



# Local Government in Croatia

## Responses to Urban-Rural Challenges

edited by

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NALAS - Network of Associations of Local Authorities of South-East Europe  
with the support of the Association of Cities in the Republic of Croatia





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# 1. The System of Local Government in Croatia

Dario Runtic, *NALAS Network of Associations of Local Authorities of South-East Europe*

## Types of Local Governments

Croatia has 21 units of regional self-government (*zupanija*), 20 counties and the Croatian Capital City of Zagreb. Each county is divided into a number of local government units. Also, each county has its own representative and executive body elected by popular vote for a term of four years. The City of Zagreb is a special territorial and administrative unit whose responsibilities are regulated by a separate Act on the City of Zagreb. The City of Zagreb has a dual status as a unit of local and regional government unit and thus performs activities within the scope of the city and as a county. It also carries out responsibilities of the state administration. In doing so administrative bodies of the City of Zagreb have the powers and obligations of state administration bodies.

There are 556 units of local government, that is 128 towns (*grad*) and 428 municipalities (*općina*). Towns are local government units typically of urban character with more than 10,000 inhabitants. Exceptions apply in case of historical, economic or geospatial reasons. Municipalities are local government units of rural character with less than 10,000 inhabitants. Each town and municipality has its own representative and executive body elected by popular vote for a term of four years. Each local government unit is further divided into one or more settlements regardless urban or rural. One or more settlements are represented by sub-local government entities called neighborhood councils with elected representatives which serve on non-professional terms. Some towns and some municipalities have only one neighborhood council. Towns and municipalities have basically the same responsibilities, except for towns in which counties have their administrative seat and towns with a population above 30,000 inhabitants. The latter are referred to as 'large towns' and have additional responsibilities. Seats of county are generally the largest towns within a county. There are only four large towns which are not the seat of a county.

## Legal Status of Local Governments

The right to local and regional self-government is guaranteed by Article 128 of the Croatian Constitution, according to which '[c]itizens shall be guaranteed the right to local and regional self-government' and this right 'shall be exercised through local and/or regional representative bodies', as well as citizens' direct participation in the administration of local affairs.



The rights specified in this Article shall be exercised by Croatian and European Union nationals in compliance with law and EU *acquis communautaire*.

The right to local government is further prescribed in national legislation such as the general Local Government Act, Local Government Financing Act, etc. The Croatian system of local self-government is based on the principle of autonomy of government and the principle of subsidiarity. The European Charter of Local Self-Government has been fully ratified by the Croatian Parliament. Croatian local governments have a judicially enforceable right to local self-government before the Constitutional Court and other judiciary bodies.

## (A) Symmetry of the Local Government System

Local authorities have comprehensive responsibilities which are enumerated in the Constitution and further prescribed by the general Local Government Act. Local government units perform tasks of local importance which directly affect needs of the citizens and which are not assigned to state bodies by the Constitution or other laws, and especially the tasks referring to organization of settlement and housing; spatial and urban planning; utility services; child-care; primary health protection; social welfare; elementary education; culture, physical culture and sports; consumer protection; environment protection; fire and civil protection; maintenance of municipal roads and traffic management. In addition to these competences, large towns also have responsibilities related to maintenance of local public roads and construction permits.

Regional government units carry out affairs of regional importance which are not assigned to central bodies by the Constitution or other laws. The scope of counties' responsibilities can be self-managing and entrusted (government affairs). Counties are tasked with performing the following tasks: general public administration services; primary and secondary education; healthcare; regional and urban planning; economic development; environmental protection; transport and traffic infrastructure; management of the network of educational, medical, social welfare, and cultural institutions; administration pertaining to agriculture, forestry, mining, and industry; management of road transport infrastructure; construction permitting, excluding the area of big cities and a county seat city.

Re-assignment of responsibilities between individual local and regional governments is allowed pending approval of the representative bodies of both government units. Out of 556 local government units some 8-10 local governments have taken over such responsibilities. Certain restrictions apply such as the ability to fund a specific responsibility (in case of most of responsibilities) and a minimum number of inhabitants (8,000 inhabitants for management of elementary education).





## Political and Social Context in Croatia

The Croatian population of 4.2 million is predominantly urban with 71 per cent of the total population living in towns which cover 39 per cent of total territory. The remaining 29 per cent of the total population are scattered through municipalities which cover 61 per cent of Croatian territory. According to the 2011 Census, 19 per cent of the population lives in Zagreb, the capital city of Croatia. Population density is 76 inhabitants per square kilometer (139 inhabitants per square kilometer in towns, 36 in municipalities).

National parties dominate local level of government. In 2009, direct elections of a mayor were used for the first time, replacing the former system in which a representative body elected a mayor. But this did not significantly change the political landscape at the local level. The share of incumbents who lost in the 2017 elections was 40 per cent in towns and 30 per cent in municipalities, but national parties still dominate local level of government. In the 2017 elections a group of non-aligned mayors raised, making them the second largest 'political' group at the local level with a share of 15 per cent of the total number of town/municipal mayors.

## References to Scientific and Non-Scientific Publications

### Legal Documents:

Constitution of the Republic of Croatia, 2014

Law no 110/2015 on Territories of Counties, Cities and Municipalities

Law no 98/2019 on Local and Regional Self-Government

### Scientific and Non-Scientific Publications:

Ministry of Administration of the Republic of Croatia, 'Local and territorial (regional) Self-Government' <<https://uprava.gov.hr/o-ministarstvu/ustrojstvo/5-uprava-za-politicki-sustav-i-organizaciju-uprave-1075/lokalna-i-podrucna-regionalna-samouprava/842>>



# Local Responsibilities and Public Services





## 2.1. Local Responsibilities and Public Services in Croatia: An Introduction

**Dario Runtic**, *NALAS Network of Associations of Local Authorities of South-East Europe*

Allocation of responsibilities among urban local governments (ULGs), rural local governments (RLGs) and regional governments in Croatia is set in Article 129(a) of the Constitution and further elaborated in the Organic Law on Local and Regional Governments and various sectoral laws. The key criteria for the allocation of responsibilities are the number of inhabitants and the level of sub-national government.

All local governments, whether urban or rural, carry out tasks referring to organization of settlement and housing; spatial and urban planning; utility services; child-care; primary health protection; social welfare; elementary education; culture, physical culture and sports; consumer protection; environment protection; fire and civil protection; maintenance of municipal roads and traffic management.

Large towns, above 30,000 inhabitants, and the towns in which a regional government has a seat, have additional responsibilities related to the maintenance of local public roads and construction permits, in addition to those listed above. The regional governments execute these functions on behalf of the smaller towns and municipalities.

In case of specific services there could be an additional limitation in place for provision of a specific service, such as minimum number of inhabitants for, e.g., management of elementary education.

The scope of counties' responsibilities can be self-managing and entrusted (government affairs). Counties are tasked with performing the following tasks: general public administration services; primary and secondary education; healthcare; regional and urban planning; economic development; environmental protection; transport and traffic infrastructure; management of the network of educational, medical, social welfare, and cultural institutions; administration pertaining to agriculture, forestry, mining, and industry; management of road transport infrastructure; construction permitting, excluding the area of large towns and a county seat city.

Re-assignment of responsibilities between individual local and regional governments is allowed pending approval of the representative bodies of both government units. Certain restrictions apply such as the ability to fund a specific responsibility (in case of most of responsibilities).

Local governments can provide services themselves, through institutions established by local governments, through local government owned enterprises or by entrusting public services to private operators through public procurement contracts or concessions.



Local governments typically provide general services related to all responsibilities within the nationally imposed legal framework – organization of services, contracting, funding, planning and taxation. They also provide organization of settlement and housing, spatial planning services, construction permitting, business permitting and provision of social welfare benefits. Institutions established by local governments provide child care, health protection, social welfare services, elementary education, culture, and fire protection. Local government owned enterprises mostly perform utility services, environment protection and maintenance of roads and infrastructure. Public procurement contracts and concessions are mostly used for infrastructure construction and maintenance, waste management, public lighting, public transport, parking and green market management. Public-private contracts for public service provision have been implemented in areas of sport and education, however, this form of public service provision is not widespread due to downfalls of early public-private partnership (PPP) contracts.

