesion policy, and provides financial support, through the EU Structural Funds, to EU Member States (hereinafter: MS), in particular the so-called cohesion ones and the new MS, in order to stimulate economic growth and sustainable development of certain EU regions that are below certain GDP standards or are in a transition phase. The absorption capacity of EU funds requires that the administrative system of a particular MS is in the position to receive and manage effectively, as well as evaluate the use of the EU funds and ensure that they will be used in a transparent and cost effective manner by the final beneficiaries. This requires institutional building and capacity building, in particular in the new MS.

In recent years, the Republic of Croatia invests considerable funds in the development of its institutional framework for an efficient regional development, as well as in human resources development, and it can be said that currently it exists a certain number of development agencies which have acquired know-how in the development programming and planning through EU funds experiences and relevant

practises that they have shared with the EU. However, it is evident that problems in the identification of “real development projects” still exist. It can be said that past projects that are applied and implemented did not obtain the desired results on regions development.

Therefore, possible models of action and the role of development agencies in the future regional development of Croatia, as key actors for the country's economic development in this pre-accession period and their inevitable impact on increased absorption capacity of EU funds will be presented in this article. These proposals include assumptions under which County Development Agencies (hereinafter: CDA's) will be financed and accredited, as well as their action supervised, and could be applicable in the second half of 2010 after the adoption of the National Strategy for Regional Development (hereinafter: NSRD).

JEL classification: O1, R58

Key words: regional development, National Strategy for Regional Development, County Development Agency, strategic planning, human resources

1. INTRODUCTION

Regional policy in Croatia *in* the recent years was implemented through different, unrelated measures. Such fragmentation of regional policy *was due to the absence* of legislation related to the topic of regional development. In addition to *the* new Act on Regional Development, approved in December 2009, there are a few acts focused on the specific regional problems – mainly on different type of regions lagging far behind (regions affected by war, islands, border regions, mountainous regions and areas of special state concern).

The NSRD will be *a* unique document focusing on the regional policy of *the* entire country. The EU has supported regional development, mainly through pre-accession programmes, which helped to progress in capacity building in *the* field of regional development. Croatia's regional policy cannot be only oriented on regions lagging behind, but *should* follow a guiding principle of balanced development of all regions in order to reinforce their ability to compete *in an* open single market with other regions *across* Europe, when Croatia will *become* a full EU member state.

2. REGIONAL DEVELOPMENT IN CROATIA

Economic development on the state level is implemented by the stimulating of economic development on regional and local level respectively investments promotion, innovation, improving of knowledge and skills, effectiveness and competitiveness. Therefore regional and local economic development are according to Borozan (Borozan et al.; 2009, 21) in the focus of interest in the EU MS as well as the others developed western countries and also in Croatia. (Đulabić; 2007, 17)

In the year 2008, EUROSTAT (Jurlina Alibegović; 2009, 23-42) approved 3 NUTS II regions – Pannonian, North-Western and Adriatic Croatia. These regions are not identical with administrative – self-governing regions at NUTS III level – counties. At NUTS III level – county level, the Regional Development Agencies are established and operational. Also regional development documents called “Regional Operational Programmes” are prepared and some of them are already upgraded into County Development Strategy (hereinafter: CDS) at this level. (Vukovar-Srijem County; 2007, 6)

Important milestone for regional development was the process of fiscal decentralization which started in the year 2001 (Bajo; 2007, 53-74). At present, some aspects of fiscal decentralization have to be more fine-tuned to harmonize competence of regional self-governments units with their financial resources. In this moment the counties are not in position to fully financially cover their competences and are still, in some degree, dependent on central government.

Till now, a centralised approach prevails when referring to regional development issues. However, the quite big differences in regional development at the county level and the specific problems of particular counties require also reinforcement of a bottom-up approach. (Davey; 2003, 153)

The implementation of regional development in practise requires the definition of a strategy for regional development, to establish and develop the institutions able to act as driving forces of regional development, at national and regional level (NUTS II and NUTS III), to train the staff of *the* above mentioned institutions, to start coordination of all significant activities within particular regions, with the coordinating role of *the* line ministry. (Halkier et al.; 2002, 26)

A preliminary analysis of the regional development in Croatia, highlights the following goals for 2010:

- fully adjustment with the EU system

- strengthening of regional policy and better absorption of EU funds for regional development

3. NATIONAL STRATEGY FOR REGIONAL DEVELOPMENT – CONNECTION WITH THE EU STRUCTURAL FUNDS

NSRD is a necessary strategic document for regional development which establishes the most important pre-conditions for successful implementation of the Structural Funds concerning regional development in Croatia. Now, after adoption of Act on Regional Development by government, the situation in regional development and the preparation for Structural Funds should be improved mainly in three fields:

