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The Effects of EU CARDS/IPA on Administrative Capacity in Croatia

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This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

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Signed:

A handwritten signature in blue ink, appearing to be 'A. Smith', written over a horizontal line.

Date: Monday, 04 March 2013

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## **Abstract**

The main purpose of this study was to establish whether and how EU pre-accession assistance in the form of Community Assistance for Reconstruction, Development and Stabilisation (CARDS) and Instrument for Pre-accession Assistance (IPA) acts as an instigator of institutional change (Europeanisation) via its influence on administrative capacity. The three major objectives were: to contribute to the growing literature on institution-building (Europeanisation) in the Western Balkans; to define and operationalise the term 'administrative capacity' in the context of Enlargement and pre-accession; and to conduct in-depth case study research on how CARDS and IPA affect administrative capacity in Croatia and how they interact with other factors influencing administrative capacity. The method of achieving this is to disaggregate information on administrative capacity into the component elements of institutional structures, financial and human resources, and administrative systems and procedures. The dissertation argues that EU pre-accession assistance exerts a positive role on learning processes but its effects on administrative capacity tend to be temporary or particular to 'islands of excellence' in the public sector and rarely become commonplace. With regard to structures, especially relating to management and partnership, mainly positive effects of assistance were identified, whereas there was only a slightly positive influence on human and financial resources. However, the number of positive effects of interventions on systems and tools was balanced by instances where no effects had been produced. Constraints identified comprised the late start of the programmes, the legacy of socialism, as well as war and the ensuing international isolation. Other obstacles included the lack of political will for reform, lack of coordination, non-existent human resources strategies, non-transparent procedures and poor implementation results. Further setbacks were the tokenistic level of funding, and the weak coordination of EU interventions with the enlargement strategy and the Stabilisation and Association Process (SAP). There is also a risk of regression in the capacities of the public sector after EU accession.

Keywords: administrative capacity, Croatia, Enlargement, pre-accession assistance, CARDS, IPA

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## List of abbreviations

AC	Administrative Capacity
ACB	Administrative Capacity-Building
ARR	Agency for Regional Development (Croatia)
BiH	Bosnia and Herzegovina
CAD	Current Account Deficit
CAO	Competent Authorising Officer
CAP	Common Agricultural Policy
CAQDAS	Computer-Assisted Qualitative Data Analysis Software
CARDS	Community Assistance for Reconstruction Development and Stabilisation
CBC	Cross-Border Cooperation
CBS	Croatian Bureau of Statistics
CDA	County Development Agency (Croatia)
CEE	Central and Eastern Europe
CEE-8	Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia
CEE-10	As above, plus Bulgaria and Romania
CEECs	Central and East European Countries
CEFTA	Central European Free Trade Area
CFCA	Central Finance and Contracting Agency
CFCU	Central Finance and Contracting Unit
CHU	Central Harmonisation Unit (MFIN)
CODEF	Central State Office for Development Strategy and Coordination of EU Funds (Croatia)
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CPCs	County Partnership Councils
CSOA	Central State Office for Administration (Croatia)
DAC	Development Assistance Committee (OECD)
DIS	Decentralised Implementation System
DPSP	Directorate of Public Procurement Systems (MELE)
EAR	European Agency for Reconstruction
EAS	European Administrative Space
EBRD	European Bank for Reconstruction and Development
EC	European Community or European Commission (based on context)
ECD	European Commission Delegation (Croatia)
ECJ	European Court of Justice
EDIS	Extended Decentralised Implementation System
EEC	European Economic Community
EP	European Parliament
EPOP	Environmental Protection Operational Programme (IPA)
ERDF	European Regional Development Fund
ESA95	European system of national and regional accounts
ESC	Economic and Social Cohesion
ESF	European Social Fund
EU	European Union

EU-10	Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia
FCO	Foreign and Commonwealth Office (UK)
FMC	Financial Management and Control
FYROM	Former Yugoslav Republic of Macedonia
GAPA	General Administrative Procedures Act (Croatia)
GFS	Government Finance Statistics (IMF manual)
HDZ	Hrvatska Demokratska Zajednica (Croatian Democratic Union)
HNB	Hrvatska Narodna Banka (Croatian National Bank)
HOS	Head of Operating Structure
HIT	Croatian Institute of Technology
HRD	Human Resources Development
HRDOP	Human Resources Development Operational Programme (IPA)
HRM	Human Resource Management
IA	Implementing Agency <i>or</i> Implementation Agreement
IB	Implementing Body
ICTY	International Criminal Tribunal for Former Yugoslavia
IFIs	International Financial Institutions
IMF	International Monetary Fund
IP	Intellectual Property
IPA	Instrument for Pre-Accession Assistance
IPAMC	IPA Monitoring Committee
IR	International Relations
ISPA	Instrument for Structural Policies for Pre-Accession
IT	Information Technology
IWG	Inter-ministerial Working Group
JHA	Justice and Home Affairs
JMC	Joint Monitoring Committee
JNA	Jugoslovenska Narodna Armija (Jugoslav People's Army)
LGAP	Law on General Administrative Procedures (Croatia)
LRD	Law on Regional Development (Croatia)
M	Measure
MA	Managing Authority
MC	Monitoring Committee
MEI	Ministry of European Integration (Croatia)
MELE	Ministry of Economy, Labour and Entrepreneurship (Croatia)
MFAEI	Ministry of Foreign Affairs and European Integration (Croatia)
MFIN	Ministry of Finance (Croatia)
MIFF	Multi-annual Indicative Financial Framework
MIPD	Multi-annual Indicative Planning Document
MIS	Monitoring Information System
MLG	Multi-level Governance
MOJALSG	Ministry of Justice, Administration and Local Self-Government (Croatia)
MOU	Memorandum of Understanding
MPA	Ministry of Public Administration (Croatia)
MRDFWM	Ministry of Regional Development, Forestry and Water Management
MS	Member State
MSES	Ministry of Science, Education and Sports (Croatia)

