

UCLG COUNTRY PROFILES

Republic of Croatia

(Republika Hrvatska)



Capital: Zagreb

Inhabitants: 4.453.500 (2008)

Area: 56.542 km²

1. Introduction



Croatia is located in Southern Europe. It has territory of 56,589 km² and a population of 4,4 million Inhabitants. The capital of the county is the City of Zagreb. Between 1990 and 2000 Croatia had a semi-presidential system, and since 2000 it has a parliamentary system. The Croatian Parliament (*Sabor*) is a unicameral legislative body (a second chamber, the "House of Counties", which was set up by the Constitution of 1990, was abolished in 2001). The number of the Sabor's members can vary from 100 to 160; they are all elected by popular vote to serve four-year terms. The Croatian Government (*Vlada*) is headed by the Prime minister who has two deputy prime ministers and fourteen ministers. Croatia has a three-tiered judicial system, consisting of the Supreme Court, county courts, and municipal courts.

Croatia is divided into twenty-one counties (*županija*) and the capital Zagreb's city district. In Former Socialist Federative Yugoslavia, Republic of Croatia was divided into *općine* (sing. *općina*). The designation *općina* has been retained for municipalities that are a level smaller than the *županije*. With the passing of the Constitution (1990) and the proclamation of independence (1991), the units of local self-government and administration were defined. In the new legal environment, the counties were established, they perform the functions of both government and self-government, whereas municipalities and cities have self-governing functions. A new model for the financing of local government units (LGUs) was laid down. In 1995, because of the consequences of the war, areas of special national concern were defined, which the central government endeavoured to help in their development, also encouraging the return of the displaced population.

From the year 2001 there is a legal presumption that all public affairs are the responsibility of local authorities. This so-called «general clause» method, gives wide opportunities to local government units on both levels to provide public services and develop programmes that could affect their development. However, the possibility of county and LGUs to take additional responsibilities can not be fully realised because of inadequate fiscal decentralisation. Many responsibilities from



central level which are delegated to local and regional units are not properly financed from the central budget.

2. Territorial organisation

Croatia is a small unitary country with a decentralised administrative structure formed by central, regional and local governments. The central government administration itself is *de-concentrated*, with the Central Office of State Administration representatives seated in each of the 20 counties, besides ministry representation and autonomous central agencies distributed throughout the territory. The 21 counties (including the

780,000 inhabitant city of Zagreb, which has county status) constitute the second/intermediate level of sub-national government, or *regional self-government*. Cities (124, mainly urban, altogether housing 3 million people) and municipalities (426, mainly rural, housing 1.4 million people) represent the first level of sub-national government, i.e., *local self-government*. Although the overall population is still fairly distributed throughout the territory, the distribution of the administrative units is concentrated on the small size. More than two-thirds of these units are less than 5,000 people and more than 40 percent less than 3,000. There is a great disproportion in size, population and population density among

Table 1: Territorial organisation of local and regional government units

County	No. of towns	No. of municipalities	Share of total area (%)	Population	Population (% of total)	Population density (in./km ²)
Krapinsko zagorska	7	25	2.17	142,432	3.2	115.9
Varaždinska	6	22	2.23	184,769	4.2	146.5
Međimurska	3	21	1.29	118,426	2.7	162.4
Koprivničko križevačka	3	22	3.09	124,467	2.8	71.2
Zagrebačka	8	26	5.41	309,696	7.0	101.2
Karlovačka	5	16	6.41	141,787	3.2	39.1
Bjelovarsko bilogorska	5	18	4.67	133,084	3.0	50.4
Sisačko moslovačka	6	13	7.89	185,387	4.2	41.5
Virovitičko podravska	3	13	3.58	93,389	2.1	46.1
Požeško slavonska	4	6	3.22	85,831	1.9	47.1
Brodsko posavska	2	26	3.59	176,765	4.0	87.1
Osiječko baranjska	7	35	7.34	330,506	7.4	79.5
Vukovarsko srijemska	4	26	4.34	204,768	4.6	83.4
Primorsko goranska	14	21	6.34	305,505	6.9	85.2
Ličko senjska	4	8	9.46	53,677	1.2	10.0
Istarska	9	30	4.98	206,344	4.7	73.2
Zadarska	6	26	6.45	162,045	3.7	44.4
Šibensko kninska	5	13	5.28	112,891	2.5	37.8
Splitsko dalmatinska	16	39	8.03	463,676	10.4	102.1
Dubrovačko neretvanska	5	17	3.15	122,870	2.8	68.8
City of Zagreb	1	0	1.13	779,145	17.6	1214.9
Total	123	423	100	4,437,460	100	78.4

Source: State Statistic Office (Državni zavod za statistiku), 2001



local and regional government units.