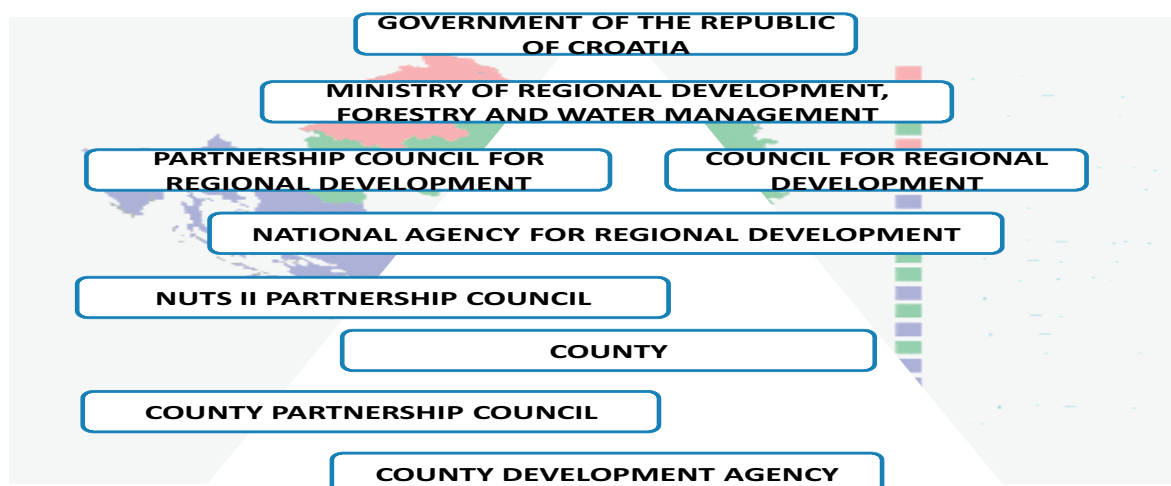
- *Legislation* – Act on regional development will provide, in parallel with the Strategy, legal framework for regional development and implementation of new measures including funding from Structural Funds. (Ott; 2003, 1-23)
- *Institutional framework and management structure* will be established at national and regional level, which is very important for capacity building and partnership. The Act also defines the role of newly established National Agency for Regional Development (hereinafter: ARD) and the roles of line ministries, regional self-government units and CDA's.
- *Planning and programming* at national and regional levels – SWOT analysis and priorities at NUTS II level and development of instruments for county and NUTS II regions development, for cross-border cooperation and also for assisted area development will be in focus. This should enable the creation of multiannual programming and planning which is vital needed for absorption of Structural Funds. (Filipić et al.; 2007, 7-16)

4. ROLE OF THE COUNTY DEVELOPMENT AGENCIES

The draft NSRD and Law for Regional Development envisage that CDA's will become the key economic development institutions at regional (NUTS 3 and where appropriate NUTS 2) level and will play a key role in delivering the CDS, the NSRD, and eventually European Structural Fund programmes at county and inter-county level. This vision for the CDA's is agreed between the Ministry of Regional Development, Forestry and Water Management (hereinafter: MRDFWM) and other relevant Ministries who have an interest in regional and economic deve-

lopment. It is therefore crucial that all CDA's have the capacity to fully play their role in the NSRD and future European funded development programmes, and that the various Government Ministries cooperate in developing this capacity and supporting the agencies in their work. (Maleković; 2002, 143-174)

Picture 1: Pyramid of the main institution in charge for regional development



Source: Draft NSRD, February 2010

All 21 counties in Croatia, including Grad Zagreb have now established a CDA. In most cases the main role of the CDA is to implement the CDS, although some also have a wider function in coordinating economic development in the county, using local, national and international resources. There is a wide variation in the capacity of the CDA's measured by the number and expertise of staff, and the financial resources available for their running costs.

This article sets out proposals for developing the role of CDA's to enable them to play their part in the economic development of the country. These proposals include the arrangements under which the agencies will be accredited and funded, and their performance monitored.

5. TASKS OF THE COUNTY DEVELOPMENT AGENCY

The draft of the NSRD sets out 3 categories of tasks for which CDA will be responsible. The first category includes functions that the CDA will be legally required to perform by the Law on Regional Development as part of their responsibility under the NSRD. To secure and maintain accreditation the CDA will be

expected to recruit and maintain sufficient qualified and trained staff to carry out these tasks effectively. The second category of tasks covers other economic development activity that a CDA may perform by arrangement with the County or other client institutions. The third category of tasks are commercial activities that a CDA can again with the agreement of the County undertake in order to generate income but not profit. The 3 categories of tasks are summarised below.

5.1. Tasks required by the Law on Regional Development

CDA will give the assistance to the County in the preparation of the CDS. The CDS will be the main planning document for the sustainable socio-economic development of the county. The first CDS under the NSRD should be completed in 2010 and cover the period 2010-2013. To align with the next EU Financial Perspective, it should then be revised in 2013 with the updated version covering the period 2014-2020. The CDA may assist the County in the preparation of the CDS, in close correlation with the County Partnership Council. Upon agreement with the Council the CDA might be responsible for the preparation of the CDS. The CDS should be fully in line with the National Sectoral Investment Guidelines.

