

# Institutional support for strategic planning and economic development in the Republic of Croatia

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# PRESS RELEASES

## Institutional support for strategic planning and economic development in the Republic of Croatia

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**The Ministry of Regional Development and EU Funds (MRDEUF) has prepared a *Draft Proposal for an Act on the Strategic Development Planning and Development Management System* with a view to systematically solving the problems of strategic economic development planning, public policy coordination and governance by means of a more transparent division of roles between Parliament and the Government, as well as between the ministries and government bodies. The public hearing on the draft act proposal stays open until August 5, 2017.**

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### STRATEGIC PLANNING BEFORE 2017

***There are numerous sectoral strategies, but a national strategy is still missing.*** Until 2017, the Croatian Government discussed more than 200 development strategies and strategic operational plans and documents, some of which even obtained parliamentary approval. However, there is still no single umbrella strategy to define key national development goals and priorities and to formulate a strategy implementation framework. Despite the lack of own ideas and a vision of development, or of development strategies, the governments have adopted, since 2013, a series of documents containing key public policy determinants, such as the structural reform implementation (National Reform Programme), fiscal policy direction (Convergence Programme) or priority areas for investments from EU funds and national budget (Operational Programmes, i.e. the Rural Development Programme). Instead of creating a national strategy to coordinate the development priorities at the national and sectoral levels and harmonize them with the strategic priorities of the EU, the under-resourced administration improvised in trying to find a balance between sectoral priorities (where sectoral strategies existed) and the priorities set in the EU strategic documents.

***While a Regional Development Strategy has been in existence since 2009, it is unknown to what extent the individual development strategies of counties, as well as the development strategies and plans of cities and municipalities are connected therewith.*** All counties are required to follow the ***Guidelines for Drawing up County Development Strategies*** that ensure methodological compliance with the Regional Development Strategy goals. In strategic thinking of regional development there is still an open issue about how to coordinate the measures and instruments of economic and fiscal policies and to assess the effects of the regional policy measures implemented so far on the economic development of counties, cities and municipalities. Government's regional policy measures carried out so far have not been evaluated, nor have their fiscal and economic effects been assessed. The best example of this is the National Island Development Programme which was adopted by Parliament in 1997, but after 20 years there are still no analyses of the economic and fiscal effects of its implementation.

**Even without a national economic strategy, the Government and Ministry of Finance (MoF) in 2009 introduced a strategic budget planning system.<sup>1</sup>** This system is still to be brought into line with the goals and measures planned under the (future) national development strategy, as well as the action plans for its implementation. However, the budget planning system allows the goals set in individual development strategies of government ministries to be joined together into so called strategic plans and programmes, then quantified and entered into the budget by programme. Since 2009, government programmes have actually been the starting points for quantifying the Government's objectives and plans and entering them into the budget by programme. The MoF formulates strategic planning instructions and, in cooperation with the MRDEUF, prepares the National Reform Programme and Convergence Programme. The strategic budget planning has been made possible by introducing the programme budget classification, accompanied by budget performance indicators.

**The sectoral strategies adopted so far are still nothing but statements of wishes, because they are not clearly connected with budget planning.** In a multitude of sectoral strategies and strategic and operational plans, the connection with the national budget financing has been lost, except in the case of programmes co-financed from ESI funds, the implementation of which has been determined in the budget. However, we are still far from a well-developed strategic planning system which should: ensure close cross-sectoral coordination of strategic goals and priorities; monitor the accomplishment of goals and include corrective mechanisms (in case of deviations from the set goals), or even reformulate the goals (if so required by new circumstances). Basically, Government programmes have at the same time been bases for national budget planning and execution. However, the contents and methodologies of those programmes do not have all the necessary features of a strategic document which should form a basis for further planning. First and foremost, Government programmes lack a sound analytical basis, as well as a clear connection with key sectoral documents and the financial planning itself, where budget items are planned according to the set strategic goals and indicators, instead of being merely transferred from one year to the next. A too short time horizon of three years is another impediment to strategic behaviour in selecting key goals, measures and performance indicators. After all, without a clearly defined system for the evaluation of strategic plan implementation effects one can hardly speak of an acceptable strategic planning system.

#### **„STRATEGIC“ PROPOSALS FROM THE GOVERNMENT AND MRDEUF**

**A more efficient strategic development planning system.** The proposed act is aimed at improving the strategic public policy planning and management through a harmonized system of planning and designing, as well as implementation and performance assessment of those policies. **The strategic planning documents** are divided into documents: a) of national significance; b) of local and regional significance (relating to municipalities, cities and counties); c) connected with the EU economic governance framework; and d) related to the management of the EU funds.

**There are three types of national strategic documents:** (1) long-term documents (covering a period of at least 10 years), such as the National Development Strategy, cross-sectoral and sectoral strategies, which are adopted by Parliament; (2) medium-term documents covering a period of five to nine years, e.g. the National Plan adopted by Government; and (3) short-term documents which include the Government programme, Convergence Programme and National Reform Programme (adopted by Government), as well as the implementation programme of the central government administration body, adopted by its head, which coincides with the executive body's term of office.

**There are two types of strategic documents at the regional and local levels:** (a) a medium-term document, i.e. a local unit's *Development Plan*, adopted by a county assembly or a city or municipality council; and (b) a short-term document, i.e. the *Implementation Programme*, adopted by the executive body of a county or a local unit. The Implementation Programme covers the term of office of the relevant executive body, and is to be adopted no later than a hundred days after assuming office by the executive body. Several municipalities, cities or counties may work out a joint development plan.