The Croatian system of LGUs financing can be divided into two periods; the first, from 1993 to 2001, and the second, from 2001 on. In the first period the system of local government financing was centralised and the LGUs' autonomy in collecting revenue and allocating their expenditure was restricted. This period is marked by the passing of legal solutions in which the authorities for financing were bound by the central government, as was the distribution between central and local government in fiscal and administrative spheres of competence. LGU expenditure per capita from 1995 to 2001 was 266 EURO and increase on 549 EURO from 2002 to 2006. At the same time general government budget per capita was 2,300 EURO from 1995 to 2001 and 3,103 euro per capita on average from 2002 to 2006. The expenditure of LGUs as a percentage of GDP, right up to 2001 was 6,1% on average. From 2001, when decentralisation began, this percentage increase on 7,3 % on average. The budget of LGUs as a percentage of general government rose from 12,3 % in 1997 to 18,2% in 2006.

The Law on Territories of Counties, Towns and Municipalities in the RC defines the City of Zagreb, the capital of the RC, as a separate territorial and administrative unit. Local self-government is organized in 17 City Districts represented by City Districts Councils. Residents of districts elect members of Councils. There are no metropolitan areas with specific statutes in the country. From 1993 to 2006 there were no important territorial reforms in the regional levels of government. The number of counties did not change.

3. Local democracy

3.1- Local political system

On elections for the bodies of local government there is the strong domination

of two political parties: Croatian Democratic Union (*Hrvatska demokratska zajednica* - HDZ) and Social-democrat Party (*Socijaldemokratska Partija Hrvatske* - SDP). In local elections participate numerous small parties of regional character as well as many independent candidates from local units. Local elections are pluralistic. The electoral system was the same for the central and local elections. It is a proportional system, where the candidate lists have to pass a 5 % threshold to qualify for the allocation of seats. Each of the local government units elects their own Municipal and City Councils.

Members of the executive authority of LGUs are chosen by the representative body by a majority vote at the recommendation of the president of the authority. The members of the executive body are in general made up of the heads of the administrative sections (for the economy, social affairs, finances and the budget, education, health and welfare...). A municipal executive body has from 5 to 11, a city from 7 to 13 and a county from 10 to 15 members. The executive authority is responsible to the representative body of the local unit, which in certain circumstances may adopt a decision of no-confidence.

As available indicators on citizen attitudes regarding local politics, local politicians, compared with national politics and national politicians we can rely on survey on Citizens trust in institution taken by GfK Group from 2005. The survey showed a very weak trust of citizens in state institutions. Despite average rate of maximum 7, obtained rate of trust was only 2.4. The lowest level of trust is in political parties. Even 37 percent of the examinees show distrust in political parties, giving them rate 1. By citizens in age between 35 and 44 year such distrust climbs over 42 percent. There are no regional differences and such evaluation is similar in all counties.



3.2. Citizen participation

Last local elections were held in 2005. They have been characterised by very low turnout of voters, on average around 30 percent. Altogether there were more than 64,000 candidates, beside numerous independent lists. The independent lists were key factor for the formation of local government in large towns (Cities of Zagreb and Split). The predominant parties are still the HDZ and SDP. HDZ lose power in a few counties in respect to previous elections. In the majority of larger towns coalitions of left parties are in power.

According to the Local and Regional Self-Government Law citizens can take part directly in deciding about local affairs via referenda and the local citizens' meeting. A decision made at a referendum is binding on the representative body. From 2005 on sessions of representative bodies of LGUs are open to the public. From 2009 on citizens will directly elect headmen, mayors and county prefects. According to a bill to amend the Local Self Government Law, municipal headmen, mayors and prefects should obtain authorities in accordance with EU practice and requirements. There is no ban on MPs also being mayors. This decision is left up to the will of the political parties. But still there is question what should be the impact of the election of the prefect from 2009 on the implementation of state tasks.

By the end of 2006 the e-government model was used in 55 local units. The e-government model combines three main objectives: 1) internal operations and administrative activities (an intranet); 2) the provision of services to members of the public based on the Internet and 3) the development of citizen participation in local government (for example real-time transmission of sessions of the city authority in the city of Osijek via the Internet).

Public satisfaction with the local units' programs and services is regularly checked in 70 percent of LGUs, mainly through the

media: special local radio programs and supplements in the local newspapers. Some of the LGUs use public web pages with questionnaires, "coffee" with the mayor, a postal box or telephone hotline for complaints and suggestions, and meetings with local boards. In general the information about LGUs activities is available to the public even though the majority of local units still do not put much effort into making the information public. They mostly use easy and common means of communication such as Internet, TV, newspaper, and radio. Only 16 percent of local units try to prepare brochures and make the information more user-friendly and understandable to the public.

