

RELATIONS BETWEEN LOCAL AND COUNTY GOVERNMENT IN CROATIA: COOPERATION AND COMPETITION IN EUROPEANIZATION CONTEXT

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Abstract: Main purpose of the paper is to investigate, analyze and evaluate developments in Croatian local government system which are related to the relations and dynamics between its first and second tier. Intensifying integration at the European level of governance opened new relevant horizons for national territorial governance, primarily through the advocacy of multi-level cooperative governance and by providing additional opportunities and challenges through EU cohesion and regional policies. Dynamics of these relations are of utmost importance to the overall adaptive capacity and collective performance of territorial governance system. Trends, problems and changes in these relations are evaluated primarily through the analysis of legislative framework of local and county functions and competences and through the interplay of other indicators such as personnel employed, financial transactions between counties and municipalities. Cooperative platforms between the levels, introduced primarily by regional development framework are critically analyzed as well. Paper covers a period from 2001 onwards, a year in which two important events coincided: a) Europeanization of Croatian public institutions began and b) constitutional and legislative changes marked the beginning of decentralization process and introduced a different, more autonomous role for local government. Preliminary findings suggest several conclusions: a) areas of contact between municipal and county level have increased resulting in their more intensive interdependence; b) relations between the levels have been differentiating and cannot be considered as uniform: different kinds of relations evolve between counties and small municipalities and between counties and largest towns; c) centralistic governance of the whole system stimulates the development of competition between the levels which endangers their collective and cooperative efforts in resolving local problems and issues and in stimulating local and regional development; d) counties have solidified their position as inevitable intersection of national sectoral policies and are of vital importance for their transmission to the local level. These relations do secure a certain level of harmonization in developmental policies but negate the subsidiarity principle by overshadowing and minimizing the role and the importance of municipal level. Following these conclusions, paper will develop a set of policy recommendations regarding territorial reorganization and decentralization process in Croatia.

Points for practitioners: From the practical point of view, this paper is primarily relevant for policy makers – politicians and high civil servants that are responsible for the development of local government policies as well as for their coordination and supervision. The paper attempts to contribute to the rise of the evidence-based approach in policy-making related to the local government reorganization and to decentralization policies. It is informative to the local officials and helps them to understand the wider context in which their own units operate. By showing that municipal-county interactions could be something more than a zero-sum game, paper advocates for more frequent and more integrated cooperation between the levels as they are surrounded by the same circumstances and faced with similar challenges. Conclusions and recommendations can be useful to the staff of municipal and county national associations in developing and promoting such cooperative platforms and arrangements.

Key words: *cooperation, inter-governmental relations, local government, multi-level governance, Europeanization*

1. INTRODUCTION

Local government systems across the world have been facing serious challenges and experiencing significant changes in past several decades. Orientation of local government systems towards problem-solving, place-shaping and towards the improvement of competitiveness and societal development asks for more interaction, coherence and cooperation

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with higher levels of government, but also horizontally – with other local governments and external actors. These intergovernmental relations are influenced by two, somewhat opposite ideas, each of them being particularly highlighted in Europeanization context. Firstly, clear delimitation of competences and resources between the levels should secure full and exclusive competences for each of them, in compliance with the requirements of European Charter of Local Self-Government. This is essential for the development of integral local policies and for ensuring clear lines of political accountability. On the other hand, EU policies require intensive inter-governmental interaction and cooperative arrangements in fostering local and regional development. Rigorous demarcation of competences, roles and resources between territorial tiers is not favorable in policy areas that require joined-up, interdependent and coordinated activities from each level. While facing these challenges, European states have responded by reforming and improving their local government systems, usually adopting one of several possible strategies: a) consolidation (aggregation) of local government units; b) regionalization; c) fostering integrated inter-municipal cooperation. The implementation of these reforms transformed roles of self-governmental levels and patterns of inter-governmental interaction; “a process in which intermediate (second-tier) local authorities are liable to be the prime casualties” (CLRA, 2013: 2).

Despite facing these same challenges, prior and after the EU accession, and unlike many other countries, Croatia has not commenced to a serious structural reform of its sub-national government system, whose main structural features have been present since 1993: a two tier system with 556 municipalities at the first and 20 counties at the second level of local government. Moreover, throughout this period, Croatia remained one of the most centralized countries in Europe. As this institutional setting was shaped in the period of comprehensive centralization and overall top-down governance of the whole state (1990s), its modern-day presence could favor the persistence of such values and relations even in an environment that requires decentralized, bottom-up and collaborative governance. Being heavily and simultaneously dependent on central government, municipalities and counties have historically shared similar fates, but despite that, often competed with each other. They compete not only for resources, but also for competences and for legitimacy. This was accentuated during the austerity period in which local government expenditure was cut and comprehensive territorial reforms were considered (Koprić et al., 2018). Facing the possibility of structural reforms, each level adopted unilateral strategies to increase its visibility and legitimacy and to prove the necessity of its existence. The ambiguity between cooperative and competitive strategies, conflicting goals and non-coherent policies during their interplay often resembles a zero-sum game which results in a dispersion of responsibility, accountability and resources, thus endangering the capacity of the whole system to be responsive, efficient and effective in dealing with modern-day challenges.