Local governments are also allowed to carry out their responsibilities through various forms of inter-municipal cooperation, be it joint administrative departments, companies or institutions. The General Local Government Act enables voluntary inter-municipal cooperation, but leaves it up to participating local governments to set all terms of cooperation in a cooperation agreement. There are no mandatory inter-municipal cooperation arrangements in provision of services.

Although the Constitution defines responsibilities which are within autonomous scope of local governance, the sectoral legislation limits the extent to which local governments are autonomous in carrying out those functions. Local and/or regional governments are entrusted with partial responsibilities and often required to obtain approvals from other levels of governments. E.g. in primary education, local governments are responsible for capital investment, maintenance and operating expenses (insufficiently funded through grants for decentralized functions) while the government funds teachers' wages. In terms of firefighting, local governments have broader responsibilities but are required to seek approval for the appointment of fire chief, fire protection plans, and other basic decisions from other levels of government. RLGs face broader restrictions than ULGs although the autonomous scope of ULG and RLG is basically the same. The gap between the constitutional provisions and the actual performance is caused by governmental centralization of most of the functions during the time of the 1990 Homeland War and structural fragmentation of local governments at the same time. Some responsibilities were partially decentralized in the 2000's (education, firefighting, social welfare, healthcare) and 2008-2010 (road maintenance, construction permitting). The gap still remains due to high fragmentation of local government and government's mostly unchallenged method of operation. Lately this principle has been tested before the Constitutional Court and, pending decision, may change the intergovernmental relations in future.



## References to Scientific and Non-Scientific Publications

### Legal Documents:

Constitution of the Republic of Croatia, 2014

Law no 98/2019 on Local and Regional Self-Government

### Scientific and Non-Scientific Publications:

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## 2.2. Firefighting

Dario Runtic, *NALAS Network of Associations of Local Authorities of South-East Europe*

### Relevance of the Practice

One of the significant challenges for Croatia is ensuring adequate fire protection to its businesses, residents and tourists. According to the Croatian Firefighting Association, five-year average of fire incidence is 6,868 fire outbreaks in the open, 3,361 fires in buildings and 720 fires of vehicles.

Croatia is a tourism-dependent economy and an efficient firefighting service has tremendous importance not only for protection of lives and property of residents, but also for safety of tourists and protection of nature and environment. Most of tourism activities take place in the Adriatic region, the capital city and national parks. More specifically, tourism activities are evenly spread across urban and rural local governments in these areas. Rural local governments in general have lower fiscal capacity and fewer inhabitants than urban local governments, making it more difficult for rural local governments to provide an equally efficient firefighting service.

The organization of fire protection in Croatia is an interesting practice of urban-rural interplay which involves all levels of government, provides for inter-municipal cooperation, and integrates public, private and non-profit volunteer entities in the delivery of public service. Funding for the service is a mix of own source revenues, central government earmarked grants, incentives and private funding. Therefore, this public service cuts across all report sections – financial arrangements, the structure of local governments, inter-municipal relations and even citizen participation in public service delivery (not just decision-making).

### Description of the Practice

#### Structure of the Firefighting Service at Local Level

Rural local governments establish and fund voluntary firefighting associations (VFA) – non-profit organizations that generally rely on trained individuals who are required to respond to fire outbreaks, but are not employed by the firefighting association. When such individuals respond to fire outbreaks during his/her working hours, the municipality compensates the individual's employer for the time an individual spent responding to the fire. In case an individual responded to fire outbreak outside the working hours, the compensation is paid to the individual.



Small urban local governments also frequently use VFAs as a means of fire protection.

Urban local governments establish and fund Public Firefighting Brigades (PFB). PFBs are registered as institutions - local government budgetary users – which employ professional firefighters. In addition to PFBs there are also VFAs active in the urban areas as a support to PFBs.

Certain industrial facilities or infrastructure operators, due to the fire risks, are required to establish their own professional or voluntary fire brigade or outsource fire service to VFA or PFB should these have sufficient capacities for such a service.

Due to over 150 years of firefighting tradition, local governments in general have one or more firefighting entities in their territory. In order to streamline and coordinate decision-making, and simplify funding arrangements for VFAs in local governments with several firefighting entities, all firefighting entities are members of a local government Firefighting Union.

### **Inter-Municipal Cooperation in Fire Protection Services**

Urban local governments (ULGs) and rural local governments (RLGs) can establish an inter-municipal Firefighting Union and all VFAs and PFBs from their territories are members of such a Union. Also, ULGs and RLGs can establish joint PFBs to provide professional firefighting service to an inter-municipal area. RLGs generally do not have fiscal capacities to establish and operate a PFB, but by joining forces with ULG, additional funding becomes available for funding inter-municipal service in a form of additional 1 per cent of the personal income tax (PIT) collected in the area of RLG.

### **Firefighting Funding Arrangements at Local Level**

Local governments are required to pass Fire Risk Assessments and Fire Protection Plans. The Assessment and the Plan are prepared by outsourced expert planners. Fire Risk Assessment is a document outlining the current situation, a numerical analysis of fire risks and proposed measures for mitigation of fire risks. Fire protection plans are strategic plans which lay out requirements for the organization of fire protection services in accordance with fire risk assessments, including required number of firefighters and equipment. Therefore, the Fire Protection Plan indirectly sets the funding level for firefighting service.

VFA funding – all local governments, urban or rural, are required to provide specific percentage of budgetary revenues to VFAs through the Firefighting Union. Local governments with budget up to approx. EUR 650,000 provide 5 per cent of revenues to VFAs and the percentage diminishes as revenues grow in variable steps. No local government can provide less than 1 per cent except the City of Zagreb which provides 0.35 per cent of the budget. It is worth noting that the funding levels are not directly related to the incidence of fire outbreaks, but the size of the budget. The Law on Fire Protection does stipulate that in case of insufficient funding, local governments must provide additional funds, but does not provide grounds for local



government to reduce spending in case of overfunding. This area calls for further analysis of funding levels, fire incidence and outcomes of intervention. Furthermore, such financial arrangements may not be in line with the constitutional autonomy of local governments which is currently under review at the Constitutional Court.

PFB funding – Until 2003 professional firefighting was central government function carried out by the Ministry of Interior and funded through the state budget. As of 2003 the function and funding was decentralized to 55 local governments. Funding is carried through a combination of own-source revenue and earmarked central government grant limited to 2003 government funding levels and annually adjusted under so called ‘minimal fiscal standards for fire protection’. Local governments are entitled to 1 per cent of personal income tax collected at its territory for funding PFBs. Should 1 per cent of PIT yield less than minimal fiscal standard, the remaining funding up to the minimal fiscal standard is provided by the state budget in a form of earmarked grant to the local government. Generally, minimal fiscal standards suffice for professional firefighters’ payroll and the remaining costs of firefighting services are covered by other sources of local government budget. Should ULG and RLG jointly establish a PFB, RLG is entitled to 1 per cent of PIT collected at its territory, however, the government grant does not increase.

An industrial/infrastructure operator is required by the Law on Firefighting to establish a fire brigade. Such fire brigades are funded at the expense of the operator.

### **Structure of Firefighting Service at the Regional Level**

Regional governments can establish regional Firefighting Union and regional Fire Brigade within a Firefighting Union. The regional Firefighting Union has a coordinative, planning and oversight role over local Firefighting Unions. The regional Fire brigade is comprised from existing local PFBs and VFAs established in the territory of the regional government. The regional fire brigade acts at the regional fire chief’s order if so requested by the local fire chief in case of fire outbreak which a local fire brigade cannot successfully handle.

### **Firefighting Funding Arrangements at Regional Level**

Regional governments are required to provide specific percentage of budgetary revenues to the regional Firefighting Union. Regional governments with budget up to approx. EUR 650,000 provide 5 per cent of revenues to the Firefighting Union and the percentage diminishes as revenues grow in variable steps. No regional government can provide less than 1 per cent.

### **Structure of Firefighting Service at the National Level**

The national government’s firefighting body is the Croatian Firefighting Association (CFA). It is in charge of policy affairs at national level, firefighting training and firefighting response in case of a fire outbreak that cannot be contained by regional Firefighting Union brigade.



## Firefighting Funding Arrangements at National Level

CFA is a budgetary user of the state budget and funding is allocated in the regular budgeting cycle.