4. Central-local relationships

4.1- General issues

The basic legal framework on sub-national government is structured around Chapter VI of the *Constitution* and the *Law on Local and Regional Self-Government* (2001), including: the *Law on Financing of Local Self-Government and Administration Units* (1993); the *Law on the Areas of Counties, Cities, and Municipalities* (1993); the *Law on the City of Zagreb* (1997); the *Law on Communal Services* (including utilities, 2003); and the amendments on the Sector Laws (education, health care, social assistance). Also affecting sub-national public management is the *Budget Law* (1994, revised in June 2003), and a set of ordinary laws and regulations, including the *annual* State budget laws, Decisions, Decrees, and Instructions from line ministries and the Ministry of Finance on the chart of accounts, budgeting (including criteria on *financial* standards), reporting, monitoring and audit systems.

The counties, cities and municipalities regulate their own internal organisation and structure and the way they work in their statutes. *The county* carries out matters of regional significance,



particularly matters related to: education, health care, physical and town planning, economic development, traffic and the transportation infrastructure, and the planning and development of the network of educational, healthcare, welfare and cultural establishments. A county is at the same time a unit of local administration and one of local self-government.

The County Prefects perform a dual role: although they are chosen among the elected Councillors to represent their respective self-government interests, the Law on Local Self Government and the Law on Public Administration assign to them also the responsibilities of supervising local Councils, suspending by-laws passed by Councils, and reporting to central authorities as well. Such dual subordination confuses the role of local authorities and weakens the accountability framework. This dual role affects the work of the counties' bodies, which also have a certain dualism. These are present in the financing of its functions. Expenditure that relates to the administrative functions of the county carried out by the county office qua body of the national civil service (above all the pay of senior and junior civil servants and material costs) is financed from the national Budget.

Cities and municipalities in their self-governing area of competence carry out matters of local importance through which the needs of citizens are met directly and which are not by the Constitution or law assigned to bodies of central government. Here they carry out the following assignments: housing, physical and town planning, communal economy matters, child care, welfare, primary health care, pre-school and elementary school education, culture, physical culture and sport, protection and improvement of the environment and civilian protection and fire protection. All municipalities and cities may also carry out matters from the self-

government jurisdiction of the county in their own area, if they provide the financing.

Central Office of State Administration (COSA) has a crucial role in the process of decentralization. Started in 2001, this process was regulated and defined by set of laws that transfers specific responsibilities from the central level to the lower levels of self-government. COSA makes decision concerning local government units, taking in account the opinions of line ministries (e.g., the Ministry of Finance), counties, and other LGUs and competent institutions.

4.2. Supervision of local government

Amendments to the Local and Regional Self Government Law of 2005 gave to line ministries oversight on the lawfulness of LGUs general instruments as adopted by their representative bodies within the self-government sphere. . It is carried out by the central government offices in the counties and the competent central bodies of the civil service, each in its own sphere of competence, in line with specific legislation.

A LGU is obliged to set up some form of internal control (Official Gazette 92/96). Internal control is to check on the regularity of the use of budgetary resources and the application of laws and regulations. Yet, in most LGUs, there is no organised internal control. The basic reason for this is the lack of well-qualified staff. The *national auditing* office (NAO) audits the local government unit's budget each year. All 571 LGUs fall under the competence of the NAO. Apart from Central Audit Office, there are 20 branch offices located in the county centres. There is a detailed analysis of the budgets of the LGUs, and audit findings are delivered to the Parliament and the government. The NAO has carried out its business correctly, however the question is to what extent the



findings of the national auditing are really used and applied in correcting the irregularities in the operations of the budgets of the LGUs

On proposal of the Central Office of State Administration, the Government can dismiss the representative body of local unit if: the representative body of the recently organized unit of local or regional self-government fails to adopt the statute within 60 days from the day it is set up; if it fails to elect a municipal prefect, mayor or county prefect within 30 days since the day of setting up the representative body; for any reason it permanently remains without the minimum number of members necessary for work and decision-making; it cannot make any decision of its competence during more than 3 months; it fails to adopt the budget or to make the decision on temporary funding; it fails to adopt the town spatial plan. The Central Government can appoint a commissioner of the unit of local government when it dissolves its representative body; when in a unit of local government the election of a new representative body is not held in accordance with the law and when in the course of 90 days since the day of publishing the official results a new representative body is not constituted.