MSTTD	Ministry of Sea, Tourism, Transport and Development (Croatia, later MRDFWM)
NAO	National Authorising Officer
NAC	National Aid Co-ordinator
NATO	North Atlantic Treaty Organisation
NEI	Netherlands Economic Institute
NF	National Fund
NGOs	Non-Governmental Organisations
NIPAC	National IPA Co-ordinator
NPEI	National Plan for European Integration
NPM	New Public Management
NSRD	National Strategy for Regional Development (Croatia)
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics (from the French Nomenclature des Unités territoriales statistiques)
OBNOVA	Fund for the Reconstruction of the former Yugoslavia
OECD	Organisation for Economic Cooperation and Development
OP	Operational Programme
OPA	Old Public Administration
OS	Operating Structure
PA	Priority Axis
PAO	Programme Authorising Officer
PAR	Public Administration Reform
PEP	Pre-accession Economic Programme
PHARE	Poland Hungary Assistance for the Reconstruction of the Economy
PIFC	Public Internal Financial Control
PIU	Project Implementation Unit
PM	Prime Minister
PPA	Public Procurement Act
PPO	Public Procurement Office
PRAG	Practical Guide to contract procedures for EU external actions
RCOP	Regional Competitiveness Operational Programme (IPA)
RDA	Regional Development Agency
ROP	Regional Operational Programme
SAA	Stabilisation and Association Agreement
SAO	State Audit Office
SAP	Stabilisation and Association Process
SAPARD	Special Accession Programme for Agriculture and Rural Development
SCF	Strategic Coherence Framework
SEA	Single European Act
SEE	South East Europe
SEE-6	Albania, Bosnia and Herzegovina, Croatia, FYROM, Montenegro, Serbia
SEECF	South East Europe Cooperation Process
SEECs	South East European Countries
SF	Structural Funds
SFRY	Socialist Federal Republic of Yugoslavia
SIDA	Swedish International Development Assistance
SIGMA	Support for Improvement in Governance and Management

SMART	Specific, Measurable, Achievable, Realistic, Timely (objectives)
SMSC	Sectoral Monitoring Sub-Committee
SPO	Senior Programme Officer
SPSEE	Stability Pact for South Eastern Europe
STA	Single Treasury Account
TA	Technical Assistance
TAIB	Technical Assistance Institution Building (IPA I)
TW	Twinning
TWL	Twinning Light
TOP	Transport Operational Programme (IPA)
TOR	Terms of Reference
UNOPS	United Nations Office for Project Services
UNSCR	United Nations Security Council Resolution
US	United States
USKOK	Office for the Suppression of Corruption and Organised Crime (Croatia)
WB	Western Balkans
WWII	Second World War

*The question for us is, how shall our series of governments within governments be so administered that it shall always be to the interest of the public officer to serve, not his superior alone but the community also, with the best efforts of his talents and the soberest service of his conscience? How shall such service be made to his commonest interest by contributing abundantly to his sustenance, to his dearest interest by furthering his ambition, and to his highest interest by advancing his honor and establishing his character? And how shall this be done alike for the local part and for the national whole?*

Wilson, Woodrow. 1887. The Study of Administration, *Political Science Quarterly*, 2(2), 197-222.

## 1. Introduction

The question of administrative capacity, and what might be the ideal course of action for building it, is an important concern for the EU and Member State (MS) public administrations. The founding treaties of the European Communities, as well as subsequent revisions, have not sought to harmonise European public administrations. However, the European Court of Justice (ECJ) has gradually developed a case law on administrative principles, and contacts between national administrations have generated peer pressure and spread models and approaches across national boundaries (Cardona 1999, pp. 17-18). The issue was given more attention in the late 1990s during the preparations for the EU's Eastern Enlargement, when administrative criteria for acceding countries were set for the first time (Dimitrova 2002). More recently, EU MS (particularly in the Eurozone) have been facing intense pressure from the EU institutions, combined with market pressure, peer pressure and the threat of sanctions, to improve their administrative capacities in terms of economic governance (European Commission 2012d).

Although there is no single, concrete European administrative model, scholars see signs of emergence of a European Administrative Space (EAS) (Olsen 2003; Heidbreder 2011). The EAS is defined as 'the area in which increasingly integrated administrations jointly exercise powers delegated to the EU in a system of shared sovereignty' (Hofmann 2008, p. 662). The EAS has been described as a metaphor that contains 'blank concepts' that encompass characteristics of public administration across the EU (Heidbreder 2011, p. 715). Four groups of principles of administrative law encapsulate these concepts: (i) reliability and predictability (legal certainty), (ii) openness and transparency, (iii) accountability, and (iv) efficiency and effectiveness (Cardona 1999, p. 8). In the pre-accession context, which is of interest here, these broad principles were given specific meaning through the elaboration of baseline criteria (Heidbreder 2011, p. 717). This task was delegated by the EU to the Support for Improvement in Governance and Management (SIGMA) initiative of the Organisation for Economic Cooperation and Development (OECD). Therefore, the EAS was presented to candidate countries as shared principles that ought to guide

public administration reform; consequently, the EU set the establishment of sectoral and horizontal administrative capacities as a membership condition (Heidbreder 2011, pp. 715, 716).

The emphasis on administrative capacity-building also follows global trends. The post-1989 period was a time of drastic change in Europe, as reforms spread from market liberalisation to public administration and governance. On one hand, this meant efforts for institutional modernisation in older MS that often mirrored new approaches inspired by the New Public Management paradigm. Meanwhile, profound institutional reforms were introduced at EU level, related to the single market and single currency project, which constituted a formidable test for the capacities of weaker MS and regions. On the other hand, in the Central and East European Countries (CEECs), the reformist agenda of the International Financial Institutions (IFIs) encouraged steps towards a more effective, efficient and sustainable delivery of public policy.

