

DIRECTORATE-GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

REGIONAL DEVELOPMENT

**RESEARCH FOR REGI COMMITTEE -
ECONOMIC, SOCIAL AND
TERRITORIAL SITUATION
IN CROATIA**

IN-DEPTH ANALYSIS

This document was requested by the European Parliament's Committee on Regional Development.

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Abstract

This in-depth analysis was written upon request of the Committee on Regional Development, and it is an update of a similar document that was completed in November 2015. The aim is to inform Members about the political, socio-economic and administrative system of Croatia, in particular Šibenik-Knin and Karlovac Counties and the City of Zagreb. The analysis also provides an overview of cohesion policy in Croatia, including the arrangements in place for the 2014-2020 programming period and the European Territorial Cooperation programmes.

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LIST OF ABBREVIATIONS

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBC	Cross-border cooperation
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF/ESI Funds	European Structural and Investment Funds
EU	European Union
EUR	Euro
GDP (PPS)	Gross Domestic Product (purchasing power standards)
IPA	Instrument for Pre-Accession Assistance
ISPA	Instrument for Structural Policies for Pre-Accession
LRUs	Local and regional units
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
PA	Partnership Agreement
PHARE	Poland and Hungary: Aid for Restructuring of the Economies
R&D	Research and Development
SME	Small and Medium sized Enterprise (s)
TEN-T	Trans-European Transport Network
TO	Thematic Objective
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
YEI	Youth Employment Initiative

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1. THE REPUBLIC OF CROATIA: KEY FACTS AND FIGURES

The Republic of Croatia (Republika Hrvatska) is located in South-eastern Europe, it is part of the Danube valley and to the east it is bordering the Adriatic Sea. Neighbouring countries are Slovenia, Hungary, Serbia, Bosnia and Herzegovina and Montenegro.

Figure 1: Map of Croatia



Source: croatia.eu

The **land area** of Croatia is 56 594 km², and the sea and interior sea waters are 31 479 km². The coast line is 6 278 km long (mainland 1 880 km and islands 4 398 km). Croatia has **more than a thousand islands, islets, rocks and reef**, a fact that is of importance for the "geographical identity" of the country. Although the land area of Croatia is not very big (19th in size among Member States of the European Union), it has an **extremely varied relief**, with the three main types being: lowland Pannonian, mountainous Dinaric and coastal Adriatic. The highest point is Dinara peak - 1 831 m. About 62 % of the territory covered by the **river network** belongs to the Black Sea catchment basin, 38 % of the territory to the Adriatic catchment basin. Croatia is considered to be one of the classic karst countries in Europe, and it has **large reserves of underground drinking water**: in terms of the size of its per capita water reserves, Croatia is the third in Europe (behind Iceland and Norway). In addition, 47 % of its land and 39 % of its sea is designated as **specially protected areas and areas of conservation**: 19 National and Nature Parks, with some- designated as United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites.

According to the 2011 Census (Croatian Bureau of Statistics), the **population** of Croatia is 4 284 889 people, of which 48.2 % are men and 51.8 % are women. The majority of the population are Croats (90.42 %). The biggest minority with 4.36 % of the population are the Serbs, but a wide range of other ethnicities are also present in the country, including Bosnians, Hungarians, Slovenes, Italians, Czechs, and Romas (each ethnicity being less than 1 % of the total population).

Eurostat data for 2015 reports the population (the number of persons having their usual residence in a country on 1 January of the respective year) to be 4 225 316 persons. **The official language is Croatian, and the currency in use is kuna.**

1.1. Political and governmental/administrative structures

Croatia became independent from the former Yugoslavia on 25 June 1991; it joined the UN on 22 May 1992 and NATO on 1 April 2009. Croatia became candidate country for EU membership in June 2004 and accession negotiations were opened on 3 October 2005. The European Union (EU) Accession Treaty was signed on 9 December 2011; and at the referendum at the beginning of 2012, 66.27 % of Croatian voters supported accession to the EU. The parliament unanimously ratified the Accession Treaty and **Croatia became the 28th EU Member State as of 1 July 2013.**

Croatia is a **unitary state, with a unicameral parliamentary system** (the parliament is called Sabor), and it has three levels of governance:

- central (national) level,
- "regional"¹ level with the 20 Counties (*županija*) plus the City of Zagreb (The capital city of Zagreb has a special status, as it is both a Town and a County),
- local level with the 428 Municipalities and 128 Towns.

Figure 2: Counties and the City of Zagreb



Source: croatia.eu

Note: Karlovac County (IV), Šibenik-Knin County (XV), Zagreb (XXI).

¹ In several Croatian documents, available in English online, the term "region" refers to a county, and not to a NUTS2 region. For the sake of clarity, in this in-depth analysis the term "region" means NUTS2 regions.

Croatia underwent a **decentralisation process** that started in 2001 when certain functions and responsibilities were transferred from the national to the local level. A Commission for Decentralisation was created by the government in 2004 and overall, the reform of local self-government has long been present on the political agenda, strongly supported by international organisations and donors (e.g. EU CARDS and IPA, USAID). The category of large Towns (more than 35 000 citizens) was introduced in 2005, and these have broader self-government competences. The division of responsibilities, the territorial organization and budgetary issues of local units are regulated by several pieces of legislation; the financing system of local and regional units is mainly based on sharing of tax revenues (in particular the personal income tax) between the central government and the local and regional units (LRUs). **As regards their competences, cities and municipalities carry out locally important operations that directly affect the needs of the citizens** (tasks not assigned by constitution or law to state bodies). Obligatory tasks include among others housing and arrangement of settlements, zoning and town planning, pre-elementary and elementary schooling, protection and improvement of natural environment, etc. Counties on the other hand are in charge of operations of regional importance, in domains such as education; zoning and town planning; economic development; transports and transportation infrastructure.