Centrally led specialised sectoral bodies that have impact on local government responsibilities are primarily with the *Ministry of Sea, Tourism, Transport and Development*, *Ministry of Finance* and *Institute for Spatial Planning* (which is part of the Ministry of Environment Protection, Physical Planning and Construction). Institute is responsible for supervision of county/local decisions on regional spatial planning and ensuring that the design of local and county special plans is in line with National plan for housing construction and National programme for spatial planning.

4.3- Protection of local self-government rights and interest

The majority of conflicts established between local authorities and sectoral institutions at the State level tend to be resolved through political negotiation. The representatives of the National Association regularly take part in various committees and working groups engaged in drawing up draft proposals of acts related to the issues of local and regional self-government. The representatives of local and regional authorities are external members of the Parliamentary Committee for Local and Regional Self-Government which is a working body of the Chamber of Deputies of the Croatian Parliament. Moreover, the representatives of the aforementioned association are members of the Decentralisation Committee set up by the Government. Furthermore, both sides constantly cooperate and jointly organise various conferences, seminars and lectures aimed at improving services rendered to citizens at both local and regional level and at developing democracy.

The Federation the associations of cities and municipalities was founded in 1971, with the proviso that in 2006 its title and internal organisational structure were changed. The federation is a non-government and non-party organisation the work of which is based on the Local and Regional Self-Government Law. The Federation has carried out several projects since 2005, such as: standards of effective local self-government, training of councillors and local self-government, the good governance and training of civil servants project. There is also the Croatian Counties' Association founded in 2003 for the promotion of regional self-government and of social and economic development in local units. It consists of 20 counties. The existing associations are not yet properly equipped to exert a relevant leadership role and provide technical support for the



regional/local governments in the decentralization reform process.

The Local Self Government Law seems to attribute similar authority to both the Mayor/Prefect and Central office of State Administrations representative in the county on the supervision of the legality of acts and actions of the Councils (Art. 16, 42). Moreover, local executive authorities are empowered to suspend implementation of any Council decision (e.g., by-law, resolution), if they deem such decisions are not in accordance with the law. Also, by the same token, the Government can definitively dissolve any sub-national representative body, according to certain conditions prescribed in the LSG (Art. 83-

84), and it will be up to the head of the dissolved body to appeal to the Administrative Court against the Government decision. It seems inappropriate for executive authorities of any level of government to a priori decide on the legality or constitutionality of Local Councils by-laws, and discretionarily suspending or nullifying decisions passed by a representative body. Deciding on legality/constitutionality of local self-government acts should belong to the judicial branch of the State, not to the executive.

5. Local responsibilities (functions)

Table 2: Distribution of functions according to levels of government

		Central government	Municipalities	Cities	Counties
1.	General public services	•	•	•	•
2.	Defence	•			
3.	Public order and security	•	•	•	
4.	Education	•	•	•	•
4.1.	Preschool		•	•	
4.2.	Elementary	•	•	•	•
4.3.	Secondary	•			•
4.4.	Tertiary	•			
5.	Health care	•			•
6.	Social security and welfare	•	•	•	•
7.	Housing and communal economy matters and services		•	•	
8.	Recreation, culture and religion		•	•	
9.	Agriculture, forestry, hunting, fishing	•			•
10.	Mining, industry, construction	•	•	•	•
11.	Traffic and communications	•	•	•	•
11.1.	Road transport	•	•	•	•
11.2.	Rail transport	•			
11.3.	Air transport	•			
12.	Other economic matters and services	•	•	•	•



Most of the expenditure of LGUs according to functions is related to housing and communal amenities, and then come general public (administrative) services, and education. Since 2001 the budget items relating to the decentralised functions, particularly health care, education and welfare, have increased considerably. Faster growth of current expenditures was mostly a result of the decentralisation process, whereby commitments for financing of the major part of current operations in education, social welfare and fire fighting were transferred to LGUs. Fifty three LGUs (20 counties and the city of Zagreb and 32 other cities) accepted the obligation to finance decentralised functions. The Government, Finance Ministry and the line ministries provided these units with funding by an additional share in personal income tax and equalisation grants.

Greater LGU autonomy can be found in connection with the performance of the communal economy activity, preschool education and cultural, sporting and religious activities. Three local government tasks considered as rather centralised are: provision of health services, energy supply, and business development support. Although the responsibilities and jurisdictions of LGUs are laid down, nevertheless LGUs do not have total fiscal autonomy in the financing of all their expenditures because revenue sharing and central government grants are earmarked for financing decentralised functions and capital investment. Even in spite of the many laws, there is no clear delimitation of function between the levels of government. As can be seen in Table 2 almost all the functions are financed from both central and local government levels.