This paper seeks to explore the relations between first and second tier of local government in Croatia in both longitudinal (temporal) and cross-sectoral manner. Its intention is to evaluate developments concerning local government system and the outcomes these dynamics have produced. Examination of municipal-county relational patterns would allow for an assessment of the overall ability of sub-national government to adjust to the challenges that complex and competitive international environment poses. Several inter-related questions shape the analytical framework: How does the institutional position and legislative framework of the tiers affect the emergence of multi-level arrangements; do they enhance or impede cooperation and collective problem solving? How did the process of European integration and Europeanization of public institutions and policies influence and alter these relations and did it produce ‘winners’ and ‘losers’? Answers to these questions could help to predict consequences of status-quo approach which Croatian policy-makers at the central level usually take in regard to the reforms of local government system. City of Zagreb, possessing dual status of both municipality and a county, is omitted from the analysis as its inclusion in either of the categories would blur the results of the analysis.

2. METHODOLOGY

Paper combines legal and institutional analysis within the theoretical framework of Europeanization theory. Data that illustrate the roles and positions of each territorial level were acquired from the official and publicly available documents – legal texts, reports and strategies, as well as from previous research. Accordingly, all data were gathered by the desk-research method: legal texts are published on the website of the Croatian official gazette: *Narodne Novine* (<https://www.nn.hr/>), and the data indicating financial aspects of municipalities and counties were collected from the database of the Ministry of Finance that contains budgets and annual financial reports of local government units (<http://www.mfin.hr/hr/lokalna-samouprava>). These reports also contain number of employees, both in local governments' administrative bodies and in public institutions that they established. According to the exploratory nature of the paper, the collected data are mostly used to indicate and to illustrate patterns in municipal-county relations and not to establish firm statistical confirmations. This kind of research is to be understood as a first step towards systemic examination and evaluation of the vertical relations between the levels in a local government systems that has to be done by the empirical survey and in a larger scale.

3. VERTICAL RELATIONS WITHIN SUB-NATIONAL GOVERNMENT SYSTEMS IN EUROPEAN CONTEXT

The existence and the role of higher tier(s) in sub-national government systems are primarily contingent on the structure and the role of the basic municipal level, but also on the size of a country. The more fragmented basic level is, the need for intermediate one is greater. According to Ivanišević (2009: 671-672), there are three purposes for the establishment of upper levels of local government: a) to provide public services that exceed the capacity of municipal level; b) to articulate and aggregate political interests of wider areas and c) to vertically and horizontally integrate the whole system of territorial governance within a country in order to assure appropriate supervision and distribution of resources. Accordingly, the reason(s) behind the establishment of higher territorial level(s) will govern the frequency and the quality of inter-governmental relations and interactions. Four models of such relationships can be distinguished: 1. *dependence* – local authorities that depend on the upper levels have lower levels of autonomy, competences and resources; 2. *separation* – a model which is based on non-interference, mutual independence and strict separation of competences and in which interactions among territorial levels are reduced to the minimum; 3. *cooperation* – competences among the levels are shared; policy-making and problem-solving are usually collective and concerted efforts; 4. *competition* – sub-national governments competing for the attraction of the resources could possibly result in a their more efficient allocation and greater overall citizen satisfaction (Bobbio, 2002). Naturally, these models vary across the countries and their specific institutional architecture, but maybe even more across policy sectors and different areas of activities in a single country. Intergovernmental institutional settings across European countries are not only diverse but also dynamic. These dynamics are manifested through a mixture of structural and functional reforms that has been implemented in European countries in past several decades: territorial consolidations (aggregations) of basic local government units, regionalization, decentralization policies, creation and stimulation of various forms of inter-municipal and intergovernmental cooperation. Individually or combined, these overhauls came as a response to the challenges posed by societal and economic developments and sought for: modernization, rationalization and efficiency of service delivery; concentration of resources for tackling complex and cross-sectoral problems; improving democratic standards and local autonomy in local government systems etc. (Swianiewicz et al., 2017; Baldersheim, 2010; Škarica, 2013; 2015; Hulst and van Montfort, 2011; Koprić, 2018a).

These reforms and the conditions that inspired them altered the patterns of intergovernmental relations. Unilateral dependence of lower tiers on the upper ones has been transformed (to a certain extent) into bilateral or multilateral interdependence. Rigorous separation between and among the levels is no longer possible, as number of policy issues

that require a joint and coherent action from different levels multiplied. More frequent interaction and need for joint action ask for more cooperation; the one that would not only be spontaneous and sporadic but institutionalized and fostered. At the same time, more frequent interaction increases chances for conflict. Finally, environment of fiscal stress and developmental orientation of local governments transformed them into proactive players who seek additional resources at the national and supranational level to make their locality attractive and competitive. In these situations competitive relations emerge and unilateral strategies often hinder cooperation.

