



**Universiteit Utrecht**

# Overcoming Obstacles

## Regional Capacities for Administration of EU Funds in Croatia

Thesis for the double degree programme European Governance/Politics and Public  
Administration

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## List of acronyms

CARDS:	Community Assistance for Reconstruction, Development, and Stabilisation
CDA:	County Development Agency
CDI:	Composite Development Index
CDS:	County Development Strategy
CEE:	Central- and Eastern European
CF:	Cohesion Fund
ECA:	European Court of Auditors
ERDF:	European Development Fund
ESI:	European Structural and Investment Funds
ESF:	European Social Fund
EU:	European Union
GDP:	Gross Domestic Product
HNS:	Croatian People's Party
IDS:	Istrian Democratic Assembly
IRMO:	Institute for the Institute for Development and International Relations
IPA:	Instrument for Pre-Accession Funding
ISPA:	Instrument for Structural Policies for Pre-Accession
MLG:	Multi-Level Governance
MRRFEU:	Ministry of Regional Development, and EU funds
NMG:	New Modes of Governance
NSRD:	National Strategy for Regional Development
NSRF:	National Strategic Reference Framework
NUTS:	Nomenclature of territorial units for statistics
OLAF:	Office de Lutte Anti-Fraude (European Anti-Fraud Office)
OMC:	Open Method of Coordination
OP:	Operating Programme
PHARE:	Programme of Community aid to the countries of Central and Eastern Europe
RGDP:	Regional Gross Domestic Product per capita
SAPARD:	Special Accession Programme for Agriculture and Rural Development
SDP:	Social Democratic Part of Croatia

## Abstract

This study provides an in-depth analysis of the relationship between administrative capacities of regional institutions and the absorption capacity for European Cohesion Funds. Specifically, administrative capacities are expected to be one of the most important explanations for varying absorption capacity across regions in the EU. First, an extensive literature review provides the main definitions and expectations for this relationship. Administrative capacity is defined here as the ability for reform, and the capacity to overcome structural obstacles stemming from regional and national politics and procedures, and create a culture of mutual learning and capacity building. This was tested in a case study of IPA fund implementation in four Croatian counties, using findings from data analysis, interviews with policy makers and existing evaluation studies, to provide an as complete as possible picture of regional administrative capacity. The study suggests that EU fund absorption capacity differs greatly between Croatian counties, which, despite having many of the same structural obstacles, show large variation in amount of implemented IPA funding. Over time, some counties have overcome obstacles through active training and capacity building, networking and partnership, an active civil society and good evaluation practices. The county that was found to be less successful in this regard had a significantly lower amount of implemented projects, and seemed to be stuck in procedural processes. As such, the results indicate that administrative capacity and ability for reform of regional institutions is an essential part of creating regional absorption capacity for EU funds.

**Keywords:** Cohesion, administrative capacity, absorption capacity, Croatia, EU, regional development, IPA, policy, multi-level governance

# 1 Introduction

*Located in the heart of beautiful Istria, overlooking the Adriatic, the Histria Aromatica ethnobotanical gardens is an inspired place. Its main business idea is to grow indigenous plants, like lavender, sage and rosemary, in an ecologically friendly and sustainable way, and use these to produce a range of cosmetic products. It is a place where tradition meets modern business practice in a wonderful way. During a visit, Boris Filipaj, the gardens' owner, CEO and personal chef, told my colleague that he spends around 70% of his time dealing with authorities and bureaucratic procedures, causing him a great deal of stress. To deal with this, he set up his business according to the time-proven method of not putting all your eggs in one basket. Besides the shop at the gardens, he has opened several shops across the country, and also exports goods to other countries in the region. This way, instead of having to fully rely on dysfunctional regional and national bureaucracy, he made sure there is always some income. In his own way, through smart strategic thinking, he overcame the obstacles present in his environment, and is able to sustain his business.*

## 1.1 Regional development in the EU

When in 1986 Cohesion Policy was officially included in the Single European Act, a great shift in thinking about regional policy took place among European policy makers. Instead of a series of financial transfers to disadvantaged regions, Cohesion Policy was to be a complete tool for creating long term economic convergence between European regions. The context of these reforms was the ever expanding Union, and the large increase in regional disparities this brought. Specifically, since the inclusion of Central- and Eastern European (CEE) countries in the European Union, regional development is one of the focal points of the EU, with Cohesion Policy comprising of more than one-third of the total EU budget (European Commission, 2015). Importantly, the reforms were implemented in the spirit of "new regionalism", which emphasises a decentralised approach to regional development. The policy is realised through decentralised decision making, with the goal of enabling regions to bloom to their full potential. It has a bottom-up approach to development, which assumes that cooperation between different levels of government and the utilisation of regional and local levels are key to bringing economic cohesion between the regions of Europe (Dąbrowski, Bachtler & Bafail, 2014).

The effectiveness of EU funds in achieving regional cohesion has been the subject of intense debate. Results from studies about the impact of Cohesion Policy have been inconsistent and mixed (Abulescu & Goyeau, 2013; Mohl & Hagen, 2010; Wostner & Šlander, 2009), and in recent years within-country regional disparities have been growing (Rodríguez-Pose, 2013: 1036; Farole, Rodríguez-Pose & Storper, 2011, 1090). Additionally, absorption rates, meaning the amount of allocated funds being contracted by beneficiaries, are inconsistent between countries, with the old Member States showing high rates of absorption, and CEE countries much lower rates (e.g. Katsarova, 2013; Madalina, 2012; Marzinotto, 2011; Cace, Cace & Nicolăescu, 2011; Osterloh, 2010). The past two decades have seen a growing literature trying to find reasons for this differing performance in national and regional absorption of funds. Consequently, the European Commission has adopted "absorption capacity" as a vital element for assessing the effectiveness of Cohesion Policy (NEI, 2002: 2). Generally, absorption capacity for EU funds is the effectiveness with which EU funds can be

distributed, attracted and effectively used for regional development projects. Problems in absorption capacity can stem from different sources, such as the allocation rules, national abilities for co-financing projects, or administrative capacity for attracting funds and implementing projects (Horvat, 2005; NEI, 2002).

The context of the absorption capacity issue is initially found in the system of implementation of Cohesion Policy. First, through the so-called partnership principle the policy is founded in a Multi-Level Governance framework, which stresses cooperation between different levels of government, and involvement of other stakeholders outside of government. In essence, the initial push for regional development is a top-down strategy, but the actual implementation of development projects must happen at the lowest level (Rodríguez-Pose, 2013; Sumpor & Đokić, 2013). Secondly, the principle of additionality states that Cohesion funds can only be used in addition to national public funding, meaning that development projects must be planned and partially funded by the national government. Therefore absorption capacity is mostly considered to be affected by institutional factors (Katsarova, 2013: 4; Farole *et al.*, 2011: 1093; Zaman & Georgescu, 2009: 143), examples of which are problems in the allocation process, administrative capacity of regional governments, and capacity of national governments to co-finance relevant regional development projects (Horvat, 2005: 9).

More specific, funds are distributed according to the institutional procedures of Member States (Wostner & Šlander, 2009: 2). Via the additionality and partnership principles the responsibility for implementation of the funds lies on the national level, so the attraction of the EU Cohesion and Structural Funds is dependent on national strategies for regional development, and the functioning of the institutions in charge of these. Regional operating programs, strategic planning and coordination between actors at different levels of government are vital for the attraction and effective absorption of EU funds, and retrieval of the funds is in many cases conditional on these things (Fröhlich & Đokić, 2012; Osterloh, 2010). The regional level, and the way it is utilised and engaged by Member States, is therefore found to be of great importance for effective implementation of Cohesion Policy.

The regional level has its own specific set of challenges for the absorption of funding. Several researchers suggest that especially in CEE countries, with a recent legacy of centralised and authoritarian decision making, the regional level is underdeveloped, causing a lack in both quantity and quality of regional institutions (Albulescu & Goyeau, 2013: 156). This clearly indicates a problem in capacity for policy implementation at the regional level. Administrative absorption capacity can be broadly defined as the capacity of institutions to implement Cohesion Policy. Concretely it concerns the abilities of the implementing actors to create, implement and evaluate programs, develop necessary skills and human resources, identify clear responsibilities and division of tasks in the legal and institutional systems, create effective horizontal and vertical partnerships, et cetera (Horvat, 2005; Šumpíková, Pavel & Klazar, 2004). So to effectively receive and implement funds, the central and regional governments must learn to create viable programs, show long term planning skills, understand the concept of development and be able to effectively coordinate with relevant actors (Maleković, Puljiz & Polić, 2007; Pylak, 2007).



Administrative capacity of regional governments seems to be a key issue in the effective absorption of EU funds. As Bachtler, Mendez & Oraže (2013) note: *“...administrative capacity has been identified as an explanation of the variable performance of European Union (EU) Cohesion Policy. Studies have concluded that the contribution of the policy to economic development is conditional on the capacity of national and regional institutions to design robust strategies, allocate resources effectively and administer EU funding efficiently (Bachtler et al, 2013: 735).*

One of the great challenges of regional development, and thus of Cohesion Policy, seems to be the linkage between development and administrative capacity of institutions. Institutions are vital for creating sustainable development in a region, and more developed regions will have better institutions (Rodríguez-Pose, 2013; Acemoglu, Johnson & Robinson, 2005; Rodrik, 2004). Many of the same factors that influence overall development of a region, also influence the implementation of something as complex as Cohesion Policy. Since the responsibility for attracting funds lies with regional governments, the least developed regions are thus less likely to be able to attract and effectively use funds for development (Zaman & Georgescu, 2009). This paradox is difficult and could be considered a “wicked problem”, but is incredibly important for thinking about bringing socio-economic cohesion in Europe, and especially in bridging the gap between the old and the new Member States.

## 1.2 Croatia in the EU

Being the EU’s newest Member State, with a highly turbulent past, prevailing political and economic problems and yet rapid development in recent years, Croatia is an important case for the topic of EU fund absorption. In 2013 Croatia joined the EU, and is now a recipient of the EU Structural Funds in the 2014-2020 programming period. Before this, Croatia already received pre-accession (IPA) funding in the 2007-2013 programming period, and before that there have been several other EU funded programs (CARDS, PHARE, SPARD and ISPA) aimed at capacity building and reconstruction of basic infrastructure and institutions (Kołodziejcki, 2013; Đulabić & Manojlović, 2011).

Regional development is a relatively new topic in modern Croatia, but has become one of its most important policy concerns. Ever since the widespread destruction of the country’s basic infrastructure in the Homeland War, the rebuilding and development of lagging areas has been an urgent issue (Đulabić & Manojlović, 2011: 1042). For this purpose, in 2001 Croatia started its so-called ‘second-stage’ of regional development policy, which included extensive decentralisation and legal and institutional reforms, and a higher amount of tasks for lower level governments. The country is divided into 21 counties (including the City of Zagreb), which each have separate governments. Since the new Law on Regional Development of 2009, responsibilities of counties have increased rapidly, for example in the areas of health care, economic development, environmental planning, et cetera. The central government is formally not allowed to interfere in the responsibilities of regional governments (Bencze, 2013: 199; Kołodziejcki, 2013: 13-15).

After about 13 years, however, many problems remain. Regional disparities in Croatia are among the highest in Europe, both in terms of socio-economic development, environmental factors and demographics (Kordej-De Villa, Bakarić & Starc, 2014; Aksentijević & Ježić, 2011). The economic

crisis has further widened development disparities within the country, aggravated by strengths and weaknesses of different counties (Fröhlich, Đokić & Bakarić, 2014: 7). And despite decentralization efforts, Croatia remains very centralized in terms of political power and fiscal control (Jurliina Alibegović, Slijepčević & Kordej-De Villa, 2013). In essence, it is both an old country faced with a new political reality, and a new country faced with old political structures.

Despite strong regional disparities, for a long time Croatia had no clearly defined strategy for regional development in line with modern EU practices, and targeted at bringing general, bottom-up development in the counties (Puljiz & Maleković, 2013). To this day this results in a lack of coordination at the regional level. Due to this, lacking administrative capacity of county governments could be a serious obstacle for implementation of Cohesion Policy in Croatia (Kandžija, Host & Ivandić, 2012). Some of the more developed counties have been known to do better, but in general many regional authorities cope with a severe lack of funds, knowledge, human resources and willingness for change. Many programs are created according to minimal standards, but consequently met with indifference. Because of this, enthusiasm is lost and projects become unsustainable, and available funds run the risk of remaining unused (Đulabić & Manojlović, 2011; Maleković *et al*, 2007).

Given Croatia's continuing problems with regional development, and large disparities in development and capacity of regional and local institutions, it is expected that the absorption capacity for EU funds is also inconsistent between counties. Some evidence has already been found to support this (e.g. Ivandić, Kandžija & Kandžija, 2013). Croatia had little time to create a national operating program for implementation of the EU funds, and some researchers have already found that during the first part of the IPA phase, absorption of funds was lowest in counties with the lowest socio-economic development (Đulabić & Manojlović, 2011).

### 1.3 Regional capacities for Cohesion Policy

The argument developed in this research is that administrative capacity of regional institutions is one of the driving forces for effective implementation of Cohesion Policy, and the main explanation behind the lagging absorption of EU funds in Croatia, and CEE countries in general. This argument follows from the findings that (1) there seems to be a strong link between administrative capacities of regional institutions and absorption capacity for EU funds, and (2) regional institutions are underdeveloped and underutilised in CEE countries. This reasoning seems clear, but because many studies on EU funding have solely been focused on macro-economic effects (Ivandić *et al*, 2013; Horvat, 2005), there are currently still significant gaps in the knowledge about how exactly this relationship materialises. Difficult but important questions to ask are what administrative capacity exactly is, and how it is related to regional institutions, development and absorption capacity.

These questions are highly relevant in light of the importance of regional development in the current European policy area, and the effectiveness of the convergence objectives of the European Union as a whole. Absorption capacity for EU funds differs greatly between countries, as well as between regions (Albulescu & Goyeau, 2014; Cace *et al.*, 2011; Milio, 2007), and knowledge about the source of these discrepancies is essential for making regional policy more effective in the long run, and

bringing Europe closer to a converging economic entity. Administrative capacity of regional institutions should be focused on extensively, in a scientifically rigorous manner, by European policy makers and scholars.

For this purpose, this thesis will provide a detailed look at the capacities for implementation of EU funds at the county government level in Croatia. The period of analysis is the pre-accession funding period of 2007-2013, because funds take time to be implemented, so only about this period a proper ex-ante analysis can be conducted. The conclusions will still have value for the current and future programming periods, due to the strong similarities between the systems of IPA funding and the post-accession Structural and Cohesion Funds. Therefore, the main question of this research is: **What are administrative capacities for Cohesion Policy and can these explain differences in absorption capacity for pre-accession funds between Croatian counties?**

This question relates to what some researchers have dubbed “readiness” for Structural Funds, meaning that through preparation and pre-accession funding institutional capacity has been sufficiently improved for successful implementation of the Structural and Cohesion Funds (Daszuta, 2005). As such, the specific definition of administrative capacity used here is capacity for and trajectories of *reform* (Bachtler *et al*, 2013), to assess how well regional governments have adapted to Cohesion Policy during this period.

The main hypothesis therefore is that administrative capacity of regional governments increases absorption capacity for EU funds. The reasoning behind this hypothesis is as follows: (1) a higher administrative capacity leads to higher adaptability to new demands of complex policy systems, (2) consequently this adaptive power enables regional governments to effectively deal with obstacles, such as an ineffectively targeted regional policy, which (3) causes an increase in absorption capacity for EU funds. In terms of variables, this means that absorption capacity is the independent variable, and administrative capacity the main dependent variable.

To answer the main question and test the hypothesis, a two-part study was conducted, consisting of an extensive literature review, and an empirical case study. The literature review has two purposes. The first is to give a step-by-step analysis of the relationship between absorption capacity for EU funds and administrative capacity, and collect and assess existing empirical evidence from this field. The second goal is to focus this analysis on Croatia, and provide an in-depth view of regional development, national regional policy and EU regional policy implementation in this country, to see which obstacles for regional development and EU fund absorption potentially exist within the country.

Based on the expectations formed in the literature review, this study expands on existing knowledge by performing an empirical case study of four Croatian counties. The absorption capacity of these counties during the IPA funding period was analysed, by first assessing data on the amount of projects and funding, and secondly analysing the administrative capacity of regional institutions in charge of regional development. Three types of sources were used for this: quantitative data on amount of projects and funding per county, findings from evaluation reports from both the EU and the national levels, and findings from a series of semi-structured interviews conducted with regional

administrators. The interviews specifically will attempt to shed light on the issue of how well regional governments have adapted to the demands for pre-accession funding. As a whole, this allows for comparison between the two main identified variables, namely EU fund absorption capacity, and administrative capacity of county institutions.

The following seven chapters will form a step-by-step analysis of administrative capacities and absorption capacity. Chapter two provides a basic explanation of Cohesion Policy from the European perspective, including the policy's approach to governance and method of implementation, to give a first indication of the importance of absorption capacity and administrative capacity of regional institutions. Chapter three will give an in-depth, step-by-step analysis of the relation between these two variables, and attempt to form expectations about the nature, direction and implications of this relation. Chapter four analyses evidence about regional development, regional policy and IPA fund implementation in Croatia. This chapter aims to show what knowledge is currently available about obstacles for EU fund implementation in Croatia, and give a preliminary assessment of absorption and administrative capacity. Chapter five outlines the strategy used for the empirical case study, including an explanation of the case study, the tested expectations, and which methods were used for this. Chapter six consists of the main data analysis, providing a comparison between county-level data on socio-economic and demographic development, and data on amount of implemented projects funded through IPA. In chapter seven the main institutional analysis of the four case counties is demonstrated, using a combination of findings from interviews with regional administrators, and findings from existing evaluations of IPA funding processes. Finally, chapter eight will provide an answer to the main research question based on both the literature review and the empirical study, as well as policy recommendations aimed at improving regional absorption capacity, and avenues for future research.

By combining a literature review with an empirical study, the theories and knowledge of absorption capacity in CEE countries are collected and made comprehensible, and further enriched with new evidence from the EU's newest Member State. This contributes to an understanding of how policy makers can affect the large regional development disparities in Europe, by providing a specific elaboration on administrative capacity. It also demonstrates the importance and complexity of the regional institutional level, a level currently still undervalued in research. There is no way this thesis will provide a full solution to the issue of administrative capacity of institutions and absorption capacity for EU funds. Both regional governance and administration of EU funds comprise a large, complex, constantly changing puzzle of interrelated processes. Policy modernisation is generally embedded in regional administrative traditions, making catch-all explanations nearly impossible. But together, these two parts show at least a few important pieces of the puzzle, hopefully clarifying some of the more structural problems of the EU's regional policy, and giving an indication for a potential explanation as to why some regions perform better than others, given roughly the same structural circumstances.

## 2 Understanding Cohesion Policy

Before zooming in on the regional level, this chapter will provide the story of Cohesion Policy from the European side, by explaining the main policy characteristics, style of governance, methods of implementation and their implications for Member States and regions. The aim of this is to provide a basis for further analysis of absorption capacity, by showing how Cohesion Policy interacts with national policy and attempts to engage actors on a national and regional level.