The European Commission (EC), in its Croatia Country Report 2016, concludes that there is **high level of territorial fragmentation** of public administration that translates into a multiplication of functions and public bodies and weighs on efficiency. The decentralisation of functions to sub-national levels of government went beyond their fiscal capacity, resulting in strong reliance on central government transfers. Moreover, **weaknesses in administrative capacities and procedures** hamper (partially due to fragmentation of sub-national governance) management and absorption of European Structural and Investment Funds (ESIF/ESI Funds). Despite these weaknesses, reform of governance at local level is still not in sight.²

Finally, Croatia is divided into **two (earlier three) statistical (NUTS 2 level) regions**: Jadranska Hrvatska and Kontinentalna Hrvatska. The City of Zagreb and Karlovac County are in Kontinentalna Hrvatska, and Karlovac County is situated in Jadranska Hrvatska.

Figure 3: Statistical regions of Croatia



Source: cor.europa.eu

² Country Report Croatia 2016, SWD(2016)80 final/2 of 3.3.20156.

The **government in power** is a coalition that involves representatives of the Hrvatska demokratska zajednica (HDZ), MOST nezavisnih lista as well as independent ministers (without affiliation to a political party).³

Political summary	
Presidential elections	Latest one: 28 December 2014 and 11 January 2015
Legislative elections	Latest one: 8 November 2015;
Local elections	Latest one: 19 May and 2 June 2013
Head of State	President Kolinda Grabar-Kitarović (HDZ), elected 11 January 2015; inaugurated 15 February 2015
Head of Government	Tihomir Oreskovic, Prime Minister (since 22 January 2016);
Minister responsible for Cohesion Policy	Tomislav Tolušić,, Minister of Regional Development and EU Funds

1.2. The economy

Croatia had one of the wealthiest economies among the former Yugoslavian republics. Unfortunately, **the country suffered heavily during the war of 1991-95,** and **lost part of its competitiveness** compared to other economies of central Europe that were benefiting (at the beginning of the 1990s) from democratic changes. Also due to the subsequent introduction of reforms, Croatia had developed quickly until 2008 (see Figure 4 below).

Figure 4: Real GDP growth rate, 1998-2015



Source: Author, based on Eurostat data.

³ HDZ: Croatian Democratic Union, MOST nezavisnih lista: Bridge of Independent Lists.

Nevertheless, the country's economy turned out to be more vulnerable to shocks than that of the EU-28 average, and **the economic crisis affected Croatia strongly**. In 2009, the GDP shrank by 6.9 %, and the prolonged crisis has led to Croatia losing over 12 % of its output. In 2015, the GDP (market prices) of Croatia was EUR 43 897.0 million. Its GDP per capita (in PPS, 2014) reached 59 % of the EU-28 average (this proportion remained relatively stable, in the range of 56-64 % during the period of 2003-2014). In 2015, Croatia finally came out of the long period of recession; the real GDP growth rate was 1.6 % (slightly below the EU28 average of 1.9 %). The country experienced fluctuating inflation rates: between 0.2 % and 5.8 % in the period of 2004-2014. In 2015 deflation was recorded, the inflation rate (**annual average rate of change, harmonised consumer price index**) an indicator comparable across the EU, was -0.3 %.⁴

The **economy of Croatia is a service-based economy** with value added of this sector accounting for 66.8 % of GDP (the value added in the industrial sector accounts for 28.8 % of GDP, whereas in agriculture for 4.3 %)⁵. Both in the case of imports and exports, **the EU market represents more than 60 % of Croatia's total foreign trade activities**. The main partners (accounting for 58 %⁶ of trade) are: Italy, Germany, Slovenia, Austria, Bosnia and Hercegovina and Hungary.

The unemployment rate was 17.3 % and 16.3 % in 2014 and 2015 respectively, **the third highest among the EU 28 countries** (after Greece and Spain), considerably above the EU average of 9.4 %. The **harmonised unemployment rate in the age group 15-24** (40.3 % at the end of 2015) has the **exact same ranking among the EU Member States** (again after Greece and Spain), also above the EU-28 average of 19.5 %. In 2015, 13.2 % of the active population were registered as being on long-term unemployment (EU 28 average was 4.5 %).⁷ According to the analysis of the World Bank, the **impact on the profile of the poor**, as in principle economically active, better educated (and younger) persons in urban areas fall into poverty. According to Eurostat data, in 2014 **the proportion of people at risk of poverty or social exclusion** (24.4 % for the EU-28); however the indicator shows a slightly decreasing trend.

According to the EC's Country Report Croatia 2016, even though in 2015, Croatia came out of its six-years-long recession, and recovery is expected to continue over the next years, **risks remain in the economy**: "In a low inflation environment, high government and private debt, jointly representing more than 200 % of GDP in 2014, will continue to constrain public and private investment as well as household consumption." Investments however, are expected to start to become more robust due to the increased absorption of European Structural and Investment Funds (ESI Funds/ESIF)., The below table shows the Commission's macro-economic forecast for 2015 and 2016:

Table 1: European Economic Forecast Spring 2015 - Croatia

Forecasts for Croatia	2014	2015	2016	2017
GDP growth (% , yoy*)	-0.4	1.8	2.1	2.1
Inflation (% , yoy)	0.2	-0.3	0.3	1.6
Unemployment (%)	17.3	16.2	15.1	13.8

* year over year

Source: European Commission, [DG ECFIN-Croatia country page](#) (Accessed: 27 April 2016).

⁴ The paragraph is based on Eurostat data.

⁵ World Development Indicators, World Bank (2014)

⁶ Source: <http://www.investincroatia.hr/croatia-in-numbers-2/> (Accessed: 26 April 2016).

⁷ Source: Eurostat

Tourism is one of the most important and visible sectors of the Croatian economy.

Both tourist arrivals and tourist nights have steadily been growing since 2009, with seaside resorts accounting for over 80 % of the total arrivals and over 90 % of the tourist nights. The share of foreign tourist is very high, about (and sometimes above) 90 %.⁸

Despite the potentials, a recent EP study (see Table 2 below) has found that **South-Eastern Europe lags behind Central and Eastern Europe in tourist arrivals**, with Italy clearly dominating the tourism market in the Adriatic and Ionian area (Italy is a top destination in world-wide comparison).