Intergovernmental relations in European context have been mostly analyzed through the concept of *multi-level governance*, which denotes collaborative, inclusive and network-like relations among different territorial levels in both policy formulation and policy implementation. Multi-level governance transforms traditional top-down and formal relations into flexible, adaptive and horizontal interaction. This should contribute to better quality of policies and to their greater legitimacy (Panara, 2016; Koprić, 2018; Đulabić, 2017). Europeanization of local government systems is manifested through a series of structural and functional changes and adjustments that are introduced in order to strengthen local government capacities for the participation in the processes of European governance, but also as a response to the need to realize their comparative advantages in competitive environment (Koprić et al., 2012). Despite harmonizing activities of European associations (European Union and Council of Europe above all), local government systems in Europe have not (yet) structurally converged. Nevertheless, a significant convergence and harmonization have been achieved in terms of practices and strategies (mostly through EU) and in regard to constitutional position and legal protection of local government and local autonomy (through CoE). European Union, through its formal and informal *acquis* (European administrative space), as well as through regional and cohesion policies and funding, provides guidelines and opportunities for multi-level cooperation and presents benefits of such efforts. Insisting on partnership among institutions during the development and implementation of operational programs, EU stimulates collaborative relations among territorial levels. Regarding local government scope of competences, European Charter of Local Self-Government lays down several important principles, three of which are of particular relevance to the relationship of various local government tiers: *general competence* of local governments, *subsidiarity* and *full and exclusive competences*. Granting general competence to various tiers of government presents a challenge for their coherence and coordination as many authorities may intervene in same or similar issues. The latter two principles respectively advocate decentralization of public responsibilities to the “most local level” that is able to exercise them efficiently and effectively; and the avoidance of overlapping responsibilities to prevent the dispersion of political responsibility and accountability in managing public affairs. Also, full competences should assure that the autonomy of lower levels is not constrained by upper levels’ discretionary decisions in exercising competencies in policy fields that are shared among them. Rigorous delineation of competences is not possible nor desirable as complementary action by different levels of authority is required in certain fields. Complex problems and shared competences result in more interactive and more interdependent relations.

Generally, trends indicate strengthening of basic local (municipal) tier and the emergence of wider regions – often at the expense of intermediate local government level which has been ‘crowded-out’ by consolidation of municipal level, inter-municipal institutions and/or emerging regions, as was case in Denmark (CLRA, 2013; Bertrana and Heinelt, 2013). The role and the position of second tier of local government systems and its relationship with municipal levels have been understudied and rather neglected in local government and multi-level governance research. In many European countries, second local government tier is an auxiliary one – either supplementing first tier of local governments providing more expensive services and/or acting as an agent of the State performing administrative tasks and monitoring local authorities. In an era of comprehensive territorial reforms second-tier was proclaimed to be “the weakest link in the chain of multi-level government systems in European countries” (Bertrana and Heinelt, 2013: 86). Nevertheless, it did show a high degree of institutional stability and resistance. Following their comprehensive comparative research, Bertrana and Heinelt developed a typology of second-tier government units regarding their vertical power relations with higher and lower territorial levels. They distinguish: a) pure territorial units of local self-government with strong fiscal and politico-administrative capacities; b) second-tier governments with dual role as both self-government units and territorial state administration; c) ‘municipalized second tier’ with moderate to weak

capacity towards upper levels of government and municipalities but with high levels of discretion due to weak supervision and control (2013: 80-81)².

4. LOCAL GOVERNMENT SYSTEM IN CROATIA: BASIC FEATURES AND CONCEPTUAL DEVELOPMENTS

There are 428 rural (*općine*) and 127 urban municipalities (towns - *gradovi*) at the first level and 20 counties at the second level of local government system – almost 28 municipalities per county. As a capital, the City of Zagreb has a dual status of both a municipality and a county, performing competences of both, but also a bulk of state administrative tasks. Both levels have constitutional foundation and protection – municipalities and towns as local self-government units and counties as regional government units. General legislation on local government system (*Law on local and regional self-government*) applies equally to all of them - provisions regulating their internal organization, political institutions and their competences, modes of citizen participation and direct democracy, modes of supervision by central state bodies etc. are the same for both municipalities and counties. Croatia is the smallest member state in the European Union with two tiers of local government. On average, municipalities in Croatia are rather small – 6.300 inhabitants on average (7.700 if Zagreb is included). Although not being a case of drastic territorial fragmentation like France, Czech Republic or Slovakia, Croatian system of local government is characterized with great disparities among its units. There are 395 (71%) municipalities with fewer than 5.000 inhabitants and 274 (49%) with less than 3.000. The smallest municipality has only 239 inhabitants, while the most populous one is Zagreb with 790.017. Of course, there are no such differences among the counties. Still, the smallest one (Ličko-senjska county – 50.927) has nine times less inhabitants than the most populous one (Splitsko-dalmatinska county – 454.798). Average population of a county is 175.000³. It ranks Croatian counties at the bottom of NUTS 3 statistical category (150-800.000) - they are the smallest second-tier authorities among European countries. Disparities are reflected in economic and financial indicators as well: own budgetary revenues per capita (without current grants from national budget) range from HRK 1.550 in Požeško-slavonska to HRK 5.535 in Istarska among the counties, and from HRK 386 (Kistanje) to HRK 15.145 (Vir) regarding municipalities. Centralized environment in which they operate as well as disparities in resources and competences have put different tiers of local government in a position of interest divergence and heterogeneity. Consequently, there are three different associations of local government units: *Association of municipalities*, *Association of towns* and *Community of the counties*. Their views on decentralization issues, territorial reforms and overall capacity building of the local government system are often not harmonized and their relations with central institutions vary⁴.