The foremost goal of Cohesion Policy is to ‘widen the pipeline’ of project funding to those regions that are falling behind in terms socio-economic development. Especially since the accession of Spain and Portugal, and CEE countries after that, regional disparities in Europe have widened greatly. Moreover, researchers have found that within-country regional differences have also increased since then, leading to unbalanced growth in Member states and a further falling behind of the poorest regions (Bachtler & Gorzelak, 2007: 311-312). These increasing differences form the main rationale behind Cohesion Policy, the philosophy of which is that bridging the significant gaps in development between the rich and the poor regions is the most important tool for making Europe more competitive as a whole, and ensuring the effectiveness of its economic policy.

The effectiveness of Cohesion Policy has been debated by researchers and policy makers alike. It has, overall, been difficult to find and assess evidence of the effect the policy has on growth in regions, and whether it truly puts regions on a new path of development (Farole *et al.*, 2011; Bachtler & Gorzelak, 2007). Furthermore there has been concern that the poorest regions in Europe lack the necessary administrative capacity for accessing the funds, leading to a further falling behind of these regions, which would contradict the goals of the policy (Bachtler, Barca, & Mendez, 2009: 9). Because of this there have been many reforms since the modern inception of the policy in 1988, although researchers still question whether the investments are directed at the right targets, and whether the goals are precise enough to be truly effective (Mendez, 2011; Bachtler & Mendez, 2007a).

A complete assessment of Cohesion Policy is beyond the scope of this research, but in order to get an understanding of the regional administrative implications of European Cohesion Policy, some knowledge is required of how exactly the policy attempts to overcome regional differences, and how different actors are involved in this. Because this research specifically focuses on absorption capacity for pre-accession funding in Croatian counties, the policy is explained as it was in the 2007-2013 programming period, which is when pre-accession funding in Croatia took place. For this purpose, some specific attention will be paid to the workings of pre-accession funding, and the tasks it imposes on Member States and regional governments.

First, the policy as it is enshrined will be explained, with its most important terminology, goals and conditions. Also, a short summary will be given of some of the most relevant historical developments. Second, its governance approach will be explained and assessed, mostly as a form of “experimentalist governance” (Mendez, 2011) in the spirit of the new modes of governance frequently employed by the EU. Thirdly, the main mechanisms of national implementation will be analysed, and with them the implications for administration at a Member State and regional level. Finally, a short conclusion

will highlight the importance of these findings for absorption capacity and regional administrative capacity, and provide a research strategy for the rest of the literature review.

## 2.1 General aspects and development

Cohesion Policy attempts to stimulate development in lagging regions by funding projects from the European Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). Together with the Maritime and Fisheries Fund, and the European Agricultural Fund for Rural Development these instruments are called the European Structural and Investment (ESI) Funds. Funds are allocated based on a statistical division of regions made by EUROSTAT. This system divides Europe into three groups of NUTS-regions<sup>1</sup>, NUTS1 (regions with a population of 3-7 million, including small Member States and the German Länder), NUTS2 (regions and counties with a population of 0,8-3 million) and NUTS3 (counties with a population of 150-800 thousand). In the 2007-2013 programming period, around EUR 308 billion was allocated for the purposes of Cohesion Policy, comprising 35,7% of the total EU budget (European Commission, 2015). About half of this budget was allocated for regions with a GDP per capita of 75% below EU average (European Commission, 2007).

While the total fund allocation is decided upon by the Council in a seven-year budget, the responsibility for writing project proposals and implementing the funds lies with the Member States. For this, Member States must write multi-annual project proposals, called Operating Programmes. Different thematic investments have different OPs, which set out how funds are to be distributed between the different targets of Cohesion Policy. In implementing the funds, Member States must adhere to the 'n+2' rule, which states that allocated funds must have reached their beneficiary destination at most two years after initial distribution (European Commission, 2015).

The modern era of European Cohesion started in 1988, with the enshrinement of European Cohesion Policy in the Single European Act of 1985, and the adoption of the official package of Cohesion regulations in 1988. After a few decades of slowly increasing, but understated importance of regional development, it was the Iberian enlargement that brought attention to the widening regional disparities in Europe. The most significant change in attitude was that Cohesion Policy should no longer be a mere series of financial transfers, but a genuine tool for regional development in Europe (Manzella & Mendez, 2009: 13).

The main goal of Cohesion Policy as it was enshrined in the Treaty was to strengthen "social and economic cohesion" by "reducing disparities between the various regions and the backwardness of the least favoured regions" through the Structural Funds. Importantly, the policy was not just supposed to stimulate macroeconomic development through financial flows, but also increase innovation and dissipate obstacles to growth, implying an approach to development that is "close to the ground" and essentially bottom-up (*Ibid*: 14). This means that the approach to regional

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<sup>1</sup> NUTS = nomenclature of territorial units for statistics.

development is one where the competitiveness of regions is stimulated through making regions more accessible and attractive for economic activity, especially innovation.

Concretely, this period saw a doubling in the budget of the Structural Funds, and the specification of the principles that still underlie the policy today (*Ibid*: 15):

**Concentration:** a focus on specific policy priorities

**Partnership:** formal requirement of active cooperation with local and regional authorities in the creation and implementation of projects

**Additionality:** EU funding should not substitute national spending, but used in addition

**Programming:** EU funding does not just support individual projects, but rather multi-annual programmes aimed at sustainable regional development

The vision outlined in these principles is one of funding under the condition of specific goals and targets, long term planning and cooperation between authorities and other actors on a European, national and sub-national level. During this time, the idea of Multi-Level Governance became one of the most important topics of research regarding Cohesion Policy and its effectiveness, and it was an important change from nationally centralised to shared decision making with active involvement of national, regional and local governments.

The following period saw significant fine-tuning and specification of the policy and its targets. Besides increasing the budget, new instruments were introduced in the form of the Cohesion Fund for infrastructure development, and the Financial Instrument for Fisheries Guidance. Most importantly, the 1999 reform sought to enhance effectiveness by simplification of the programming process and decentralisation of implementation. In return, more stringent monitoring and evaluation measures were put in place, to improve enforcement of the policy (*Ibid*: 17).

One of the most significant reforms in the policy, not just in its content but also in its attitude, came with the 2007-2013 programming period. The context of these reforms is important for understanding the nature of change. First, the 2004 enlargement saw the entry of ten new Member States from Central- and Eastern Europe, and 2006 the accession of Romania and Bulgaria. This meant a big change in the budgetary focus of Cohesion Policy. Second, the 2007 reforms were deeply embedded in the increasing importance of the Lisbon Strategy, thematically centred on sustainable growth, innovation and jobs, and focused on strategic planning (*Ibid*: 19). Finally, there had been increasing criticism and doubt from Member States and academics about whether the current Cohesion Policy was effective enough to warrant investment (Bachtler & Mendez, 2007a).

All in all, these factors ushered a new era of Cohesion Policy. A new regulatory package was implemented in 2006 consisting of five new regulations (a general one, one for each of the Structural

Funds and one for cross-border cooperation<sup>2</sup>), and a sixth one fully revising pre-accession funding<sup>3</sup>. Primarily these regulations outlined three new objectives for Cohesion Policy:

**Convergence:** support for economic growth and job creation in regions with a GDP below 75% of EU-27 average.

**Competitiveness and employment:** support for transition to a knowledge society, globalisation, social change and labour market issues, mostly targeted at developed Member states.

**Territorial cooperation:** stimulation of cross-border cooperation between regions to create urban, rural and coastal development.

The main targets of the new policy are a more strategic approach to growth and cohesion, a simplified framework with less objectives and regulations, and a further decentralised approach where regions and local actors are more strongly involved in the preparation of programmes (Euractiv, 2006). The total budget was 308 billion euros, around 81,5% of which was allocated to the convergence objective, 16% to competitiveness and employment, and 2,5% to cross-border cooperation (European Commission, 2007: 24). The regulation states that 60% of the convergence budget, and 75% of the C&E budget must be spent on Lisbon goals for competitiveness and jobs (*Ibid*: 27).

As stated, the 2007-2013 reform brought an increased importance to strategic planning as a policy tool. Concretely, there were four broad investment areas: knowledge and innovation, transport, environmental protection and risk protection, and human resources. These areas are funded through a combined effort from the financial instruments. Member states have to set out a long-term investment strategy in *National Strategic Reference Frameworks* (NSRF), and the Council has adopted the *Community strategic guidelines* as a roadmap for proper planning and implementation of funding (European Commission, 2008; 2007). Furthermore, Member States must write regional and national Operation Programmes, highlighting concrete investment targets and priorities in the framework of the Lisbon agenda, including which actors are involved, timelines and specification of large projects (*Ibid*: 32-33). These programmes are written by national and regional authorities. For organisational purposes, a Member State must set-up a public management structure according to Commission guidelines, consisting of a management authority, a certifying authority, an auditing authority and a follow-up committee which oversees specific Operational Programmes (*Ibid*: 35). A further innovation was the adoption of a reporting mechanism to the Council of Ministers, promoting high level accountability and debate (Mendez, 2011: 520). ECA and OLAF also check the organisations responsible for implementing Cohesion Policy. If nothing is done to improve the organisational structure, funding can be stopped (European Commission, 2015).

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<sup>2</sup> Council regulation No 1083/2006, and regulations No 1080/2006, No 1081/2006, No 1084/2006 & No 1082/2006.

<sup>3</sup> Council regulation No 1085/2006.



A final important change during this period was the complete revision of pre-accession funding programmes. Before 2007, there were many instruments, such as PHARE, PHARE CBC, ISPA, SAPARD, CARDS and the financial instrument for Turkey. These funds were designed to bring development to candidate and partner countries, and generally stimulate development in regions outside of the European Union, such as the Balkan region. In 2006, a new regulation was adopted that combined all these funds into one instrument: the Instrument for Pre-Accession Assistance (IPA).

The purpose of pre-accession assistance becomes clear when looking at its five components:

- The strengthening of institutions and democratisation, economic and social development and aiding the adoption of the *acquis communautaire*
- Cross-border cooperation, both with existing Member States as with countries eligible for IPA
- Regional development, such as infrastructure and the environment
- Human resources, to strengthen capacity and fight social exclusion
- Rural development

Generally, pre-accession funding mirrors Cohesion Policy and is created to prepare a country for membership of the European Union, and for effective absorption of the Structural Funds. Full candidates for Union membership are eligible for all five components, while others only for the first two. Much like in Structural Fund implementation, eligible countries must plan funding through Operational Programmes which outline multi-annual development plans and investment priorities, and implementation needs to be done through accredited institutions. There is a strong emphasis on capacity building. The first component is largely created to increase the administrative capacity of institutions for such development plans, and to set an effective framework for future implementation of the Structural Funds. More so than with the Structural Funds, all plans must be approved in advance before funds are allocated, and amount of funding is limited and decided upon beforehand (European Commission, 2007: 136).

## 2.2 Governance approach

### 2.2.1 Governance model

In principle Operational Programmes are regional development implementation plans, which are co-financed through Cohesion Policy. This clearly marks an extensive attempt at realising the partnership principle, as it requires strong cooperation between European, national and sub-national authorities. It also highlights the fact that Cohesion Policy is by definition highly embedded in and dependent on the regional development strategies of Member States (Ferry & McMaster, 2013; Fröhlich & Đokić, 2012).

Multi-Level Governance (MLG) (Marks, 1993) is one of the cornerstones of Cohesion Policy. MLG stimulates vertical cooperation from the EU level top down to the regional level, and horizontal through the inclusion of public and non-public stakeholders in all stages of the implementation process. It is a system of continuous cooperation and negotiation, to reinforce tailored interventions in regions (Dąbrowski, Bachtler & Bafoil, 2014: 355). As with all EU legislation, the balance of power and influence between national and EU governments is complex. On the one hand, as Bachtler and

Mendez (2007b) find, the alleged national control over the allocation and spending of Cohesion Policy is far from obvious, with increasing powers of the Commission developing alongside decentralisation attempts, and an inconsistent application of the partnership principle (p.556). On the other hand, during the complicated process of implementing Cohesion Policy in the national arena, Member states may shift investment priorities to suit their own needs, which may be hard to monitor and not always in line with European goals (Dąbrowski, 2014: 367). A properly balanced Multi-Level Governance framework would require all involved actors to be on equal grounds, relatively speaking, in terms of capacity and competence to influence the process. Researchers have noticed that these partnership structures on a European level are ambiguous at best, involving many obstacles and trade-offs between Commission and Member States (Bachtler & Mendez, 2007b: 557).

One of the fundamental problems of Cohesion Policy seems to be the conflict between conditionality, to target funds for European goals, and subsidiarity, for flexibility in the use of funds (Bachtler *et al.*, 2011: 3; Manzella & Mendez, 2009: 22). This implies that the governance approach is uncertain, and will try to strike some balance between Member State compliance and autonomy. To get a more nuanced view of the governance of Cohesion Policy, research on the New Modes of Governance (NMG) (e.g. Knill & Lenschow, 2003) is useful, especially work on the Open Method of Coordination (OMC) and “experimentalist governance” (Mendez, 2011; Sabel & Zeitlin, 2008). In general, the NMG focus on voluntary arrangements and non-hierarchical instruments to achieve certain general goals (Mendez, 2011: 521).

Analysing the literature, two “problems” of Cohesion Policy governance can be identified. The first one is a general uncertainty about how to achieve the goal of economic cohesion. Bringing regional economic development to multiple levels is an inherently complex issue, and evidence about working governance approaches has so far been weak (*Ibid*: 521). The second problem is the consensual nature of EU governance, meaning that all views and positions need to be taken into account before decisions can be made (*Ibid*: 522). As noted by Mendez, these problems are the basic conditions for experimentalist governance, which emphasises framework goals, freedom of implementation by Member States, and regular monitoring.

There are two explanations for the influence of EU legislation that are of interest. One is a more rationalist approach and comes from the NMG literature, which states that modes of governance like OMC perform better when there are financial incentives for compliance, and when it performs in the “shadow of hierarchy”. This implies that the involved actors’ cost-benefit analysis changes, and it becomes beneficial to change policy (Dąbrowski, 2014: 367). The second is more constructivist and can be applied to experimentalist governance, where mutual learning between organisations becomes more likely in the presence of ongoing monitoring systems.

Mendez (2011) finds evidence of increasing signs of experimentalist governance structures, especially since the 2007-2013 reforms. Especially in terms of autonomy in deciding on programme substance, performance reporting and review. However, he also notes that mutual learning seems limited, because of deficiencies in the evaluation mechanisms and a lack of political commitment to the priorities of Cohesion Policy (p. 534).

### 2.2.2 Implementation

The 2007-2013 saw a further devolution of responsibilities to the Member States, whereas the Commission increased its powers in monitoring, auditing and overall strategic goals. Member States decide on the substance of their strategy in the NSRFs, and on implementation in their OPs, which are required to include actors involved, contribution to the Lisbon Strategy, a timetable, and an analysis of the situation, and must be approved by the Commission. Another change in the 2007 reforms was the requirement of a formal dialogue with the Council of Ministers, to stimulate improving the targets and better contribute to the Lisbon targets (Manzella & Mendez, 2009; European Commission, 2007).

Additionally, Member States must set up an organisational structure for implementing Cohesion Policy: a management authority to manage the implementation of OPs, a certification authority which oversees expenditure and requests for payment, and an independent auditing authority which carries out audits of OPs (European Commission, 2007: 35).

Because of the devolution of substance to the Member State level, researchers are concerned that the Commission is becoming more and more focused on financial management and absorption (Bachtler *et al.*, 2009: 141). Auditing has become the main instrument for monitoring EU fund spending. Audit obligations have risen dramatically, and the system has increasingly shifted towards compliance. This increases administrative burden of governments, pulls human resources away from actual implementation efforts, and has a risk of holding back policy innovation (Mendez & Bachtler, 2011: 757-762).

Another concern in the implementation process are general deficiencies in the evaluation mechanisms. Evaluation is highly important for policy learning on different levels of government and improving strategies. However, national reports and evaluations are not systematically analysed on a EU level, and peer reviewing is understated (Mendez, 2011: 524-525). Additionally, especially in CEE countries high staff turnover and a lack of evaluation capacity has been reported, and the general opinion is that support for evaluation would grow if other administrative obligations would decrease (Bachtler *et al.*, 2009: 9).

A contrasting, but equally concerning development in the implementation process is the control over the implementation process. It is true that control mechanisms have grown in the past two programming periods, potentially undermining the decentralisation process (Bachtler & Mendez, 2007b), the other side of the coin is that the actual implementation of the policy is very opaque, and there is no real binding control to ensure compliance with EU targets. As Blom-Hansen (2007) finds, it is likely that Member States have their own interests at heart, and the EU is too weak as a principle to enforce otherwise, because sanctioning is difficult. Member States therefore seem to be in full control of the implementation process (p. 643-644).

Finally, the implementation of Cohesion Policy seems to be very dependent on regional institutional structure and traditions, both in form and effectiveness. The adjustment of institutions to EU legislation is embedded in the administrative culture of a particular regions (Dąbrowski, 2014). In a study about the implementation of the four principles of Cohesion Policy in Greece and Ireland,

Chardas (2011) found a convoluted picture of differentiated implementation outcomes, where the adjustment to EU policy was mediated by domestic institutional and procedural traditions. He especially noted that the presence of a history of centralised and uncoordinated decision making greatly affected the internalisation of EU norms (p. 26).

### 2.3 Conclusion and research strategy

The above analysis shows that Cohesion Policy uses a mix of centralised control mechanisms combined with a decentralised implementation to engage actors on all levels of government, and beyond government, in the process of regional development. This is done to ensure that funding is used for the right purposes, in the right locations, in an effective and efficient way. While the approach seems good, this system does require strong harmonisation and coordination of goals among actors, and assumes that actors all have the capacity and will to understand and adopt this complex policy in the same way. It can be concluded from the above chapter that this is not the case, and several significant problems and uncertainties can be identified in the governance and implementation of Cohesion Policy and the sharing of responsibilities between EU and Member States.

Importantly, it appears that for Cohesion Policy national and EU interests are not aligned, with continuing conflicts between compliance and autonomy, and conditionality and subsidiarity. A proper alignment of goals would decrease administrative burden on both sides of the equation, with less monitoring needed on the EU side, and less reporting on the Member State and regional side. For this, however, a significant amount of both understanding of the situation, and trust between the different actors is needed, that currently does not yet exist. Furthermore, implementation of the policy is strongly affected by regional institutional culture. The result is that implementation is highly inconsistent across the EU. Because of this, absorption capacity, or the capabilities of responsible actors and beneficiaries to allocate and spend Cohesion Funds, becomes a serious problem for the effectiveness of Cohesion Policy.