The EU's response to the challenges that enlargement, market competition and the Euro posed to the CEECs was to provide its own policy of financial assistance for institution-building in the form of PHARE (Poland Hungary Assistance for the Reconstruction of the Economy, 1989-2006), which included an element of institutional capacity-building. This element became known as administrative capacity-building and aimed at safeguarding the management and implementation of EU policies and the absorption of funds. It was soon regarded as an imperative in countries preparing for membership, attracting expert and practitioner attention as well as academic interest. In the South-East European Countries (SEECs), the war-time isolation meant that administrative capacity-building interventions only began in the early-to-mid-2000s in the form of CARDS (2000-2006) but were well underway by the end of the decade through IPA (2007 onward). Consequently, administrative capacity has been central to the agenda of the last waves of enlargement and a topical issue in the management of Cohesion policy both in new and old MS.



Administrative capacity is a critical element of a country's ability to assume the obligations of EU membership. In the field of pre-accession, the EU has presented a somewhat coherent approach on the administrative conditions for membership. Even so, the last-admitted member countries of the fifth Enlargement – Bulgaria and Romania – have faced serious difficulties in the implementation of Cohesion policy, which were apparently not addressed during the period of accession negotiations and pre-accession financial aid. In Bulgaria and Romania, weak administrative capacity has resulted in suboptimal management and implementation of the Structural Funds and a subsequent loss of funding (Hope and Troeb 2008; European Commission 2008g). The lessons not learned in Bulgaria and Romania have increased the stakes for pre-accession assistance in the Western Balkan countries, especially with regard to the potential effects on administrative capacity. These events call for an increased scrutiny of the financial arm of the EU policies geared at strengthening the institutional environment in candidate states.

Situated between the Eurozone's southern periphery and the eastern Balkan states, Croatia constitutes a critical case for the application of EU assistance. The instruments of CARDS and IPA have been the financial arm of EU assistance to Croatia from 2000 to 2013, including a small interval of assistance under PHARE, the Instrument of Structural Policies for Pre-accession (ISPA) and the agricultural instrument SAPARD in the 2005-2006 programming years. After six years of pre-accession negotiations (2005-2011), Croatia is anticipated to join the EU on 1 July 2013 upon ratification of the accession treaty by all the 27 MS of the EU (European Commission 2012b, p. 2).

Building administrative capacity may be seen as necessary for Croatia in order to:

- a) meet its broad EU membership obligations ;
- b) ensure effective policy-making in all fields;
- c) achieve effective economic policy-making so as to integrate with the EU and guarantee economic prosperity;

- d) tackle certain deficiencies of Croatian public administration; and
- e) secure satisfactory absorption of future transfers from the Structural Funds and the Cohesion Fund.

This raises a number of serious points. First, although research on institutional capacity-building in Europe has been expanding, the concept of administrative capacity remains ill-defined and doubtful in terms of measurability and operationalisation. Second, whereas there has been extensive research on the domestic impact of EU policies, not least in the Enlargement countries, studies on their impact on national administrative capacities have been more limited. Third, the role of enlargement governance which has been utilising external financial assistance for capacity-building is only marginally addressed in the literature. Research has instead focused on economic and political criteria for accession, sidelining more instrumental and incremental approaches that are present in practice. Discussion on financial assistance instruments focuses almost exclusively on the volume of aid and financial absorption statistics, neglecting the project cycle, inter-institutional relations, systems, tools and processes and human resource aspects. Lastly, whilst some emphasis was given to developments at the sub-national level and to civil society mobilisation in the pre-accession process of the SEE countries, not much has been said about the changes taking place in national-level institutions and agencies in response to pre-accession financial assistance requirements.

The main purpose of this study is to establish whether and how EU pre-accession assistance in the form of CARDS and IPA acts as an instigator of institutional change (Europeanisation) via its influence on administrative capacity. The study's three major objectives are: to contribute to the growing literature on institution-building (Europeanisation) in the Western Balkans; to define and operationalise the term 'administrative capacity' in the context of Enlargement and pre-accession; and to conduct in-depth case study research on how CARDS and IPA affect administrative capacity in Croatia and how they interact with other factors influencing administrative capacity.

In answering these questions, three points are further investigated:

i) What did the changes in the institutional framework involve? How has this affected the ways in which national and EU funding programmes are formulated, managed and implemented? How have these adjustments influenced the role, the set-up, the structure, the resources, systems and procedures on which national institutions are based?

ii) What is the definition and operationalisation of the concept of administrative capacity in the context of enlargement and pre-accession?

iii) How can the case of institution-building via CARDS and IPA be integrated into the wider literature on institution-building/ Europeanisation in the Western Balkans?

A specific set of research questions has been developed. These are formulated as hypotheses in Section 2.8 and their origins are explained there. The research questions are presented below in a concise form. The corresponding hypotheses are given in parentheses.

- *How are the administrative requirements for managing EU pre-accession funds accommodated within the existing systems for public administration of applicant countries? How are conflicts resolved? (1a)*
- *Does the volume of EU pre-accession aid influence the degree of administrative change?(1b)*
- *What influence does political and governmental consensus / lack of consensus have on administrative reforms?(2a)*
- *How can partial or non-compliance with administrative requirements be explained? (2b)*
- *Which aspects of administrative capacity are most important in explaining (in)effective management of pre-accession assistance? (3)*
- *What influence can EU institutions, notably European Commission Delegations, have on administrative capacity and effectiveness in the management of pre-accession funding? (4a, 4b)*

- *How do conflicts between interest groups affect compliance with administrative requirements?(5)*

This study answers the main research question by disaggregating administrative capacity into component elements and analysing each of these in turn. Consequently, the definition of administrative capacity in this research project is *the possession of all those resources, structures, and systems that enable a public organisation to perform its required functions in a sustainable way*. Structures are examined as a set of new roles established under the influence of pre-accession assistance. The creation of systems is examined in the cases of financial management and control, monitoring information systems, audit, project selection, procurement and contracting, and evaluation. In addition, this study also concerns the influence of CARDS and IPA on financial and human resources in the Croatian public administration. By providing detailed evidence of new structures created, systems established and resources employed, and by considering whether CARDS and IPA have been the dominant influence in each case, this research draws a more accurate picture of changes in administrative capacity in Croatia due to CARDS/IPA.