## Assessment of the Practice

The firefighting service is organized in a standard hierarchical structure and it seems to contain fire outbreaks rather efficiently. However, it remains unclear whether fire services and other relevant actors should devote additional resources in fire prevention activities, other than raising awareness campaigns.

The legislative framework does provide flexibility in terms of organization of the service through various actors and leverages public and private resources in doing so. It is one of the few well developed inter-municipal service provision models in Croatia.

However, the system is comprised of an excessive number of hierarchically parallel entities from local to national level engaged in fragmented advocacy, planning, reporting and coordination which indicates there is a room for process streamlining and increased efficiency of administrative structures.

Also, the financial arrangements imposed by the central government onto subnational level call for further analysis of funding gaps or overspending issues. There are no publicly available records of ongoing or completed research projects related to these issues. Current financial mechanisms are not appropriately aligned with fire risks and incidence or outcomes of intervention.

## References to Scientific and Non-Scientific Publications

### Legal Documents:

Law no 92/2010 on Fire Protection (*Zakon o zaštiti od požara*)

Law no 125/2019 on Firefighting (*Zakon o vatrogastvu*)

Decree no 2/2019 on Minimal Financial Standards for Decentralized Funding of Public Firefighting Brigades

### Scientific and Non-Scientific Publications:

Group of authors, '140 years of Croatian Firefighting Association 1866-2016' (Croatian Firefighting Association 2006)





Croatian Firefighting Association, 'Report on Implementation of Program of Activity of Special Measures of Fire Protection of Interest for the Republic of Croatia' (2019)  
<<http://web.hvz.hr/2019/program-aktivnosti/lzvje%C5%A1%C4%87e%20o%20realizaciji%20PA18.pdf>>



## Local Financial Arrangements



## 3.1. Local Financial Arrangements in Croatia: An Introduction

**Dario Runtic**, *NALAS Network of Associations of Local Authorities of South-East Europe*

Total local government revenue in Croatia equals to 12.1 per cent of GDP as reported to Eurostat with local governments units managing on their own only 7.3 per cent of GDP. The most important group of revenues is shared taxes which generate about 47 per cent of consolidated local government revenues.

The single most important source of revenue is the Personal Income Tax (PIT) which generates 41 per cent of consolidated local and regional government revenues. National government sets PIT rates, levels, exemptions and credits. Local governments are allowed to impose a surcharge of up to 18 per cent on the amount of PIT taxpayers owe to the government. The surcharge currently constitutes 10 per cent of all local PIT revenues.

Since the income tax is shared between local and regional governments and also used for funding two local government equalization schemes, frequent changes of tax rates undertaken by the national government significantly affect local budgets and the predictability of revenues. This in turn affects the local governments' ability to provide uninterrupted services and demotivates any longer term planning.

About 31 per cent of local budgets come from own-sources. Most own-source revenue comes from Land Use Fees and Land Development Fees. Croatian local governments also derive a significant amount of own-revenue from the sale and rental of municipal assets and other local taxes. Fees are considered earmarked revenues, while taxes and proceeds from asset management are non-earmarked revenues. Both fees are mandatorily collected and enforced by the local government.

Local taxes include, but are not limited to: PIT surcharge, gift and inheritance tax, vehicle and vessels tax, amusement machines tax, real-estate transfer tax, second home tax, beverage sale tax, tax on use of public space, etc. Most of the taxes are either set or capped by national legislation, except for the Tax on Use of Public Space. PIT surcharge and amusement machines taxes are mandatorily collected by the National Tax Administration (NTA) and the other local taxes can be collected either by the NTA or the local government itself, pending local council decision. Croatia does not collect real-property tax, although the tax was introduced into the tax system in late 2016, but repealed by the government in September 2017, just three months shy of its effective date.

General and investment grants comprise the remainder of local government revenues. These include grants for decentralized functions, transfers of EU funds and intergovernmental transfers. Grants for decentralized functions are distributed to counties, large towns, seats of counties and a few other towns who have taken over some of the previous central government



responsibilities. Grants are based on so-called minimal standards for service provision which are calculated according to measurable indicators related to service (e.g. number of pupils in school, etc.). Funding levels for decentralized functions are rather stable and incrementally increased over the past four years. Transfers of EU funds have increased tenfold from 2014.

Over the course of last ten years, in the aftermath of the financial crisis, local government revenues dropped from EUR 3.4 billion to 2.8 billion and steadily recovered to current 3.1 billion Euro. Due to budgetary and fiscal restrictions set by law, local governments had to manage their expenditures in line with the available funding, borrowing only for investment projects. In order to maintain stable relative levels of funding for specific functions, local governments reduced funding for Housing and Community Amenities while keeping stable or increasing funding levels for social protection and education.

Current local government expenditure structure is as follows: 8.5 per cent wages and benefits, 22.8 per cent material expenditures (38 per cent of which is current and capital maintenance), 4 per cent subsidies, 24,7 per cent current and investment grants, 5.3 per cent household grants, 17.9 per cent investments in long term assets and 16.8 per cent other expenditures.

Fiscal capacities of local governments vary significantly although most of local governments have equal or similar responsibilities in terms of service provision. Rural local governments therefore provide essential public services and urban local governments provide same or similar services but in a broader scope by establishing public institutions which provide advanced level of those services (e.g. libraries, museums, etc.). The government tried to address the disparity of fiscal capacities through a complex PIT sharing mechanism which essentially failed and was replaced with new fiscal equalization scheme in 2018.

## References to Scientific and Non-Scientific Publications

### Legal Documents:

Local Taxes Act no 115/2016 (*Zakon o lokalnim porezima*)

Law no 127/2017 on Financing of Local and Regional Self-Government Units (*Zakon o financiranju jedinica lokalne i područne [regionalne] samouprave*)

### Scientific and Non-Scientific Publications:

Bajo A and M Bronić, 'Fiskalna decentralizacija u Hrvatskoj: problemi fiskalnog izravnjanja' (2004) 28 Financijska teorija i praksa 445

Stafa E and others, 'Fiscal Decentralization Indicators for South East Europe: 2006-2017' (NALAS 2018)



## 3.2. The Fiscal Equalization Fund

Dario Runtic, *NALAS Network of Associations of Local Authorities of South-East Europe*

### Relevance of the Practice

The local government fiscal equalization practice directly addresses some of the key questions of urban-rural relations, specifically the differentiation of a financing system to take into account the size and fiscal capacity of local governments. The practice responds directly to the challenge of increasingly depopulated rural local governments (RLGs) experiencing a decrease in taxpayers.

### Description of the Practice

The equalization system is conceived as a simple mechanism which provides funding to local governments of different size and unrelated to fiscal capacity in order to enable them to provide public services of the same level and quality to their residents. Croatian RLGs are facing depopulation due to lack of jobs, quality education and limited social infrastructure, all of which are the responsibility of RLGs. Prior to establishing an actual fiscal equalization system, difference in fiscal capacity for public service provision was 1:29 in rural areas and 1:6 in urban areas.

With such a tremendous difference in funding levels many rural and some urban local governments were struggling to sustain basic public services, while others were able to provide good public services, economic incentives and develop social infrastructure. This motivated taxpayers from underdeveloped RLGs to relocate either abroad or into more developed local governments thus leaving underdeveloped RLGs with even less taxpayers – a downward spiral which led to even greater depopulation.

On the other hand, the relocation of taxpayers to the economic centers and the ability of these centers to boost the local economy, including tourism activities, created in some cases enormous pressure on communal and traffic infrastructure, health and education facilities and distorted real-estate markets. Supposedly, road traffic congestion coupled with substandard public transport and the lack of quality of social infrastructure inhibits relocation of taxpayers to adjoining or surrounding municipalities with more affordable housing but significantly lower fiscal capacities.

Increase of fiscal capacities of underdeveloped local governments could supposedly lead to improvement of social infrastructure for residents and creation of economic stimulus for expanding companies to relocate outside of centers of economic activity with more affordable



and available land and real estate thus relieving economic centers of pressure on infrastructure and institutions.