A further implication of the above is that administrative capacity is a defining factor in creating absorption capacity. The implementation of Cohesion Policy is dependent on regional institutions. On the one hand, regional development is highly complex and each region has a specific set of challenges, meaning that tailored solutions are most likely to be found by those closest to the problem. On the other hand, Cohesion Policy puts an increasing administrative burden on lower level governments, with rising conditionality through auditing and monitoring mechanisms, and a focus on multi-annual strategies. For proper absorption of EU funds, an ability to understand Cohesion Policy and respond to the policy's requirements is necessary. Regions certainly have an interest in obtaining EU funds, but if bureaucratic controls are too stringent and capacity is too low, regions may have trouble fulfilling the complex requirements for realising this. Additionally, putting these funds to work for stimulating long-term economic growth is another task that may require a level of understanding and aptitude currently not present in many regional governments.

In the following chapter, the many complexities of the relation between absorption capacity and administrative capacity will be analysed using theory and empirical findings. Examples of these complexities are how institutions are related to regional development, how policy modernisation

affects institutions, how capacity can be created and what exactly administrative capacity is. This way, chapter three will form the main theoretical basis for the expectations formed and tested in chapter four and the empirical case study. Consequently, chapter four focusses the analysis on the case of Croatia, the EU's newest member state, and, as will be explained, one of the more pressing cases for the issue of absorption capacity, and regional development in general.

## 3 Administrative capacity for Cohesion Policy

*“The golden rule is that there are no golden rules”*

(George Bernard Shaw, 1903)

Putting the current inner workings and governance of Cohesion Policy aside, chapter two showed that any regional development approach seems to be dependent on the capacity of low level actors to identify problems, find proper solutions, and administrate accordingly. The large variety of institutional and procedural traditions in Europe gives rise to the expectation that administrative capacity of regional institutions is highly inconsistent. Especially in CEE countries, with traditions of centralised and authoritarian regimes, regional institutions are usually underdeveloped (Albulescu & Goyeau, 2013: 156). With most of Cohesion funding currently going to these countries, this issue of capacity is truly at the heart of the cohesion problem.

This begs the question what exactly is necessary in terms of administrative capacity for effective absorption of EU funds. What kind of capacities must institutions have for Cohesion Policy? What value do institutions add to regional development and how can they gain capacity? This chapter will review different strands of academic discourse on absorption capacity, institutions and regional governance in the EU and specifically administrative capacity of institutions, to assess which elements are most important for proper absorption of EU funds and implementation of Cohesion Policy on a regional level.

Using a step-by-step approach, the argument developed in this chapter is that better quality institutions have a higher ability for adaptation and reform, making the region better able to adapt to new demands and complex policies such as Cohesion Policy, even when the national system is not ideal. First, the general problem of absorption capacity will be explained, providing definitions and existing evidence. Secondly, the relation between institutions will be analysed and explained, using the main theoretical insights from institutionalist literature. Thirdly, the way in which the EU affects institutions ‘on the ground’ is assessed using Europeanisation literature. Finally, administrative capacity will be explained in more detail, using previous evidence on the relation between absorption capacity and administrative abilities, and providing the main definition of administrative capacity for EU fund absorption.

### 3.1 General problem of absorption

In the past fifteen years or so it has become apparent that both the economic effectiveness and spending of EU Structural and Cohesion Funds has been inconsistent across and within countries.

Research has shown that the abilities of countries to properly absorb the funds varies across the EU, and that this largely seems to reflect prevalent spatial economic differences in Europe<sup>4</sup>.

Generally, regional differences within the EU are still high, and the poorest regions are almost exclusively located within CEE countries (Katsarova, 2013: 2). This is why, as stated, the greatest part of Cohesion Policy has been earmarked for lagging regions via the convergence objective, and should therefore mostly go to CEE countries, where they are most needed. The greatest part of funding relative to national economy size does indeed go to CEE countries, as well as Greece and Portugal (Marzinotto, 2011: 3). However, studies from the 2007-2013 period find that it is especially these countries that are still having problems with spending the funds allocated to them, as opposed most of the Old Member States (excepting Italy) who show much higher levels of absorption (Albulescu & Goyeau, 2013: 160; European Commission, 2013: 9-11). Furthermore, the levels of contracted funds and funds actually paid out to beneficiaries are generally low, and vary considerably between CEE countries (Cace *et al.*, 2011: 92; KPMG, 2011: 10).

Because of these issues, the concept of “absorption capacity” has been growing in importance over the past few programming periods. Absorption capacity means how well countries are able to spend their allocated funds effectively. The Commission has taken up measuring the “absorption rate”, which is defined as the amount of contracted/paid funds divided by the amount of allocated funds (Albulescu & Goyeau, 2013: 160). In 2007-2013, the absorption rate was highest in Austria, Belgium, Portugal, Sweden, and Ireland, and the lowest rates were found in Italy, Slovakia, Czech Republic, Malta, Bulgaria and Romania (Katsarova, 2013: 5). The variation in these rates gives an indication of the variation in absorption capacity, which in academic discourse is generally defined as having three types (or causes)<sup>5</sup>:

- Macroeconomic absorption capacity: this is simply differences due to the allocation rules, which are based on macroeconomic and demographic conditions. For example, amount of funding is limited to 3,8% of national GDP, meaning that for countries with smaller GDPs, very large investment projects may be off limit (Osterloh, 2010: 80)
- Financial absorption capacity: this is the amount of project funding available on a national level. The principle of additionality states that EU funds can only co-finance projects, so the national government must have funds and financial planning capabilities of its own. Especially in countries with institutional and administrative issues this may be a problem
- Administrative absorption capacity: this is the ability and skill of national, regional and local institutions to prepare plans, manage projects, make timely decisions, coordinate with relevant partners, cope with administrative demands, and finance and oversee implementation effectively, while avoiding fraud and corruption. Some studies, such as Milio

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<sup>4</sup> E.g. Katsarova, 2013; Madalina, 2012; Marzinotto, 2011; Cace, Cace & Nicolăescu, 2011; Osterloh, 2010.

<sup>5</sup> Many studies discuss or use this theoretical division, for a more extensive discussion, see NEI, 2002 and Horvat, 2005. Additional notes are given by Osterloh, 2010 and Zaman & Georgescu, 2009.

(2007), have already shown the importance of administrative capacities for absorption of funds.

Although providing for a nice theoretical basis for further analysis, the usefulness of this division is somewhat decreased by its generality. Looking at the different types it is still quite unclear what actual causes of absorption problems are.

To show the importance of absorption rates, Osterloh (2010) gives an interesting elaboration on problems occurring from the allocation mechanisms of Cohesion Policy. He notes that the distribution of funds strongly depends on these rules, and that even though the rules have stayed roughly the same, it has changed radically due to enlargements. Because of the enlargements, and a fear by the net contributors that Cohesion Policy would become too costly without any results, an additional rule was implemented for some countries. The so-called absorption ceiling limits fund distribution to countries based on their absorption rates. Osterloh finds that for almost all CEE Member States the amount of allocated funds is actually lower than it would have been according to the original rules alone, and that this absorption ceiling has become the single most important factor for the amount of funding allocated to CEE countries (p. 80).

An interesting effect of this is that as a country converges in terms of development, it actually gets more transfers, up until it reaches the 75% of average GDP limit. Osterloh finds evidence that this has caused an increase in transfers to some of the poorer, but converging countries. However, funding to the very poorest regions, which due to structural problems are not converging, remain limited by the absorption ceiling, providing another argument that Cohesion Policy has trouble targeting the least developed regions in Europe (2010, pp. 81-82, 87).

This points to two important issues in the absorption problem. First, there seems to be a clear link between absorption capacity and development. As stated, researchers have found that the most severe absorption problems are present in the least developed regions<sup>6</sup>, which could have something to do with the overwhelming complexity of the system of Cohesion Funding (Madalina, 2012: 333), combined with the lesser administrative capacities of lagging regions (Farole *et al.*: 2011: 1093). This means that the main recipients of the Structural Funds still have problems with effectively spending these funds (Marzinotto, 2011: 2). As Georgescu and Zaman (2009) note, this is somewhat of a paradox, as the regions that need the most financial support also have the most difficulties with absorbing this support (p. 142).

Secondly, numeric absorption rates may provide for an indication of absorption problems, but lack in substantive content about the problems that convergence regions face. As we have seen above, focusing too much on statistics without analysing what is causing these problems can have a detrimental effect. Because of this, experts warn that high (numeric) absorption alone is not enough to stimulate economic development (Katsarova, 2013: 2). Albuлесcu & Goyeau find little evidence

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<sup>6</sup> For example, Romania has both by far the most poor regions (Madalina, 2012), and the lowest absorption (Zaman & Georgescu, 2014).

supporting the notion that the absorption rate has any effect on short term economic growth (2013: 154). Marzinotto notes that absorption alone is not enough, but that the objectives of the funds need to be tailored to specific needs of different countries. The selection of projects, he states, should therefore be based on the needs of the beneficiary country (2011: 7).

The “missing link” providing a possible substantive explanation for these two observations is the notion that Cohesion Policy is highly dependent on the institutional setup in countries and regions. Academics agree that institutional factors are key to high absorption and effective spending of Structural and Cohesion funds (Katsarova, 2013: 4; Georgescu & Zaman, 2009: 142). As Marzinotto rightfully notes, the unfulfilled potential of Cohesion funds in underdeveloped regions is a problem of governance (p. 2).

High quality institutions seem to be a vital aspect in effective absorption and spending of EU funds. This clearly relates to administrative absorption capacity explained above. The abilities and skills of actors to properly manage funds and projects is directly related to institutions, as these are a significant part of the “actors” the definition speaks of. Ederveen *et al.* (2006) found clear evidence that having the “right” institutions is conducive to the effectiveness of Cohesion Funds, although they use quantitative proxies for institutional quality. Supporting this, in one of the few ex-post studies done in this topic, Hapenciuc, Moroşan & Arionesei (2013) find that all problems, be they macroeconomic, administrative or co-financing related, point at the abilities of the institutions in charge of managing the process (p. 272). Georgescu and Zaman seem to be right when they say that one of the main explanations for the paradox of Structural Funds and development lies in the abilities and experience of local governments, faced with the complex bureaucratic demands of Cohesion Policy (p. 142).

Marzinotto interprets these findings as a call for increased centralization and powers to the Commission, and argues that better targeted objectives and country-tailored solutions are only viable if the Commission directly manages some important projects (2011: 10). This approach is questionable, as problems of regional governance are best dealt with on a regional level, and the Commission does not have the legal mandate or organisational capacity to find and manage tailored solutions for all regions. Instead, a place-based approach seems much more likely to deal with the problem, as is also advocated in the Barca report, prepared for the Commission in 2009 with the purpose to making Cohesion Policy more effective (Barca, 2009). Rodrik (2004) notes: “What works will depend on local constraints and opportunities”, meaning that there is no specific legal rule or institutional setup that leads to a set economic outcome (p. 9). Therefore, this author argues that the capacities of regional institutions should be strengthened, to ensure success of the Multi-Level governance approach of Cohesion Policy.

Before an assessment can be made of the necessary skills and abilities of regional institutions, a closer look is needed at the role institutions play in regional development, and the way in which the EU influences institutions.



## 3.2 Regional governance and institutions

*“The trick is to be able to identify the binding constraint on economic growth at the relevant moment in time”*

(Rodrik, 2004: 11)

“Institutions matter” (Rodríguez-Pose, 2013: 1037) has been the catchphrase of institutionalists for quite some time. It means that researchers by now have convincingly shown that institutions are an integral part of economic development, and are both a cause and an effect of economic growth. It also means that elaborating on this finding with an explanatory framework is inherently very difficult, because institutions are, first, tricky to define, and second, endogenous to the world we are analysing, making the quest for causal relationships highly elusive.

One of the conclusions of the previous chapter is that institutions are important for regional development, but the question remains *how* exactly they are important, and what they should be like to properly ‘channel’ socio-economic development and the funding aimed at stimulating it. Going back to Rodrik’s quote at the start of this sub-chapter, it can be expected that in countries which are still developing and have had a significant regulatory change in the recent past, such as CEE countries, a lack of good institutions could very well be one of the “binding constraints”, although that still does not define what they are and in which way they constrain.

The most commonly cited definition of institutions describes them as the “rules of the game” that constrain human behaviour (North, 1990: 3). They comprise systems of formal and informal arrangements that organise and structure human behaviour. For example, one can think of formal institutions such as property rights and other forms of law, physical institutions such as courthouses and central banks, or informal institutions such as trust and social networks. This is quite a minimalist definition, however, and a more accepted definition of institutions is given by Hodgson (2007), who describes them as “enduring systems of socially ingrained rules” (p. 331) (Rodríguez-Pose, 2013: 1038). This definition implies that institutions envelop the rules, social norms, and organisation of a certain locality, and are long-standing and specific to that locality.

This has multiple important implications for regional development. The first is that development and institutions are strongly related, although this relation is complex and “as endogenous ... as anything can possibly be” (Rodrik, 2004: 2), because, as the above definition states, institutions both form, and are formed by their environment. Still, disregarding the exact direction or shape of the relation, many researchers have found evidence that institutions have a strong determining effect for economic development (*Ibid*: 1), and that institutions and development are co-evolving and mutually enforcing (Rodríguez-Pose, 2013: 1041). Empirical research has found evidence for many economic and social benefits from institutions, such as enabling innovation, mutual learning and information spreading, reducing transaction costs and uncertainty, and overall improving productivity in a region. In sum, it can be stated that development works *through* institutions, and that institutions can support regions in reaching their development potential (Rodríguez-Pose, 2013: 1037-1039; Rodrik, 2004: 6).

The second implication is that it appears to be more the quality of institutions than their quantity that is important for development. Many researchers have focused on institutional thickness - or the presence of many institutions, institutional interaction and a cooperative culture of shared values - as important for development. Institutional thickness provides the potential for a region, but researchers agree that it is the quality that is at the heart of the relation between institutions and prosperity (Rodrik, 2004: 1). Institutional quality is considered to be a key element for economic performance of a locality (Mantino, 2010: 6-7).

Thirdly, there is great diversity in regional institutional pictures. As stated in the definition, institutions are embedded in the culture and traditions of their locality, and are as such quite resistant to change (Rodríguez-Pose, 2013: 1040). This is demonstrated by Charron, Dijkstra & Lapuente (2013), who find that variation in Quality of Government indicators is very high, especially at the sub-national level. So much so, in fact, that for example Italy has regions that are among the highest in quality of government, as well as regions that are among the lowest in the EU (p. 70). This shows that capacities are unevenly distributed across Europe, and not all regions are able to stimulate the development of resources that enable them to advance towards the level of the more highly developed regions in Europe (Farole *et al.*, 2011: 1093). Moreover, Acemoglu & Robinson (2006) find that institutional weaknesses are persistent because a general lack of knowledge enables rent seeking elites to prevent change, and use their power to shape the socio-political environment to their benefit (p. 329). As such, institutional deficiencies can constrain regions in their ability to develop.

Therefore, focusing purely on the national level will produce a distorted picture of development, as sub-national regions are becoming more and more relevant. The institutional arrangements spoken of so far seem to be most effective on a regional, or even local, level, as the national level might be too distant, and not representative for the regional situation (Rodríguez-Pose, 2013: 1037). The importance of institutional quality for development combined with the high diversity of institutions across regions supports the argument that institutions are important constraints for regional development, and an important cause of the prevailing disparities across Europe.

Finally, this leads to the conclusion that effective regional development strategies cannot work without taking regional institutions into account. To properly stimulate regional development a good understanding is needed of the way regions function, so that a tailored solution can be found. High quality institutions can spread information and stimulate knowledge acquisition, and so determine the learning capacity of a region, which will strongly influence how a region can adapt to changes and solve problems. In this way, the institutions can be bolstered and 'used' for regional improvements (Rodríguez-Pose, 2013: 1039).

Rodrik correctly asserts that even the establishment of the causality between development and institutions does not provide us with a detailed map for an effective institutional framework. There is hardly any knowledge of which specific institutions bring about certain outcomes (2004: 7, 9). Because of this proper policy recommendations are still difficult to formulate. However, researchers have found that extensive governance reforms are rarely required to turn around lagging regions, but that initially only small changes are needed to bring about growth (*Ibid.*: 10-11). Therefore, a

strong case can be made that increasing the capacity and knowledge of existing institutions and actors is key to stimulating regional development. The search for tailored regional solutions is almost certainly made easier if regional actors are included and made (partially) responsible for the process, and enforced in doing so by improving their administrative capacities. By knowledge and capacity building on a regional level mutual learning can be improved, which will increase the adaptive abilities of the region and allow public actors to overcome persistent institutional deficiencies. A Multi-Level governance approach seems a good solution in this case, as higher level actors can help lower level actors adapt to the demands they impose, and lower level actors can deal with regional issues in the most effective way (Rodríguez-Pose, 2013: 1044).

Many researchers have tried to assess the influence of the Multi-Level Governance approach of Cohesion Policy on processes of Europeanisation and mutual learning. It seems that this approach can be important in enabling the convergence of lagging regions in Europe, given that institutional structures are persistent, and that institutions must be taken into account in an effective regional development policy. This begs the question as to what extent can the EU influence regional actors and institutions, and how this process takes place? As the following section shows, it appears that processes of Europeanisation are uneven across regions and policy domains, and the process is highly dependent on regulatory and institutional tradition, but capacity building in Cohesion Policy positively affects mutual learning and the effectiveness of EU policy processes, and is thus beneficial to the absorption of Cohesion Funds.

### 3.3 Europeanisation of institutions

It is by now quite clearly understood that processes of Europeanisation are dependent on domestic institutions. As stated in chapter two, the influence of EU policy on domestic institutions is usually understood through either rationalist or sociological arguments, the first one being that domestic actors have a benefit in changing their behaviour according to EU practice, and the second one being that domestic actors and institutions internalise EU norms and standards and over time begin to act accordingly. Also stated was that there has been some evidence that this process is strongly affected by a history of centralised and uncoordinated decision making. Versluis and Tar (2013) give some additional evidence for this, as they find that in countries with a lesser regulatory capacity the influence of EU regulatory agencies becomes greater. In this case, an agency has more opportunity to facilitate learning, and the lack of institutional development gives room for Europeanisation (p. 332).

While Cohesion Policy does not have a centralised agency, its procedural requirements can certainly have a similar effect in the CEE countries. All of the New Member States have made a (relatively) recent transition to a market economy, and there are still many administrative and institutional issues to be resolved (Georgescu & Zaman, 2009: 140). Regional policy has traditionally been underdeveloped in these countries, and the setup of administrative regions is in many cases still a work in progress. This means that there are no clearly formulated strategies for helping lagging regions, and negotiations about regional funding are still purely conducted at a national level (Albulescu & Goyeau, 2013: 156). As Georgescu & Zaman note, only EU accession and the prospect of Cohesion Policy have brought this topic to the domestic policy agenda (p. 140).

The literature identifies that in CEE countries, the post-socialist period saw the rise of regional development policy in three stages: marginalisation, politicisation, and rationalisation. In the first stage regional policy is mostly ignored by the political elite, seen as purely redistributive or necessary for infrastructure development. In the second stage, regional disparities come under the interest of the national government because of, for example, EU candidacy. The government starts creating the legal and institutional basis for regional policy (Aksentijević & Ježić, 2011: 271). In this stage, principles like bottom-up development and “projectisation” enter the vocabulary of policy makers, for example through the influence of international consultants (Kordej de-Villa *et al.*, 2004: 631; Stubbs, 2003). Finally, the prospect of EU accession and receiving the Structural Funds calls for extensive reforms, and the creation of development programmes that allow for the use of EU resources. By now, regional development policy is more in line with modern development principles, and starts to be less a political argument (Aksentijević & Ježić, 2011: 271).