A variety of research methods are used to answer the question. Croatia was chosen as the focus of an in-depth case study covering several central government institutions, agencies and regional institutions; the EU and IFI presence in the field; and drawing on expert and practitioner input. The empirical part of the project draws information from the empirical fieldwork undertaken in Croatia in December 2008 and spring/summer 2009. Desk research took place during 2008-2011, covering material from 2001 to 2011. The main case study of Croatia is supported by a series of mini-case studies of government institutions and agencies that were recipients of EU assistance or were involved with it in another capacity, e.g. as part of management structures. In some areas, process-tracing was used as a method combining rich grey literature material and semi-structured interview transcripts with senior stakeholders, experts, academics and government officials in Croatia. This method can be particularly helpful when trying to establish the CARDS/IPA primary influence behind policy change as for instance in the establishment of a government agency.

The dissertation follows a simple overall structure. It starts with a wider discussion of theoretical and operational concepts. This is followed by a presentation of the political context of institutional arrangements in Croatia. Following a discussion of the philosophical and methodological underpinnings of the study and the experience of relevant research, appropriate methodological approaches are selected. The three chapters that follow the methodology chapter contain the empirical material collected through the fieldwork and desk research in the form of case studies on structures, financial and human resources, and systems and tools affected by the pre-accession instruments in Croatia. Analytical findings are examined in the empirical chapters and discussed further in the conclusion. The conclusion comprises a summary of the thesis and an assessment of outcomes with regard to the hypotheses.

Chapter 2 (Theory) traces the origins of interest in administrative capacity in the post-socialist need for an overhaul of the state sector, the New Public Management (NPM) project, and the administrative modernisation of EU candidate countries. The chapter reviews theoretical literature on new institutionalism. It provides an overview of the concept of multi-level governance (MLG). Furthermore, it discusses the suitability of Europeanisation as a conceptual framework for this study. The chapter presents the debate on the Europeanisation of public administration and situates pre-accession financial assistance among those independent variables emanating from the EU. The notion of administrative capacity is also analysed and defined. Moreover, the study is linked with other research work on similar issues, and the relative strengths of the thesis are stressed alongside opportunities for further research. A discussion of major theoretical tools utilised in the study is included, and finally a detailed elaboration of the hypotheses concludes the chapter.

Chapter 3 (The broader institutional settings in the Western Balkans and Croatia at the outset of pre-accession assistance) offers an institutional perspective on cultural factors in the area of the Western Balkans. The administrative and legal framework in Croatia is also overviewed. Furthermore, the chapter examines the EU-Western Balkans relationship and the EU's broader approach towards the candidate

countries. A brief review of pre-accession assistance instruments starts with PHARE and also presents twinning and technical assistance (TA) interventions in the CEECs. Lastly, a synopsis of the main objectives and management modes for CARDS and IPA is provided.

Chapter 4 (Methods) is essentially a methodological guide to the study. It begins by stating the research hypothesis and main research question. It reconciles the research topic with wider ontological and epistemological concerns. In addition, it reviews methods followed in similar studies on Europeanisation, MLG and Evaluation. The methods used in this study are presented in detail: the sampling of the particular case studies, the process-tracing methodology, semi-structured interviews, and methods of literature review and data analysis. Finally, the chapter weighs the distinct advantages and disadvantages of the methods, and it reflects on issues of appropriateness of methods and research design.

Chapter 5, the first of the three empirical chapters, examines the influence of CARDS and IPA on structures in the Croatian public administration. First, it maps out the allocation of management responsibilities for the pre-accession instruments in Croatia. It explains the establishment of the IPA Operating Structure, providing a description of structures, the implementing agencies and the National Fund. Second, it analyses institutional relationships established through the pre-accession funds, i.e. the monitoring committees and inter-ministerial coordination arrangements. Finally, it gives an overview and assessment of early partnership structures in Croatia.

Chapter 6 focuses on the influence of CARDS and IPA on resources in the Croatian public administration, comprising financial resources and human resources and skills. Initially, a brief section examines the influence of the pre-accession instruments on financial resources in Croatia. A substantial part is dedicated to the study of the work of pre-accession assistance on human resources in the Croatian public administration. Six case studies of government organisations shed more light on the effects of assistance projects as well as the obstacles faced in the field. These included the Central State Office for Public Administration/Ministry of Public Administration, the Central State Office for Development Strategy and Coordination

of EU Funds and the Ministries of Economy, Labour and Entrepreneurship, and Science, Education and Sports.

Chapter 7 completes the empirical part of the dissertation, focusing on the influence of CARDS and IPA on systems and tools in the Croatian public administration. First, the formal requirements for compliance are explained. Second, the aspects of EU support for the creation of systems in Croatia are investigated. Third, despite the scarcity of relevant qualitative information, a concise assessment of systems development and operation is provided. This comprises systems and tools for financial management and control, the monitoring information system, procurement and contracting, project selection, audit and evaluation. Last to be considered, but of critical overall importance to the success of EU interventions, are the cultural aspects of systems usage. Thematic conclusions at the end of each empirical chapter summarise the main arguments.

In Chapter 8, the concluding argument is stated, based on the empirical findings and incorporating the conceptual framework of Chapter 2. The chapter provides a discussion of the contribution of the study to the wider literature. Lastly, the usefulness of the conceptual and methodological framework with regard to the production of the desired results is evaluated and opportunities for further research are outlined.