Table 2: World Ranking of tourism economic indicators out of 184 countries (European Union – World Ranking out of World 12 regions)

	ABSOLUTE Size in 2014	RELATIVE SIZE Contribution to GDP in 2014	GROWTH 2015 forecast	LONG-TERM GROWTH Forecast 2015- 2025
Albania	106	33	177	96
Bosnia-Herzegovina	127	96	104	48
Croatia	55	19	132	86
Greece	29	41	97	110
Italy	7	84	147	182
Montenegro	141	34	7	3
Serbia	108	139	159	60
Slovenia	76	63	122	107
European Union	1	5	12	12

Source: WTTC Travel & Tourism Economic Impact 2015, Country Reports and EU Report.

Extract from the EP study on 'Adriatic and Ionian Region: socio-economic analysis and assessment of transport and energy links', December 2015.

1.3. Transport and energy

In Croatia (2015, Croatian Bureau of Statistics) **passenger transport by road** is as high as 58.7 % (by rail 24.4 %), **freight transport** by road reaches 62.4 % (by rail 9.3 %).

Two core Network Corridors (TEN-T) cross Croatia: the Mediterranean Corridor links the Iberian ports through Southern France, to Northern Italy, Slovenia and a branch via Croatia to Hungary and the Ukrainian border. The Rhine-Danube Corridor connects Strasbourg and Mannheim via two parallel axes in southern Germany, with a branch to Prague and Zilina to the Slovak-Ukrainian border, through Austria, Slovakia and Hungary to Romania.

According to the above mentioned EP study, **reform of the railway sector** in Croatia is well underway (unbundling, liberalisation, alignment with EU rules and regulations). Major international container operators are now present in Croatia. Increase in container traffic in the Port of Rijeka has had and is expected to have an impact on the rate of rail utilization. (The development plans of the Port of Rijeka include the intention to increase its market share in Central European – Mediterranean trade flows.)

⁸ Croatian Bureau of Statistics (20145), Croatia in Figures 2015, Zagreb, 2015.

Energy production in Croatia is typically dominated by hydro and conventional thermo powers, but the country also imports a substantial share of its energy consumption. The same EP study found that the energy system is fragmented (in the Balkan Peninsula and in relation to Italy). Also the area is not well connected to Central Europe and the Black Sea. Most countries on the Balkan Peninsula (the ones that have gas infrastructure, including Croatia) are heavily dependent on gas supply from the Russian Federation even though natural gas covers a relatively small percentage of energy demand in these economies.

Table 3: Basic Energy Indicators (2012)

	million	billion 2005 USD	billion 2005 USD	Mtoe	Mtoe	Mtoe	TWh	Mt Of CO ₂
World	7 037	54 588	82 901	13 461	-	13 371 ^(c)	20 915	31 734 ^(d)
OECD	1 254	39 490	39 202	3 869	1 543	5 250	10 145	12 146
Albania	3.16	11.22	25.69	1.67	0.39	2.07	6.14	3.83
Bosnia and Herzegovina	3.83	12.88	28.20	4.52	2.21	6.67	12.54	21.22
Croatia	4.27	44.95	68.29	3.45	4.39	7.92	16.30	17.19
Greece	11.09	208.22	234.49	10.43	19.44	26.55	61.13	77.51
Italy	60.91	1 729.86	¹ 605.06	31.86	132.60	158.80	321.38	374.77
Montenegro	0.62	2.88	6.59	0.71	0.37	1.06	3.36	2.30
Serbia	7.22	27.85	69.95	10.78	3.98	14.46	31.58	44.09
Slovenia	2.06	38.25	50.29	3.56	3.64	7.00	13.94	14.63

^(a) Gross production + imports – exports - losses.

^(b) CO₂ emissions form fuel combustion only. Emissions are calculated using the IEA's energy balances and the Revised 1996 IPPCC Guidelines.

^(c) TPES for world includes international aviation and international marine bunkers as well as electricity and heat trade.

^(d) CO₂ emissions for world include emissions from international aviation and international marine bunkers.

TPES= Total Primary Energy Supply

Source: IEA (2013)

Extract from EP study on 'Adriatic and Ionian Region: socio-economic analysis and assessment of transport and energy links', December 2015

Finally, In Croatia 76 % of households and 89 % of firms (without financial sector, 10 or more persons employed)) are connected to **broadband network**; EU-28 figures are 80 % and 95 % respectively (Eurostat, 2015).

2. ECONOMIC, SOCIAL AND TERRITORIAL SITUATION OF ŠIBENIK-KNIN COUNTY, KARLOVAC COUNTY AND THE CITY OF ZAGREB

As explained in the previous chapter, Croatia has 20 Counties with the City of Zagreb being both a Town and a County.

2.1. Šibenik-Knin County

Šibenik-Knin County (Šibensko-kninska županija) is situated in southern Croatia, in the north-central part of Dalmatia, with numerous islands belonging to its territory. On the east, it borders with Bosnia and Herzegovina, and to the west it hosts parts of the Adriatic Sea border with Italy. Its northern neighbour is the Zadar County, and to the south the Split-Dalmatia County. Two natural parks are situated in the county: Krka and the Kornati National Parks. The Cathedral of St James in Šibenik is part of the UNESCO World Heritage list.

Table 4: Key data - Šibenik-Knin County

Flag	
Area	2 984 km ²
County seat:	Šibenik
Settlements	5 towns and 15 municipalities
Population	109 375
Population density (per km²)	36.7

Sources: Census 2011, Statistical Information 2015, Croatian Bureau of Statistics

2.1.1 Governmental and administrative structures⁹

Administratively, Šibenik-Knin County is divided into **20 territorial units of local self-government: 5 towns and 15 municipalities**. Administratively, Šibenik-Knin County is divided into 20 territorial units of local self-government: 5 towns and 15 municipalities. Bodies of the county are the following: the Assembly (41 members, 6 representatives of the Serb minority, based in Šibenik), and the County Prefect. Currently, the President of the Regional Assembly is Mr. Nediljko Dujić (Party: HDZ), and the County Prefect is Mr. Goran Pauk (HDZ).