5.2. Tasks related to economic development in the County

CDA will promote the county as a place for private investment, business development and tourism, give support to entrepreneurs and SMEs, will work on investment promotion to attract targeted foreign and domestic investments. Also it will be information point on national and international information funding service, securing SME/innovation funding through guarantee fund and venture capital and important issues also will be institutional capacity building, networking of public, business and scientific research sectors, technology transfer, commercialisation of innovation and development of business-related infrastructure.

5.3. Tasks related to commercial activities for the benefit of the County that the CDA undertakes in order to generate income

- undertaking feasibility studies or project development work for project promoters and other stakeholders as long as this will not lead to conflicts of interests regarding other tasks of the CDA
- preparing applications for financial support from national or international funding sources

- organizing business events, conferences, etc. in county venues
- promote and implement projects either at county level or on behalf of a group of adjoining counties including neighbouring countries where appropriate

In order to avoid conflict with EU State Aids policy following accession, the CDA must carry out any commercial activities at market rates, charging the full economic costs of staff time as well as realistic charges towards the organisations overheads. In addition, as the CDA will be a non-profit organization, it should ensure that any surplus income is invested in the development activities of the CDA.

6. THE ACCREDITATION PROCESS FOR CDA'S

The MRDFWM through the ARD will be responsible for accrediting CDA's in consultation with other Ministries. Only one CDA will be accredited per county. Accreditation is not an end in itself but will be an official recognition that the organisation meets the required institutional standards and will take on certain responsibilities in return for financial and other practical support from the government.

In particular accreditation will mean that Government Ministries will recognise that CDA as the official CDA for that county and will cooperate with it, and no other development agency in the county, for all matters concerning the NSRD and any of the Ministries own programmes that are locally delivered. The CDA will be eligible for financial support from the MRDFWM, according to the arrangements set out below, will be responsible for carrying out the tasks set out in the NSRD in its county and will be required to continue to meet the accreditation benchmarks to retain its status.

The accreditation process will be as follows :

- The ARD on behalf of the MRDFWM will write to each County to propose one CDA for accreditation.
- The County will provide the evidence required by the ARD to enable that CDA to be assessed according to the following criteria:
 - That the CDA is established as a public-owned non-profit company at county level;

- That the regional self-government unit (in conjunction with local self-government units from the same region if appropriate) has established the CDA or has approved its establishment;
- That the regional self-government is committed to providing financial support to the CDA to complement any grant from the Ministry;
- That the County Partnership has been consulted by the regional self government unit about the establishment of the CDA and its views taken into account;
- That the CDA is adequately and competently staffed and equipped. This means that the CDA will have a minimum of 6 posts in order to carry out Category 1 tasks above.

The County will also provide information on the qualifications of the existing CDA staff and a 3 year budget plan for the CDA in a format to be provided by the ARD. The staffing capacity requirements will be applied flexibly in the first year. The ARD will organise training and support to address any particular issues identified in the assessment process. The ARD also reserves the right to issue a provisional accreditation whose continuance is dependent on certain conditions being met by a specified deadline. For instance if the initial assessment shows that a CDA does not meet the required standard in any respect, the ARD will discuss the issue with the CDA and County and agree a plan of action that will enable the CDA to reach the required standard.

Once the CDA is judged to have successfully met the benchmarks, the ARD on behalf of the Ministry will send a letter of accreditation to the CDA and to the County Administration confirming the CDAs accredited status and setting out the arrangements for continued accreditation and financial support.

7. FINANCIAL CONTRIBUTION TO CDA'S

In order to assist the development of the CDAs and ensure that they can contribute to the goals of the NSRD, the government will provide financial support to their annual running costs and certain initial set up costs. This support will be available for the period 2010-2013. The inter-Ministry Working Group has agreed that the MRDFWM through the ARD will be responsible for funding these ope-

rational costs, leaving the other Ministries to support CDA activities through their programme budget.

The Ministry has allocated a budget for support to the CDA's. Particular amount will be held back to co-finance the cost of external consultancy to assist in the preparation of the CDS's, and to fund any systematic training and development needs identified for the CDA's. This money will be allocated under a separate arrangement. The Ministry's financial contribution to the CDA running costs will be made in accordance with a formula based on the Development Index of the County, and will reduce over time. It will be important to direct resources not only to where they are needed, but in sufficient amount to provide a real incentive to the CDA to seek accreditation.

CONCLUSION

While national-level policies are the domain of central government departments, CDA's are established as autonomous bodies on regional level. The latter organisational set-up is perceived as having many advantages. A regional institution is better placed to develop strategies tailored to the specific problems of the individual regions, especially if economy is becoming increasingly localised and differentiated. This represents indeed a crucial point of the role of the CDA's.

This bottom-up approach to regional policy requires staff capable of dealing with new challenges. The autonomous position of CDA's limits direct political interference and, hence, allows the adoption of a long-term perspective capable of tackling structural weaknesses of the regional economy that could not have been effectively addressed within the short-term horizon of party political manoeuvring.

And finally, compared with the more discrete impact of national-level policies, a separate regional institution like the CDA not only may enhance the regional clout of the political sponsors in relation to other public bodies, but also may function as a visible symbol of party political commitment to the development of the region.

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