## **2. Relevance and application of institutional theory and Europeanisation to administrative capacity**

This chapter situates the thesis within the Europeanisation literature and, in close relation to the empirical focus of this research, within the broader public administration and modernisation literature, which also tends to adopt a new institutionalist theoretical and methodological perspective (e.g. Ongaro 2009). Moreover, different strands of literature provide conceptual focus and indicate where to look for particular influences on administrative change and capacity. Theoretical clarity may facilitate the connection of empirical observations with processes of path dependence, politicisation or socialisation and learning.

First, the chapter reviews theoretical contributions from the three main pillars of new institutionalism (historical, sociological and rational choice), which provide most of the theoretical underpinning of Europeanisation studies. Second, the chapter provides a brief reference to MLG in the EU. Third, it examines the terminology and definitions of Europeanisation as well as some of the common explanatory models. As Europeanisation borrows theoretical power from institutionalism, it tests the strength of institutionalist approaches. Mechanisms of institutional change are reviewed in order to structure the empirical analysis and theoretical conclusions. In line with previous studies, sensitivity is needed to administrative style and structure and the institutional embeddedness of national administrative arrangements as categories affecting administrative reform capacity. Concerns about agency autonomy, strength and frequency of contacts with central government similarly inform the discussion of the role of pre-accession assistance.

Significant attention is paid to the notion of administrative capacity. Three points for discussion of the concept are mentioned: the transition in Eastern Europe, the NPM philosophy, and EU Enlargement. Thereafter, the chapter cites a number of definitions of administrative capacity and capacity-building, including other relevant terms such as government and governance capacity. Furthermore, the review follows



a distinction made between personal and non-personal aspects of capacity. Next, the chapter is concerned with the definition of administrative capacity in the EU context (or the lack of it) and traces the use of the concept in the pre-accession period. Specific references are made to early forms of administrative criteria for membership, including the OECD/SIGMA-devised horizontal capacity criterion. Moreover, the distinction between horizontal and sectoral administrative capacities is explained. Another more technical aspect covered is the absorption capacity for EU funds. In addition, the EU's inconsistency in terms of a common administrative model is discussed together with some views on the potential emergence of EAS. Following that, the more recent use of administrative capacity as an accession requirement is scrutinised. Strengths and weaknesses of the EU's past institution-building efforts are listed as presented in the literature. In relation to previous relevant research, this study replicates work on national administrative structures in the case of Croatia, extends the time coverage and level of analysis, bridges the concepts of Europeanisation and administrative capacity, and revisits conceptual arguments and empirical findings.

More generally, this chapter reviews various institutional designs for the implementation of EU policies at MS level, to enable an estimate of Croatia's correspondence to models identified elsewhere, including direct and indirect implementation. Furthermore, the chapter develops a discussion of some academic approaches to Europeanisation, enlargement and pre-accession, followed by a summary of the ideas reviewed and their relevance and application to the thesis.

In addition, the chapter formulates an analytical framework for the study of administrative capacity. First, administrative capacity is regarded as a dependent variable, pre-accession assistance instruments being the independent variable. Providing a clear understanding of the terms is essential to the coherence of the study and to the extraction of meaningful conclusions. Second, this study does not seek to quantify the concepts but to offer a qualitative measurement of the effects of pre-accession instruments and alternative factors on administrative capacities through the case studies; identifying particular aspects of administrative capacity affected by policy initiatives is of critical importance. Third, the concerns of students of

administrative capacity in the recent past may be different from the emphasis placed on capacity issues through EU conditionality. This evolution of the notion of administrative capacity and relevant terms must be portrayed in order to present a more comprehensive picture of the topic. Lastly, as the term is widely used in the grey literature (mostly without explicit definitions), it was deemed necessary to show which characteristics the EU perceives as criteria of administrative capacity. Finally, the chapter concludes by following a particular understanding of capacity, which applies to the remainder of the study, based on a triple distinction between resources, structures, and systems.

Furthermore, the empirical part of the thesis is guided by the theoretical principles and the eight hypotheses outlined in this chapter. The sources of those hypotheses are drawn from the literature or the fieldwork. The hypotheses support the case study of financial aid and the institutional architecture of Croatia, and they facilitate the scrutiny of the system of pre-accession assistance. In addition, they allow for an in-depth analysis of conditions and changes at the directorate, department and agency level, as well as at programme and project levels.

## **2.1. Overall context**

To offer an understanding of the context, the institutional environment within which these instruments operate is dissected. An outer layer is that of international relations, which is traditionally viewed as a highly anarchic environment lacking a superior regulatory authority, and which is dominated by states promoting their national interest and concerned with sustaining their relative power (Bull 1977; Carr 1946; Morgenthau 1956; Waltz 1979). At the same time, global processes such as globalisation or internationalisation are increasingly part of everyday reality involving both states and non-state actors. Furthermore, international organisations and international regimes may emerge, constituting attempts to institutionalise and regulate relations at the international level. The IFIs (e.g. IMF, World Bank) and the WTO are manifestations of global attempts to subject states to supranational rules, norms, values or ideas. Certain groupings of states commit themselves to a path of international cooperation through obedience to several forms of international

regimes. Others engage in an attempt to pool national sovereignty at the supranational level, as is the case with the EU, which is commonly conceptualised as something less than a state and more than an international regime or organisation. Normative consequences and policy prescriptions may emanate from these global, international and regional levels with repercussions in terms of rules, values, ideas, opportunities and threats penetrating institutions and territories down to the sub-local and individual actor level. The reverse may also be true.