2.1.2 Socio-economic development¹⁰

The GDP of Šibenik-Knin County is 6 485 585.79 thousand kuna (2013 data, 856 347.1 thousand EUR), corresponding to **1.97 % of the country's GDP**. The **GDP per capita is 60 975.1 kuna**, (2013 data, EUR 8 051.1), 79 % of the national average. 2015 data of the Croatian Bureau of statistics shows that only **2.2 % of the total number of business entities** was located in the county.

⁹ Information largely based on the [Statute of the County](#). (Accessed: 8 September 2015)

¹⁰ Main source of data are several publications of the Croatian Bureau of Statistics (2015).

According to the results of the 2011 Census, **Croats amount to 87.4 % of the population of the county.** The biggest minority are the Serbs (10.5 %). **The biggest town is Šibenik** with 46 332 inhabitants, followed by Knin (15 407); the other three towns have less than 10 000 people. The population of the 15 municipalities ranges from 239 to 3481 inhabitants.

The data of the 2011 Census showed the following **distribution of people in employment across the key sectors of the economy:** 3.1 % of those in employment worked in agriculture/forestry/fishing, 23.7 % in mining/industry/construction and energy/water related activities, 70.2 % was employed in the services sector. **The unemployment rate was 25.5 % in 2014, above the national level of 22.2 %.**

The area of Šibenik traditionally has industrial production (mainly metalwork, but also small boat building). Wine making is also part of the local economy, with several vineyards forming winemaking sub-regions in a relatively small geographical area. The area also has a lot to offer for tourism industry, for example it is a popular sailing destination in the Adriatic and the wider Mediterranean region. As part of the business support infrastructure, a Business zone called Podi was established 3.5 km east of city Šibenik (12 companies with more than 500 employees; investors from Croatia, Slovenia, Germany, Austria, Italy and the Netherlands). There is also a business incubator in Šibenik (which, same as the Poni zone benefited from the CARDS programme (2002)).

As regards infrastructure endowment, A1 highway crosses the county; there is a port in Šibenik that specializes in bulk cargo transshipment, but with the growing importance of passenger traffic the port authority is in the process of creating a new passenger terminal. There are two regional airports within 60-70 km distance Šibenik (Split and Zadar).¹¹

2.2. Karlovac County

Karlovac County (Karlovačka županija) is situated in central Croatia, with border to the north to Slovenia and to the South to Bosnia and Herzegovina. It is also neighbour to four other Croatian counties (Primorje-Gorski Kotar, Lika-Senj, Zagreb and Sisak-Moslavina counties). The four important rivers are Kupa, Korana, Mrežnice and Dobra.

Table 5: Key data - Karlovac County

Flag	
Area	3 626 km ²
County seat:	Karlovac
Settlements	5 towns and 17 municipalities
Population	128 899
Population density (per km²)	35.5

Sources: Census 2011, Statistical Information 2015, Croatian Bureau of Statistics

¹¹ Information in the last two paragraphs is based on the websites <http://www.eurodyssee.eu/> and <http://www.podi-sibenik.com/eng/o-zoni.asp> and http://www.portauthority-sibenik.hr/en/port_authority/karakteristike.asp (accessed 27 April 2016).

2.1.1 Governmental and administrative structures¹²

Administratively, Karlovac County is divided into **22 territorial units of local self-government: 5 towns and 17 municipalities**. Administratively, Karlovac County is divided into 22 territorial units of local self-government: 5 towns and 17 municipalities. Bodies of the county are the following: the Assembly (41 members, 4 representatives of the Serb minority, based in Karlovac), the County Prefect. Currently, the President of the Regional Assembly is Mr. Željko Bokulić (Party: HSP Dr. Ante Starčević¹³), and the County Prefect is Mr. Ivan Vučić (HDZ).

2.1.2 Socio-economic development¹⁴

The GDP of Karlovac county is 7 381 857.2 thousand kuna (2013, 974 689.4 thousand EUR), corresponding to **2.2 % of the country's GDP**. The **GDP per capita** is 58 791.7 kuna (2013, EUR 7762.8), 75.96 % of the national average. 2015 data of the Croatian Bureau of statistics shows that only **2 % of the total number of business entities** was located in the county.

According to the results of the 2011 Census, **Croats amount to 86.1 % of the population of the county**. The biggest minority are the Serbs (10.4 %). **The biggest town is Karlovac** with 55 705 inhabitants, followed by Ogulin (13 915) and Duga Resa (11 180); the other two towns have less than 10 000 people. The population of the 17 municipalities ranges from 475 to 4 764 inhabitants.

The data of the 2011 Census showed the following **distribution of people in employment across the key sectors of the economy**: 5.3 % of those in employment worked in agriculture/forestry/fishing, 32.2 % in mining/industry/construction and energy/water related activities, 62.2 % was employed in the services sector. **The unemployment rate was 25.6 % in 2014, above the national level of 22.2 %**.

2.3. The City of Zagreb

The City of Zagreb is the **capital city and the biggest town in Croatia**. It is situated between the Pannonian plain, the edge of the Alps and the Dinaric range, on the slopes of Medvednica Mountain, in the Carpathian Basin. Thus, it is in a **natural "crossroads"**, a major transit area in terms of culture, trade and connectivity. **The city itself is crossed by the Sava, Danube and Drava Rivers**.¹⁵


¹² Information largely based on the [Statute of the County](#). (Accessed: 8 September 2015).

¹³ Hrvatska stranka prava dr. Ante Starčević (Croatian Party of Rights dr. Ante Starčević).

¹⁴ Main source of data are several publications of the Croatian Bureau of Statistics (2015).

¹⁵ It should be noted that the City of Zagreb is surrounded by Zagreb County (see Figure 2, territorial entity marked as "I."), the administrative seat of which is in Zagreb.