From 2001 Central government transferred authorities for financing only a part of the costs of health care and education (that is, for the material costs and expenditure for

the procurement on non-financial assets) and full costs (with salaries) to the LGUs that took responsibilities for financing welfare (welfare responsibilities include payment of financial benefits and provision of services, i.e. homes for the elderly, child protection etc.) and fire departments. It is interesting that the total budget of the 53 LGUs that assumed the financing of the decentralised functions constitutes about 70 per cent of the consolidated budget of all LGUs.

6. Local finance and management

6.1- Local government incomes

The fiscal autonomy of LGUs in collecting their own revenue is relatively low. The most productive tax revenue is shared with central government, which at the same time determines the tax base and the rates of these taxes. The LGUs obtain the least amount of revenue from their own taxes (only 1% of consolidated general government revenue). The revenue of LGUs increased importantly from 2001, thanks to the beginnings of fiscal decentralisation or the increased share of LGUs in income tax. In the structure of the revenue is dominated by tax revenue, the share of which increased from 53 per cent in 1997 to 59 per cent of the entire revenue of LGUs in 2006. At the same time the proportion of non-tax revenues in the budgets of LGUs decreased from 33 to 28 per cent in 2006, and central government budget grants comprised 7 per cent of the revenue of LGUs. Non-tax revenue has become the second most important revenue component of Croatian aggregate local budgets, its represents 30% of total local government revenue. The local non-tax revenues are formed by a myriad of fees, charges, and "contributions" levied by councils and utility companies, which have hardly been transparent or properly associated with specific rights or services acquired.



Since 2004 budget of LGUs are separated in current and capital. Capital expenditures are included in programme of capital investment.

6.2. Local government personnel and management

Croatia's local self-government structure is fragmented. Excessive fragmentation of administrative units entails oversized public employment and weak administrative capacity, which tend to aggravate inefficiencies in local public service delivery. First, due to the lack of economies scale, small communities tend to either operate with higher *per capita* costs than larger communities in the delivery of comparable public services, or do not deliver the service at all. Second, because of indivisibilities, economic inefficiencies are exacerbated by administrative and non-administrative costs (e.g., cost of maintenance of infrastructures). Total number of employees in administrative bodies of local units and budget users (schools, hospitals, libraries...) increased from 22,900 in 1998 to 33,631 in 2006. The increase is bigger by budget users - from 10,000 in 1998 to 21,365 in 2006. In the same time, the number of employees in administrative bodies of local units increased from 9,900 in 1998 to 12,266 in 2006. The Law on State Officials is applied currently as appropriate to the employment of employees in local and regional units. In 2008 this area will be regulated by a separate Law on Employees in Local and Regional Self-government, which will prescribe the conditions and standards of their employment, training and promotion in the service, with the aim of strengthening their professional status.

According to the Yearly Report by Transparency International (TI) for 2006, Croatia improved for one position on the corruption ranking. Corruption perception

index in country did not change from 2005. The results by TI show that Croatia is in 2006, from 179 countries located on 69th place with average rate 3.4 (in 2005 it was on 70th place). During 2005 and 2006, the Government realised many measures for curbing of the corruption. Here are particularly important the digitalisation of land registers, the Programme e-Croatia (*one stop shop*) and the acceleration of the procedure for the registration of private firms. The Government also accepted the Action plan for the fight against corruption and strengthened the Department Office for suppressing corruption and organized crime (USKOK).

Most municipal services in Croatia (including water, sewerage, irrigation, infrastructure, energy, sanitation) are mostly provided by off-budget public utility companies, which in principle are considered mainly locally owned and managed. Adequacy of regulation varies from sector to sector, and there are still problems with asset ownership of utilities. Service standards are in general set by central regulatory authorities, service tariffs are proposed by the utility companies, and decided by local councils, in general with a *non-explicit* subsidy component.

7. Evolution over the last five years

Problems concerning the allocation of competences (tasks) have deepened, as have those relating to financial resources and the supervision and control of the financial operations of local units. Unfortunately, there is no systematic information about the process of the implementation of administrative and fiscal decentralization, which is not well enough coordinated. Most measures are in the planning phase and a longer period of time is needed for their implementation. This particularly relates to the adoption of new



laws and assessment of the consequences of them. Special attention has to be devoted to: Determination of mandatory and optional authorities (tasks) of local units, Privatisation of local government services, Settling the status and value of the assets owned by the local units, Establishing the procedures and conditions for local units and their utility companies to borrow, A better quality regulation of sources of income of local units (non-tax revenue and grants).

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