**Connecting the national with the EU strategic documents.** The Act provides for including the documents concerning the accomplishment of the Republic of Croatia's (RoC) goals related to the EU policies and EU funds

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<sup>1</sup> Ministry of Finance, 2017. [Instructions for Drawing up Strategic Plans \(2010-2020\)](#).

use in the national strategic planning system. These documents relate to the RoC's participation in the European semester, i.e. the Convergence Programme and National Reform Programmes, Partnership Agreement and any other programmes arising therefrom and relating to EU funds use. However, as in the case of sectoral strategic documents, the Act only generally provides that the contents of such documents should comply with the content of a future national development programme, whereas detailed requirements are yet to be laid down in a Government Decree on Guidelines for the Preparation of Strategic Documents.

**The Act provides for establishing a coordinator network** for strategic planning at the national and regional levels. The central coordinator would be the MRDEUF, whereas each central government body would establish a strategic planning coordination unit. The responsible coordinators for local and regional self-government units would be appointed by mayors, municipality heads and county prefects.

**A new IT system is to be set up** for the preparation and monitoring of, as well as reporting on the strategic document implementation results. *A central registry of development projects is also to be introduced.* Croatia already has several capital project databases<sup>2</sup>, including an EU fund management IT system (*Management Information System - MIS*) as a base of all projects financed from ESI funds. The base is used for registering the projects and monitoring their implementation. Does the Act actually introduce another database, in addition to those already existing? It should be remembered that, despite the multitude of various project bases, Croatia still lacks a comprehensive overview of public investments financed directly from the central or local budgets, or through companies in state or local government units' ownership. Also, there is no information on the sources of financing for such projects (grants, loans, guarantees, etc.). However, it is yet to be seen whether the base, to be run by the MRDEUF, will be capable of covering all public investments in the country, which is a prerequisite for a well-designed public investment policy implementation.

**Combining strategic and spatial planning documents** (the national spatial plan and the spatial plans of local self-government units). Given lack of the existence of development strategies, spatial plans laying down development priorities, the designated uses, or changes in the designated uses, of space for commercial or public purposes have become unofficial (real) strategies. By finally setting up development priorities and through their integration into the operational measures and performance indicators, a new system should be set up, reflecting the necessary interventions into space, this time as part of a wider strategic planning system, instead of an isolated system with no connections with development strategies that have been in use so far. Therefore, the MRDEUF should pay particular attention to the Article 33 of the Act, providing that development strategies (including the National Development Strategy) should be brought into line with the National Spatial Development Plan and other spatial planning documents. It should be clearly stated that the National Development Strategy is the key document, and all other documents, including the National Spatial Development Plan, should comply therewith.

#### **POTENTIAL RESTRICTIONS ON THE ACT ENFORCEMENT**

**Political power of the strategic planning coordinator.** One of the greatest challenges of strategic planning is the efficient determination, interconnection and coordination of sectoral priorities in order to maximize common effects at the interdepartmental level and achieve optimal harmonization among participants. Such cooperation involves, among other things, taking tough decisions in situations where some departments are perceived as „winners“ and others as „losers“. Given the delicacy of such situations, the political power and authority of the coordinator (MRDEUF) and its cooperation with the MoF are of crucial importance.

**The quality of strategic planning at the local and regional levels** is very low due to a large number of local and regional self-government units, many of which have no staffing capacity or development potential for any serious strategic planning. Consequently, more often than not it comes down to merely satisfying form rather than content requirements of the local and regional development policies.

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<sup>2</sup> Maintained within the Ministry of Economy, Entrepreneurship and Crafts, Investment Centre and Agency for Investments and Competitiveness; it also has a local project database within the MRDEUF, etc.

**Keeping records of development projects in a database.** Without a detailed elaboration of all phases of the project investment cycle and the procedures for their entry, as well as the data reliability testing, it is hard to expect the development project database to be fully operational. Again, the cooperation between the MoF and MRDEUF is crucial for ensuring the correct input of project data in accordance with the instructions. The database should be run by the MRDEUF, whereas the MoF should be the key strategic partner which has authority in the relevant departmental bodies and units of local and regional self-government, and which devises ways of coordinating the project data entry activities with the budget planning and budget execution reporting processes, thus contributing to the credibility of the database as a tool for implementing a more effective investment policy.

**Is the implementation deadline of 2020 too tight?** The Government is supposed to submit the proposal for a long-term national development strategy to Parliament for adoption by March 1, 2020 and to adopt a medium-term national plan by December 31, 2020. Since the development of the National Strategy and the medium-term National Plan is unlikely to start before 2018, it is questionable whether two years are enough to finish the job, especially keeping in mind that the preparation of some sectoral strategic documents took more than two years. Meeting those deadlines is even more unlikely, because the drafting of by-laws will require plenty of participation from the MRDEUF and, consequently, strong political support from the highest level of government.

One cannot help concluding that the Act proposal is rather tentative, just giving hints about the development of an accountable strategic planning system. Nevertheless, the entire process may be clearer once the Government issues a decree laying down guidelines for the preparation of strategic documents and the rules on their assessment procedure. There is still a lot of work ahead of the competent authorities, including the preparation of subordinate legislation and new strategic documents, as well as the setting up of supporting IT infrastructure. In any event, the Act proposal is a major step forward towards an integrated strategic planning system enabling public policy makers to plan and manage the available economic potential in a more efficient way and to achieve better development results.