During this time, there is also ample opportunity for processes of Europeanisation, which might constantly occur during the three stages described. Europeanisation can be seen as the reframing of national policy in light of EU demands, norms and values. Stubbs (2008) notes that the pressures the EU exerts on policy makers are often contradictory and not always compatible with national goals, but overall the influence of the EU can be seen as a process of “mutual learning and adaptation with broad steering in terms of European values” (Stubbs, 2008: 373).

The main way in which Cohesion Policy attempts to Europeanise domestic policy making is through the partnership principle. The aim is to include actors from different levels of government as well as non-state actors into the policy process, and set up a system of Multi-Level Governance. The partnership principle focusses on institution building and coordination between actors. On the one hand it requires vertical cooperation between different levels of government, and on the other hand horizontal cooperation through the inclusion of non-state actors and stakeholders such as Non-Governmental Organisations (NGOs) and companies. The ultimate goal of this policy is to create a more place-based approach to regional development, and enable the representation and active participation of regional and local actors in finding effective policy solutions and enhance their abilities to do so.

Most evidence seems to suggest that the effectiveness and benefits of the partnership principle are highly dependent on existing institutional structures, and that the adjustment to its demands is especially hindered in CEE countries, which have a legacy of centralised and authoritarian governments (Dąbrowski, 2014: 365). First, vertical coordination has been limited by persistent centralisation of decision making powers. Bache *et al.* (2010) found that in Macedonia, Greece and Croatia there has certainly been a noticeable process of Europeanisation, especially through organisational learning and the adoption of EU norms. In Macedonia and Croatia the demands of IPA funding were reported to be the driving factors behind policy change (p. 137). However, this has not yet been sufficient to overcome longstanding power balances. Especially in Greece the implementation of Cohesion Policy has been left completely to the existing administration, with national ministries taking the lead in decision making, while regional and local governments lack the administrative powers to influence the process (p. 129). Ferry & McMaster (2013) largely confirm

this, and find significant variety in the extent to which domestic policies have been Europeanised by Cohesion Policy. On the one hand, they find that in CEE countries the domestic regional policy agenda has been taken over completely by EU policy, especially for long term planning. On the other hand, the interpretation and governance show variation, and are usually adjusted for the benefit of national actors (p. 1524).

Secondly, horizontal coordination shows a slightly more complicated story, although equally variable. Potluka & Liddle (2014) state that there are great benefits to horizontal partnership. Specifically cooperation with local governments and NGOs is productive in offering flexible and effective policy solutions. They also find that in some countries NGOs have been made an integral part of the policy process (p. 1445). This is clearly beneficial, especially since there have been studies finding that CSOs have the ability to transform centralised regimes to more pluralist democracies, by representing lower level interests in decision making. However, these studies also conclude that civil society is still underdeveloped in most CEE countries, and that its involvement is limited (Pleines, 2010).

An important implication of these findings is that the effectiveness of the partnership principle is dependent on a certain equality of capacity of different actors. Milio (2013) finds that in the absence of an able regional government or a strong civil society, the partnership principle can blur the lines of responsibility, and decrease accountability of powerful actors who are now able to shift blame to lower level actors (p. 11-12). This shows that MLG can fail if low level actors lack the administrative capacity to participate and effectively coordinate with other levels of government. As Dąbrowski, Bachtler & Bafoil (2014) note, previously authoritarian and centralised regimes lack the experience, cooperative culture and influence of NGOs for efficient implementation of partnership. Therefore, they state that Cohesion Policy should focus extensively on capacity building, which can help overcome information asymmetries and control rent seeking by powerful actors (p. 360-361).

This clearly has importance for the eventual absorption and effectiveness of Cohesion funds. The effective expenditure of EU funds is not just a matter of high level decision making and the formal implementation of a governance system. For a good Multi-Level organisation of Cohesion Policy, actors on different levels need to have the skills to participate, overcome existing power imbalances and request and implement funding for projects. To adapt to the complex demands of Cohesion Policy regional institutions need a certain amount of organisational and administrative capacity, which in many cases is still underdeveloped. Therefore administrative absorption capacity of regional institutions appears to be one of the most important obstacles in the implementation of EU funds.

### 3.4 Administrative capacity for Cohesion Policy

*“...readiness could be compared to the hand of a pianist. Each aspect is like one finger. ... if one of the pianists’ fingers is weak, no matter how hard he works, he will never be at his best”*

(Daszuta, 2005: 5)

It has become clear from the previous analysis, that administrative capacity of regional institutions is important for Structural Fund absorption (Horvat, 2005). Especially the New Member States face

deficiencies concerning the development of this capacity (Duduiala-Popescu, 2009; World Bank, 2006). Generally, the institutions in these countries face high staff turnover, lack of qualified or motivated personnel and frequent institutional changes (Bachtler *et al*, 2013: 736). This lack in capacity could be one of the main obstacles for policy innovation and Structural Fund expenditure.

Several authors have found empirical evidence for this relation. Milio (2007) noted that the actual expenditure of EU resources differed across Italian regions, with some regions being well above national average (p. 432). She finds that regional differences in administrative capacity variables (management, programming, monitoring and evaluation) can explain much of the variation in Structural Fund spending, and that some regions are better equipped to deal with Cohesion Policy (p. 439). Other authors have found that in the North of Italy partnerships were able to utilise existing networks and strong institutions, while in the South the lack of a culture of collaboration and limited administrative capacity hampered fund expenditure (Dąbrowski, 2014: 366). Tatar (2010) finds that Estonian regional and local governments have had trouble with attracting funds, mostly due to a substantial lack of skilled personnel, organisational innovation or proactive actions to retrieve the funds (p. 221). Additionally, findings from Romania suggest that even though the institutional system put in place for Cohesion Policy is adequate, the organisations themselves still miss the capacity to properly fulfil their tasks (Apostolache & Apostolache, 2014: 416). The problem of capacity seems to truly be at the heart of the cohesion problem.

Theoretically, the main factors that are usually suggested to influence Structural Fund absorption are effective preparation of projects, monitoring and evaluation, high quality long-term strategies, political stability and low corruption (Albulescu & Goyeau, 2013: 154; Milio, 2007: 440). Recalling the definition of administrative absorption capacity, it is the ability of central, regional and local governments for timely planning, effective decision making, good coordination with relevant partners and proper supervision and evaluation. Required for this are a clear assignment of responsibilities within the organisational structure, qualified and skilled human resources, and proper procedures and instruments for implementation. The availability of these qualities will facilitate organisational learning and induce knowledge sharing between actors (Šumpíková, Pavel & Klazar, 2004: 2).

Most authors focus on organisational factors as proposed explanations for the lack of administrative capacity, such as a persistent centralised system (Milio, 2007: 440) or the small size of regional governments (Tatar, 2010, p 221), but few spend much attention on development indicators as an initial variable. Recalling the analysis above, quality of institutions and regional development is highly related, due to the inevitable role that institutions play in development. It can be expected, therefore, that governments of lagging regions have less capacity to effectively manage regional policy, and that this is a persistent problem.

Because lagging regions have trouble gaining the tools for development, the important question is what specifically must be changed for these regions to overcome their structural problems. As Rodríguez-Pose puts it, these are “*problems of transforming the abstract reasoning linked to institutional theory into tools for empirical research and policy guidelines*” (p. 1040). This is an important issue for the capacity building parts of IPA funding and Cohesion Policy, and deals with

ability for reform. Bache *et al.* (2010) note that time will be an essential factor in this, but also finds a strengthening of the central state over time and a continuing weakness of regional governments in lagging regions (p. 136). Besides existing skills and abilities, the ability to adapt to new demands, overcome obstacles and implement innovative policy solutions over time will be a clear indicator of administrative capacity for Cohesion Policy, and a possible explanation for regional success in EU fund absorption.

Some authors have defined the concept of “readiness” for EU funds. This means that through preparation and pre-accession funding institutional capacity has been sufficiently improved for successful implementation of the Structural and Cohesion Funds (Daszuta, 2005). As Daszuta notes, this is a multidimensional concept, with issues of financing, physical tools, personnel and legal framework being equally important. Only once they are all properly developed can a region be called ‘ready’ (*Ibid*: 5). For achieving this readiness, the learning ability of regional institutions is vital. Pylak (2007) states that lesser developed regions have one advantage, being that there is more room for knowledge gain and that they are able to learn faster than others. In this way, he proposes that through the development of an intelligent implementation system, including training of personnel, project development and monitoring and good management, regions can be converted to effective, self-governing units capable of applying regional development strategies (Pylak, 2007). Capacity building tools are the most obvious way in which this can be achieved. Busetti & Pacchi (2015) give a set of indicators for capacity building, which include training, staffing, networking, and institutional and procedural innovations. They conclude that the practice of implementing Cohesion Policy is greatly influenced by these factors (Busetti & Pacchi: 21-25).

### 3.5 Conclusion and implications

The relationship between administrative capacity and absorption capacity is complex, but hard to overstate. The above analysis shows that the focus of this study is on policy, rather than politics. Europeanisation is a process that influences the domestic arena via reactions to imposed policy changes, and these processes are more insightful than the final outcomes. Therefore, this study follows the reasoning of Bachtler *et al.* (2013), who define administrative capacity in terms of a capacity for and trajectory of *reform* (p. 737). For assessing the relationship between absorption capacity and administrative capacity, one needs to look at the full administration cycle for Cohesion Policy, which includes aspects of human resources, organisational structure, coordination and evaluation, and how these functioned and developed over time (*Ibid*: 740). The most useful indicators for this are the ones suggested by Busetti & Pacchi (2015), who explain the policy cycle for Cohesion Policy as a structural institutional framework in a region, which under the influence of capacity building tools gains improved administrative capacity and so enhances its implementation of the policy (Busetti & Pacchi, 2015: 17). The advantage of this approach and these indicators is that they point out increments of change from a dysfunctional institutional system to an effective regional governance, and include the full course of administrative change towards effective absorption capacity of institutions, and highlights the full complexity of the relation.

The indicators mentioned by Busetti & Pacchi are expected to influence the regional absorption capacity for EU funds. Training and staffing of human resources can solve the problem of

underqualified and unmotivated personnel, networking with relevant actors can lead to mutual learning and benefits of scale, and procedural and organisational innovations can set clear targets and clarify division of tasks. In addition to the indicators already mentioned, three others deserve specific mention. First, as stated, the role of civil society is potentially important in bringing about change and empowering low level actors. Active horizontal networking between regional governments and NGOs can be expected to induce a higher level of absorption. Besides NGOs, active partnerships with businesses, local governments and other relevant regional actors are also expected to increase the level of absorbed funds. Secondly, regional governments need both political independence and will to implement their regional strategy. Without independence counties can remain under too much control of national authorities and as such remain reactive, as opposed to proactive, and without political will regional strategies might not be prioritised to a sufficient extent. This does not mean that decentralisation per se is the ultimate solution, but is meant in more of a technocratic sense, in that regional institutions need to have the resources and room to make effective, region-specific policies. Multi-Level Governance would in this case be a better solution than full decentralisation, because in many CEE countries regional governments lack the funds to act as fully independent units. Finally, active evaluation of projects and programmes is vital for the sustainability of the policy. Without evaluation, organisational learning is greatly diminished and there is a risk of an eventual reversal of the situation. Also, evaluation increases accountability of actors involved, which can help improving transparency and performance of policy processes (Maleković & Tišma, 2012: 4).

While still not a 'golden rule' for regional development, effective capacity building and networking with relevant actors can help lagging regions overcome structural deficiencies, and potentially change dysfunctional administrative and political cultures. Each region needs a place-based approach, and regional institutions are in the best position to find and implement this. Here lies one of the great challenges of Cohesion Policy. Through enabling regional institutions to develop into effective self-governing units, Structural Funds could become much more effective in targeting the regions that need them most, and increase its contribution to development.

## 4 Regional development in Croatia

*"Transition amazes"*

(Kordej de-Villa *et al.*, 2004, p. 639)

As stated in chapter two, Cohesion Policy is implemented through Operating Programmes, which are multi-annual plans for stimulating regional development through projects, co-financed by EU funds. These OPs have to be written and implemented by the Member States themselves, who have to show they have an effective long-term strategy for regional development, and the ability to fund it. Chapter three showed that to realise this, the active involvement of high quality regional institutions is vital, because it provides the capacity for learning on the regional level, and thus enables a region to best deal with its own issues, and gain the capacity to make the most out of the available resources. This chapter will assess how well this process has been able to materialise in Croatia, the EU's newest Member State. The purpose of this chapter is to highlight the major obstacles for regional absorption



of EU funds, by seeing whether Croatian regional policy is currently suited for the implementation of Cohesion Policy, and whether regional institutions are able to meet its demands.

Croatia has been in a transitional state for quite some time. Being located at a crossroads of sorts between the Mediterranean, Central and Eastern Europe, in the region that was among the last within Europe to stabilise, the country's recent history has certainly been turbulent. When the Yugoslavian war ended in 1995, most of Croatia's basic infrastructure had been destroyed, and much of the population was centralised in those places most people had fled to, such as the City of Zagreb (Kordej de-Villa *et al.*, 2004: 614). Under the influence of extensive reforms, economic growth and international assistance, the country has developed rapidly since then.

Politically, the birth of the Republic of Croatia in 1991 gave rise to both an increased centralisation of powers, with the argument of strengthening the national state and rebuilding the nation (*Ibid*: 626), and increased international activity, initially in the form of post-war aid, but later through EU development programmes such as PHARE, CARDS and ISPA. In 2004 Croatia received official candidate status, and in July 2013 Croatia joined the European Union, thereby becoming the Unions' newest member, and net recipient of the Structural and Cohesion Funds.

The regional situation of Croatia is complex. While the population of around four million is quite small, it is spread across a large area which shows high geographical and ecological diversity. Furthermore, regional disparities in social and economic development are extremely high, as are differences in regional structural weaknesses and strengths (Fröhlich *et al.*, 2014: 3). Administratively the country is fragmented, with twenty-one counties and over five hundred towns and municipalities. Regional policy is therefore a complicated endeavour, especially since it is mostly the recent influence of EU candidacy that has made the topic rise in importance for politicians and policy makers (Aksentijević & Ježić, 2011: 271).

Created more because of political reasons than for the purpose of regional development, counties have become an important indicator for socio-economic disparities in Croatia (Maleković & Puljiz, 2007: 17). Therefore, county governance is key to overcoming these disparities, but due to lacking specification of a focused regional policy, combined with persistent centralisation of powers, the effectiveness of county administration must be called into question. This is especially important since the county governments have a strong responsibility for implementing projects funded by the EU, and their ability to do so may greatly affect the added value of the Structural Funds in the country. Before moving on to the analysis, the following chapter will provide the context for the question of whether and how administrative capacity could explain differing performance in implementation of EU funds at the county level in Croatia.

## 4.1 Regional development

As stated, Croatia is greatly heterogeneous. In 2013, the country had twenty-one counties, with 127 towns and 429 municipalities. The county division is loosely based on geographical and historical aspects, but mainly results in a purely administrative division. Geographically, three main areas can be distinguished, Central, Eastern and Adriatic Croatia. Central Croatia shows the most economic activity and urbanisation, with the inclusion of the greater Zagreb area, while Eastern Croatia is

identified by mainly agricultural activity and small settlements, and Adriatic Croatia has an urbanised coast combined with an underdeveloped hinterland and the many islands of Croatia (Kordej de-Villa *et al.*, 2004: 616). On a county level there are numerous sources of regional disparity, for example demographic factors, regional GDP, unemployment, productivity, poverty, politics et cetera.

In terms of demographics, around one-fifth of the population lives in the City of Zagreb, which is by far the most populated area. According to 2011 census data, population density ranges between 139,7 persons per square kilometre in Varaždin county, and 9,6 in Lika-Senj county (Aksentijević & Ježić, 2011: 277). Regionally, inland Istria and the islands are also very sparsely populated (Kordej de-Villa *et al.*, 2014: 616). Aksentijević & Ježić (2011) report that migration flows since 1991 have mostly been directed at the greater Zagreb region, with both Zagreb County and the City of Zagreb showing the greatest increase in population. Besides this, only Istria has increased in population, and the rest of the country faced a substantial decrease in population (p. 274). In 2012 the negative growth rate continued, with only Split-Dalmatia, Međimurje and the City of Zagreb having (small) positive growth (Kordej de-Villa *et al.*, 2014: 616).

Disparities in socio-economic indicators are seen in regional GDP per capita (RGDP) and unemployment rates. In 2011 RGDP ranged from 5.424 euro to 18.414 euro, and only three counties were above the national average (City of Zagreb, Primorje-Gorski and Istria) (Fröhlich *et al.*, 2014: 8). Evidence has also been found that differences in RGDP have been rising over time, and that the economic crisis has substantially increased regional disparities. The post-crisis period continued to show divergence in RGDP in all counties, except for six out of seven coastal counties, which showed an increase compared to the national average due to increasing tourism in these areas (*Ibid*: 20).

The unemployment rate presents one of the most serious regional problems, and disparities in unemployment are high even compared to other EU countries (Puljiz & Maleković, 2013: 7). Official statistics of unemployment at the county level are not available, but based on estimates Kordej de-Villa *et al.* report that the spread of unemployment ranges from 9.4% in the City of Zagreb, to 32.5% in Virovitica-Podravina (2014: 622). Multiple studies have noticed that unemployment disparities have decreased in the crisis years, which is usually explained by the overall increase of and convergence in poverty in the country (Fröhlich *et al.*, 2014: 20). Poverty as such is actually one of the greatest sources for disparity between regions. Nestić & Vecchi (2007) find that even after controlling for educational attainment, unemployment and demographic variables the variation in poverty rates is exceptionally high. Especially the difference between rural and urban areas is striking (Nestić & Vecchi, 2007: 88-89).

A final source of regional variation lies in political attitudes. Counties certainly still lack mandate and capacity, but, being autonomous units of self-government, they do have their own elections. Koprić, Dubajić & Tomić (2015) show that most counties over time have not diverged *that* much from the national government, but there are still noticeable differences between them. For example, political parties have strong regional support in the counties where they were founded, such as the right-wing conservatives (HDZ) in about eleven counties. The left wing parties (SDP and HNS) have strong footholds in the more high income counties, like the City of Zagreb, Primorje-Gorski and Međimurje. The rest of the counties are usually seated by coalitions containing their own regional party, such as

the IDS in Istria (2015: 509). The authors also show problems with county elections, such as low turnout, but the differences in political attitudes across the country could be an indicator that opinions about regional development and the way it should be governed differ.

The conclusion of these facts is that some counties have been doing quite well over the past decade, but there are many that lag behind significantly in terms of socio-economic development and are faced with difficult structural issues. These difficulties are seen in high unemployment, poverty, low innovation, large informal economy, slow signs of change, depopulation, low government capacity, et cetera. Even compared to the usual signs of regional disparities in European countries, county differences in Croatia are problematic (Aksentijević & Ježić, 2011: 273). The above findings show a convincing case for a focused regional policy in Croatia. In the words of Nestić & Vecchi: “a focus on regional development makes sense” (2007: 88).