Municipal political arena seems to be more vibrant and dynamic and bearing more importance to the citizens. Since elections at the municipal and county level are held simultaneously this is not reflected in turn-out rate, which is the same and very low for both levels (47%), but other indicators support this conclusion: municipal elections attract more non-partisan lists and those lists are more successful at the municipal than at the county level. Furthermore, non-partisan mayoral candidates are more frequent at the local level than at the county level and are more successful: in 2017 local election there were 371 independent mayoral candidates at municipal, and only 11 of them at the county level. 91 of them won elections – all of them at the municipal level. Non-partisan candidates won 11% of the seats in

²Among 12 countries which survey covered, first type is characteristic to Sweden and Denmark (before the abolishment of the counties), second variant is associated with Belgium, Germany and Netherlands, while third variant is present in France, Greece, Italy and Spain and to some extent in Poland and Hungary. Second-tier authorities in Romania authors did not classify in either of groups (Bertrana and Heinelt, 2013).

³ Population data are taken from the official population census in 2011 (<https://www.dzs.hr>). Due to mass emigration in last few years, totals and averages are considerably lower in 2019.

⁴ Community of the counties is regularly consulted on legislative proposals, reforms and strategies while other two associations are dissatisfied with the low frequency and nature of such consultations (CLRA, 2016: 21).

local councils and only 5.5% of them in county assemblies (Koprić and Škarica, 2017). Although the instruments of direct democracy are generally rarely used, they are exclusively tied to the municipal tier: there has been 17 local referenda, all of them held at the municipal level (Manojlović Toman and Vukojičić Tomić), 2018: 355-356). Political competition is fiercer on municipal level, often resulting in stalemates which can result in dissolution of representative bodies, mostly for not adopting the annual budget. Political institutions in counties are more stable in that regard: out of 181 cases in 1993-2017 period, county assemblies were dissolved only six times (Crnković, 2012; Koprić and Škarica, 2017).

At the beginning of 1993, more than a year after proclaiming independence, Croatia thoroughly reorganized local government system inherited from the socialist period in Yugoslavia. A two-tier system of 'local administration and self-government' was introduced during which majority of public affairs was centralized and taken over by the state administration. Counties had a dual role and served as a backbone of the whole system – simultaneously performing state administrative and monitoring tasks and self-government scope of functions which was very limited and restrictively regulated. County governor was accountable to both county assembly and to central state officials as President of the Republic had to confirm his election. Narrow scope of local (and county) affairs, combined with an excessive supervision over local government policies, secured a hierarchical, top-down relation between central state and local government levels. Primary purpose of the counties was integrative one. They were expected to transmit central policies and regulations into local arena and to monitor them; to aggregate and to coordinate interests, decisions and activities of municipalities within their area; to secure a balanced development of municipalities and to coordinate the network of educational, cultural, social and other institutions within their territory (Koprić, 1997). Municipal-county relations within this framework mirrored a centralistic and authoritarian governance in the state, but although such relations negatively affected local autonomy, they were at least straightforward and clear.

Croatia ratified European Charter of Local Self-Government, partially in 1997 and fully in 2008. Even before its full ratification, constitutional amendments in 2000/2001 embraced a modern European concept of local self-government based on subsidiarity, general nature of local competences and provided guarantees for a wide scope of local government affairs. The idea was to clearly delineate competences between municipal and county level of local government, to terminate the subordination of municipal tier and to found their relationship on the principles of subsidiarity and functional complementarity. This was consistently implemented in general legislation (*Law on local and regional self-government*) in which there are no coordinating, monitoring or supervising competences provided for the counties⁵. Counties were proclaimed as regional self-government units only and lost their competences as deconcentrated units of state administration. Counties' primary role shifted from integration of the whole local government system to the provision of more demanding public services that require wider territorial scale. Also, they have gradually acquired the role as aggregators of micro-regional interests, especially since the institutional framework for regional development has been established. Constitutional changes of 2000 were followed by decentralization efforts in the fields of education, social care, health care, and fire service. New competences were granted to all counties and only to a small number of urban municipalities. Decentralization reform was evaluated as limited, confusing, and hesitating since it covered but a small part of local governments and did not widen local autonomy (Koprić and Đulabić, 2018). Another decentralizing measure was introduced in 2005: a special category of local units was established (large towns⁶) and was entrusted with several new competences that were transferred from county level: maintenance of public roads and implementation of zoning plans and construction regulations. Nevertheless, Croatia is still a rather centralized country in which share of local expenditures in general government

⁵ There is a minor exception: counties' administrative bodies control the legality of individual decisions issued in administrative procedure by municipal administrative departments.

⁶ Category of large towns includes all towns with more than 35.000 inhabitants (17) and those that are county seats despite being smaller (8).

expenditures has continuously been at around 15%, and their share in GDP has been stagnating at 6-7%⁷. A similar ratio is visible in the share of local civil servants – they represent only 12.9% of general government employment (Koprić, 2018b: 103). According to the European-wide study (EC, 2016) Croatia ranks as 24th among 39 European countries according to the ‘local autonomy index’, thus belonging to a group of countries with a medium degree of local autonomy. Despite conceptual changes that profoundly transformed the understanding of local government in Croatia at the beginning of the century, counties have retained its dominant position towards municipalities. In a comprehensive comparative research Croatian counties ranked first among second-tier local authorities according to the criteria of influence and autonomy towards municipal level (Lindstrom and Roos, 2016 in Heinelt et al., 2016).

