Executive Summary

Since joining the EU in 2013, Croatia's macroeconomic performance has improved significantly. With average annual real GDP growth of 2.8% between 2013 and 2022, Croatia's GDP per capita gap with the OECD average has narrowed by 11.5 percentage points. However, this growth has not been uniform across the country, with large and sometimes growing disparities across Croatian regions including in other areas driving well-being, such as educational attainment.

These trends provide the backdrop against which Croatia has reformed its legislative and planning framework for regional development. The reform process has culminated in the adoption of the National Development Strategy 2030, which includes balanced regional development among its main long-term objectives. It has also led to the design of territorial development strategies at the county and local levels, and the creation of new funding mechanisms, many of which are tailored to the needs of specific territories.

To make sure that the regional development reforms deliver concrete results for citizens and businesses across the country however, action is needed to address a series of challenges. These relate to Croatia's relatively high level of territorial fragmentation, and small territorial scale at which regional development plans are designed and implemented. Another key challenge is the fact that monitoring and evaluation systems, so far, primarily serve as accountability tools, rather than instruments for policy learning. This report helps to identify ways in which these and other challenges can be effectively addressed.

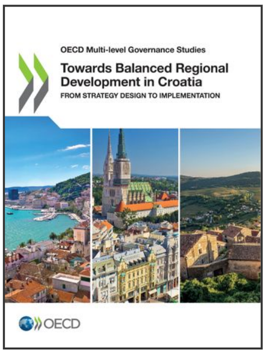
Key findings

- **At the subnational level, development indicators point to significant disparities across Croatian territories.** In terms of economic performance, the gap between the country's most and least economically developed regions (Zagreb City and Pannonian Croatia, respectively) has widened. In 2013, GDP per capita in Pannonian Croatia was 63% lower than that of Zagreb City. This had increased to 66% in 2021. In 2022, Varaždin County's unemployment rate (3.2%) was almost five times lower than that of Virovitica-Podravina County (15.7%). Moreover, while all counties reported population shrinkage between 2011 and 2021, there were vast differences in the scale of the decline (e.g. -5.7% in Dubrovnik-Neretva County compared to -20.3% in Vukovar-Srijem County).
- **The extensive legislative and planning framework for regional development set up in 2014 established a clear hierarchy of national-, county- and local-level plans.** The government also developed comprehensive regulations and guidelines for the design, monitoring and evaluation of regional development planning documents. To ensure their effective implementation, however, there are a number of actions that Croatia is recommended to take:
    - Consider adopting a regional development strategy that can serve as a bridge between the high-level National Development Strategy, and county and local development plans. The strategy would help to ensure that the government's regional development policy is clear and well-co-ordinated among national and subnational government levels.
    - Invest in capacity-building support for local government officials, particularly in areas related to strategy design and implementation (e.g. stakeholder engagement, procurement). The

government should also deliver an outreach campaign to county officials to enhance their understanding of the purpose of regional development planning, and their responsibilities in terms of implementing, monitoring and evaluating their development plans.

- Establish performance dialogues (e.g. between regional development agencies [RDA] and the Ministry of Regional Development and EU Funds) to help ensure that monitoring evidence is not only used for upward accountability, but also to improve policy implementation.

- **A relatively high level of territorial fragmentation in Croatia undermines the capacity of subnational governments to support the implementation of the country's regional development policy.** The average local-level population in Croatia is nearly a third lower than the OECD average, with some having a population that is as small as 0.03% of the OECD average. As a result, many local governments have limited financial and human resource capacity to carry out strategic planning tasks and manage investment. Enhancing co-operation across subnational governments could help them to improve the delivery of public services that particularly benefit from economies of scale (e.g. education, healthcare). It could also increase the coherence with which development resources are deployed.
    - At the regional level, Croatia could expand the use of macro-regional development agreements between county governments, along with joint investment strategies. This could help them to more effectively mobilise and deploy financing to address shared development challenges, and reduce the country's territorial disparities.
- **Croatia's 21 RDAs have become essential to the country's regional development efforts.** They are responsible for designing development plans, supporting their implementation and reporting on progress to the national government. They also help to identify and mobilise EU funding for counties, cities and municipalities. The ability of the RDAs to carry out these tasks however, is challenged by two elements. First, by December 2025, EU Technical Assistance funding, which has accounted for 75% of RDA revenues, will end. Second, the relatively small territorial scale at which the RDAs operate (TL3) compared to many of their OECD peers risks limiting their effectiveness in driving regional development. For instance, operating at a smaller territorial scale can result in high levels of spending on basic administrative functions. It also increases the co-ordination costs of addressing macro-regional development challenges.
    - In order to ensure that the RDAs can continue to guide regional development efforts and help subnational governments mobilise funding to implement their development plans, Croatia should explore ways to ensure sufficient RDA funding post-2025, e.g. by providing core funding for the agencies through the national budget.
    - Simultaneously, Croatia should conduct an analysis of the costs, benefits, as well as legal and political obstacles to establishing RDAs at the TL2 level in the medium to long term.
- **Over the past decade, the capacity of Croatia's subnational governments to fund and finance regional development initiatives has increased.** Driven by the influx of EU funding, between 2010 and 2021, investment spending by subnational governments rose by 82.7% in real terms. In order to enhance subnational fiscal autonomy, in 2023, Croatia granted cities and municipalities additional flexibility to set their PIT rates, within a nationally determined band. However, there are concerns that the reform could lead to a 'race to the bottom', in which local governments consecutively and aggressively lower PIT rates to attract investment and talent, thereby undermining their fiscal capacity. This could hamper their ability to deliver quality public services, and make strategic investments.
    - Closely monitoring the effects of the reforms on local budgets could help Croatia to ensure that the new rate-setting powers of cities and municipalities do not lead to large fiscal disparities, and or take mitigating action should this eventuality occur.



From:

Towards Balanced Regional Development in Croatia

From Strategy Design to Implementation

Access the complete publication at:
https://doi.org/10.1787/3c0779cf-en

Please cite this chapter as:

OECD (2024), “Executive Summary”, in *Towards Balanced Regional Development in Croatia: From Strategy Design to Implementation*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/5531f65c-en