## 4.2 Regional policy

Current regional development policy in Croatia is a difficult system to assess. On the one hand, the rise of regionalism in South-Eastern Europe (Solioz & Stubbs, 2009) and the influence of EU accession has created ample room for modern practices of regional development, such as programming and evaluation. Europeanisation can indeed be said to have taken hold, as policy makers are free to experiment, and learn and adapt rapidly in the face of new demands (Bache *et al.*, 2010). On the other hand, the country is highly centralized, and old political structures and balances of power are still very much in place. Thinking about overcoming the regional disparities is therefore convoluted, and it is hard to find any kind of consistency in or theoretical basis for the current regional development policy (Kordej *et al.*, 2004: 618). It can be said that there are two forces at work in regional policy in Croatia (Đulabić & Manojlović, 2011): the original national approach, and the requirements for EU membership combined with international funding from the CARDS, PHARE, ISPA and later IPA programmes. EU requirements, however, are almost purely procedural and deal with setting up management structures for the Structural Funds, and there is no part of the *acquis* that specifically deals with national regional development, which falls under the principle of subsidiarity. Nevertheless, the interaction between these forces has led to some interesting developments, as many steps have been made in the past few decades. It is useful to look at the extent to which the current policy is in line with, and effectively supports the implementation of Cohesion Policy.

### 4.2.1 Development of regional policy

Regional development is a relatively recent concept in Croatia. Yugoslavia still had quite an extensive decentralised administration, but after Croatia gained independence in 1991, the entire political agenda turned in favour of centralisation. The political discourse told that regionalism was a remnant of the socialist past, and inspired unwanted separatism. Breaking away from Yugoslavia the country showed, perhaps logically, a tendency towards central statehood. At this time possibilities for regional policy were thus limited, and economic policy was entirely focused on the macro level (Puljiz & Maleković, 2013: 8; Kordej de-Villa *et al.*, 2004: 620-626). Since then, numerous reforms have given rise to a regional development strategy, although there are still many deficiencies in approach.

The first regional development policy to be adopted was the Law on Areas of Special State Concern of 1996, specifically targeting those areas that were affected by the war, and supporting the rebuilding of infrastructure and housing. One of the effects of this was that other areas were fully neglected. Since then, policies have extended with the Islands Act of 1999, the Act on Hilly and Mountainous Areas in 2002, as well as an extension of the original Law including more areas (*Ibid*: 8). The problem with these laws is that they are not based on any constructive contemporary regional development discourse, but instead merely comprise a series of financial transfers to disadvantages areas (Kordej de-Villa *et al.*, 2004: 630). Furthermore, the laws do not provide any kind of real solutions in terms of programming, institutional issues or project evaluation, resulting in the lack of an institutional framework and a highly incoherent approach (Puljiz & Maleković, 2013: 9). Finally, the laws focus on the local level, instead of the counties. Due to high fragmentation of the local level, and the fact that counties are the main level of disparity in the country, this is inefficient. Importantly, Puljiz (2007) showed that this system results in some of the most high income regions being funded, while some lagging regions are not (Puljiz, 2007: 6).

Focusing on naturally or historically disadvantaged areas on the local level is clearly not in line with the practices of Cohesion Policy, which attempts to target specified low-income regions through multi-annual strategies and stakeholder involvement. Also, in the current system exact targeting remains unreliable, and many areas are neglected. The start of the 21<sup>st</sup> century slowly saw a turnover taking place. Under the influence of international actors such as the World Bank and the IMF, and especially in the face of EU candidacy, regionalism began to take hold in Croatian politics. As regional development received more and more attention within Europe, Croatian policy makers were also affected. Concepts like strategic planning and bottom-up development started gaining in policy discourse, mostly with the help of international NGOs and consultants (Stubbs, 2003). Especially the prospect of receiving the Structural Funds brought the introduction of the programming and partnership principles to Croatia, and technical assistance projects from the European Commission (Kordej de Villa *et al.*, 2004: 628-629). This prospect has forced a new approach, because EU funds are not allowed to be distributed in a fully centralised way, and require planning for multiple levels of government (Malekovic & Tisma, 2012, p. 8).

In the year 2001 the new Law on Local and Regional Self-Government was adopted, starting the so-called second stage of regional policy in Croatia and providing the decentralisation process with a legal and institutional framework. Many responsibilities were transferred from the national to the regional and local levels. Counties gained authority as units of self-government in education, health care, economic development, infrastructure, scientific, social and cultural development, physical planning and a few other activities (Fröhlich *et al.*, 2014: 3). The other reform was fiscal decentralisation, county and local governments became partially responsible for their own budgets and public funding (Bencze, 2013: 199). Since then, under the strict influence of EU accession requirements, the current Law for Regional Development was adopted in 2009. This law was a fully formulated regional development policy, according to modern EU standards, at least formally. Along with this, the Croatian National Strategy for Regional Development (NSRD) was adopted in 2010. This resulted in a new framework which included development priorities and institutional objectives for all levels of government (Bencze, 2013: 200).

Regional policy in Croatia is clearly still in transition, and there are still problems that remain. The country is overall quite centralised, and local and regional governments remain under control of the national government, and lack the funds to be politically independent (Jurlina Alibegović *et al.*, 2014). Except for some notable outliers, administrative powers and organizational abilities of county administrations are weak (Bencze, 2013: 205). Especially at the local level, the extremely small size of some governments causes inability to execute the tasks imposed upon them. Additionally, a clear division of tasks between levels of government does not exist yet, and responsibilities are imposed without regard to population size or financial capacity (*Ibid*: 213). The result is that procedures for attracting development funds are opaque, and the procedures in the law of 2009 still focus on financial flows to the previously identified disadvantaged areas (Puljiz & Maleković, 2013: 14).

#### 4.2.2 Europeanisation and IPA implementation

Despite these issues, the influence of EU accession has given rise to several interesting developments, such as the emergence of strategic thinking in development planning, and the creation of development agencies. The adoption of the Croatian NSRD had several goals, such as strengthening development capacities of counties, supporting disadvantaged areas, and utilising cross-border cooperation schemes for the border regions. The strategy was created to make the best use of pre-accession funding, and prepare for the Structural Funds. To this end, each county had to adopt a county development strategy (CDS) and create a county development agency (CDA) (Puljiz & Maleković, 2013: 14-15). Bache *et al.* (2010) found that while on a national level many of these things were adopted merely to meet requirements, on a sub-national level it has resulted in significant behavioural changes and learning among actors involved in regional development, and it appears that slowly a culture of collaboration and partnership is growing (p. 137).

The establishment of CDAs is a big step in the right direction, and they have a vital role in supporting regional development. CDAs are established for the purpose of supporting the regional government in preparing documents, decide on a development strategy and coordinate between national and regional governments, and between non-state and state actors (Puljiz & Maleković, 2013: 14-15). By now each county has created a CDA, as well as a number of other institutions such as SME support centres and technology groups. This resulted overall in a great increase in development related activity at the sub-national level (Bache *et al.* 2010: 134). Marijanović, Ćučić, Žalac (2011) note that CDAs are an essential part of building the proper capacity for regional development at the county level. Being inherently technocratic agencies, they have their own budget, can act autonomously and are thus not affected by national politics (p. 998).

The introduction of strategic planning as a form of modern regional development governance is another important development. To be eligible for funding, all counties are obligated to formulate multi-annual strategies, in line with EU procedures and including plans for partnership with state and non-state stakeholders. Furthermore, project proposals have to be written and accepted beforehand, including plans for monitoring and institutional responsibilities. All counties have successfully done this, and the strategies have been implemented (Sumpor, 2013: 2). The national government has prepared a range of programming documents as well, such as the Strategic Development Programme 2006-2013, the Strategic Coherence Programme and several Operating

Programmes for IPA implementation. These actions are relevant, because they show a change to modern methods such as partnership, monitoring and evaluation and have an ultimate goal of becoming a sustainable development strategy (Malekovic & Tisma, 2012, p. 9).

Regarding Cohesion Policy, the clearest influence related to this has been the implementation of the NUTS division of regions. Counties represent the NUTS-III region, and the country as a whole is the NUTS-I level. Structural Fund allocation is based on the NUTS-II level, for which purpose the country was eventually divided into two larger regions: Continental Croatia with fourteen counties, and Adriatic Croatia with seven counties. The National Strategy for Regional Development called for setting up partnership councils of county representatives on a NUTS-II level, to coordinate funding and establish effective project pipelines (Sumpor, 2013: 2). The NUTS-II level has only become important in the 2014-2020 period, as pre-accession funding is exclusively managed at the national level (Puljiz & Maleković, 2013: 16).

From 2007 onwards, the Instrument for Pre-Accession replaced other funds such as CARDS, PHARE and ISPA. The goal of IPA is to provide financial assistance to candidate countries for the support of institution building, socio-economic development and any other measures necessary for the transition to EU standards and laws. Most importantly it is a way to strengthen administrative capacity for managing the Structural and Cohesion Funds after accession. The total amount of funding over the 2007-2013 period amounted to 1.071 billion euros, divided over the five components of IPA. The funding initially was conditional under the n+2 rule, but a request was granted to extend this by one year (n+3). In Croatia, institution building was one of the top priorities of the national IPA programme, and along with regional development was the component that received the most funding (Kołodziejewski, 2013: 17). Looking at the funding amounts per component per year, the strategy over time seemed to be reduction of funding for transition process and institution building, and an increase for the areas of cross-border cooperation, regional development and human resource development (European Commission, 2006).

A new institutional structure was set up to manage these funds, and adhere to the modern demands of regional policy. Kordej *et al.* (2004) note that Croatia has been victim of an ongoing “institution building frenzy”. Recent years have seen a great many changes in the institutional framework, and an increasing amount of agencies with varying responsibilities (p. 625). The effect of this is that responsibilities are often spread across many actors, and as capacity building is still in an early stage it is difficult to assess the organisational structure of the country. The Ministry of Regional Development, and EU Funds (MRRFEU) was set up during the IPA period, and is the main institution responsible for regional development and attraction of EU funds, and the first national institution for regional development. Its tasks range from programming and monitoring to international negotiations with the EU. Otherwise, the Ministry of Finance, the Ministry of Economy and the Central Financing and Contracting Agency along with a few other national bodies are responsible for contracting, payments, auditing and reporting (Fröhlich & Đokic, 2012: 3-4).

The most important national strategies for implementation of IPA were the Strategic Coherence Framework and the Strategic Development Framework 2006-2013. The first sets out broad objectives and priorities in terms of organisation and programming, and the second identifies

strategic targets for funding, with the aim of effectively stimulating regional economic growth. Additionally, the specific implementation of the funds went according to six Operating Programmes: Transport, Environment, Regional Competitiveness, Human Resource Development, Cross Border Cooperation and Rural Development. The OPs attempt to identify and target specific regional problems and development issues<sup>7</sup>.

In sum, European ways of thinking about regional development have certainly been introduced in Croatia, at least formally on a national level, but most likely also more constructively at the sub-national level. This can be seen as a good sign, as Croatia does have a strong need for a proper regional development policy. The noticeable issues of regional policy combined with the extensive reforms of the past years show a complex picture of dynamic forces, that work both contradictory and cooperatively, but are certainly not 100% in line. One of the major problems seems to be that the system is very recent, and capacity is still lacking in many areas of development policy.

### 4.3 Reform and capacity

Đulabić (2014) states that according to historical institutionalism, legislative changes are in themselves not sufficient to bring about a turnover in administrative behaviour. Instead, they should be combined with extensive and deep support for human and institutional development (p. 184). Change is ultimately conditional on factors like political will, capacity and sufficient time. In this context, he found that a large, IPA funded administrative reform had very little effect on actual everyday public practice, and was more interpreted as a new formulation of traditional practice (p. 192). The problem of regional governance, thus, predominantly seems to lie in context and capacity.

On the one hand, context is not usually favourable in Croatia. As a relatively new state with a turbulent past, political factors are complicated at best, major obstacles in reality. Corruption and clientelism are among the highest in Europe, and there are strong conservative tendencies in parts of the population. Otherwise, structural issues abound. The country has one of the most rapidly aging populations in Europe, large parts are very sparsely populated, and unemployment rates are high, even higher for the youth.

On the other hand, Croatia has developed quite rapidly over the past two decades, and is now a member of the European Union. If it could be called so, an advantage of being a new state is that policy makers can experiment, and have ample examples in the nearby vicinity to learn from. This is what Bache *et al.* found when they asked Croatian regional and local policy makers for the influence of European policy, and can be seen in the emergence of active sub-national development planning.

These two contextual dimensions may form part of the explanation behind the parallel, but ultimately incompatible processes of regional policy in Croatia. What's left, then, is the capacity factor, which can be specified here as the abilities and experience of institutions and people. In this case, the relevant capacity is oriented towards implementing EU funded projects, and ultimately regional

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<sup>7</sup> Only a part of the institutional structure and documentation is given here, for a more complete overview see Fröhlich & Đokic, 2012.

development as a whole. Recalling Busetti & Pacchi (2015), capacity for Cohesion Policy stems from a certain regional institutional system, where administrative capacity is developed towards implementing the full policy cycle of Cohesion Funding. It can be concluded from this chapter that building up the proper experience is a slow process, and that the institutional context itself represents some major obstacles to implementation. However, successful performance could be said to occur if a region is able to implement projects in spite of these structural problems. If, for example, a county in Croatia can overcome administrative obstacles stemming from the national organisation, and over time implement innovative policies and strategies towards attracting and spending EU funds, one can say that the county has gained capacity for Cohesion Policy, which is expected to result in higher fund absorption given national policy deficiencies.

An important aspect of IPA funding, especially compared to the Structural Funds, is that it seems to be mostly affected by administrative factors on the governmental level. For one, the beneficiaries of pre-accession funds are mostly actors on the government level (Kandžija *et al.*, 2012: 47). Secondly, the amount of funding is pre-defined and the amount of contracted funds depends on (quite demanding) tenders written by the national government, meaning macro-economic absorption capacity is not as relevant. Thirdly, IPA funds are much smaller than the Structural Funds, and the amount of funding is only a small percentage of government budgets (Puljiz, 2011: 23), which means co-financing is also not expected to be an issue (yet). Due to the n+3 rule payments will continue until 2016, so conclusions about absorption rates are premature. So far, contracting has been quite good, however the European Court of Auditors warned that knowledge and capacity of many beneficiaries are insufficient, which could severely affect payment rates (ECA, 2011: 18).

Perhaps only second to corruption, capacity is perceived to be one of the biggest problems of administration in Croatia. Several studies have found that administrative capacity is one of the defining indicators of low absorption. Kordej de-Villa *et al.* (2004) already reported that implementation of the Island Act was constantly being avoided. It is a very demanding legislation, and could thus have suffered from lack of skills among responsible actors (p. 630). Ivandić *et al.* (2013) conclude that regional and local actors need to be strengthened for higher absorption to occur, and put special emphasis on human resources (p. 69). Kersan-Škabić (2007) notes that at the start of the IPA period, the biggest problem for many policy makers was the short amount of time for fund application, the complicated procedures and a striking indifference of many potential beneficiaries (p. 8). A large part of the problem may be that Croatia has had to adapt to new demands constantly in the past fifteen years. Going from CARDS, to SAPARD, PHARE, ISPA and finally IPA and the Structural Funds, each new round required a new implementation system, with new demands and procedures being imposed every few years or so. This clearly results in a lack of ability to develop effective procedures and draw lessons from past endeavours (Malekovic & Tisma, 2012: 14).

Concerning the county level, Maleković *et al.* (2007) conducted an extensive study on capacities of the county governments and development agencies, which was conducted in the period leading up to IPA funding. The results from this study form a good set of initial conditions for analysis. Mainly, they found great variety between counties in number of people working on EU projects, skill level in different parts of the policy cycle, and coordination with other institutions. The least developed



counties significantly lagged behind in this regard. Also, they found that CDAs were generally better equipped than county governments for dealing with EU funds (pp. 13-14). However, Marijanović *et al.* (2011) note that there are large differences between the functioning, financial capacity and resources of CDAs (p. 994).

Since then, several authors have noted that IPA funding has had some positive effects on capacity, although not to a sufficient extent. Malekovic & Tisma (2012) note that capacity building was only a small part of IPA funding (p. 10). They find that generally capacity building tools have had a positive and significant effect, although the sustainability of these effects must be called into question due to high turnover rates in institutions and lacking involvement of relevant stakeholders (pp. 15-16). Regarding modern tools for regional policy, they write that evaluation is slowly making its way into governance practice, although they question to what extent policy makers are actually making use of this (p. 4). As to strategic planning, Đokic & Sumpor (2013) note that there has been a surge of strategy documents being written in recent years, but that without evaluation these run the risk of being little more than documents. Furthermore, stakeholders such as politicians and policymakers need to properly grasp the demands of effective governance, such as flexible planning arrangements and adaptive management (Đokic & Sumpor, 2013: 17).

Several authors have commented on the process of setting up coordination structures and forms of partnership in Croatia. Puljiz & Maleković (2013) note that communication and coordination processes between local, regional and national actors hardly exist, which results in “many micro-policies supporting regional development at various levels in an uncoordinated and less efficient way” (p. 12). Antonopoulos & Bachtler (2014) suggest that both horizontal and vertical coordination is hampered by the prevailing centralised and fragmented approach to governance in Croatia. They find that government institutions compete for power and information, and to some extent still prefer to work in isolation (p. 196).

A large problem for coordination also seems to be the undeveloped (although developing) civil society in Croatia, and the general lack of trust in both government institutions and civil initiatives. NGOs were only “rediscovered” after the war as a form of humanitarianism and although some have become quite successful, many still suffer from a lack of financing, staffing, and knowledge. Bežovan, Matančević & Vašiček (2011) report that a severe lack of trust between NGOs results in very low coordination and networking, and that persistent corruption problems in some NGOs hinder the credibility of the goal of civil value protection (p. 51). However, some good developments are the finding that people seem to have a less negative opinion of NGOs than they do of the government, political parties or big companies (p. 40), and the fact that NGOs have already had some positive effects on areas like social policy, environmental issues and human rights (p. 51).

#### 4.4 Conclusion and implications

The conclusion one can draw from the analysis is that Croatia is undergoing a long, complicated and slow process of transition to ‘modern’ governance practices. The context of this development is the traditional pattern of centralised and fragmented decision making, combined with a path to Europeanisation causing a complex array of administrative reforms, which could ultimately remain

ineffective without a general change in national political culture and behaviour. On the bottom level, however, things seem to be moving more rapidly, with some important actors having at least the will to bring sustainable development to their regions. Conflicts of interest are of course always obstacles, as are gaps in fiscal decentralisation, but a positive development is probably underway in terms of mutual learning and capacity building in lower level institutions.