Up until 2017 there was a quasi-fiscal equalization mechanism in place. Personal Income Tax revenues were redistributed between three levels of government through a complex set of shares depending on the local government development index with the aim of equalizing funding levels, enabling economic development and addressing demographic issues in underdeveloped local governments. This effort was coupled with higher tax credits and other tax incentives for residents. However, the scarce evidence available did not support the efficiency of this mechanism. The local government development index, the backbone of the system, was highly criticized for misinterpreting the actual development capacity of individual local governments.

In 2016 and 2017 the Ministry of Finance worked with research institutions, academia, local government associations and other branches of government on restructuring the fiscal equalization mechanism. In 2017 the parliament legislated changes to the Law on Local Government Financing to simplify PIT redistribution and introduce a non-earmarked Fiscal Equalization Fund. As of 2018, local governments receive 60 per cent of PIT collected in their jurisdictions area; regional governments 17 per cent; another 6 per cent are allocated to local/regional governments for decentralized functions and 17 per cent are paid into the Fiscal Equalization Fund. Central government does not receive any share of the PIT.

Fiscal Equalization Fund is an automatic redistributive transaction account which delivers funding to the recipients daily, based on individual shares of local and regional governments in the Fiscal Equalization Fund which are set in advance of the budget year. Individual shares are calculated based on the type of local government (urban, rural or regional) and its historical five-year fiscal capacity (PIT revenue per capita) as compared to national averages (target PIT revenue per capita). Target fiscal capacity for rural local governments is currently EUR 262 per capita and EUR 343 per capita for urban local governments.

All key elements of the Fund (total funding, target levels, share calculation formula, automatic distribution) are prescribed by national legislation which is a subject to urgent review by the Constitutional Court should a local government unit address it. Benefits of such a system, aside of eliminating PIT revenue disparities, are transparent and predictable revenue streams, improved liquidity of local governments, better advocacy position for Local Government Associations and efficient judicial protection. The national government's budgeting process and individual bylaws have virtually no influence over the Fund, but economic trends and national taxation policies can affect funding levels.



## Assessment of the Practice

Currently, EUR 283 million (7.5 per cent of total local government revenue) gets distributed through the fiscal equalization mechanism. According to the data from the Ministry of Finance, in the first year of operation of the fiscal equalization fund, differences in fiscal capacity were reduced from 1:29.1 to 1:6.8 in rural municipalities and from 1:6 to 1:3.2 in urban towns.

Whether or not the fiscal equalization achieved aforesaid goals may be too early to tell just yet, but this certainly needs to be thoroughly researched. According to data from the Ministry of Finance processed by the Association of Cities in Croatia, 4 out of 92 towns who currently participate in fiscal equalization will no longer receive equalization funding in 2020 and funding levels will decrease for additional 13 towns compared to 2019 projections. Data on municipalities was not processed. This data alone implies that those 17 towns are on upward economic trajectory and 4 of them have already crossed the national average PIT revenue per capita. However, further research should take into account other relevant indicators such as relocation of taxpayers and (creation of new) businesses, investments in social infrastructure, demographic trends, etc.

The apparent success of the fiscal equalization system can be attributed to the fact that it solely observed fiscal capacities of local government units and provided local governments with autonomy in setting their own spending priorities, unlike measures which tried to solve a number of issues with a one-size-fits-all solution for 566 different urban and rural local governments. The Ministry of Finance played a pivotal role in the creation of the successful system by merging existing equalization funding streams into one and providing additional funding on top of it.

This practice has a direct impact on some of the issues tackled in other report sections. Fiscal capacity is prerequisite for local governments in Croatia to request devolution or decentralization of functions from regional or national governments. There is anecdotal evidence of municipalities already requesting decentralization of education function but the formal evidence is yet to surface. Media outlets report that local governments are providing additional social welfare support for elderly citizens, constructing new nursery facilities or providing fiscal incentives for young families, an effect of that is yet to be researched.

Participatory budgeting had been present to varying extent in Croatian local governments over the last 20 years or more, but struggling local governments were not engaging in it due to very limited funding available and local demographics. Some of the local governments which are beneficiaries of fiscal equalization are taking a proactive stance in participatory budgeting.





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Law no 127/2017 on Financing of Local and Regional Self-Government Units (*Zakon o financiranju jedinica lokalne i područne [regionalne] samouprave*)

### Scientific and Non-Scientific Publications:

A Bajo and M Bronić, 'Fiskalna decentralizacija u Hrvatskoj: problemi fiskalnog izravnjanja' (2004) 28 *Financijska teorija i praksa* 445

— Bronić M and Primorac M, 'Oblikovanje modela vodoravnog fiskalnog izravnjanja u Republici Hrvatskoj' (Association of Cities 2012)



## Structure of Local Government



## 4.1. The Structure of Local Government in Croatia: An Introduction

**Dario Runtic**, *NALAS Network of Associations of Local Authorities of South-East Europe*

Between the WWII and the Croatian independence, structure and number of subnational units changed frequently. A two-tier subnational government model dominated the era. The number of units varied from of 89 regional and 737 local governments in the 1950's down to 11 regional and 102 local government units during the last decade of the Socialistic Republic of Croatia.

The number of local governments increased significantly since the 1990's when Croatia declared its independence from former Yugoslavia. The 1992 Law on Territories of Counties, Cities and Municipalities laid out a new structure of subnational governments in the newly independent Republic of Croatia. Counties are regional governments, cities are urban local governments and municipalities are rural local governments. The 1992 Law established 20 counties, the City of Zagreb with dual city/county status, 68 cities and 405 municipalities. Over the course of years, fragmentation of local governments continued and currently rests at 20 regional, 555 local government units (127 cities and 428 municipalities) and the City of Zagreb with dual status.

The rationale for the 1992 fragmentation is frequently attributed to centralization of competencies and governance during war time. The legislative basis for such a territorial structure was established by the 1992 Law on Local Government and Administration. Both laws were published in the Official Gazette 90/1992 of December 30, 1992. The Law on Local Government and Administration stipulates that 'a municipality is a local government unit composed of several settlements which represents natural, economic and social unity interlinked with common interests of population', which basically provides grounds for broad fragmentation of the territory.

Both laws contain provisions related to voluntary amalgamation/border change and inter-municipal cooperation. The Law on Local Government and sectoral laws allow transfer of competencies between local, regional and even national authorities. Until 2015 the laws allowed representative bodies to change borders by mutual agreement of representative bodies and with prior consultation of citizens in case the border change affects inhabited settlement. Also, representative bodies or one third of the population can propose a change of territorial affiliation of the settlement or establishment of the new local government. As of 2015 the law was amended to provide for voluntary amalgamation of adjoining local governments. Representative bodies can decide to carry out amalgamation by majority vote of members of each representative body. Representative bodies are required to consult with the residents prior to a decision. Consultations are carried out under referenda rules and are obligatory for the representative body. There are no fiscal or other incentives for voluntary



amalgamation. So far there were no attempts at or cases of voluntary amalgamations of local governments. The lack of attempts at voluntary amalgamation could be attributed to the lack of external incentives and/or nationally driven initiatives for amalgamation. Limited resources coupled with the economies of scale should be one of the natural drives of change; however, major costs of public service provision (health, education, utilities) in lagging local governments are carried either by the regional government or neighboring local governments. Therefore, economies of scale do not seem to play a major role in voluntary amalgamation. External incentives may need to be used as a catalyst for voluntary amalgamation.

An alternative to amalgamation exists in a form of inter-municipal cooperation. Local governments are allowed to carry out their responsibilities through various forms of inter-municipal cooperation, be it joint administrative departments, companies or institutions. The Law on Local Government lays a broad foundation for voluntary inter-municipal cooperation and leaves it up to local governments to craft details of the cooperation through bi/multi-lateral agreements. There are no mandatory inter-municipal cooperation arrangements in provision of services. There are only a few examples of formal inter-municipal cooperation in Croatia and the subject area is not thoroughly researched. Therefore, the question remains why do local governments refrain from joint service delivery – be it lack of regulation, lack of incentives, political or other issues. In case of certain responsibilities that are provided by the regional government on behalf of smaller local governments (e.g. construction permitting), inter-municipal cooperation is limited because of legislative barriers. In case of some basic local government functions there may not be a sufficient economy of scale to encourage the change.