The EU comprises a very complex institutional system. It was initially viewed as an elite project of transferring loyalty, obedience, jurisdiction at the supranational level engineered by an entrepreneurial technocracy (neofunctionalism), or a product of the collective will of the MS expressed through a series of intergovernmental bargaining rounds, with all of them reaffirming the centrality of state control of the process (intergovernmentalism). Sixty years into the process of regional integration in Europe, the aforementioned theoretical tools were adapted to combine economic liberalism with intergovernmentalism (liberal intergovernmentalism) (Moravcsik 2003) or to reflect the complicated institutional and governance structure of the union (MLG) (Marks 1992).

More importantly, MLG constitutes a central point for the theoretical anchoring of this study. Although the pre-accession instruments are geographically limited to countries aspiring to enter the EU, this is essentially a reproduction of rules, values, ideas and discourses, and of the provision of resources accumulated at the EU level. In that sense, CARDS and IPA are manifestly EU institutions, which have been proposed and legislated by EU organs. Notwithstanding other underlying causes of their establishment, they are integrally attached to the EU in terms of legitimacy and accountability.

Taking note of the multi-level nature of governance in the EU, this study focuses on pressures originating from the EU system, namely the use of financial assistance instruments in countries aspiring to enter the Union. The condition of being a MS, a candidate country, a neighbouring country, an aid recipient or a trading partner of the EU carries with it a series of formal or informal relationships.

First and foremost, it is the EU that defines a large part of these relationships. This may be done intentionally or unintentionally, explicitly or tacitly, through coercion, persuasion, side payments, and with expectation of returns and reduced transaction costs, transposition of rules and models, and patterns of institutional behaviour. It could also be the result of a socialisation process to common values, rules, norms, ideas, and a common language or discourse. These processes may occur endogenously or be exogenously facilitated. For more than any of the categories of patterns named above, the EU is the dominant milieu which defines its members and would-be members. This process has been conceptually summarised through the spread of the use of Europeanisation, an old term with a redefined meaning.

Europeanisation is a theoretical concept, and its various renditions are essentially ideal-type constructs that comprise EU influence and/or influences on the EU. Despite the variations in approaches, it should not be denounced as meaningless. It provides a useful heuristic device which reveals much about its users' worldviews and ontological and epistemological standpoints. For instance, it is central that institutions influence individual behaviour and vice versa, and that institutions are formed by society but also that society is shaped by institutions in a dual fashion (Giddens 1984). Finally, the EU shapes institutions and frames individual behaviour at the national and sub-national levels as well. In the particular case examined here, they set institutional instruments in motion. CARDS and IPA were aimed at strengthening national institutions, facilitating the establishment of institutions where they did not exist, and subsequently assisting those infant institutions.

In this thesis, the process of Europeanisation is studied in the context of a particular EU policy: the Enlargement. At the time of writing and with the core EU members of the Eurozone facing an acute economic, political and institutional crisis, the cycle of Enlargement may seem to have temporarily closed with the accession of Bulgaria and Romania in 2007. However, this policy field cannot be declared terminated. The EU has undertaken explicit commitments to Croatia, an acceding WB country. Besides, policy approaches used in enlargement are similarly employed to serve alternative approaches such as the neighbourhood policy and relations with third countries. Most recently, institution-building measures pioneered in

enlargement, such as the secondment of national experts and the provision of technical assistance as well as the regular monitoring and reporting of MS progress, have been re-applied in the Eurozone rescue of Greece. Enlargement is itself ‘a policy of policies’. A vital part of the accession process entails negotiations on the 35 chapters of the *acquis communautaire*, each one corresponding to an EU policy field on which the candidate state is assessed towards its final admission (see Chapter 3).

CARDS and IPA as institutional mechanisms of enlargement are within the remit of the European Commission’s DG Enlargement and DG Regional Policy, but they also encompass several other EU policies. A particular aspect of their function, which touches on many aspects of EU policies, is their stated contribution to institutional or administrative capacity-building in the recipient state. Administrative capacity is approached critically in Section 2.5 below, which shows what could be attributed to the influence of IFI vocabulary or is a result of the EU’s own development and interpretation of the term, and it develops an operationalisation of the term in the field of EU financial assistance. What should be emphasised here is that the discourse on administrative capacity may be a powerful instrument in the EU toolkit for bringing about desired outcomes in MS and candidate countries. There is certainly a normative, cognitive, cultural cargo in that concept which is unloaded in the recipient country. Nevertheless, there is a long distance to be covered between engaging in a discussion about capacity and actually exhibiting an ability to conform to EU rules and manage and implement EU policies effectively, efficiently and sustainably. From an EU perspective, a measure of success is not only to ensure that some institutions have been set up, but that they are established according to EU terms and they fulfil the end result as conceptualised by the EU. The difficulty of the task is better understood if one thinks that EU interventions are not taking place in an environment of national institutional *tabula rasa*, but they have to co-exist or replace other cultures, values, symbols or rules if they are to be successful. In the case of Croatia, this is taking place in the context of newly independent post-conflict state institutions replacing mistrusted socialist federal authorities.

Several other layers of relations may exist down to the level of the individual. Organisational subcultures in administrative units, institutionalised network

relationships in CARDS and IPA projects, or the collective ideas and concerns of a region or locality about the prospects of EU funding are only some of these. What all the layers have in common is that each one is either an institution in its own right or embedded into a network of collaborating institutions. Institutional theory covers the matters of the genesis of institutions, their success or failure and their evolution. The progression of political science from old institutionalism to behaviouralism and then to new institutionalism is not unknown. The same applies to new institutionalism, a stream of scholarly approaches which freed political science from excessive attention to formal structure to embrace aspects of rules, norms, identities, values, beliefs, ideas and discourses, not embedded only in some sort of formal or constitutional order, but in structures of meaning and appropriate, cognitive, calculative approaches that characterise institutional behaviour. Several strands of new institutionalism have been developed in the past four decades. Their names betray the main influence behind their establishment: sociological, historical, rational choice, discursive institutionalism and institutionalist approaches modelled on influences from economics, other social sciences, psychology, and finally biology and the natural world. Where theoretical differences are reconcilable, all these approaches may prove useful, and this chapter will staunchly advocate that in the case of this particular research topic.