5. RELATIONS BETWEEN MUNICIPALITIES AND COUNTIES IN CROATIA

5.1. Allocation of competences

Constitutional provisions that regulate local government scope of affairs (Art. 129a) are almost identically transposed into the general local government legislation⁸ and according to them: “municipalities are guaranteed affairs of local character which directly provide for citizens’ needs, in particular those related to: regulation of settlements and housing, spatial and urban planning, utility services, childcare, social welfare, primary healthcare, elementary education, culture, physical education and sports, consumer protection, environment protection, fire protection, civil defense and traffic. Counties are guaranteed affairs of regional character, in particular those that are related to: education, health services, spatial and urban planning, economic development, traffic regulation and traffic infrastructure, planning and development of a network of educational, social, cultural and health institutions, issuing location and construction permits and other implementing documents outside large towns and maintenance of public roads outside large towns” (Art. 19-20). In spatial and urban planning, education, healthcare and traffic sectors functions and competences are shared between the tiers, while other areas represent exclusive domain of particular level. Both levels are entitled to widen their scope of competences as long as they don’t interfere in other public institutions’ legal scope. Aforementioned public affairs are not the only functional areas entrusted to local government units. Numerous sectoral laws involve them in policy areas not mentioned in general legislation, such as tourism, agriculture etc. In following articles (21-22), the Law envisages the possibility of transferring functions and competences between the levels (upwards and downwards), thus providing a necessary element of flexibility in local government system. Municipalities may acquire county competences, but can also transfer their competences to the counties. Unfortunately, the wording of the provision indicates the reluctance of legislator to really allow such autonomous transfers of competences⁹. There are no official data on frequency and character of such intergovernmental transfers, but most surely they happen very rarely, if ever. According to the most recent report of Congress of Local and Regional Authorities on local and regional democracy in Croatia (CLRAE, 2016), biggest deviations from full conformity of local government legislative framework (general and sectoral) to the provisions of European Charter of Local Self-Government can be found in regulation of local government scope of competences. Territorial fragmentation, excessive centralization, asymmetric allocation of powers, numerous shared competences

⁷ In 2017, total local government (municipalities and counties) budget expenditure was at HRK 24 billion, which was 14.6% of general government spending (HRK 164 billion) and 6.6% of the annual GDP (HRK 363 billion) (<http://www.mfin.hr/hr/>).

⁸ *Law on local and regional self-government* (Official Gazzette 33/01, 60/01, 129/05, 109/07, 125/08, 36/09, 150/11, 144/12, 19/13, 137/15, 123/17).

⁹ Transfer of competences upwards is non-problematic, only requiring the decision of a municipality. The opposite delegation (from counties to municipalities) is constrained by four conditions that have to be fulfilled cumulatively: a request of the municipality, the approval of county assembly and of central ministry responsible for particular functional area, as well as the assurance of adequate resources for exercising transferred competence.

and overlapping between the tiers were cited as reasons for an evaluation of only partial conformity to the principles of subsidiarity and general competence and non-conformity to the principles of full and exclusive competences of local authorities (CLRA, 2016: 17-20).

Next several sections of this chapter provide an in-depth analysis of legal framework which regulates and governs local government scope of competences. Insights are systemized according to different relations between the tiers that arise due to their particular roles in various sectors of activities (Škarica, 2018).

Overlapping competences between the tiers: There are several policy areas in which identical competences are entrusted to both levels of local government. In the sector of *fire protection*, a domain which has been exclusively decentralized to municipalities by the constitution, both levels may adopt and implement programs and projects for fire prevention as well as organize educational programs for the citizens related to fire prevention and extinguishing. Even more cases of overlapping can be found in another public safety service – *civil protection*. This sector was decentralized only in 2015, years after the Constitution proclaimed this service as a domain of local significance. Contrary to the constitutional provision, it has been decentralized as a service where municipalities and counties share their functions and competences. Both levels are expected to secure planning, development, effectiveness and financing of the civil protection system by providing risk assessments, establishing civil protection units, adopting the plan of civil protection functioning etc. In the sector of *traffic regulation*, which is a shared function, the exact same competences for the traffic regulation in their respective areas are given to both municipalities and counties. In practice, these regulations are mostly drafted by municipalities. In the sphere of *preservation of cultural heritage*, both levels are entitled to declare a cultural good as protected and to provide resources for its preservation. Being optional function, this overlapping should not lead to substantial conflict or competition. *Childcare* has been constitutionally entrusted to municipalities exclusively. Still, respective legal framework grants competences to both levels equally, proclaiming that “counties, urban and rural municipalities and the City of Zagreb have the right and the duty to provide programs for childcare and pre-school as well as the right to establish and manage kindergartens”¹⁰.