The questions this chapter sought to answer was whether Croatian regional policy is well prepared for effective implementation of Cohesion Policy, especially at the county level, and whether major limitations can be identified relating to administrative capacity of regional institutions. As Maleković *et al.* (2007) saw at the start of the IPA period, there are many problems in the capacity of regional governments. Specific county level capacity problems are understaffing of authorities, high staff turnover, and lack of experience and knowledge in authorities and NGOs, among other things (Kandžija *et al.*, 2012: 50). They also found large differences between counties, with especially the least developed counties lagging behind. The different cultural, economic and geographical identities of counties may either hamper or support implementation of EU funded projects, depending on strengths, weaknesses and priorities. Although perhaps in a more convoluted way, development may also play a role, as institutional capacity and development are mutually enforcing, interrelated forces. However, this relation may only have partial explanatory value. Lagging regions probably lack the capacity for regional development, part of which will also be administrative capacity, but this does not mean that more highly developed regions will *necessarily* perform better in terms of EU funded projects. As stated, priorities may differ, and the reason for development might lie in a sphere less related to governance, such as tourism or natural resources.

There is a pressing concern for an effective and consistent regional development strategy in Croatia, given the exceptionally high disparities between counties, and the structural and historical setbacks some regions are still facing. In line with earlier conclusions, effective policy making and project implementation at the county level could be of great importance here, as well as an efficient coordination between the national, regional and local levels of government. The county level has an essential role in the implementation of EU funds. The great heterogeneity between the counties of Croatia, and the inconsistent approach to regional development, gives rise to the expectation that some counties have been able to adapt better to the complex opportunities and demands arising from Cohesion Policy, and thus have created more absorption capacity.

## 5 Case study

The main finding in the literature review is that administrative capacity is highly important for the development of absorption capacity, and that in the case of Croatia it is a likely cause for disparities in EU fund absorption between counties. The following chapters show the results from a case study that was performed among four Croatian counties, to test whether these conclusions are actually viable for Croatia. This analysis builds on the theoretical and contextual study above, and will mainly concern the second part of the research question: “Can administrative capacities explain differences in absorption capacity between counties in Croatia?”

For this purpose, two main hypotheses were tested. The first is that absorption capacity for EU funds varies significantly between counties. The argument for this is that there are the substantial differences between counties and the inconsistent approach towards regional development policy in the country, leading to uneven absorption of funds. The second hypothesis is that administrative capacity of county institutions is an important indicator of varying absorption capacity between counties. The rationale behind this is the fact that all counties face similar severe structural obstacles stemming from the national political sphere and inconsistent regional policy, but that through smart policy making, effective cooperation and human resource capacity building counties can adapt and (partially) overcome these obstacles, resulting in a higher absorption of EU funds.

An underlying third expectation that will not directly be tested here, but is implicit in the analysis, is that lesser developed counties will have less capacities, and thus a lower absorption capacity. However, due to the problem of missing data, ambiguity of the concept of development and endogeneity of development and capacity this relation is not expected to appear explicitly. Furthermore, while ideally Cohesion Funds would be targeted at the least developed regions, the inconsistent targeting of Croatian regional policy could further convolute the picture. This realisation is important to avoid focusing on a broad underlying factor, which could result in a vague conclusion. Furthermore, researchers have already stated that IPA funding is not expected to have a long lasting effect on macroeconomic development, due to the small size of funding. If anything, the effects of IPA will show up in increased capacities of actors involved with attracting and using the funds, making this the variable of importance.

The variables for the case study are absorption capacity and administrative capacities of county institutions. Absorption capacity is measured as the amount of implemented EU funds per county, specifically the amount of actually realised projects at the county level. For administrative capacities, an adaptation of the variables suggested by Busetti and Pacchi (2015) was used, along with some additional variables. The units of analysis for administrative capacity are the following:

- Institutional innovations and smart policies
- Human resource development (training and staffing)
- Collaborative networks and partnerships, specifically with NGOs and businesses, and between government institutions
- The presence and use of mechanisms for monitoring and evaluation
- Political independence from the national government of county policy makers (control variable)

Importantly, these variables reflect the notion that the analysis is about policy, as opposed to politics. Politics is given the somewhat restrictive role here of being an obstacle for regional success, in that partisan ties could skew the fund allocation process, which underlines the assumption that regional development and absorption capacity are technocratic in nature. Political partisanship at the regional level could be important for absorption capacity in itself, as it could for example shape preferences of regional actors. However, the relationship between political preferences and absorption capacity in Croatia is complex, and best left for a future study. Regional and local politics in Croatia can be a very opaque process, not least because of the prevalent role of corruption and clientelism. To retain

focus, this analysis targets the equally pressing, but more observable issues of capacity and policy making.

To analyse the relation between the two variables, a case study among four Croatian counties was chosen as the method of research. This is the only way in which a thorough analysis is feasible within a reasonable timeframe, due to the high complexity of the regional level in Croatia. Having but a relatively small pool of cases to choose from, requirements for case selection are unclear, due to there being no 'clean' cases among Croatian counties. Additionally, case selection is inherently bound to the analysis itself, creating a certain need for choosing cases that are expected to be interesting, with the complication that all present cases are exceedingly different from each other and potentially interesting. In the end was opted for a most-different case study design, as the four opted counties differ on a great many variables. The cases chosen are not perfectly different, but instead a more balanced sample is chosen for reasons that will be explained below. Seawright & Gerring (2008) note that the resulting causal relation from this design is only indicative (p. 306), so conclusions will have to be drawn carefully, but for the purpose of this study it is the best way of conducting an in-depth analysis of county institutions. In light of the extensive theoretical background provided above, and the administrative similarities of the cases of Croatian counties with the larger population of CEE regions<sup>8</sup>, any indications found are still valuable for assessing the impact of administrative capacity on absorption capacity in CEE countries.

More specifically, two more developed and two more underdeveloped counties were chosen, one each from both NUTS-II regions, and each with its own specific characteristics. The first, Zagreb County, is the region around the City of Zagreb, although administratively excludes the city itself. It is a relatively large region in the centre of the country, in the Continental part of Croatia. Living standards are generally reported to be quite high. However, as Puljiz (2007) notes, these reports are misleading due to a great many commuters working in the City of Zagreb. In reality the county itself is traditionally underdeveloped in terms of unemployment and wages (p. 9). Secondly, Međimurje County is a small, densely populated county bordering on Slovenia in the West, and Hungary in the East. While quite low in the national development index ranking, the county is generally seen as one of the more developed counties, especially due to its strong reputation in NGO activity and EU projects. The county has a substantial minority of Roma citizens, which has caused an early resurfacing of civil society in the county. Thirdly, Zadar County is a large coastal county, with especially the City of Zadar being one of the most popular tourist destinations in Croatia. While the coast is urbanised and has seen considerable income growth in the past years, both the rural hinterland as well as the islands face severe development lags. Finally, Istria County is the second most developed region in the country, after only the capital. The county is part of a larger peninsula which is shared by Croatia, Italy and Slovenia, although the largest part lies in Croatia. As such, the county is known for having a very distinct identity and landscape, which is for example noticed in political progressiveness and liberalism. It also sees major influence from its own political party, the Istrian Democratic Assembly, which is one of the largest true regionalist parties in the country.

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<sup>8</sup> By which is meant an underdeveloped focus on regional policy and regional actors in these areas.

Something that should be noted is that these cases do not include the most lagging or deficient regions of the country, as these are almost certain to have substantial problems. Instead, these four counties have areas where they perform well, and areas where they perform badly, and thus form a more balanced reference for comparison and drawing conclusions. The structural differences between these counties will serve as an interesting environment for testing the effects of administrative capacity. All four counties have had to carry out the same extensive reforms over the past decades, all face the same frustrations from lack of coordination, fragmented responsibilities and a slow and sometimes unwilling national governmental sphere. The ability to overcome these issues is the main focus here.

The strategy for the empirical analysis consists of two parts: an assessment of county level data and a qualitative analysis of county institutional capacity. First, to measure variation in county absorption capacity, county level data on amount of implemented funds and projects were collected, and compared with initial conditions and developments of socio-economic indicators and data on county elections. A full quantitative analysis was unfortunately not possible, due to a general lack of reliable data on the county level. But a partial analysis was successfully conducted. IPA funding is directly dependent on government implementation, and all county governments are similarly dependent on the national government for funding. Consequently, any substantial differences found in project funding that are not in proportion with of socio-economic or political differences serve as an initial indicator for differences in administrative capacity.

Secondly, a qualitative analysis was conducted with the purpose of getting insight in the relation between administrative capacity and absorption capacity at the county level. For this purpose information was taken from two sources: information found in evaluation reports at both the national and European level, as well as new information from a series of semi-structured interviews with county institutions. Besides this, a great deal of knowledge comes from informal conversations and discussions the author has had with a variety of actors in the academic, governmental and academic spheres. This knowledge mostly provides a lot of context, as well as filling gaps in parts not covered in the interviews. This way, the analysis attempts to provide an as complete as possible picture of the implementation of EU funds on the county level during the IPA period, and the importance of administrative capacity for this implementation.

Because the four counties are quite far apart, the interviews were conducted via e-mail, or telephone where possible. Another reason this was the best solution was that, in light of understaffing of some agencies, it required the least amount of time from the people involved. The original strategy was to conduct an interview with both the county government and the CDA of all four counties, and where possible approach an NGO that was actively involved with IPA funding in the county. This would lead to a total of eight official interviews, besides any other informal conversations. Unfortunately some agencies were not timely in their responses, or did not respond at all, meaning less interviews are included here. In the end, elaborate responses were received from three out of four counties, the unfortunate exception being Zadar. The respondents are all in a highly interesting position for this research, such as president of the CDA, or the chair for EU affairs in the county administration. Besides this, two more informal but still valuable interviews were taken with a representative of the

Institute for Development and International Relations (IRMO) in Zagreb, and an employee of a consulting agency specifically concerned with capacities for EU funds. These persons were all actively involved with the implementation of the county regional development strategy, capacity building on the national and county level, writing the OP, writing tenders for EU funds or active creation and implementation of EU funded projects. Their experience is an invaluable source for getting insight in the process.

The semi-structured interviews are included in appendices A and B, providing two interviews because the questions asked to county administrations were slightly different from the ones asked to CDAs. The interview questions will be explained in more detail in chapter seven, but generally concern how well developed the indicators of administrative capacity were in the case counties, what the perceived obstacles were for effective absorption of EU funds, and in general how well the county institutions adapted to the demands of EU funding during the IPA period. A specific focus is given to what was done during the IPA period to improve the initial situation, to see whether the county has been able to overcome initial difficulties and benefit from a new situation. The questions are about county level policies and strategies, such as networking and organisation, human resource solutions, such as training and staffing, and learning via success stories and evaluation practices.

For the sake of data comparability and because of the issue of personal perception in interview answers, a purely qualitative approach was chosen for this second part, as any quantification of the data has a high risk of leading to too strong or misguided conclusions. Furthermore, by focusing on proactive behaviour on the side of the county governments and development agencies, this study attempts to circumvent the issue of cultural identity in counties potentially affecting the results. In less formal language, the funds are available to those who are willing and capable of retrieving them, and those who have done so in a significantly more successful way than others are better capacitated for EU funding. This analysis specifies and elaborates on this theoretical expectation, by focusing on the characteristics of capacity that could form the key to absorption.

## 6 County data

This chapter will show county data on socio-economic and demographic factors and data on EU fund absorption capacity. The main goal of this is to test the first hypothesis of variable absorption capacity between counties. Additionally, this chapter provides some insight into whether this variation can be attributed to factor, such as development disparities between counties or prioritising through regional policy, or instead have to do with differing absorption capacity of counties. While, as stated, the development hypothesis is not explicitly tested, it is still interesting to see whether problems in absorption capacity have been consistent with problems in socio-economic development. The data could also give an indication of the effects of regional policy, as structurally underdeveloped regions might be specifically targeted. Failing this, however, variation in implemented EU funds indicates variation in county level absorption capacity.

First the heterogeneity of the counties themselves will be shown with data on socio-economic and demographic variables, secondly data on EU funds spent and EU funded projects implemented per

county will be provided, and finally these data will be interpreted and compared, to see whether there is any indication of a relation between socio-economic indicators and absorption capacity. Because of the only recent emergence of a true regional policy, data on Croatian counties are still rather limited in their availability. General economic indicators such as RGDP are usually publicised with a few years delay, and reliable county level data on unemployment rates are not readily available. Fortunately, data covering most of the IPA period is now available.

## 6.1 County characteristics

Table 1 provides some basic demographic data, as measured in the most recent census. The table gives a clear first indicator of disparity, especially in terms of population density. Zadar is the largest county, with the lowest population density of only 46,4 persons per square kilometre, while Međimurje is by far the smallest county, and with 156,1 persons per square kilometre also the most densely populated. Otherwise, population density in Istria is notably lower than in Zagreb County.

<b>County</b>	<b>Surface (km<sup>2</sup>)</b>	<b>Population 2011</b>	<b>Population density 2011</b>
<b>Istria</b>	2.813	208.055	74
<b>Zagreb</b>	3.085	317.606	103
<b>Zadar</b>	3.664	170.017	46,4
<b>Međimurje</b>	729	113.804	156,1

Source: Aksentijević & Ježić (2011)

To rank counties, since 2009 the Croatian government calculates a composite development index, which is the weighted average deviation from the national average of five indicators: unemployment (30%), income per capita (25%), change in population (15%), county budget revenue per capita (15%), and educational attainment (15%). Counties are subsequently ranked into four different categories according to their development index (CDI), with category I being the lowest, and IV being the highest (Fröhlich et al., 2014: 7). The CDI is interesting because it is actively used in the allocation of regional development funds. Table 2 shows the CDI for 2010 and 2013, as well as the categories for each of the four counties. The data show two unexpected results, namely a high ranking for Zagreb County, and a very low ranking for Međimurje, with a further drop for the latter county between 2010 and 2013.

**Table 2: Composite development index 2010 and 2013**

County	2010	Category	2013	Category	Development index change 2013-2010
Istria	156.1	IV	156.8	IV	0,7
Zagreb	123.2	III	124.2	III	1
Zadar	75.6	II	106.4	III	30,8
Međimurje	75.1	II	69.7	I	-5,5

Source: Fröhlich *et al.* (2014)

Two of the more 'standard' socioeconomic indicators could prove enlightening, regional GDP per capita and the county unemployment rate. The first is readily available at the Croatian Bureau of Statistics. Table 3 shows the development of RGDP per capita in euros for each of the four counties between 2000 and 2012, as well as the deviation from the national average. All counties have developed substantially since 2000, although in amount Istria has grown the most (5.849 euros), and the County of Zagreb the least (3.555 euros). Zadar has grown slightly more than Međimurje, although the latter still has a higher GDP per capita. For all counties GDP per capita peaked in 2008, after which it began to decline until showing an increase again in 2011 for Zagreb and Međimurje, and 2012 for the other two. As Fröhlich *et al.* (2014) argue, this is most likely a reflection of the effects of the crisis.

As for unemployment, unfortunately this indicator is not measured on the county level on a regular basis, and therefore extensive data is currently not available. Several authors, such as Fröhlich *et al.* (2014), have estimated the unemployment rate. While different studies report different rates, the pattern is similar. Istria shows low unemployment (usually under 10%). For Međimurje rates are higher but still lower than the national average. Zagreb County is slightly higher again (18% in 2011), and Zadar County traditionally shows high unemployment.

**Table 3: GDP per capita**

Year	County of Zagreb		County of Međimurje		County of Zadar		County of Istria	
	GDP per capita	Croatia = 100	GDP per capita	Croatia = 100	GDP per capita	Croatia = 100	GDP per capita	Croatia = 100
2000	4236	81	4397	84,1	3872	74	6828	130,6
2001	4166	72,4	4855	84,4	4497	78,2	7728	134,3
2002	5111	80,7	5494	86,8	5027	79,4	8597	135,8



<b>2003</b>	5249	77,7	5535	81,9	5806	85,9	9275	137,2
<b>2004</b>	5731	77,7	5855	79,3	6198	84	10192	138,1
<b>2005</b>	6368	79,2	6125	76,2	6731	83,7	10628	132,1
<b>2006</b>	6458	73,3	7074	80,3	6918	78,6	11377	129,2
<b>2007</b>	7360	76,2	7581	78,5	7980	82,6	12463	129,1
<b>2008</b>	8036	75,2	8960	83,9	9051	84,7	13195	123,5
<b>2009</b>	7803	77,2	8349	82,6	8388	83	12810	126,7
<b>2010</b>	7164	71,2	7885	78,4	8182	81,4	12897	128,2
<b>2011</b>	7494	74,7	8171	81,4	7978	79,5	12602	125,5
<b>2012</b>	7791	75,7	8436	81,9	8169	79,3	12677	123,1
<b>Average</b>	6382,1	76,3	6824,4	81,5	6830,5	81,1	10866,8	130,3

Source: Croatian Bureau of Statistics (<http://www.dzs.hr/>)

Finally, political alignment of a county with the central state is important, because it indicates partisan ties between the national and the regional level, which could influence fund allocation. Because the central state is still so strong, and many political elites are assumed to be rent seeking, a county government with a different political party in control than the central state could be at a serious disadvantage. This relates to the issue of independence of county governments. For this purpose, data is taken from a study on county elections conducted by Koprić *et al.* (2015). The authors calculated a congruence index, which is an index of dissimilarity between the county and the national government, ranging from 0% (completely similar), to 100% (completely dissimilar). Table 4 shows that no county is fully differentiated from the national government, but that Međimurje and Istria are quite clearly the most dissimilar in terms of ruling party. Over time, Zadar shows the most similarities with the national government. Based on this, differing political parties in control could be a potential obstacle for both Istria and Međimurje, who have been becoming more dissimilar over time.

<b>County</b>	<b>1993</b>	<b>1997</b>	<b>2001</b>	<b>2005</b>	<b>2009</b>	<b>2013</b>	<b>Average over time</b>
<b>Istria</b>	43,75	32,5	31,99	50	50	52,96	43,53
<b>Zagreb</b>	5,8	20,48	30,6	42,34	43,16	49,99	32,06
<b>Zadar</b>	0,46	1,73	46,23	20,4	21,82	47,4	23,01
<b>Međimurje</b>	25	49,99	26,88	57	46	60,16	44,17

Source: Koprić *et al.* (2015)

## 6.2 Interpretation of indicators

The first part of the data analysis shows large disparities between the four counties. However, it is difficult to distil a general pattern. The data, especially the Croatian Development Index, generally do not meet the initial expectations.

Specifically, the data give rise to several ambiguities, mostly concerning the position of the counties of Međimurje and Zagreb. While having a reputation of being developed, Međimurje is ranked very low in the development index and is the only county that has decreased in rank between 2010 and 2013. Zagreb on the other hand scores high on the national development index, but in terms of GDP per capita (in absolute values) has grown the least over the past twelve years. It also has a lower absolute GDP per capita than Međimurje in all years analysed, and a higher unemployment rate. Given this, it is difficult to explain the low position of Međimurje and the high position of Zagreb. One possibility explaining the position of Zagreb was already mentioned, being the large amount of commuters working in the City of Zagreb, which perhaps leads to differences between measurements of income. As to Međimurje, several sources point out that educational attainment is on average very low in the county (e.g. Nestić & Vecchi, 2007), which could negatively affect the results. Unfortunately the, arguably more useful, data used to calculate the index has proven difficult to obtain, making it hard to interpret the indicator.