## **2.2. Institutionalism**

The theoretical lens of institutionalism constitutes a suitable basis for an explanation of institution-building in Croatia under the pre-accession instruments examined, because it elucidates exogenous as well as endogenous influences on the newly established institutions and their interaction with the existing institutional framework. Institutions have been a central concern in political science and social sciences in general. An old form of institutionalism was particularly concerned with the study of formal, constitutional rules and structures and generated a number of national cross-country comparisons. In the 1950s, the behavioural revolution moved interest away from institutions to individuals and focused on individual action. However, behaviouralist and rational choice theories tended to subordinate political phenomena to contextual phenomena and reduce collective behaviour to individual

behaviour and were also criticised for their utilitarianism, functionalism and instrumentalism (March and Olsen 1984).

Since the 1970s, there has been a return to the study of the state and political institutions. In the field of mainstream economics, this was best expressed by institutional economics and public choice (Ostrom 1990; Coase 1990; Williamson 1996; North 1990; Olson 1995). These influences found an expression in political science through an urge to reinstate the state in US-based political analysis (Skocpol 1979) and a call for new institutionalism (March and Olsen 1984). Collective action moved to the centre of analysis. Institutions were seen as a structural feature of the society or polity which constrain the behaviour of its members formally or informally, characterised by shared values and meaning (Peters 1999, p. 19). For March and Olsen 'political institutions are collections of interrelated rules and routines that define appropriate actions in terms of relationships between roles and structures'(March and Olsen 1984). This approach emphasised the normative aspects of institutions which are characterised by a logic of appropriateness rather than a logic of consequentiality. Norms of appropriate behaviour are not only expressed through institutions but also enforced through them (Peters 1999).

A distinctive approach is that of historical institutionalism, which was introduced by Skocpol (1979). The main premise is that conditions which prevail and decisions taken early in the history of an institution may influence policy choices well into the future. Institutions are stable and sticky (institutional inertia) and therefore change – especially path-breaking – does not seem to be a likely outcome. This problem in the explanation of change has been addressed by scholars who suggested the idea of critical junctures or punctuated equilibria when institutional change takes place (Krasner 2009, p. 4). Change is approached as policy-learning through the experience of the institution itself or that of other institutions, leading to the reframing of policy issues and the relevant institutions with them (Peters 1999). In addition, timing and sequencing are of decisive importance for change, linked to critical junctions and path dependence, as institutions create incentives for actors to stick with them and not abandon them and adapt only incrementally to changing political environments (Pierson 2004). Other explanations of change include

mechanisms such as the new features which appear in a stable institutional environment or the transformation of institutions through the adoption of new goals and the integration of new groups (Thelen in Schmidt 2006; Steinmo *et al.* 1992). Furthermore, veto points or veto groups have been suggested as causes of institutional inertia (Pressman and Wildavsky 1973). Structural barriers within institutions subject each decision to a number of formal points in a chain of linked decisions before the implementation stage is reached (Peters 1999).

Nevertheless, historical institutionalist thinking faces a difficulty in explaining individual action. This is resolved by taking recourse to the ‘cultural’ or the ‘calculus’ approach (Hall and Taylor 1996, p. 950). In the first case, institutions are portrayed as adding the historical perspective to the cultural norms which shape the interests and worldviews of actors. A historical dimension is also added in the calculus approach, which posits that institutions affect individual actions by altering the expectations an actor has about the actions others are likely to take in response to or simultaneously to his own action (Hall and Taylor 1996). Even so, the historical perspective is not definite: ‘the present needs to be understood in the context of the past; but the past is not fixed but may be recast as new narratives emerge over time; and these narratives cast a long shadow into the future’ (Cram 2011, p. 637).

Institutional analyses may also gain insights from another strand of institutionalism originating from sociology. For sociological institutionalism, institutions are norms, cognitive frameworks or frameworks of meaning that guide human action; they may also serve symbolic or other functions (Schmidt 2006; Hall and Taylor 1996, p. 950). Common institutional practices are said to emerge from a more interactive process of discussion among the actors in a given network – about shared problems and how to interpret them (Hall and Taylor 1996, p. 950). Organisation theory is the essence of this approach, which also considers the state as a given.

Preference formation is commonly approached as endogenous. As a basic principle, individuals are not atomistic but embedded in relationships with other individuals and collectivities (Granovetter 1985). They have to choose among



competing loyalties and their preferences are shaped to a large extent by the membership with institutions (Wildavsky 1987). On the other hand, the individual role in shaping institutional behaviour cannot be ignored, such as the role of innovative managers or the principles bestowed on an institution by its founder (Peters 1999, p. 38). A central question in social theory is whether the actions of individuals can be studied to explain the behaviour of structures, or whether the behaviour of individuals can be explained by structures. Three distinctive replies include: (i) a compromise view of this relationship as dual: characterised by reciprocal causation of agency and structure (Giddens 1984); (ii) approaches that stress the need for a cultural underpinning of trust among individuals and between individuals and institutions especially in studies of civil society and social capital (Putnam *et al.* 1993; Peters 1999, p. 88); and (iii) a structuralist approach, which purports that if institutions are put in place, then appropriate values will follow, which has been employed in studies of democratisation (Linz and Stepan 1996). These approaches may help cover developmental repercussions of institutions.