Counties as a substitution to municipalities: There are several functional areas that are constitutionally entrusted exclusively to municipalities, but sectoral legislation deviates from this distribution and confers them to the counties and in some cases, to large towns as well. These are the sectors of primary healthcare, elementary education, social welfare and protection of nature and environment. In these sectors, disregard of constitutional guarantees, counties appear as a substitution to the municipalities as they were entrusted with functions not provided for them in the Constitution. Package of decentralization policies (social welfare, healthcare and education) in 2001 was ambiguous: although it overturned the overwhelming centralization in public sphere, it restricted decentralization outcomes, both functionally and territorially – only operational and technical competences were transferred and only to the counties (later accompanied by a number urban municipalities). Although legal framework for *elementary and secondary education* confers identical competences to both counties and municipalities, which would qualify their relation as a case of overlapping, in practice only 34 municipalities have really taken over these competences (establishment, management and financing of elementary schools and dormitories). *Healthcare* legislation completely omitted municipal tier from the system of health protection and respective policies. Only counties are entitled to perform activities, develop programs and establish institutions in the domain of primary and secondary healthcare. System of *social welfare* is organized in a very hierarchical manner and both counties and municipalities are marginalized. Municipalities are entrusted with only limited competences of financing certain social compensations. Counties and large cities may perform a wider array of tasks – to establish institutions for social care and to provide other financial compensations to population. Although distributed to both levels, competences in this sector are clearly separated. Legislation regulating *environment and nature protection* doesn't even recognize municipalities as relevant

¹⁰ Legal texts consulted and cited in this section are: *Law on fire protection* (OG 92/10), *Law on civil protection system* (OG 82/15, 118/18), *Law on safety of road traffic* (OG 67/08, 48/10, 74/11, 80/13, 158/13, 92/14, 64/15, 108/17), *Law on protection and preservation of cultural heritage* (OG 69/99, 151/03, 157/03, 100/04, 87/09, 88/10, 61/11, 25/12, 136/12, 157/13, 152/14, 98/15, 44/17, 90/18), *Law on childcare and pre-school education* (OG 10/97, 107/07, 94/13).

stakeholders in this policy domain. Counties do have substantial competences as they are entitled to decide on regimes for natural heritage protection, to proclaim such areas and to manage them, establishing public institutions and developing strategic programs¹¹.

Interfering competences between the tiers: In an array of policy areas in which regulatory and strategic competences are shared between municipalities and counties, two different types of situations arise. In the first one, competences are sequenced between the tiers and are complementary, without the establishment of superiority/subordination relationships. These are mostly the cases where counties perform coordinating and harmonizing role; a task that can be performed more or less coercively. In some instances competences between municipalities and counties interfere in a way that constrains the autonomy of municipalities. In these cases, decisions and regulations of municipalities are either subjected to a supervision of the counties or counties impose certain obligations onto municipalities. Although *communal waste management* falls almost completely into the scope of municipalities and counties do not possess policy competencies, they do act as a supervisory instance. Prior to adoption, municipal waste management annual plan, must be approved by county department responsible for environment protection. Moreover, municipalities have an obligation to annually report to the county the state of implementation of the adopted plans. As was already discussed, role of municipalities in environment protection (besides waste management) is a minor one, but they may adopt programs for environment protection only if it was envisaged in respective county programs, in which case municipal programs must be in accordance with those of counties. Counties are entitled to develop strategies for *tourism development* and are legally expected to consolidate municipal projects for tourism development in such a document. Besides being a case for overlapping competences, child care is also an example of coordinating relations of counties towards the municipalities. On the basis of municipal plans, counties coordinate and harmonize the development of kindergarten network. This coordinating role also includes the development of financing criteria for childcare which each municipality must adhere to. In the field of fire protection, counties coordinate firefighting and fire prevention activities. Counties organizationally integrate different municipal firefighting squads and units into the firefighting community of a county. Both levels adopt two types of strategic documents – long-term fire protection plans and annual implementing programs. County is expected to coordinate and harmonize municipal plans by adopting the county plan. Municipal-county relations in *spatial planning and zoning* are arguably the most hierarchical ones. Municipal spatial plans must be in compliance to the plans of counties and cannot be adopted without prior approval of the responsible county department. Furthermore, county departments for spatial planning are only institutions empowered to draw-up such plans, even for municipalities and finally, the implementation of zoning plans through issuing different kinds of permits is in county's scope of affairs as well, with the exception of large towns¹².

5.2. Distribution of resources

Croatian local government system is characterized by low level of fiscal decentralization, but also with similar level of fiscal autonomy. Therefore, all local government units are heavily dependent on national fiscal policies. The most important tax revenue comes from the personal income tax, which is fully distributed among local government levels¹³. Changes in tax rates or introduction of certain tax reliefs have immediate impact on local government's financial

¹¹ Legal texts consulted and cited in this section are: *Law on elementary and secondary education* (OG 87/08, 86/09, 92/10, 105/10, 90/11, 5/12, 16/12, 86/12, 126/12, 94/13, 152/14, 7/17, 68/18), *Law on health protection* (OG 100/18), *Law on social welfare and protection* (OG 157/13, 152/14, 99/15, 52/16, 16/17, 130/17), *Law on environmental protection* (OG 80/13, 153/13, 78/15, 12/18, 118/18), *Law on nature protection* (OG 80/13, 15/18, 14/19).