Ignoring the CDI actually gives more consistent results. As stated, Istria takes the lead on all accounts, except for having a low population density. Out of the four counties, it initially had and still has the highest GDP per capita, both in absolute values and compared to the Croatian average. The county has grown the most since 2000, although over time RGDP has dropped somewhat compared to the national average, pointing at general growth in the entire country. Istria also has the lowest unemployment rate. Međimurje and Zadar show a similar development in terms of RGDP, although initially Zadar shows lower values, and Međimurje has grown more in recent years. In terms of unemployment however, Međimurje is doing much better than Zadar, with Zadar showing consistently very high unemployment. Zagreb County is more balanced, with a lower unemployment rate than Zadar, but also a consistently lower RGDP than both Zadar and Međimurje.

Although this picture seems more consistent, the CDI is currently the most important indicator for county development in Croatia, and is consistently used for setting priorities in regional policy. Ignoring it might thus not be a good idea, however the underlying data should provide more insight, as information is lost due to the composite nature of the index, and it becomes difficult to point out the exact problem. So a conclusion must be that while the data do show substantial variation between counties, the final result is ambiguous, at least until more reliable county level data becomes available.

### 6.3 Funding per county

As an indicator of absorption capacity the amount of implemented funds and the amount of implemented projects per county are used. Data on county level project funding is difficult to find. For one, attaching locations to each of the high number of funded projects would require somehow retrieving and reading tender proposals for each analysed county. Secondly, some large projects are directed at multiple counties or operate across national borders, making the process even less transparent. Fortunately, there are two sources of expert data which have extensively studied this, resulting in reliable data on both funding and amount of projects. This first is a study conducted by current Deputy Minister of Regional Development and EU Funds Jakša Puljiz, for the Institute for Development and International Relations (IRMO) in Zagreb. The study is specifically directed at county level capacity problems and provides funding data for the first three years of the IPA period. The second was conducted by PJR consulting, and is the single most extensive study on IPA project implementation in Croatia. The document provides data on amount of implemented projects per county for the entire IPA period, as well as extensive information on obstacles and problems in implementation.

<b>County</b>	<b>Amount</b>	<b>Rank</b>	<b>Amount per capita</b>	<b>Rank</b>
<b>Međimurje County</b>	5.559.479	2.	46,9	1.
<b>Istria County</b>	4.064.884	4.	19,7	4.
<b>Zagreb County</b>	1.192.230	16.	3,8	20.
<b>Zadar County</b>	929.737	18.	5,7	17.

Source: Puljiz (2011) *Analiza regionalnih kapaciteta za korištenje EU fondova na županijskoj razini*

Table 5 provides the amount of funding awarded through tenders in the first three years of the IPA period. As is explained in the study, each county had to develop project proposals in the form of tenders, including amount of needed funding, timeframe, et cetera. This resulted in a competition of sorts between counties, as total funding was rather limited and most counties were eager for financial support (Puljiz, 2011). The table clearly shows very high disparities between the four counties, with especially Međimurje taking a strong lead, and Zadar and Zagreb County trailing far behind. Amount

of awarded funding per capita for Međimurje is more than twice as high as the second on the list, which is Istria, and more than twelve times as high as Zagreb County.

County	Contracted amount	Rank	Percentage of total	Rank	Contracted per capita	Rank
<b>Istria County</b>	2.857.052	1.	70,30%	1.	13,8	1.
<b>Međimurje County</b>	934.749	2.	16,80%	8.	7,9	2.
<b>Zagreb County</b>	203.881	12.	17,10%	7.	0,7	15.
<b>Zadar County</b>	78.263	18.	8,40%	14.	0,5	18.
<b>Total</b>	<b>8.535.632</b>		<b>15,80%</b>		<b>1,9</b>	

Source: Puljiz (2011) *Analiza regionalnih kapaciteta za korištenje EU fondova na županijskoj razini*

Table 6 shows the amounts that were contracted between the years of 2007 and 2010, which again shows Međimurje and Istria taking the lead, both in absolute value and amount per capita. Interesting is that Istria had contracted a great deal of its awarded funds, while Međimurje with under 17% was still in second place, and above the national average.

These findings are certainly interesting, but funding is not useful without implementation. To this end, the following two tables were compiled by PJR Consulting, and show the actual amount of EU funded projects per county. Table 7 shows this for all of the IPA components, and Table 8 shows results after subtracting the cross-border and rural development components, which was likely done because these components do not have the same relevance for each county, and have different procedures than the other components. In this case, both tables are interesting, but table 7 arguably more so due to giving the total result. The leading role in terms of amount of projects is taken by Istria and Međimurje, who both implemented around twice as many projects as Zagreb and Zadar counties. Table 8 actually shows a slightly different picture, with much lower values for all counties.

County	Amount	Percentage of total
<b>Istria County</b>	113	0,0861
<b>Međimurje County</b>	96	0,0731
<b>Zagreb County</b>	51	0,0388
<b>Zadar County</b>	40	0,0305

Source: PJR Consulting (2014) *EUčinkovitost. Istraživanje o korištenju IPA programa.*

County	Amount	Percentage of total	Value	Percentage of total
<b>Međimurje</b>	23	3,99%	2.780.557,39	2,70%
<b>Zagreb</b>	18	3,13%	2.479.362,79	2,40%
<b>Zadar</b>	16	2,78%	2.339.465,44	2,27%
<b>Istria</b>	11	1,91%	1.350.527,69	1,31%

Source: PJR Consulting (2014) *EUčinkovitost. Istraživanje o korištenju IPA programa.*

## 6.4 Conclusion

The conclusion that can be drawn from tables 5 through 8 is that there are strong disparities between counties in the absorption of EU funds. In any case this shows that these four counties are interesting cases for the purposes of this study. Specifically, Istria and Međimurje have implemented a many more projects than Zadar and Zagreb counties. More so, when looking at the full range of counties, Istria and Međimurje are the top two counties in amount of funding for the first three years, and in the top five for project implementation in the full IPA period (PJR, 2014: 19; Puljiz, 2011: 36-38). Interestingly, these two counties are highly different in size and population density, indicating that these aspects probably are not related to absorption. On the other hand, Zadar and Zagreb Counties are more in the middle of the pack in terms of funding, generally above the least developed regions, but far below Međimurje and Istria. While actual absorption of EU funds and EU funded projects is not exactly the same as county absorption capacity, at the very least it is a good first indicator. Furthermore, as this section will show, there are strong indications that the disparities found in absorption of EU funds are directly related to county absorption capacity.

For this purpose, some specific results deserve mention. First, in the first three years of the IPA period Istria and Međimurje performed very well in the tender procedures for fund attraction, which indicates that these counties were well prepared for the national tender procedures of IPA funding. However, Međimurje was surpassed by Istria in terms of actually contracted funds by a substantial amount. Despite this, Međimurje still had the second highest contracting rate. This indicates that at the time Istria was significantly more successful than any other county in actually attracting the funds that were formally awarded, and that Međimurje was probably still learning this particular procedure. Secondly, the differences in amount of projects when and when not including the cross-border cooperation and rural development aspects are significant, especially for Istria and Međimurje. This indicates at least that almost all, or at least a large part, of the projects implemented in these counties were part of the cross-border cooperation and rural development components. These differences could possibly be explained by the fact that these two counties share long borders with other nations, bringing ample opportunity for cross-border cooperation projects. While each of the four counties have been included in cross-border cooperation programmes, the geographical location of Istria and Međimurje might have provided more opportunities for utilising them.

Synthesising these findings with those of the first part of the data analysis brings some interesting results to the surface, most importantly that the variation in results seems to reflect variation in absorption capacity. First, the role of the CDI in the targeting of funds is unclear. While the CDI could be a potential explanatory factor for the high number of projects and funding in Međimurje and the low numbers in Zadar and Zagreb Counties, the absorption capacity of Istria cannot be explained in this way. As such, there is no clear evidence of the effect of regional policy as a source of inconsistency. Secondly, the result that Međimurje performed almost as well as Istria while Zagreb County trails far behind is quite surprising. The differences in socio-economic development between Međimurje and Zagreb County are not large enough to warrant such a big difference in absorption capacity. Also the notion that Međimurje has a low educational attainment rate, which could explain the low value of the CDI, is not reflected in these results. Thirdly, in total values the performance of Zagreb and Zadar Counties seems slightly more balanced, especially when not considering the actual number of projects in Međimurje. Both have a lower income and a higher unemployment rate than the other two counties. Also, comparing the amount of funding in the first three years and the amount of implemented projects over the full period, the two counties seem to have improved over the IPA period. However, Zadar and Zagreb County still implemented less than half the amount of projects Istria and Međimurje implemented. This is an especially poor result for Zagreb County, as it is one of the most populous counties in Croatia, making amount of projects per head of the population the lowest of the case study. Fourthly, the fact that Zadar has implemented such a low number of projects is also surprising, considering the county has large problems with underdevelopment in the rural hinterland and on the islands, as well as very high unemployment, which could be assumed to create enough reasons for having access to funding. Finally, it is quite interesting that despite being overall more dissimilar in terms of ruling party, Međimurje and Istria have still managed to receive significantly higher amounts of funding than many other counties. This indicates that the fund awarding procedure has not been (directly) biased by partisan ties between the regional and the national level.

In conclusion, the results are somewhat convoluted due to the lack of more reliable county level data, so some ambiguities unfortunately remain. However, the results do indicate that the inconsistent distribution of EU funds across counties cannot currently be explained by either socio-economic development, or inconsistencies stemming from the Croatian regional policy. All the counties have access to the funds, and the data shows that both Zagreb and Zadar Counties can easily provide ample evidence for needing the funds, but have apparently failed to do so. Compared to Međimurje and Istria, these two counties have been awarded less through tenders, have contracted less of what they were awarded, and have implemented a significantly lower amount of projects. Istria, on the other hand, has less need for funding, but has still managed to attract the highest amount, and implement many projects. This clearly points at capacity issues in some counties, which provides some evidence that the absorption capacity of counties differs significantly within the analysed sample, and thus confirms the first hypothesis of the case study. While, as stated, this is only indicative, the result is clear and valuable enough to be a good basis for the institutional analysis of the following chapter.

## 7 Institutional analysis

The following analysis shows the results of a qualitative analysis of the administrative capacities of the main responsible institutions of the four counties. The goal of this chapter is to see whether the differences in absorption capacity found in chapter six, can be related to the indicators of administrative capacity provided in chapter five. Specifically, the adaptive abilities of county institutions will be assessed by looking at perceived obstacles for absorption capacity, innovative policy making during the IPA period to deal with this, active networking with relevant actors, quality and improvements in human resources, and the use of modern governance practices like strategic thinking and evaluation.

To analyse whether differences in absorption capacity can be attributed to administrative capacities, multiple sources will be used. First, general findings from evaluations and scientific analyses will be compiled, as these often hold valuable insights. Many of these studies have extensively focused on issues in severely dysfunctional and underdeveloped regions, which creates an almost automatic explanation for lagging performance in general. As the data have shown, the cases chosen here do not lend themselves that easily to such a conclusion, necessitating deeper analysis of county level capacity issues. Therefore, secondly, a series of short semi-structured interviews was conducted with policy makers on the county level, in both the county administrations and the CDAs. As explained in chapter five, the questions were regarding the perspective of the policy makers on obstacles hindering IPA project implementation, knowledge and experience about procedures, effective networking with stakeholders, proactive actions that were taken to improve the situation, the use of monitoring and evaluation, and specific success stories and failures. Response has been reasonably good from most of the counties. As understaffing is one the biggest problems in county institutions, some problems were foreseen, but nevertheless responses were received from three out of four counties, the unfortunate exception being Zadar. The purpose of these questions was to get insight into the way in which counties have overcome structural obstacles during the IPA period, and which characteristics of administrative capacity could be most important for this.

### 7.1 General findings

Several studies and evaluations have already found some interesting results regarding capacities at the county level. Puljiz (2011) concluded that county governments were indeed the most important actor in attracting IPA funding, both for themselves and in helping non-state beneficiaries in preparing projects. Furthermore, he noticed significant differences in the amount of employees working on EU projects, and the ability of these employees in preparing and implementing projects. Interestingly, this was also a conclusion of the initial study by Maleković *et al.* (2007), indicating differences in capacity have so far prevailed.

PJR Consulting (2014) reports that understaffing of institutions working on EU issues is still a major problem, and that excessive procedural requirements cause many people to work overtime. A most interesting finding was that CDAs were significantly more active than the county administration in the preparation of projects, which might be explained by the specialised, technocratic nature of these agencies. An important conclusion of the Country Programme Interim Evaluation (2011), which was an extensive evaluation of human capacity building through IPA funding, adds to this that generally capacities of both CDAs and county administrations have made progress over the period, but that some counties still have a strong dependence on external consultants and trainers. A further problem

that has been reported is that staff turnover is a large problem, and that political changes at the national level are one of the main causes of this. While in many Western European countries the bureaucracy stays in place when the government changes, in Croatia governing parties actively try to influence institutions by replacing all or most of the staff.

Regarding reporting, monitoring and evaluation, the general consensus is that these tools are in many cases underdeveloped and underused. PJR states that only about 60% of projects is evaluated by external actors, and many persons involved think external evaluators undesirable. The Country Programme Interim Evaluation confirms this with the finding that monitoring and evaluation are not generally accepted practices, and take too much time to be effective. Time also seems to be a problem in other areas. The path from project proposal to acceptance can take over a year, and after that payment delays endanger projects. In addition, reporting requirements are too demanding, creating a lack of good quality reports (PJR, 2014).

## 7.2 County level findings

All counties report having implemented their regional development strategy, and all counties have founded CDAs for the promotion of regional development. Also, all counties report both successful and unsuccessful projects. An interesting finding from the interviews is that counties focus on different obstacles when asked what hindered initial implementation of projects, although all of them note that lacking capacities of local actors and NGOs was a factor. Additionally, Istria reported that in the beginning co-financing was a large problem, due to a lack of support from the national government. Međimurje reports that at first, project options were limited due to a large part of funding being earmarked for infrastructure development in the most lagging regions. The CDA from Zagreb County states that the main obstacles were overlong administrative processing, local conflicts of interest and “the inability to correct some trivial errors in applications”, which refers to dysfunctional procedural and bureaucratic processes. Furthermore, the Zagreb County reports that amount of funding was sometimes limited due to having a high CDI.

An interesting note by Puljiz (2011) is that in terms of coordination with other actors, the best results were achieved in the border regions, due to the opportunity to participate in cross-border cooperation programmes. This meant, on the one hand, that funds had to be shared, but on the other hand that the county got to work with institutions and people that were already experienced, creating opportunities for mutual learning. The interviews have, at least partially, confirmed this finding. Actors from both Istria and Međimurje report active engagement with stakeholders. In the case of Međimurje this was mostly NGOs, with which the county has implemented several projects. In Istria extensive work with local actors was reported. Although Zagreb County was also part of a cross-border cooperation programme (the same one as Međimurje), it appears the county has not been very active in this regard. A very interesting development in Istria is the creation of a collective for NGOs, with the purpose of actively coordinating among each other and with authorities. Conversely, Zagreb County reported that it has extensively cooperated with local and regional actors, but the unfortunate situation was that most of these actors did not have the capacity for an effective engagement. Interestingly, the Međimurje CDA reported that the county initially had the same problems, like severely lacking capacity in local governments and NGOs, but to overcome this the



county invested heavily in its CDA, which had the main purpose of strengthening capacities through training and assistance. Furthermore, Fröhlich (2011) notes that the most famous CDA success stories are the ones of Istria and Međimurje (p. 11-12). Otherwise, coordination with businesses seems to rarely occur.

In terms of knowledgeable and experienced personnel, the initial conditions were, as expected, not favourable. All counties reported that initially knowledge of procedures was limited to a few people, such as some employees of NGOs and the CDA. Istria notes that it is generally hard finding qualified staff, as experience demands for job applications can be demanding. However, Maleković *et al.* (2007) note that Istria from the start had the most people employed in EU affairs, and that personnel was also the best equipped in terms of skills and understanding (8). Zagreb County reported that the majority of people involved at the start of the period did not completely understand their responsibilities or opportunities in the new system, but says several things were done to improve this. The county reports that employees of the county administration were introduced to EU procedures of application and preparation via a series of classes. Furthermore, the CDA itself has grown from one to fifteen employees in ten years, proportionally increasing the number of drafted projects. Međimurje shows even more promising signs. The CDA reports that over time knowledge, understanding and awareness of responsibility was gained through experience and learning by doing. Besides this, the CDA still organises regular training cycles for project preparation and project implementation.

Regarding monitoring and evaluation, the findings from the interviews were mixed. Zagreb County reports that on a county level extensive and increasing attention was paid to monitoring and evaluation. On the other hand, Međimurje reports that there are no real obligations on the county level for evaluation, although they are undertaking efforts to improve this.

### 7.3 Interpretation

The findings from the interviews and evaluation studies match the expectation that absorption capacity is different between counties. More importantly, the above analysis shows that administrative capacities, in terms of county level adaptive abilities and the indicators stated in chapter five, are more developed in Istria and Međimurje than in Zagreb County, which is consistent with the data on implemented projects. This strongly supports the expectation that administrative capacity of county institutions is an important explanation for county level absorption capacity, and thus serves as indicative evidence for hypothesis two.

Međimurje and Istria were clearly already somewhat experienced at the start, the first possibly because of an active civil society, the second almost certainly because of its favourable development position, and both because of very well organised and managed CDAs. Both counties reported obstacles in terms of capacities and personnel at the start of the period, which they overcame by setting up coordination networks (in Istria), and active and ongoing investment in training and capacity building (in Međimurje). Furthermore, both counties appear to have made extensive use of the opportunities from cross-border cooperation programmes. Istria and Međimurje also have the most active civil society, and traditionally the best CDAs, indicating a constructive and useful institutional structure. Somewhat more surprisingly, none of the counties reported active

coordination with the private sector, such as SMEs. While, due to profit seeking, companies may be a less trusted partner for institutions, they do form a very important part of enabling a region to grow, and creating innovative solutions and employment. Cohesion Policy has understood this, and part of the funding is earmarked for SME support and stimulation. However, in the four counties studies there are currently no indications that this aspect was utilised during the IPA period. The only interesting finding is that the CDA in Međimurje was formerly an SME support centre, which could explain the agencies developed abilities, and potentially points at a more active involvement of the private sector.

Zagreb County, on the other hand, reported great frustration with dysfunctional and slow administrative and bureaucratic processes. While the county did provide education for employees, it appears to have been a single series of classes, instead of an ongoing cycle. Additionally, active coordination with NGOs and strengthening of local actors were seen as successful in both Istria and Međimurje, while Zagreb County never overcame the capacity issues at the local level, which hindered mutual cooperation. Noteworthy is that the frustrations in Zagreb County were mentioned by the CDA, which could point out that while the CDA has actively attempted to improve the situation, but there were too many capacity issues in other institutions to set up an effective cooperation and overcome the mentioned limitations. A further sign of this situation is the fact that the county administration did not respond to any queries.