Table 6: Key data - Zagreb

Flag	
Area	641 km ²
Local governance	17 City Districts and 218 Local committees
Population	790 017
Population density (per km²)	1 232.5

Sources: Census 2011 Statistical Information 2015, Croatian Bureau of Statistics

2.2.1. Governmental and administrative structures¹⁶

Zagreb, as mentioned earlier, has a special status, it is a county and a Town at the same time. **The City of Zagreb is cultural, scientific, economic, political and administrative centre of the Republic of Croatia** hosting the seat of Parliament, President and Government of the country.

The Mayor of the City of Zagreb is Mr Milan Bandić. The City Assembly of Zagreb has 51 elected members. The President of the Assembly is Mr. Darinko Kosor (IHSL - Croatian Social Liberal Party).

City Districts and Local committees are legal entities, their scope of activities being regulated by the Statute of the City of Zagreb. The bodies of the City Districts are councils (11 to 19 members, members elected by the citizens of its territory) and presidents. The bodies of the Local committees are councils (5 to 11 members, members elected by the citizens of its territory) and Local committee presidents.

2.2.2. Socio-economic development¹⁷

The **population** of Croatia's capital, according to the 2011 Census, was 790 017 inhabitants; 93.14 % of the inhabitants are Croats, and there are 22 ethnic minorities present in Zagreb.

Manufacturing plays an important role in Zagreb's economy, with the most important activities being: production of electric machines and devices, chemical, pharmaceutical, textile, leather, food and drink and wood processing. Nevertheless, according to the results of the 2011 census, **only 11.34 % of those in employment were active in manufacturing** (and more than 7 % in construction and other industrial activities), whereas **79.49 % of people in employment worked in the service sector. The unemployment rate** was 11.2 % in 2014, **the lowest among counties**, but 1.7 percentage points higher than in 2012.

The University of Zagreb is the oldest in Croatia and one of the oldest in Europe (founded in 1669). The Croatian Academy of Sciences and Art is also seated in Zagreb.

¹⁶ Source: www.zagreb.hr (Accessed: 9 September 2015).

¹⁷ Main source of data are several publications of the Croatian Bureau of Statistics (2015).

There is a concentration of economic activity and a big disparity between the level of development in Zagreb, compared to other parts of the country. Zagreb is the richest city in Croatia, contributing by **33 % to the total GDP of the country**, and having the **highest GDP per capita of 137 320.7 kuna** (EUR 18 131.6) compared to the Croatian average of 77 464.6 kuna (10 228.3 EUR).¹⁸ The **average monthly paid off net earnings** in Croatia is 5 507 kuna (2013) whereas in the City of Zagreb it reaches 6 437 kuna. 2015 data of the Croatian Bureau of statistics shows that **32.2 % of the total number of business entities was located in the City of Zagreb.**

¹⁸ 2013, Croatian Bureau of Statistics.

3. EU COHESION POLICY IN CROATIA

3.1. Pre accession

Before joining the EU, Croatia had access to **several sources of support**: Community Assistance for Reconstruction, Development and Stabilisation (CARDS), Poland and Hungary: Aid for Restructuring of the Economies (PHARE), Instrument for Structural Policies for Pre-Accession (ISPA) and the Instrument for Pre-Accession Assistance (IPA). **Non EU sources were also made available**, including those of the World Bank, and the Western Balkan Investment Framework¹⁹.

During the 2007 to 2013 period, countries benefiting from the IPA had to focus on five components that were matching future cohesion policy instruments and themes. Countries had to set up implementing structures, such as audit authorities, which was to allow for gaining experience in programme management. In this period the key challenges Croatia was facing were the high turnover of staff dealing with programme management, and the handling of public procurement procedures. An EP study on administrative capacities²⁰ in Member States found that **upon accession, when Croatia became eligible for support from cohesion policy funds**, and was no more eligible for pre-accession support, **the necessary adaptation to differences in implementation systems** (structure, financial management, terminology, monitoring and evaluation, etc.) **required considerable effort from Croatian authorities and proved to be challenging**.

Nevertheless, regional and local stakeholders using IPA resources also had the possibility to acquire experience while implementing new type of projects in the fields of transport (railway infrastructure, inland waterways), environment (waste and water management), business and research & development, etc.

3.2. 2007-2013 period (The period from 1 July 2013 to 31 December 2013)

As explained in the above mentioned EP study, the accession date of 1 July 2013 created a **unique situation** for Croatia: only six months were left till the end of the 2007-2013 period, and it was not feasible to create programmes under 2007-2013 cohesion policy rules for such a short period of time.

The solution was that a provision was made within the 2013 budget to create convergence funds for Croatia to deal with the transfer from IPA to Cohesion policy funding. Some of the IPA Operational Programmes that were running at the time of Croatia's accession (such as the OP Transport) were turned into Convergence programmes that were to be funded from these allocations but to be run under the applicable rules of the 2007-2013 funding period.

These allocations amounted to around €449.4 million for Sustainable Growth, of which €299.6 million were to be funded from Structural Funds and €149.8 million from the Cohesion Fund. (...)

This means, in effect, that for the period leading up to 2016 the Croatian authorities will have to run structures and programmes for:

¹⁹ This Framework supports socio-economic development and EU accession. It is a joint initiative of the EU, International Financial institutions, bilateral donors and the governments of the Western Balkans.

²⁰ European Parliament (2014).

- IPA – mainly the larger programmes and projects financed under IPA and subject to IPA rules of implementation and financing;
- The Convergence OPs running under the 2007-2013 rules managed by the Managing Authorities that are not designated as such for the 2014-2020 period under the draft PA for the 2014-2020 funding period;
- The 2014-2020 period itself, with any specific changes in the rules from the 2007-2013 funding period now in force within a new organisational set-up (described below) and slightly different lines of communications and responsibilities;
- The responsibilities for closing the IPA and Convergence programmes during the 2014-2020 operational period.

Source: European Parliament study on Implementation of Cohesion policy 2014-2020: Preparations and administrative capacity of Member States (2014).

This transition period clearly meant additional pressure on staff dealing with programme management in the different authorities, additional audit and monitoring efforts and increased intensity of reporting tasks as progress is made parallel in different structures.