Joint local utility companies are a rather frequent form of service provision, although these are not considered voluntary cases of inter-municipal cooperation. These companies became ‘joint’ during the process of local government fragmentation in the 1990s – large local government were divided into several smaller local governments and each was given a share in the communal company. These companies primarily carry out water supply, wastewater and waste disposal services.

In terms of grassroots inter-municipal cooperation initiatives there are only a couple of examples in Croatia. One is the Kaštelir-Labinci, Sv. Lovreč and Vižinada joint Department for Finance and Legal Affairs in Istria. The other is a joint non-profit organization for international relations originally established by the municipalities of Tovarnik, Ilok, Nijemci, Tompojevci and Lovas.

## References to Scientific and Non-Scientific Publications

Legal Documents:

Law no 110/2015 on Territories of Counties, Cities and Municipalities



Law no 98/2019 on Local and Regional Self-Government

Scientific and Non-Scientific Publications:

Antic T and Ivanovic M, *Handbook for Inter-Municipal Cooperation* (Association of Municipalities 2011)

Pigey J H and Tomašević V, 'Inter-municipal Cooperation and Public Service Provision: International Practices, Case Studies in Croatia and Recommendations' (The Urban Institute/USAID 2006)



## 4.2. Inter-Municipal Cooperation of the Island of Krk

Dario Runtic, *NALAS Network of Associations of Local Authorities of South-East Europe*

### Relevance of the Practice

Inter-municipal cooperation of the Island of Krk is one of the very few examples of inter-municipal cooperation combining informal cooperation and planning, joint public service funding and delivery. It contradicts inexistent cooperation practices through a variety of intergovernmental relations. Furthermore, it raises important questions related to preconditions or enablers of inter-municipal cooperation in an environment that does not seem to discourage nor incentivize inter-municipal cooperation.

This practice is an example how (in)formal inter-municipal cooperation and planning can address problematic realities of the urban-rural divide.

### Description of the Practice

The Island of Krk is located in the North Adriatic Sea. It has a surface area of 405km<sup>2</sup> and a population of 17,860. It is connected to a mainland by a 1430m long tolled bridge constructed in 1976-1980 period. The distance between the Island of Krk and the nearest large economic hub (the City of Rijeka, population of 120,000, third largest local government in Croatia) is 22km. The key industries are tourism, agriculture and oil.

During the period of 1945-1992 the Island of Krk used to be a single unit of local government. In 1992 it was fragmented just as the rest of Croatia into 7 local government units – the City of Krk and 6 rural municipalities. The Island remained fragmented until this day. Historic records claim the Island was divided into 5 areas from the 7th to the 19th century.

The legislative framework for local governance, funding, employment and other areas relevant for inter-municipal cooperation applies equally to island and inland municipalities.

In the period of fragmentation in 1992, an informal coordination of city and municipal mayors of the Island was created as a means of coordinated planning and development of the island. There is scarce evidence on the establishment and methods of operation of the coordination. Interviews with the coordination members reveal that coordination meetings are challenging, but with realistic outcomes. Further, it notes that the coordination meetings are taking place at regular intervals depending on the urgency of matters to be addressed and all local governments are required to act accordingly. Recent public disclosures, especially related to Covid-19 pandemic, confirm regular activities of the coordination and the fact that the



conclusions of the coordination are being translated into operational, legislative and development actions of individual local governments.

Besides of informal coordination, there are formal cooperation mechanisms in place. All local units are owners of the local utility company called Ponikve. Although the joint utility company was not established as a result of voluntary cooperation initiative, as discussed above, it is still being jointly managed by all local government units. Originally established in 1960s the company was tasked with fresh water production. In 1986 it merged with a utility company from Omišalj and expanded operation into waste management, maintenance of public and green areas, cemetery and wastewater. Since 1991 until today due to national legislative changes various services were outplaced into specialized companies owned by island local governments which provide those services for the whole island. National legislative changes required that water supply and wastewater services must operate as individual entities. In effect, this forced local governments to split Ponikve into three specialized companies – (i) water services and sewer, (ii) waste collection, construction, electricity and other communal services and (iii) shared services.

Communal utility companies of the Island of Krk are highly reputable companies in this sector with exceptional results compared to their peers. Water supply losses in Croatia, according to various public sources, are approximately 40 per cent of water extracted from the wells. Ponikve officially reports losses below 20 per cent. Over the last 20 years, the number of users connected to waste water services linearly grew from 1,500 to 11,683 users. Over the last 15 years, the share of recyclable waste collected increased from 18 to 57.8 per cent.

The firefighting service for the whole island is jointly funded and provided through the island's Firefighting Union. Members of the Union are Professional Fire Brigade Krk and voluntary firefighting associations of island municipalities. All local governments are signatory to two Agreements on financing fire protection which include funding for regular services, firefighting and development of fire protection system.

Furthermore, all island local governments have established a joint kindergarten/preschool facility and provide joint funding for this service. There is a central kindergarten/preschool facility and municipal outposts which provide service to residents of various municipalities while the central facility also provides shared services for outposts.

Although not directly related to inter-municipal cooperation it is also worth noting that the city has initiated activities related to development of its own fiber-optics broadband network in 2009. The island's local governments are also actively attracting new technologies and services to the island, including network of e-mobility chargers, IoT demonstration sites, etc.





## Assessment of the Practice

Although the enabling or preventing effects of legislation on inter-municipal cooperation were not studied in-depth, the example of Island of Krk demonstrates that the current legislation does not have a preventing effect. The cooperation does not seem to be a product of a broad political platform, so one could raise a valid question whether the cooperation is geographically conditioned.

However, the fact that other islands have not established broad cooperation mechanisms raises a question whether there are potential obstacles in the process or should the legislation provide (or highlight any existing) incentives for cooperation. Further research on historical or other issues related to Krk cooperation is advised.

## References to Scientific and Non-Scientific Publications

### Legal Documents:

Law no 110/2015 on Territories of Counties, Cities and Municipalities

Law no 98/2019 on Local and Regional Self-Government

### Scientific and Non-Scientific Publications:

Antic T and Ivanovic M, *Handbook for Inter-Municipal Cooperation* (Association of Municipalities 2011)

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# Intergovernmental Relations of Local Governments



## 5.1. Intergovernmental Relations of Local Governments in Croatia: An Introduction

**Dario Runtic**, *NALAS Network of Associations of Local Authorities of South-East Europe*

The Croatian intergovernmental legal framework contains a number of provisions related to distribution of competencies, local government autonomy, intergovernmental dialogue or consultation and legal remedies.

Croatia has ratified the European Charter for Local Self-Government in 1997 partially and 2008 fully. The Charter provides for full and exclusive transfer of competencies to the government level closest to the citizens, considering efficiency of service provision; adequate fiscal resources; consultation, supervision, right to associate, boundaries protection and legal protection.

The Constitution of the Republic of Croatia provides a general competencies framework for local government which is further elaborated in the Law on Local and Regional Government and detailed in sectoral legislation. Distribution of fiscal resources, supervision and legal remedies are prescribed in the same fashion. In addition to general and detailed provisions, legal protection of local governments is additionally prescribed in constitutional law on Constitutional Court. Constitutional laws can be passed and amended by 2/3 majority of the parliament. Consultations among government levels and with the public are also prescribed in aforesaid legislation and further elaborated in the Law on Access to the Information. The right to associate is defined in the Law on Local and Regional Government, allowing local governments to establish national associations of local or regional governments should more than half of local or regional governments decide to do so.

The Croatian governance system is a three-tier system – national, regional and local government. National level counterparts in broadest terms are central government, legislature and judiciary. Regional government counterparts are primarily counties and their budgetary users. Local level counterparts are two distinct types of local governments – urban and rural - and their budgetary users and utility companies.

Intergovernmental relations in Croatia take various forms both in terms of vertical or horizontal relations. Having a three-tier governance system, vertical relations come in various forms from national to subnational, national to local, national to regional or regional to local, and vice versa, among any and all of aforesaid counterparts.

Horizontal relations are primarily any of the inter-municipal cooperation formats – joint utility companies, joint budgetary users or joint municipal departments or recently developed project agglomerations.