In the case of Zadar, unfortunately no response at all was given. Interestingly, Maleković *et al.* (2007) find that Zadar was as well-equipped as Istria at the start of the IPA period, showing one of the highest amount of employees working on EU projects, and the best abilities in terms of tender writing and other professional skills. This is clearly not in line with the finding that Zadar was awarded very little through tenders, has contracted a very low amount of funding, and has implemented only a small number of projects. A possible explanation for the county's lack of implemented EU funds, besides general bureaucratic deficiencies, could lie in its main source of income. The substantial waves of tourism the county has to absorb each year may take away priority from EU funded projects. If this is actually the case, it could, for one, explain the lack of response. Secondly it could mean that regional development has taken a backseat in the county, which would be detrimental in light of the problems the county has with underdevelopment outside of the urban areas.

Policy makers from Istria and Međimurje did not complain about frustrating administrative or bureaucratic deficiencies standing in the way of project implementation, while these were and are most certainly present. Instead, they answered the questions by showing innovative solutions to occurring problems. More importantly, it seems that they had the capacity to bring about sustainable solutions, and have been able to develop a culture of cooperation and mutual learning, which positively affects absorption capacity.

Zagreb County has also invested in both human resources and networking, although to a much lesser extent, and apparently less successfully. The process of capacity building does not seem to be continuing, and instead much energy is spent on dealing with slow bureaucratic procedures, which is obviously a frustrating and fruitless activity. The notion that some responsible institutions were not able to correct small procedural errors in applications points at a lack of capacity or even will. Because this problem was reported by the CDA this problems seems to specifically exist in the county

government. As such, the fruitful administrative culture of Istria and Međimurje does not seem present in Zagreb County, which is a very clear sign that the county has not been able to fully adapt to the complex demands of Cohesion Policy. The CDA obviously seems ready and willing, and has successfully implemented some projects, but overall the lack of activity in the institutional sphere of the county remains a major obstacle.

## 8 Conclusions, recommendations and discussion

This research has analysed the relationship between administrative capacity of regional institutions and regional absorption capacity for Cohesion Funds. Cohesion Policy attempts to actively stimulate the regional level of lagging areas, to bring sustainable regional development and long-term economic convergence to the entire Union. As the regional institutional level is often overlooked in both policy and research, but is highly important for effective regional development, the goal of this thesis is to give a detailed account of the complexities of implementing Cohesion Policy in undeveloped regional institutional systems. The thesis argues that one of the most important problems in this process is a lack of administrative capacity in the institutions best suited for finding region-based solutions and stimulating regional development. This is specifically considered a problem in regions with a recent history of centralisation and authoritarianism, such as CEE Member States. This problem conversely affects the absorption capacity for EU funds of regions, and stands squarely in the way of effectively distributing Cohesion Funds to where they are most needed.

For this purpose, an extensive literature study consisting of theoretical and empirical insights was combined with a case study at the regional level in the EU's newest Member State: Croatia. As such, the research question of this thesis is: **What are administrative capacities for Cohesion Policy and can these explain differences in absorption capacity for pre-accession funds between Croatian counties?**

To this end, four Croatian counties were analysed for IPA fund absorption capacity and indicators of administrative capacity, using findings from academic literature, data analysis, interviews with policy makers and existing evaluation studies. In doing so, this study follows in the footsteps of Milio (2007), who conducted a similar study for Italian regions and concluded that regional disparities in absorption were indeed caused by administrative differences. This study builds and expands on this insight by looking at the relationship between administrative capacity and regional absorption capacity in more detail. The focus of this research is to see whether some regions can and have overcome regional and national structural obstacles via smart and strategic policy making, proactive behaviour and capacity building, thus creating a culture change towards coordination and mutual learning.

### 8.1 Findings

#### 8.1.1 The literature review

The literature review has provided a great deal of insight about the inner workings of Cohesion Policy, the role of institutions for regional development, the complex relationship between absorption capacity and administrative capacity, and regional development in Croatia. Using a large amount of sources, the study was able to show a fairly complete picture of what important

administrative capacities for Cohesion Policies are, and in which way they influence absorption capacity. This created the possibility for deriving some consistent expectations concerning obstacles for absorption capacity at the regional level in Croatia.

First, in chapter two was explained that Cohesion Policy uses centralised control measures combined with active engagement of national and regional actors, to provide for effective targeting of funds towards place-based solutions. This implies that Cohesion Policy is implemented according to the institutional setup and following the regional development strategy of the Member States, under strict auditing and control of the European Commission. This was found to be the cause of several problems, such as a misalignment of goals between the EU and the Member States, and a strong effect of regional institutional cultures on implementation. Both these issues have caused large inconsistencies in the distribution of funds across the EU, and the way in which funds are being implemented. Because some regions receive more funding, and it is hard reaching less developed regions, absorption capacity is a serious issue for the effectiveness of Cohesion Policy. Furthermore, the funds are to be attracted and implemented by institutions, often at the regional level. Considering the high complexity of Cohesion Policy and the increasing focus on auditing and control, this means that administrative capacity of these institutions is in turn a significant factor in determining the absorption capacity for EU funds.

Chapter three looked at this relation in more detail. Many studies have noted that absorption of funds is greatly inconsistent across the EU, and especially the New Member States generally perform badly in this regard. Furthermore, the regional institutional sphere is often overlooked, but essential for bringing about sustainable regional development. These actors are close to the problem and in the best position to find effective place-based solutions. This does not mean that the system should be fully decentralised, because many regional institutions do not have the funding to function as fully independent units. Instead, the argument is that regional, and even local, institutions should be actively involved and supported in fulfilling their task of creating regional development. In general, CEE countries show many problems with underdeveloped regional institutions, which is often a remnant of the recent socialist past.

Several researchers have noticed an improvement to this situation through processes of Europeanisation at the regional level, implying a slow but steady move towards modern governance practices, such as interinstitutional coordination, bottom-up development strategies and policy evaluation. The EU influences policy makers through the partnership principle, by imposing requirements for horizontal and vertical coordination between actors. For this to work, actors on different levels need to have the skills to participate, overcome existing power imbalances and be able to proactively retrieve funding for projects. In sum, to adapt to the complex demands of Cohesion Policy regional institutions need a certain amount of organisational and administrative capacity.

This adaptive power of regional institutions is the main element of administrative capacity for Cohesion Policy. The implementation of Cohesion funds can meet many inconsistencies, stemming from the system itself, inefficient national regional policies, or dysfunctional policy procedures. Regional capacities can help institutions overcome these issues and stimulate mutual learning in the region, through for example effective cooperation, skilled human resources and policy evaluation practices. "Readiness" for Cohesion Funds occurs when an existing institutional system is met with

the influence of smart policy innovations and capacity building, through which administrative capacities are gained and absorption capacity is improved. Training and staffing, effective networking, an active civil society and independence from politicians all count as increments of change from a dysfunctional institutional system to effective regional governance, and in this way they positively influence absorption capacity.

Chapter four attempted to gain insight into the situation in Croatia, specifically concerning regional development, regional governance and absorption capacities, to see whether the country is well prepared for implementing Cohesion Policy, and whether major obstacles for absorption capacity can be identified. The literature shows that the country is still very much in a transitional phase. Croatian counties are deeply heterogeneous, making an effective regional policy a prime concern. However, strong traditional centralist tendencies make for a regional policy that is still inconsistent in both approach and execution. In spite of this, regional policy making is becoming increasingly Europeanised, at least formally, with the introduction of multi-annual strategic plans and the creation of County Development Agencies. This creates possibilities for more effective regional governance, mutual learning and capacity building. The main conclusion that can be drawn from this is that in its current state the Croatian administration will not yet be able to distribute regional development funding in a consistent way, which potentially causes disparities in amounts of EU funding per county, and difficulties in targeting the most lagging counties. This puts specific administrative pressure on county institutions like the CDAs, who have the task to coordinate with other county institutions and actively try to attract and implement funding. This in turn requires regional institutions to be able and willing to put effort into understanding the increasingly complex procedures and requirements of Cohesion Policy. In this sense, lacking capacities of regional institutions is a major hurdle for absorption capacity on Croatia.

### 8.1.2 The case study

In the second part of the thesis an answer was sought to the question whether administrative capacities can explain variation in absorption capacity among Croatian counties. Based on the theoretical arguments from the literature review, two hypotheses were derived. The first is that absorption capacity for EU funds varies significantly between counties, and the second that administrative capacity of county institutions is an important indicator of varying absorption capacity between counties. For this purpose, a case study was conducted among four Croatian counties with differing strengths and weaknesses. The case counties, Istria, Međimurje, Zadar and Zagreb County, were selected using a most-different case study design.

The first hypothesis was tested by comparing data on demographic and socio-economic indicators with data on amount of funding and implemented EU projects per county. The goal was to see whether any variation in implemented EU funding between the four counties could be attributed to differences in socio-economic development, or regional policy priorities, or instead had to do with differing absorption capacity of counties.

The data show strong support for the notion that absorption capacities differ greatly between the four case counties, and that high differences in amount of implemented EU funds are not consistent with either development disparities or regional policy targeting. Specifically, Međimurje and Istria were awarded more funds through tenders than Zagreb and Zadar, actually contracted higher

amounts of funding, and implemented a great deal more projects over the full IPA period. Especially Međimurje seems to have taken up this process exceptionally well, while Zagreb County has performed poorly, given that it shows a very low amount of implemented projects and is one of the most populous regions in the country.

The second hypothesis was tested by conducting a qualitative analysis of administrative capacities of county institutions, using information from interviews taken with regional policy makers, as well as existing evaluation studies. The findings certainly indicate a link between the identified administrative capacities and absorption capacity for EU funds, and thus suggest a confirmation of hypothesis two. On the one hand, Zagreb County showed a lack of administrative capacities outside of the CDA, causing the county institutions to be unable to deal with procedural difficulties or bureaucratic demands. This resulted in failed applications and as well as cooperative programmes that could not continue. While some improvements were made through a series of trainings, no sustainable results in capacity building across institutions were apparent. On the other hand, Istria and Međimurje showed no signs of frustration with dysfunctional bureaucracy, and instead showed innovative solutions and extensive investments in coordination and capacity building. It appears the counties have been able to overcome obstacles and develop a culture of mutual learning and capacity building in multiple institutions.

## 8.2 General conclusion and policy recommendations

The results from this research suggest that administrative capacity is indeed important for EU fund absorption capacity in Croatian counties. Some counties have overcome frustration from dysfunctional national procedures and managed to successfully implement a large amount of projects, while others lagged behind and remained stuck in procedural limbo. Specifically, training and capacity building, networking and partnership, an active civil society and good evaluation practices were all found to be important parts of the implementation of EU funds. As such, the analysis indicates that administrative capacities of regional institutions are an important explanation for differences in absorption capacity at the county level in Croatia.

The main differences in administrative capacity between the counties appear to lie in human resource development, and active capacity building on multiple levels. Although in the interviews Istria has been less transparent in this regard, they have always been one of the best staffed counties. Međimurje has gained much from extensive investments in human capacities at the local and non-governmental level. In line with regional development theory, engaging, involving and capacitating actors on different levels ultimately creates development in the entire region. Because of this, the main policy recommendation that can be derived from the results is investing in ongoing training cycles for people involved with EU projects, so that they can correctly identify and make use of the opportunities that arise from EU funding. Furthermore, improvements should be made in keeping skilled personnel in place, and overcome high staff turnover.

Additionally, setting up network organisations, such as the one for NGOs in Istria, could be greatly helpful for EU project implementation, and regional development in general. Such organisations can identify and solve capacity problems, offer assistance, deal with bureaucratic demands, et cetera.

Furthermore, more active involvement with the private sector might bring further benefits of a similar nature, such as more engagement with the local level.

In a way, the current lack of coordination with the private sector is surprising. As told in the anecdote that began this thesis, companies, SMEs especially, can be in a unique position and have a strong motivation for understanding their environment, and creating the best and most sustainable way to deal with the obstacles in their locality. While this is certainly not meant as an argument for privatisation of institutions, there are things to be learned from active cooperation with SMEs, just like small businesses can benefit greatly from having institutional support.

Effective evaluation remains a vital part of policy making. While Zagreb County reports having actively engaged in evaluation on a county level, this did not bring about the implementation of more projects, which is assumed to be desired. Instead, activities like capacity building and networking should be evaluated thoroughly on all relevant regional levels, especially to assess whether the desired results have been achieved, such as better equipped NGOs or mutual collaboration with local actors.

Finally, in general the county level in Croatia should be made more transparent, through effective collaboration between academia and institutions and the creation and publication of reliable and consistent statistics. While improvements have been made in this, there are still many gaps in the data. Better data would provide a great deal more insight into regional issues, and gives opportunity for cross-country and cross-regional comparison, as well as easing the effective targeting of regional policy strategies.

### 8.3 Discussion

While this research only studied a small number of counties, the results have interesting implications for thinking about effective implementation of Cohesion Policy. In line with Milio (2007) it was found that engaging regions in finding place-based regional development solutions is a highly complex process, and that many regions are struggling to overcome structural difficulties that stem from their past, the national sphere or uneven socio-economic development. It should not be a controversial statement that regional capacities, specifically of institutions, are essential in making this process yield sustainable results. The results from this thesis can be used as concrete indications for ways to improve regional governance and absorption capacity for EU funds.

Despite these conclusions, there are several limitations to the way this research was set up. The research question is quite restrictive, looking at one specific relationship. While this was an intentional choice to provide an in depth analysis of a complex issue, it might be argued that several dimensions were overlooked. For example, instead of purely focusing on policy, the influence of political attitudes and partisanship on a regional level is another interesting avenue for research. Related to this, a detailed analysis of regional administrative culture and corruption, for example by applying a more historical perspective (like Milio (2007)), might yield further interesting results for differing absorption capacity of regions. Finally, an important theoretical approach not utilized here

is Varieties of Capitalism literature<sup>9</sup>, which, while contested, holds additional insights into the way institutions can shape regional performance. In the end, this study has opted to focus on what is arguably the most pressing and observable indicator for institutions in CEE countries, administrative capacities. However, these other dimensions are important opportunities for future researchers to further analyse regional development in the EU.

As to the empirical analysis, the case study was unfortunately limited due to a lack of reliable data on the county level in Croatia. This is why the analysis has been largely exploratory, to stress and give insight into the complexity of the regional level in Croatia. The best way to do this was to opt for a most-different case study design, and as such any conclusions made are only indications of causal relationships. However, in general a caveat must be placed by any study attempting to find stable causal relationships in the highly dynamic puzzle that is the regional institutional sphere in Europe. As such the author strongly feels that this was currently the best way of providing a deep and complete analysis of the way administrative capacities of institutions can influence absorption capacity at the regional level, specifically in CEE countries. Future studies should attempt to create or retrieve more data at the regional level, and attempt to use designs that lead to more stable conclusions. Finally, a small note should be placed next to the use of expert data in the data analysis of this research. While the sources are readily available, almost certainly reliable and the data is currently the most complete and best available source for EU fund implementation, the studies have largely not been published in official peer-reviewed journals, creating a small problem of transparency.

While IPA funding is only a small amount compared to the actual Structural and Cohesion Funds, it provides a good source for conducting an ex-ante analysis. The results of the research concern a much larger issue than IPA funding alone, and are important for regional governance in the EU in light of Cohesion Policy. In specific terms, if staff turnover is not too high, the extensive experience counties like Međimurje and Istria have gained through IPA funding will prove to be invaluable for the regional administration of Cohesion Policy in these counties, and might serve as an example for other regions.

The indicators and questions formulated in this research are useful for any region that struggles with absorption capacity. Future research should attempt to include other regions in the analysis, and increase the amount of interviewed actors and institutions. It would be interesting to see whether there are truly lagging regions that have performed well in spite of this. One such case was already found by PJR Consulting (2014). The county of Osječko-baranjska is one of the most war-struck and least developed regions in Croatia, however it has implemented the most projects during the IPA phase. A possible explanation for this could be previous experience with humanitarian aid, and thus a certain aptitude for attracting funds. Whatever the case may be, it seems that at least on the sub-national level, processes of globalisation and Europeanisation are taking place in Croatia. If the EU wants to effectively distribute funds to lagging regions in the future, Cohesion Policy should focus less on rational benefits and control, and more on a constructive approach to regional learning and

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<sup>9</sup> For a good starting point, see Hall (2001). <http://scholar.harvard.edu/hall/publications/varieties-capitalism-institutional-foundations-comparative-advantage>



capacity building. If anything, the findings of this research show that the key to convergence lies in more than just funding, and is ultimately a human endeavour.

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# Appendices

## Appendix A: Interview questions county administration

### Regional situation and institutional framework

1. How did the county administration of your county adjust to the demands for allocating EU funds? Were there any specific strategies adopted on a county level?
2. What were some of the main obstacles of administrative, economic and political nature which may have hindered the attraction of pre-accession funds in your county? Has anything been done to overcome these obstacles?
3. Were the responsible county organisations able to work and decide independently (from the national government) regarding the implementation of EU funds? Did the responsible county organisations receive sufficient support from the national government and the county development agencies?
4. Did the county administration actively involve and cooperate with relevant regional and local actors, such as NGOs and companies?

### Human resources

5. When the period of pre-accession funding started in 2007, how much knowledge and understanding of the process did the people involved in your county have? Were people generally aware of the conditions and necessary procedures for attracting the funds?
6. Was it clear to the people and organisations involved what their possibilities and responsibilities were?
7. Concerning the last two questions, would you say these things improved as the period progressed? If so, what kinds of actions were taken to bring about this improvement? (Think about, for example, staffing and training).

### Successful and unsuccessful stories

8. How well were projects and plans being monitored and evaluated on a county level? Did this change/improve during the pre-accession period?
9. Can you give an example of a failed project and a successful one in your county? Why did one fail and the other succeed?

## Appendix B: Interview questions county development agency

### Regional situation and institutional framework

1. How did the county administration of your county adjust to the demands for allocating EU funds? Were there any specific strategies or policies adopted on a county level?
2. What were some of the main obstacles of administrative, economic and political nature which may have hindered the attraction of pre-accession funds in your county? Has anything been done to overcome these obstacles?

3. Were the responsible county organisations able to work and decide independently (from the national government) regarding the implementation of EU funds? Was the county development agency sufficiently able to support the county government?
4. Did the county administration actively involve and cooperate with relevant regional and local actors, such as NGOs and companies?

#### Human resources

5. When the period of pre-accession funding started in 2007, how much knowledge and understanding of the process did the people involved in your county have? Were people generally aware of the conditions and necessary procedures for attracting the funds?
6. Was it clear to the people and organisations involved what their possibilities and responsibilities were?
7. Concerning the last two questions, would you say these things improved as the period progressed? If so, what kinds of actions were taken to bring about this improvement? (Think about, for example, staffing and training).

#### Successful and unsuccessful stories

8. How well were projects and plans being monitored and evaluated on a county level? Did this change/improve during the pre-accession period?
9. Can you give an example of a failed project and a successful one in your county? Why did one fail and the other succeed?