3.3. 2014-2020 period

The **Croatian Partnership Agreement (PA) was adopted on 30 October 2014;** it covers all 5 ESI Funds, and provides a framework for investments under all 11 thematic objectives (TOs) defined in the Common Provisions Regulation (CPR, Article 9)²¹. The following **priorities** are defined in the PA:

- Promoting innovation friendly business environment and developing a competitive and innovation-driven economy by stimulating the entrepreneurship, the research-development and innovation, as well as the e-economy,
- Developing infrastructure for economic growth and employment, in particular key networks (TEN-T) and sustainable urban transport,
- Supporting a low-carbon and green economy, by encouraging a sustainable and efficient use of natural resources, promoting the energy efficiency, as well as the adaptation to climate change,
- Developing human capital growth and tackling the mismatch of the labour skills by reforming the education curricula, developing the vocational education and training and the self-employment,
- Promoting social inclusion and reducing the risk of poverty by developing the social services, tackling the different forms of discrimination, and ensuring the shift from institutional to community-based services,
- Improving the healthcare services in an effective and cost-efficient way,
- Building a modern and professional public administration, developing the social dialogue and ensuring the efficiency and impartiality of the judiciary.

²¹ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJEU L 347. p. 320.

Croatia is allocated around EUR 8,61 billion (2014 prices) for Cohesion Policy (European Regional Development Fund - ERDF, European Social Fund - ESF, Cohesion Fund - excluding the transfer of EUR 456 147 292 to the Connecting Europe Facility) including EUR 66.2 million for the Youth Employment Initiative (YEI) and EUR 146.1 million for territorial cooperation. The ESF will be allocated a minimum of EUR 1.5 billion. Additional EUR 2 billion will be devoted to development of the agricultural sector and rural areas from the European Agricultural Fund for Rural Development (EAFRD). The allocation for European Maritime and Fisheries Fund (EMFF) amounts to some EUR 252.6 million.²² **Main features of concentration of funds are as follows:**

- ERDF: 57.2 % for TOs 1-4, including 13 % for low carbon economy;
- ESF share in the allocation of Structural Funds under the Investment for growth and jobs goal: 26 %;
- ERDF allocation in sustainable urban development actions: at least 6.3 %;
- Community-led Local Development: 3 % of the total EAFRD contribution to the Rural Development Programme and 7.5 % of the Fisheries programme;
- Climate change mitigation and adoption measures: more than 20 % of the ESIF allocation.

The whole territory (both NUTS 2 regions) of Croatia belongs to the category of "less developed regions". Cohesion policy will be delivered by **4 operational programmes** (OPs), as shown in Table 7:

Table 7: Croatian ESIF programmes, 2014-2020

Operational programme	TOs covered	ESI Fund	Allocation (EUR, EU contribution)
OP Competitiveness and Cohesion (national) Managing Authority: Ministry of Regional development and EU Funds	TO 1, 2, 3, 4, 5, 6, 7, 9, 10	ERDF, CF	6 881 045 559 CF: 2 559 545 971 ERDF: 4 321 499 588
OP Efficient Human Resources (national) Managing Authority: Ministry of Labour and Pension System	TO 8,9,10, 11	ESF, YEI	1.582.210.217
Rural Development Programme Managing Authority: Ministry of Agriculture	TO 1, 3, 4, 5, 6, 8, 9, 10	EAFRD	2 026 222 500
OP Fisheries	TO 3, 4, 6, 8	EMFF	252 643 138

Source: Summary of the Partnership Agreement for Croatia, 2014-2020, European Commission, Brussels, 30 October 2014.

In addition, the country will participate in **several ETC programmes**, which are described in Section 3.5 below.

²² Source: European Commission (2014), Summary of the Partnership Agreement for Croatia, 2014-2020, European Commission, Brussels, 30 October 2014.

3.4. EU Cohesion Policy in Šibenik-Knin and Karlovac Counties and the City of Zagreb - project examples

Karlovac County profited from EU co-financed grants already in the 2007-13 period. A project example is the "[Freshwater aquarium and museum of rivers - KAquarium](#)" in Karlovac, supported by the ERDF (HRK 36,222,282.45) under the Regional Competitiveness Operational Programme 2007 – 2013. According to its website, this project is due to be completed by September 2016, and aims to create an aquarium that "will represent the flora and fauna of Croatian rivers and lakes, geological history, traditional culture and history of the basins of the four Karlovac rivers". The project was developed by the City of Karlovac and the Karlovac County Development Agency - KARLA Ltd. Another example is the (at the time of writing) on-going project aiming at rehabilitation of a high risk hazardous waste "hot spot" (a location with high quantities of waste) next to Karlovac (Lemić Brdo), financed under the Environment OP 2007-13.

In Šibenik-Knin County the ERDF supported the [revitalisation of St Michael's fortress](#) in Šibenik (EU funding amounted to EUR 660 million under the Regional Competitiveness OP, 2007-13). This project included construction and furnishing of an open-air stage with 1077 seats and works on the underground part of the fortress; educational programs were also organised, and equipment purchased to boost the quality of the experience offered to visitors (e.g. a panoramic telescope). There are several (at the time of writing) on-going projects in the county, supported under the Environment OP 2007-13, that aim at improving water supply and waste water treatment (sewage systems and waste water treatment plants). Such projects are located in Knin, Drniš and in the agglomeration of Agglomeration Vodice – Tribunj – Srima.

The **City of Zagreb** has also made use of cohesion policy resources available for Croatia. **A project example is the Biosciences Technology Commercialization and Incubation Centre**, which is funded under the Regional Competitiveness Operational Programme for the 2007-2013 programming period (priority "Enhancing the competitiveness of the Croatian economy"):

Biosciences technology centre

On the campus of Zagreb University a Biosciences Technology Commercialization and Incubation Centre (BIOCentre) is being built using a € 14 million investment from the ERDF. This centre will provide support to biotechnology and life sciences start-up businesses in Croatia. The overall project objective of the BIOcentre is to develop technology transfer and commercialisation capacities of the higher education institutions and public research organisations. The Centre, which will have a floor area of 4 500^m², will include business and laboratory premises for small high-technology enterprises. A central laboratory designed for developing production processes involving bio-products in compliance with good manufacturing practices (GMP) will also be installed.