Most common vertical intergovernmental relations take place within legislative process framework and execution of competencies. Over the course of past few decades, the legislative process had undergone major changes in its form and dynamics. Some fifteen years of Croatian independence, the legislative process was mostly a national governance affair with rather limited input from the general public, which started to change during the following decade. Opening towards public input was of limited effect due to the fact that national government and parliament had to ramp-up the legislative process in order to timely adopt, transpose and implement EU *acquis communautaire*. Upon completion of adoption of the *acquis* and joining the EU, the legislative process decreased in pace allowing for substantial input from the general public and interested parties. An important cornerstone of the legislative process is the Parliamentary Board for Local Governments which involves members of the parliament as well as local and regional governments in discussion with the representatives of the government.

Aforesaid legislative process coupled with centralistic governance and fragmented subnational government had created an intertwined and overlapping matrix of competencies of three distinct levels of governance in public service provision. Such complex distribution of competencies, sometimes bordering with or crossing local autonomy lines, inevitably leads to intergovernmental issues and inefficiencies in public service provision. In such cases concerned levels of government often call for amendments to the legislation or legal remedies.

Intergovernmental judiciary relations are infrequent but tend to change the intergovernmental landscape when successfully executed by the local governments.

## References to Scientific and Non-Scientific Publications

### Legal Documents:

Law no 4/2008 on Ratification of European Charter of Local Self-Government

The Constitution of the Republic of Croatia, 2014

Law no 85/2015 on Access to the Information

Law no 73/2017 on Referenda and Other Means of Personal Participation in State and Local Affairs

Law no 98/2019 on Local and Regional Self-Government

### Scientific and Non-Scientific Publications:

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## 5.2. Institutionalization of Intergovernmental Relations in Croatia

Dario Runtic, *NALAS Network of Associations of Local Authorities of South-East Europe*

### Relevance of the Practice

There are two levels of subnational governments in Croatia, regional (counties) and local (cities and municipalities). Competencies and finance differ significantly between regional and local governments, although large cities have taken over some of the competencies of the regional government. There are many similarities in competencies of cities (urban) and municipalities (rural) local governments as well as funding arrangements. However, the underlying economic and demographic factors are distorting service provision levels and fiscal capacities of cities and municipalities.

Three types of subnational entities are involved in informal or formal legislative processes in order to realign the structure of competencies or improve fiscal capacities of respective regional or local governments. Large cities and regional governments could distort the competency-finance matrix due to their relative political and economic weight thus widening the urban-rural divide.

A highly polarized political environment makes it rather difficult for an individual or a smaller group of politically aligned or likeminded local governments to successfully address national policy or legislative issues since such efforts are commonly observed with political bias or through a prism of potential political gains. Fragmentation of the local government landscape further derails any such individual or small group activities because of relatively limited political influence of executives of small and economically minor local government units.

Institutionalization of intergovernmental relations is one of the vehicles used in order to establish a non-partisan and transparent policy process that balances the interests of urban and rural communities or lagging and developed areas.

### Description of the Practice

When it comes to institutionalization of intergovernmental relations and balancing of urban-rural interplay, Parliament is one of the key institutions tasked with this function. Therefore, it is essential to establish a proper balance among key actors of intergovernmental dialogue at the parliamentary level in order to safeguard interest of all parties involved.



A three-level mechanism of institutionalized intergovernmental relations in the parliament is the Parliamentary Board for Local Government. The primary task of the board is to prepare or discuss draft legislation and legislative initiatives and provide advice or amendments on proposed legislation to the parliament. The board can also discuss citizens' complaints and proposals related to local governance.

The board can hire, involve scientific or other organizations and individuals in preparation of the proposals or reviewing acts, or propose to the government to entrust specific ministries with such a task. The board is also authorized to carry out public hearings related to proposed acts, parts of the acts or resolving an issue of public interest. It can establish sub-committees or task forces to carry out some of those tasks.

Key areas of operation of the board include the structure and competencies of local governments; founding, termination and amalgamation of local government units; finance and legal issues related to local public servants.

The Ordinance of the Parliament prescribes that the board has a chairman, deputy chairman and eleven members appointed from the members of the parliament for duration of a term at the parliament. Additional nine members are representatives of the four largest cities, two counties and two municipalities (one continental, one coastal) and one lawyer. Although the Ordinance of the Parliament does not provide a seat for representatives of local government associations (LGA), the board has been inviting representatives of LGAs to all of its meetings for over a decade.

There are three national voluntary associations of local governments in Croatia, one for each type of subnational government – counties, cities and municipalities – as prescribed by the Law on Local and Regional Self-Government. The County Association represents all 21 counties, the Cities Association represents 126 out of 128 cities and the Municipal Association represents 328 out of 428 municipalities.

Local government associations in Croatia represent interests of their members before national authorities, the legislature and the Constitutional Court. In a highly polarized national political environment and a fragmented local government landscape, LGAs are the non-partisan and uniform voice of local governments which contributes to consensus building and the protection of local government interests. Sound LGA processes and policies in the legislative process contribute to a reduction of the urban-rural divide. LGA provides influential vote to small local governments by building policy consensus among most or all local governments of different political affiliations and economic power, and presenting or advocating for those policies in non-partisan fashion at the national level.

LGA executive boards are tasked with regular legislative policy consensus building. County and municipal associations' executive boards are comprised by one member from each county. Due to the fact that cities in Croatia range from large urban units to small units which equivalent municipalities, the executive board of the Association of Cities is comprised of all



seat-of-county cities and one other city from each county elected by the cities from that county. Such an executive boards structure helps maintain territorial, political and urban-rural consensus over legislative policy.

Croatia partially ratified the European Charter for Local Self-Government in 1997, leaving out some of the provisions LGAs considered critical for local governments. LGAs advocated before the line ministry for full ratification of the Charter in 2007/08 with no success. Therefore, in 2008, LGAs turned to the Parliamentary Board for Local Government for the full ratification of the European Charter for Local Self-Government. The board was receptive to the effort, which prompted the government to prepare amendments to the Law on Ratification of the European Charter and submit it to the parliamentary procedure. The Charter was fully ratified in 2008.

Ratification of the Charter included Article 9(5) which provides for the institution of financial equalization procedures for protection of financially weaker local government units. Generally, small towns and municipalities are fiscally lagging behind larger cities due to economic and demographic reasons which leads to a vicious cycle of increasing urbanization and widening of the urban-rural divide. Based on Article 9(5) of the Charter, the LGA initiated an expert study for fiscal equalization in 2011 and advocated for the institution of financial equalization. The government passed the legislation instituting financial equalization in 2017.

As previously mentioned, the Parliamentary Board for Local Government has an advisory role in Parliament and Parliament can overturn or ignore the advices of the board. Ignoring broadly accepted, non-partisan advice of the LGAs and/or advice of the board, the parliament on occasion passes a legislation violating local government autonomy or adequacy of financial resources guaranteed by the European Charter and the Constitution.

Should any of the LGAs find such a violation is critical, it can file a motion with the Constitutional Court requesting legislation review. The constitutional law on the Constitutional Court allows any individual or organization to file a motion with the Constitutional Court which will review it in a regular process that can take several years to complete. The constitutional law enables local councils to file a motion with the Constitutional Court for resolution within 30 days, should the issue relate to local government structure, competencies or finance. Therefore, LGAs can put a motion forward and provide local councils with a draft motion with request to submit it to the Constitutional Court to expedite the procedure.

In 2016 the parliament passed two laws, the Defense Law and the State Asset Management Law, despite objections of the Association that the laws are violating the right of local governments to freely dispose of own revenues and that the parliament would cross the boundaries of its legislative powers by approving such legislation. The laws exempted state and military facilities from paying the communal fee (a form of property tax or infrastructure impact tax) which is local government own source revenue. The Association filed two motions with the Constitutional Court and asked local councils to support the motion. Five local councils and the County Association supported one motion. In 2017 the Constitutional Court ruled that the parliament actually crossed the boundaries of its legislative powers and the laws violated





the right of local governments to freely dispose of local revenues and extensively explained the issue of local government fiscal autonomy for future reference.

However, in 2018 the parliament once again violated the fiscal autonomy of local governments by exempting state and military structures from paying the communal fee, despite extensive efforts of the LGAs to explain the relevant ministry that such regulation was already a subject to constitutional review. Two local governments submitted the motion for review to the Constitutional Court and the Court swiftly confirmed that the law is violating local government fiscal autonomy.