¹² Legal texts consulted and cited in this section are: *Law on sustainable waste management* (OG 94/13, 73/17, 14/19), *Law on associations and promotion in tourism* (OG 152/8), *Law on firefighting* (106/99, 117/01, 36/02, 96/03, 139/04, 174/04, 38/09, 80/10), *Law on spatial planning* (OG 153/13, 65/17, 114/18, 39/19).

¹³ 60% belongs to the municipal tier, 17% to the counties, another 17% to fiscal equalization fund and remaining 6% belongs to those units that took over financing of decentralized functions in areas of education, health and social care (*Law on financing of local government units*, OG 127/17).

capacity and budgetary balance. A substantial share of local government revenue comes from current and capital transfers from central government, these grants being much more vital to the counties than to municipalities. Share of counties' expenditure in total local government expenditure is rather small and does not correspond to a rather strong position counties occupy in a multitude of policy areas analyzed in previous chapter. This could lead to a conclusion that counties are still more of a regulatory, coordinating and supervising tier of government than the one that directly provides an array of public services to the citizens. Anyway, their expenditures have been growing at a faster rate in the observed period than those of municipalities combined, which indicates that counties, even in these circumstances, have been primary beneficiaries of decentralization policies since the beginning of the century.

Table 1. Local government expenditure (in HRK millions, without the City of Zagreb)

	2002	Share of total expenditure	2017	Share of total expenditure	Increase 2002-2017 (%)
Counties	1.975	20.8%	4.042	22.9%	104%
Rural municipalities	1.595	16.8%	4.173	23.5%	161%
Urban municipalities	5.919	62.4%	9.496	53.6%	60%
<i>Total municipalities</i>	<i>7.514</i>	<i>79.2%</i>	<i>13.669</i>	<i>77.1%</i>	<i>82%</i>
Total	9.489	100%	17.711	100%	86%

Source: Ministry of Finance (calculation of the author)

Besides financial grants from the central level, municipal tier benefits also from county budgets, as is shown in table 2. All transfers from counties to municipalities sum up to 4.7% of county budgets. Practice of financial assistance that counties developed is not legally required, but it has been deeply rooted since the constitution of present-day local government system and emphasizes their supplementing role. It is usually a result of agreements and contracts between a municipality and a county on co-financing of certain investments of local significance – pre-school buildings, roads, utility infrastructure etc. Share of county transfers to rural municipalities in their budgets is four times bigger than the share in town budgets. This indicates a more pronounced financial dependence of rural municipalities on counties and reduces the possibility of their competitive or conflicting relationships. Such dependence usually result in diminished political and policy autonomy.

Table 2. Current and capital transfers from counties to municipalities in 2017 (in HRK millions)

	Current transfers	Capital transfers	Total transfers	Share of expenditure
Rural municipalities	51,4	67,2	118,6	2.8%
Urban municipalities	37	35	72	0.7%

Source: Ministry of Finance (calculation of the author)

Human resources in local government systems have also had an ascending trajectory in last two decades. Employment in local units has increased by 64% since the beginning of the century. As was already discussed, despite certain decentralization measures, the share of local government general spending has only mildly increased. Therefore, the increased number of local civil servants and other employees cannot be justified by the additional workload. As is visible in table 2, counties were much more successful in competition over workforce. They almost doubled the number of its employees. Indicator is conclusive enough – during this period counties have solidified their position and increased their overall importance in the Croatian system of territorial governance.

Table 3. Employment in local government units (without the City of Zagreb)

	2002	Share in total employment	2017	Share in total employment	Increase 2002-2017 (%)
Counties	1.237	15.2%	2.375	17.8%	92%
Rural municipalities	2.285	28%	4.110	30.8%	80%
Urban municipalities	4.624	56.8%	6.871	51.4%	48%
<i>Total municipalities</i>	<i>6.909</i>	<i>84.8%</i>	<i>10.981</i>	<i>82.2%</i>	<i>59%</i>
Total	8.146	100%	13.356	100%	64%

Source: Ministry of Finance (calculation of the author)

5.3. Local and regional development

A modern and EU-inspired approach to regional development policy was introduced somewhat late, at the beginning of 2010 when the *Law on regional development* was adopted. In 2015 it was followed by a new legal framework that adapted the system of regional planning to the new cycle of EU budgeting (2014-2020). The principle of partnership and cooperation is proclaimed and recognized as one of fundamental principles of regional development and counties are specifically instructed to cooperate with municipalities in planning activities. Legal framework envisaged several cooperative platforms through which municipalities and counties collectively decide on most important developmental issues. Partnership councils, as main advisory and monitoring bodies, are established at the level of statistical region and at the level of counties. Representatives of municipalities participate in partnership councils at both levels. Still, counties retained dominant position, at least in their own councils as county governor nominate their members and regional coordinator steers its activities and decisions. Following provisions of the Law, each county established a 'regional coordinator' institution, most of them being labelled as regional development agencies. Although legal provisions allow for cooperation of local and county level in establishing these agencies (as their joint founders), only in four cases agencies were established by cooperative effort of both county and municipalities. As a rule, local-level partners were exclusively urban municipalities (towns)¹⁴. Regional coordinators have the responsibility to guide and to assist municipalities within its area in preparation and implementation of their development projects. Lack of joint organizations, institutions or administrative bodies, established cooperatively by counties and municipalities is not only a characteristic of regional policy domain. Such cooperative entities are virtually non-existent in other sectors as well, as there are no jointly founded kindergartens, schools, social-care institutions etc.