The project is funded through the priority "Enhancing the competitiveness of the Croatian economy" of the Regional Competitiveness Operational Programme for the 2007-2013 programming period.

Source: European Commission (2014), Cohesion Policy and Croatia, European Commission, March 2014 and [InfoREGIO](#) (accessed: 2 May 2016).

3.5. Territorial cooperation and macro-regional strategies in Croatia - project examples

In the 2007-2013 period, still under the IPA, Croatia participated in three CBC programmes, one with Slovenia and one with Hungary, and the third one included multiple countries. The third programme (Adriatic IPA Cross-border Co-operation Programme 2007-2013) involved three EU Member States (Greece, Italy, Slovenia), and four candidate/potential candidate countries (Croatia, Albania, Bosnia and Herzegovina, Montenegro). These programmes operated under IPA rules, and upon accession of Croatia into the EU, the first two were transformed into cross-border cooperation programmes under ERDF. **In the 2014-2020 programming period Croatia is involved in the following ETC programmes:**

ETC programme ²³	Brief description
Cross-border cooperation programmes²⁴	
IPA CBC Croatia - Serbia (adopted on 24 August 2015)	<p>The overall objective of this programme is to strengthen the social, economic and territorial development of the cross-border area through the implementation of joint projects and activities. The four funding priorities of this programme are:</p> <ul style="list-style-type: none"> - Improving the quality of public social and health services in the programme area; - Contributing to the development of tourism and preserving cultural and natural heritage; - Protecting the environment and biodiversity, improving risk prevention and promoting sustainable energy and energy efficiency; - Enhancing competitiveness and developing business environment in the programme area. <p>EU contribution: EUR 34 293 188</p> <p>Programme area (NUTS III): <u>Croatia:</u> Osijek-Baranja County, Vukovar-Srijem County, Brod-Posavina County, Požega-Slavonia County; <u>Serbia:</u> North Bačka District, West Bačka District, South Bačka District, Srem District, Mačva District</p>
IPA CBC Croatia-Bosnia and Herzegovina-Montenegro (adopted on 25 November 2015)	<p>Programme area: <u>Croatia:</u> Zagrebačka county, Sisačko-moslavačka county, Karlovačka county, Bjelovarsko-bilogorska county, Ličko-senjska county, Požeško-slavonska county, Brodsko-posavska county, Zadarska county, Šibensko-kninska county, Vukovarsko-srijemska county, Splitsko-dalmatinska county, Dubrovačko-neretvanska county; <u>Bosnia and Herzegovina:</u> 95 municipalities in North-East, North-West, Herzegovina, and Central BiH; <u>Montenegro:</u> Herceg Novi, Kotor, Tivat, Budva, Bar, Ulcinj, Cetinje, Nikšić, Podgorica, Danilovgrad.</p>
Interreg V-A Slovenia-Croatia (adopted on 1 October 2015)	The programme aims at promoting climate change adaptation and risk prevention, the valorisation of natural and cultural resources, the protection and restoration of biodiversity and the improvement of cooperation between citizens and institutions. It will also develop

²³ Source: [Inforegio - Programmes - Croatia](#) (accessed: 28 April 2016), and information received from EC, DG Regio.

²⁴ [Inforegio - Croatia-Serbia CBC](#) and [Interreg IPA CBC Croatia - Serbia](#) (accessed: 28 April 2016).

ETC programme ²³	Brief description
	<p>disaster management systems, promote a smart balance between conservation and mobilisation of cultural and natural resources for sustainable development and enhance institutional capacity. The draft programme has three priority axis:</p> <ul style="list-style-type: none"> - Priority axis 1: Integrated flood risk management in transboundary river basins; - Priority axis 2: Preservation and sustainable use of natural and cultural resources; - Priority axis 3: Healthy, safe and accessible border areas. <p>EU contribution (ERDF): EUR 46 114 193</p> <p>Programme area (NUTS III): <u>Slovenia:</u> Pomurska region, Podravska region, Savinjska region, Zasavska region, Posavska region, Jugovzhodna Slovenija region, Notranjsko-kraška region, Osrednjeslovenska region, Obalno-kraška region; <u>Croatia:</u> Primorsko-goranska County, Istarska County, City of Zagreb, Zagrebačka County, Krapinsko-zagorska County, Varaždinska County, Međimurska County, Karlovačka County.</p>
<p>Interreg V-A Hungary-Croatia (adopted 7 September 2015)</p>	<p>The programme aims to reinforce and expand the existing cooperative networks. It fosters economic development by supporting SMEs in product and service development, developing sustainable tourism through support to basic infrastructure. Actions are foreseen to promote more coordinated and sounder management of protected areas, and clearing up of minefields. Jointly developed and delivered educational and training services will also be supported.</p> <p>The programme has four priority axis:</p> <ul style="list-style-type: none"> - Priority axis 1: Enhancing the Competitiveness of SMEs; - Priority axis 2: Sustainable Use of Natural and Cultural Assets; - Priority axis 3: Cooperation; - Priority axis 4: Education. <p>EU contribution (ERDF): EUR 60 824 406</p> <p>Programme area (NUTS III): <u>Croatia:</u> Varaždinska County, Koprivničko-križevačka County, Međimurska County, Bjelovarsko-bilogorska County, Virovitičko-podravska County, Požeško-slavonska County, Osječko-baranjska County and Vukovarsko-srijemska County; <u>Hungary:</u> Baranya, Somogy and Zala counties.</p>
<p>Interreg V-A Italy-Croatia (adopted on 15 December 2015)</p>	<p>Funding priorities are as follows:</p> <ul style="list-style-type: none"> - Blue Innovation - Safety and resilience - Environment and culture heritage - Maritime transport <p>EU contribution (ERDF): EUR 201 357 220</p> <p>Programme area (NUTS III): <u>Croatia:</u> Primorsko-goranska County, Ličko-senjska County, Zadarska County, Šibensko-kninska County, Splitsko-dalmatinska County, Istarska County, Dubrovačko-neretvanska County, Karlovačka County; <u>Italy:</u> Teramo, Pescara, Chieti, Campobasso, Brindisi, Lecce, Foggia, Bari, Barletta-Andria-Trani, Venezia, Padova, Rovigo, Pordenone,</p>