## Assessment of the Practice

The examples of successful and unsuccessful intergovernmental dialogue presented above illustrate the two sides of the intergovernmental relations' spectrum in Croatia. High level institutional intergovernmental relations mechanisms can be mission-critical in pushing forward broadly accepted norms and standards which are sometimes a precondition for improving overall local government environment, including fiscal equalization mechanisms aimed at reducing disparities among urban and rural local governments.

The existence of such advisory mechanisms does not guarantee legislation quality but it does allow different parties, irrespective of their political or economic power, to raise awareness of other stakeholders prior to legislative change. In extreme cases, seeking legal protection from the Court and setting a precedent, can also be seen as an input into (future) intergovernmental dialogue.

## References to Scientific and Non-Scientific Publications

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The Constitution of the Republic of Croatia, 2014

Law no 4/2008 on Ratification of European Charter of Local Self-Government

Law no 85/2015 on Access to the Information

Law no 98/2019 on Local and Regional Self-Government



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# People's Participation in Local Decision-Making



## 6.1. People's Participation in Local Decision-Making in Croatia: An Introduction

**Dario Runtic**, *NALAS Network of Associations of Local Authorities of South-East Europe*

The Croatian governance system is rather centralized with limited scope of competencies and decision-making decentralized to local level. In recent years, the national legislative process became more open to general public input through an e-participation platform, open data portals launched and public participation in decision-making became formally obligatory.

The Constitution guarantees freedom of expression and access to the information, right to referenda, right to local governance and right to directly participate in decision-making at the local level for Croatian and EU citizens.

The right of access to the information is further prescribed in the national Law on Access to the Information which applies to all levels of government. The law defines the procedure of the access and reuse of the information, obligation of proactive publishing of the information, mandatory consultations with the public and open data. Public authorities are required by the law to disclose requested information to the citizens proactively by publishing key legislation, general acts, reports, etc. via their web site in electronic and machine readable formats. They are also required to respond within 15 days to any citizen requests for information using the most viable method of information delivery and citizens can use the obtained information freely.

All public authorities are required to consult the public during the legislative process or preparing general acts, strategic or planning acts which affect rights and interests of citizens and legal persons. The authorities are obligated to publish draft acts on the national e-consultation platform or their web pages for a period of 30 days with a request for public input. Failure to do so may result in courts rendering such acts null and void.

The right to referenda is defined in a national Law on Referenda and Other Means of Personal Participation in State and Local Affairs. Parliament can, at its own decision or at the request of 10 per cent of the voters, start national referenda on changes and amendments to the Constitution and legislation, including new legislation. The President, at the request of the government or jointly with the Prime Minister, can start referenda on changes of the Constitution or other issue of importance for independence and preserving of the Republic. The national referenda must be held in case of the Republic joining the unions with other states. Decision at the referenda is passed by the majority vote under condition majority of voters voted at the referenda.

Local referenda can be started on local legislative issues, termination of a mayor's mandate or other issues within the scope of local government. Local referenda can be initiated by 1/3 of the members of the representative body, the majority of town quarters/neighborhood



councils, the mayor or 20 per cent of voters. In all cases, except in the case of 20 per cent of voters, the representative body must discuss the proposal and may call a referendum by absolute majority vote within 30 days. In case 20 per cent of voters initiated the referendum, within 60 days the Ministry of Administration will verify whether the initiative complies with regulation and the local representative body will call a referendum within 30 days.

Advisory referenda can be called by the government to obtain opinion of the residents of one or several local or regional government units about the territorial-administrative structure of that area. Local governments can call an advisory referendum for issues within its competencies. Decision is passed by the majority vote unconditionally.

Citizens' meetings can be organized by the neighborhood council to collect input on issues of local (neighborhood) relevance, discussion on needs and interest of the citizens or for resolving local issues. The process and voting process is defined by local statutes and bylaws. Voting is public unless participants decide differently. The decision of a citizens meeting is obligatory for neighborhood council or town quarter, but it is not obligatory for the representative body of the local government. Hence, the latter could overturn decisions adopted by the citizens meeting.

In general, the legislative framework is generally permissive for public participation in decision-making in Croatia at all government levels. A permissive legislative framework does not necessarily translate into an enabling or encouraging framework. Administrative fragmentation, three layers of government and overlapping competencies of different levels of government do not provide for broad coverage, individual responsibility, innovation and significant impact in governance which may be an additional reason why a limited number of citizens engage in decision-making process. Other reasons may be of historical nature – a significant number of the voters lived in a central government top-bottom authoritative or semi-authoritative era with limited incentives for participation in the decision-making process, which gradually changed over the last quarter of the century. Government entities, likewise, were used to operate without soliciting input of the public or plainly limiting public availability of drafts. The change of both governance procedures and public interest is supported by recent report findings. The Freedom of Information Commissioner 2018 Report notes that a number of inputs submitted via the national e-consultation platform nearly doubled compared to 2017 and the number of inputs that were accepted and shaped the new legislation or acts increased from 25.2 per cent in 2017 to 33 per cent in 2018. Although the exact number of individual participants is not disclosed, a total number of 11,739 inputs suggest the number of participants is still rather low. The increase in number of inputs is related to an increased acceptance and use of e-consultation platform by the state bodies. There were approx. 640 laws and regulations published at national e-consultation platform in 2017 and 980 laws and regulations in 2018. The increase of accepted inputs (inputs which were incorporated in draft legislation) is probably related to more proficient input offered by professional individuals or organizations who followed suit and joined the platform.



The non-encouraging legislative framework, slow and formal instruments of participation yielding limited results are nowadays being challenged by social media, digital platforms, on-line petitioning, virtual interest groups, instant think-thanks, etc.

Local governments are required by law to carry out public consultations in relation to local regulation and general acts using their web pages or national electronic system. At this point, access to a national electronic system is not available although it is being discussed between the state and national local government associations. Therefore, urban and rural local governments are using their web pages to enable public consultations, often by publishing an act and an offline form that can be submitted to the local government. There does not appear to be much difference in urban and rural practice. City of Rijeka seems to be attracting more substantial input and broader participation in its legislative and planning activities. The City of Rijeka launched an e-consultation platform in 2011, two years before consultations became a legal requirement and they seem to be the only one (or one of the few) to offer on-line submission of citizens' inputs. Early start coupled with on-line form suggests long-term effort and frictionless participation may be the key to increased citizen participation. A growing number of mayors is present at social media platforms, personally manages their accounts and participates in on-line discussions. New models of public participation are being implemented at local level – be it e-consultation platforms, gamification of the planning process, crowdfunding platforms and campaigns for community projects or participatory budgeting at municipal and neighborhood levels and schools or sectoral discussion on spending priorities.

## References to Scientific and Non-Scientific Publications

### Legal Documents:

Law no 85/2015 on Access to the Information

Law no 73/2017 on Referenda and Other Means of Personal Participation in State and Local Affairs

Law no 98/2019 on Local and Regional Self-Government

### Scientific and Non-Scientific Publications:

Bajok I and others, 'Principles, Guidelines and Protocols for Citizens' Participation in Decision Making' (MDP Inicijative 2012)

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Runtic D and Zulicek M, 'Participatory Budgeting: Practical Guide' (Croatian Association of Cities 2020)



## 6.2. Participatory Budgeting in the City of Pazin: Pazi(n)! Proracun (Watch out! Budget)

Dario Runtic, *NALAS Network of Associations of Local Authorities of South-East Europe*

### Relevance of the Practice

This practice is an example of a contemporary participatory budgeting process that directly involves citizens in the decision-making process, improves communication and builds trust between policy actors and citizens, eliminates sectoral disparities and encourages citizens to take an active role in decision-making processes in society. The process involves local decision-makers, town services and citizens in a transparent, open process aimed at effective management of limited resources, increased accountability and transparency of local governments.

The main goals of the practice are to institutionalize harmonized development of urban and rural settlements, improve quality of life of inhabitants and reduce perceived disparities between urban and rural settlements.

The City of Pazin is located at the heart of the peninsula of Istria. The County of Istria covers the whole peninsula and the seat of the county is in Pazin. The City of Pazin has a total of 8,638 inhabitants equally divided between an urban settlement of 4,386 inhabitants and 17 rural settlements of 4,252 inhabitants dispersed among 135km<sup>2</sup> of total area.