The *Law on the system of strategic planning and development governance*, adopted in 2017 solidified coordinating and monitoring role of the counties over local government units and additionally constrained local autonomy in their development activities. It introduces a rather hierarchical system of strategic planning in which development strategies of lower levels serve as implementing documents for the plans of higher levels. Local government units are entitled to develop their own developmental plans only exceptionally – when their natural or socio-economic characteristics ask for more specific approach and their development cannot be guided by the plans adopted by the county. Furthermore, not only the capacity to draft such plans is limited, but also their content – local plans are envisaged as implementing documents for the accomplishment of the objectives stipulated in the plans of higher territorial levels.

¹⁴ Regional agency in Karlovačka county was established by the county and four towns: Karlovac, Ozalj, Ogulin and Slunj. Regional agency in Zadarska county was established by the county and six towns: Zadar, Benkovac, Biograd na Moru, Pag, Nin and Benkovac. Regional agency in Istra county was established by the county and ten towns: Buje, Buzet, Novigrad, Pazin, Poreč, Pula, Rovinj, Labin, Umag and Vodnjan. Regional agency in Zagrebačka county was established by the county and eight towns: Dugo Selo, Ivanić Grad, Velika Gorica, Samobor, Zaprešić, Jastrebarsko, Sveti Ivan Zelina and Vrbovec.

The described position of the counties in regional development institutional architecture certainly contributed to their overall ability and opened additional opportunities to absorb EU funds more proficiently than municipalities, especially rural ones. During 2015-2016 period all sub-national government units attracted HRK 958 million from EU structural funds, not counting their associated companies, institutions or agencies. Out of that sum, counties have received HRK 401 million (5% of their bi-annual budgets), proportionally more than municipalities (less than 2%) regarding the size of their budgets¹⁵. All 20 counties in this period were beneficiaries of EU funds, in comparison to only 69 out of 127 urban and 99 out of 428 rural municipalities that were successful in attaining EU funding for their projects (Ott et al., 2018).

6. CONCLUSION

The analysis has shown that areas of contact between municipal and county level have increased in recent period resulting in more opportunities to cooperate and in more lines of interdependence. It seems that every intervention in local government system from the beginning of the century onwards only contributed to growing complexity of the system and multiplied possible arrangements and their outcomes in multi-level governance setting. Relations between municipal and county level in Croatia cannot be conceived as uniform. They differ by policy sectors and by units involved. Larger towns (and towns in general) acting more independently, are distancing themselves from hierarchical subordination to the counties, while smaller municipalities, being more dependent on upper levels of government remain in the existing, top-down institutional arrangements, but as passive actors. This endangers the development of cooperative multi-level solutions to policy problems – towns don't want to cooperate vertically and small municipalities, although willing, don't bring any added value to cooperation. Centralistic governance of the whole system stimulates the development of competition between the levels which endangers their collective and cooperative efforts in resolving local problems and issues and in stimulating local and regional development. The omnipresent central level was deliberately omitted from the research, but it does not hide the fact that both municipalities and counties are predominantly influenced by central policies and not by their own interplay. Accordingly, future picture of municipal-county relations will primarily depend on policies introduced by the state. Contrary to the comparative developments where intermediate (second-tier) local governments have been losing their traditional roles and firm position in new multi-level governance networks, counties in Croatia have not only preserved their status, but elevated it even more, judging by the presented financial indicators. It seems that decentralization efforts from the beginning of the century have not significantly altered deeply rooted relations between municipal and county level in which counties are there to coordinate, supervise and supplement municipal level. Localization of counties in terms of their functions may make them appear better and more successful, but in a long term it harms the capacity of the whole system. Dealing with local issues, counties do not develop wider perspectives and do not develop a true regional orientation which is necessary to the development of horizontal patterns of cooperation among themselves for solving problems on a wider scale. On the other hand, being too close (in physical proximity and in competences) to basic local issues and problems, counties make municipalities quite numb and less capable for autonomous adaptation to modern circumstances and passive in attracting new resources and solutions in a proactive way. It is already evident: Croatia is a country with underdeveloped inter-municipal cooperation, an institutional arrangement that comparatively produces even better results than traditional second tier of government, especially in metropolitan areas.

Although more separated and less interdependent, larger towns and counties are actually the fiercest competitors in political markets. If the existing state of local government system in Croatia persists (centralization and significant territorial fragmentation, accompanied with low capacities of majority of units), one could expect further escalation of competitive relations along vertical axis of multi-level governance system. Competition for resources, competencies and legitimacy could result in further differentiation and stratification among units at municipal tier: one group of

¹⁵ Urban municipalities received HRK 367 million and rural municipalities 190 million.

them will emancipate even more from the counties acquiring additional competencies to do things on their own, while another, much bigger group is likely to stagnate.

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