ETC programme ²³	Brief description
	Udine, Gorizia, Trieste, Ferrara, Ravenna, Forlì-Cesena, Rimini, Pesaro e Urbino, Ancona, Macerata.
Transnational cooperation programmes	
Mediterranean ²⁵	<p>The aim is to promote growth in the Mediterranean area by fostering innovative concepts and practices. Sustainable use of (natural and cultural) resources will be encouraged, and support will be provided to social integration.</p> <p>Total OP budget: EUR 275 905 320</p> <p>EU contribution: EUR 233 678 308</p> <p>ERDF: EUR 224 322 525</p> <p>IPA: EUR 9 355 783</p> <p>Programme area: 57 regions divided among 10 EU Member States (Croatia, Cyprus, France, Greece, Italy, Malta, Portugal, Slovenia, Spain, United-Kingdom) and 3 IPA countries (Albania, Bosnia-Herzegovina and Montenegro). In the case of Croatia the entire country is eligible.</p>
Danube ²⁶	<p>The four funding priorities of this programme are:</p> <ul style="list-style-type: none"> - Innovative and socially responsible Danube region; - Environment and culture responsible Danube region; - Better connected and energy responsible Danube region; - Well-governed Danube region. <p>It will support policy integration in the area within a range of fields linked to the priorities of the EU Strategy for the Danube Region.</p> <p>Total OP budget: EUR 262 989 839</p> <p>EU contribution: EUR 221 924 597</p> <p>ERDF: EUR 202 095 405</p> <p>IPA: EUR 19 829 192</p> <p>Programme area: Austria, Bulgaria, Czech Republic, Germany, Croatia, Hungary, Romania, Slovenia, Slovakia.</p>
Central Europe ²⁷	<p>The overall objective of the programme is "to cooperate beyond borders to make central European cities and regions better places to live and work".</p> <p>Funding priorities are:</p> <ul style="list-style-type: none"> - Cooperating on innovation to make Central Europe more competitive; - Cooperating on low-carbon strategies in Central Europe; - Cooperating on natural and cultural resources for sustainable growth in Central Europe; - Cooperating on transport to better connect Central Europe. <p>Total OP budget: EUR 298 987 026</p> <p>EU contribution (ERDF): EUR 246 581 112</p> <p>Programme area: Austria, Croatia, the Czech Republic, Hungary, Poland, Slovakia and Slovenia, as well as parts of Germany and Italy.</p>

²⁵ [Mediterranean Programme](#) and [Inforegio - Mediterranean Programme](#) (accessed: 31 August 2015).

²⁶ [Inforegio - Danube programme](#) (accessed: 31 August 2015).

²⁷ [Inforegio - Central Europe programme](#) and [Central Europe programme](#) (accessed: 31 August 2015).

ETC programme ²³	Brief description
ADRION ²⁸ (Adriatic Ionian Programme 2014-2020)	<p>The programme is built around four thematic priority axes:</p> <ul style="list-style-type: none"> - Innovative and smart region (development of a regional innovation system for the Adriatic-Ionian area); - Sustainable region (sustainable valorisation and preservation of natural and cultural assets) and (transnationally tackling environmental vulnerability, fragmentation and the safeguarding of ecosystem services); - Connected region (integrated transport and mobility services and multimodality); - Supporting the governance of the EU Strategy for the Adriatic and Ionian Region. <p>EU contribution: EUR 83.5 million from the ERDF and EUR 15.7 million from IPA II.</p> <p>Programme area: 4 EU Member States (Croatia, Greece, part of Italy, Slovenia), 4 non-EU countries (Albania, Bosnia and Herzegovina, Montenegro, and Serbia).</p>

There are currently **5 Interregional cooperation programmes** (the so called INTERREG VC, succeeding the former INTERREG IVC), and **Croatia is participating in all of them** along with the 27 other EU MS²⁹: INTERREG EUROPE, ESPON 2020, INTERACT III, URBACT III.

Croatia is involved in two macro-regional strategies: the EU Strategy for the Danube Region, and the EU Strategy for the Adriatic Ionian Region. Croatia is part of both strategies with the entirety of its territory and has set up an inter-ministerial working group for regional cooperation³⁰, which is a forum that discuss the implementation of macro-regional strategies, and related topics such as the European Groupings for Territorial Cooperation etc. In the context of the Danube Strategy, the themes Croatia focuses on are: competitiveness and enterprises, environment (biodiversity) and education and innovation (promoting academic networks and innovation clustering in the region).

A project example in **Karlovac County** is a water conservation project that aims to preserve and restore small springs that could then be alternative sources of drinking water. Certain village ponds would also be restored, and could become important spots of biodiversity. The border area concerned is the Bela Krajina in Slovenia and the Žumberačke Mountain in Croatia. The project is expected to contribute to cross-border integration of isolated groups of fauna and flora and to prevent further fragmenting of their populations.

According to its website (www.zagreb.hr) **The City of Zagreb is fostering cooperation with other cities, including capital cities of EU Member States and candidate countries**, etc. with a focus on exchanging experience on urban development, transport, digital issues, using EU resources for development and research. Zagreb holds membership in several intercity organizations and associations (e.g. The Assembly of the European Regions – AER, Metropolis, Eurocities, etc.). As regards international presence, Istria was the first Croatian County to open a representative office in Brussels, Belgium. The Office was opened in June 2005 in collaboration with the Italian region of Friuli Venezia Giulia.

²⁸ [ADRION - South-East Europe net](#) (accessed: 31 August 2015).

²⁹ [Inforegio - Interregional cooperation](#) (accessed: 31 August 2015).

³⁰ Source: [Inforegio](#) (accessed: 31 August 2015).

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