Due to its status of the seat of the county, the City of Pazin has broader competencies than other towns with a larger number of inhabitants which do not have such status or status of a large city (e.g. construction permitting, management of all public roads, etc.). These additional competencies were decentralized from higher level government onto select local and regional governments. Temporary funding was provided for construction permitting and limited funding is allocated for road management. These competencies therefore put additional strain on the town's resources, which in turn caused frustration and mistrust when the small municipal budget couldn't meet all expectations.

### Description of the Practice

#### The Process

The City of Pazin therefore decided to directly involve citizens in the 2014 budgeting process and carried on with the practice ever since. Citizens participate in a structured process to





submit investments proposals to the city administration which should be carried out the following year. Citizens also participate in sectoral discussions to address any sectoral disparities or issues in sectoral policies in the area of social welfare and health, economy and tourism, culture and tourism, education and sport. This is done through a participatory budgeting process, a democratic deliberative and decision-making process, which enables citizens to directly propose, discuss and prioritize budgetary spending. Most importantly, the process empowers the citizens by conducting an open forum in each rural settlement and providing them the right to vote which citizens' investment proposals will become part of the towns budget and executed during the following fiscal year. The process further motivates citizens to closely monitor the actual implementation of the city budget and broader policies in the long run.

The process contributes to the targeted and efficient spending of available financial resources, by investing in the real pressing needs of the citizens, decided by the citizens. Each neighborhood was allocated a lump-sum funding for investment priorities depending on the size of a neighborhood. Additionally, sectoral discussions were used to present draft sectoral policies to the citizens and collect their feedback on the policies and priority spending within the sector. The implementation of citizens' investment proposals raises the quality of life and work in local communities, which indirectly results in economic development, employment increase and reduction of poverty.

### **Kick Off**

Each year the city administration kicks-off the process by announcing the commencement of the participatory budgeting process through local media and other information outlets. Following the announcement, a citizens' public meeting is held at which the city administration lays out more details about the implementation of previous year's investment proposals and details of current participatory budgeting. In addition, city representatives present citizens the most important determinants of the city budget and the budget process by which citizens are well informed, familiar with the limits of the city budget and have more realistic expectations.

Following the public meeting, citizens submit their investment proposals to the city administration for the eligibility and costing review. The eligibility review process makes sure that (i) the proposal is within total budgetary allocation for citizens' investments (1 per cent of the overall city budget), (ii) the proposal deals with public property owned by the town, and (iii) the city has the authority to act on the proposal.

### **Cost and Eligibility**

The costing review calls for the city administration to review each proposal and estimate the costs of implementation based on similar prior spending and market prices for goods and services needed. Should the proposal require funding greater than allocated for participatory spending, but meets the other criteria, the city administration will take it under review for the



traditional budgeting process. Proposals complying with funding limits are passed forward for participatory budgeting process.

Sometimes citizens propose projects which call for action on private property, public property owned by other levels of government or public operators or require actions which are under competencies of other levels of government, public agencies or companies. In such cases the city administration forwards the proposal to the competent authority with request for action. It also notifies the citizens about this and provides them with contact information of competent authority should the citizens decide to follow up on the proposal.

### **Deliberation and Decision-Making**

Following the eligibility and costing review, local public hearings are organized in 12 neighborhood councils. During a local public hearing the city administration will present received proposals, results of eligibility and cost review, actions taken regarding ineligible projects and list of projects eligible for funding pending citizens' vote. Within the public debates in local boards, there is a time scheduled to open discussion, questions and dialogue between the representatives of the City of Pazin and its citizens. In this way, citizens get firsthand information and answers, and the city administration has an opportunity to identify problems and offer clarifications. That increases citizens' satisfaction and confidence in the work of the city administration.

During the local public hearing citizens cast a vote for investment proposals of their choice. Voting is limited to investment proposals within the neighborhood council area. Budgetary allocation for each neighborhood council is limited and may be insufficient for all investment proposals, much like the city budgets. Citizens knew up front budgetary limitations and had to vote for projects within the given limitations. Budgets were decided up front in equal terms for each neighborhood so that available funds are equally distributed among rural/urban neighborhoods. Therefore, citizens are encouraged to discuss their spending priorities in order to maximize the use of available funds for their community. Finally, top voted proposals adding up to the amount of the allocated budget are included in the city budget proposal. Although the final decision for approval of the city budget, which includes the neighborhood council spending proposal, lies with the city council, the council had not amended neighborhood spending proposals since inception of the process. The city council was involved in the process from the very inception and briefed on every step and overarching plan of participatory budgeting. Council members were invited to participate in public events and citizen voting sessions.

### **Sectoral Discussion and Priority Setting**

During the first year of the project sectoral discussions were held parallel to project submission in order to address any sectoral disparities or issues in sectoral policies in the area of social welfare and health, economy and tourism, culture and tourism, education and sport. One of the issues that came up during these discussions was inadequate street lighting, a rather



surprising find according to the mayor who expected that a priority might be related to inequalities in broadband access or similar. The city developed the Street Lighting Master Plan and resorted towards public-private partnership to address an issue.

In 2016 a priority setting discussion took place along participatory budgeting. Four major capital investments were presented (bus station, elderly home, elementary school and river protection project) and discussed with citizens in order to determine priority investments due to the scarcity of funding available.

### Reinventing the Practice

From 2014 to 2018 a number of small investments were implemented at the request of citizens and, seemingly, having minor issues resolved citizens begun requesting the resolution of financially more intensive issues. In 2018 the practice was 'reinvented' to address citizens' demands and further develop dialogue with citizens. Since 2018 citizens can propose projects directly at the public hearing and elaborate it in detail to representatives of the city administration. The city administration and the citizens are also given an opportunity to address how to efficiently use available funds to implement proposed projects. The neighborhood budget for 2018 doubled compared to 2014. The budgetary cycle was extended into two years, meaning that 6 neighborhood councils can propose and decide on projects in the first budgetary year while the remaining 6 neighborhood councils take their turn in the second year. This allows detailed discussion with a smaller group of citizens about financially more demanding projects which may not be completed within one budgetary year framework.

### Results

Since the beginning of the project in 2014 until 2019, 1,411 citizens have proposed 666 projects and selected 178 projects for implementation total worth EUR 420,000.

Year	Participants <sup>1</sup>	Budget (EUR)	Projects proposed	Projects selected
2014	182	40.500	100	19
2015	208	40.500	140	21
2016	158	67.500	130	40
2017	189	82.000	128	44
2018*	167	81.000	66	23
2019*	237	108.000	102	31

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<sup>1</sup> Participants include all citizens present in the public events, which were extensively communicated via traditional outlets (kick off event, radio, posters, flyers etc) and via electronic means, creating an opportunity for all interested parties to be present.



## Assessment of the Practice

Like the City of Pazin, other cities probably face similar problems. The limited budgetary resources, the large number of requests for infrastructure interventions and the impossibility of implementation of all necessary communal actions cause frustration and dissatisfaction amongst the citizens. In addition, some citizens believe that the budget is a purely political procedure which they can't influence.

Regardless of their social and political status, this process was extensively publicly communicated via traditional and electronic means and a kick-off event and allowed all interested citizens to send in their proposals, participate in public debates and vote for the most important investments. Furthermore, it allows the citizens to ask questions, express their opinion, provide suggestions to the city administration and obtain instant direct feedback which in turn increase trust in institutions and governance. An opportunity to draft and submit budgetary proposals, discuss priority spending and vote to maximize effects of public spending provides a very important educational component to the citizens and the administration. Citizens were educated on the budgetary process, sources of revenues, spending levels and limiting factors for the implementation of some of the citizens' demanded projects (ownership issues, managing authorities, planning and approval procedures, budgetary constraints, etc). On the other hand, the city administration benefitted from unique insight into citizens' priorities and expectations.

Finally, the multiple benefits of including citizens can be summarized as follows - involvement in decision-making and active participation in the political process leads to an improved relationship between the city and its citizens, promotes transparency and responsibility, strengthens the public trust in the institutions and their representatives and increases the level of political culture.

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