Sociological institutionalism captures change within institutions well. Change is defined as a process of developing new understandings and symbols that are reconcilable with those that existed before, a process of creating values and cognitive frames (Peters 1999). Thus, change is seen as akin to sedimentation, but institutions are not just confined by history, as they redefine themselves in addition to redefining the past (Peters 1999). Besides, changes constitute sets of opportunities as well as constraints for institutions, because they challenge established patterns of behaviour (Peters 1999, p. 33). Institutions adapt to change in different ways. They might use a 'garbage can' approach for problem resolution, which means that they will react in a way that adheres to their core values (March and Olsen 1984). In that sense, institutions are bound by the same logic of appropriateness that binds the rationality of individual members. Alternatively, a process of learning, identifying and adapting to changing circumstances in the environment of institutions is another means of adaptation that finds parallels in the historical institutionalist school. Moreover, the role of values is central with regard to change: 'the more disjuncture there is between values professed by an institution and its actual behaviour and the values held by

surrounding society and the behaviour of the institution, the more likely change will be' (Brunsson and Olsen in Peters 1999, p. 34).

Other sociological approaches focus on explaining the number and position of public organisations. The population ecology approach states that the limited supply of public money and public support for organisations in the public sector means that the public sector can only support a certain number of them (Peters 1999). Moreover, each organisation occupies a particular organisational niche: a mixture of resources that enables it to survive. Convergence and institutional isomorphism explain tendencies to emulate the most successful organisations (Peters 1999).

The sociological institutionalist literature on public administration ascribes importance to culture, according to which 'social practices are determined by norms and values which reflect societal attributes and which vary from one country to another' (Thoenig 2007, p. 90). In the cognate area of organisation theory, culture 'provides the shared rules governing cognitive and affective aspects of membership in an organisation, and the means whereby they are shaped and expressed' (Alvesson 2002, p. 3). Through a process of institutionalisation 'the members of an agency acquire values that go beyond the technical requirements of organisational tasks' (Thoenig 2007, p. 90). The literature stresses that public institutions develop in a gradual way, and 'when some rules or procedures are sanctified, when some members or units of the public agency become semi autonomous centres of power, and develop their own vested interests, when administrative symbols, rituals and ideologies exist' thick institutionalisation has taken root (Thoenig 2007, p. 90).

Rational choice is another interpretation of institutionalism. It incorporates axioms from economics and bridges the gap with the rest of the social sciences (Marsh and Stoker 1995, p. 5). Institutions in this approach are 'collections of rules and incentives that establish the conditions for bounded rationality and establish a political space within which many interdependent political actors can function' (Peters 1999, p. 48). There is a distinction between institutional public choice and first principles public choice (Dunleavy 1991). Other rational choice institutionalisms include principal-agent models, game theoretic models and rule-

based models of institutions. Nevertheless, all are based on the same set of principles, they address a common set of problems and assume that individuals participate in institutions in some form of behavioural *tabula rasa* except for their drive to maximise personal utility (Peters 1999, p. 47).

Institutional variants of rational choice stress the importance of institutions ‘as mechanisms for channelling and constraining individual behaviour’ (Peters 1999, p. 44). Two major questions in that respect are (i) why individuals would choose to be confined by an institution in their quest for utility maximisation, and (ii) how dysfunctional behaviours such as free-riding can be avoided (Peters 1999). The rational choice answer to the first question is that they choose to be constrained if their competitors are constrained by the same rules. Institutions have the capacity to produce collective rationality from individual actions which, in the absence of institutional rules, would create individual irrationality (Peters 1999). The responses of rational choice theorists to the second question comprise positive and negative incentives to ensure non-violation of rules.

Rational choice accounts of preference formation and change merit a mention. Hardcore forms of rational choice theory consider that preferences are formed exogenously. However, within institutions there is interaction between individuals and institutions in the formation of preferences, and individuals learn to accommodate institutional norms and values so that preferences are formed both exogenously and endogenously. The more successful an institution is, the more likely it would be to influence preferences even in anticipation of membership (Peters 1999). Rational choice institutionalism explains decisions and change at an operational level and within a shorter time frame. Historical institutionalism on the other hand offers a more strategic view of the course of institutions in the long run.

Discursive institutionalism has been recently added to the institutionalist ensemble. This approach stresses the role of ideas and discourse related to institutions. Although it could be accommodated within the wider sociological institutionalist tradition or in the strand of the historical institutionalist view of ideas (Steinmo *et al.* 1992), its proponent claims that it could be non-static and dynamic

and therefore better at explaining change (Schmidt 2011, 2008, 2010). Schmidt distinguishes between two types of institutional discourse, coordinative discourse among policy actors, which is more common in compound polities, and communicative discourse between political actors and the public that is more frequent in simple polities. These form the basis of a 'logic of communication'.

Notwithstanding that the enthusiasm of theorists to stress institutional aspects that in their view are under-theorised leads to the development of new variants of institutionalism, it is only through the conjunction of all these interpretations that better understanding or explanation is secured. Hall and Taylor consider a cross-fertilisation of ideas between different institutionalist accounts as both feasible and desirable, as they could enrich the understanding of institutional creation and institutional change and the effects exerted by institutions on individual behaviour (1996). Besides, from the standpoint of Europeanisation, Börzel and Risse (2003) emphasised that rational choice and sociological institutionalism are reconcilable, each one bringing its own strengths to the inquiry. In the EU's complex institutional environment, it is only with the collective availability of the merits of all strands of institutionalism that institutional structures and processes may be covered. In fact, even in the eyes of their intellectual creators, the logic of appropriateness, the logic of consequentialism, the cultural and calculus approaches and more recently the logic of communication may all supplement each other to a certain extent.

This theoretical marriage of similar approaches should also involve old institutionalist features, such as the study of law, which may become intertwined with discursive or sociological aspects of institutionalism. For instance, in the case of Croatia, persistence of law may have facilitated Europeanisation. It may also be that new legislation may mean reviving or further burdening another implementation structure. However, it frequently involves the formation of another structure (Peters 1999, p. 90). This could be either top-down (repeating hierarchical government structures) or bottom-up (network or partnership).

When discussing efforts of capacity-building, the theoretical insights of the above strands of thought are extremely relevant. Some of these wider factors

affecting the capacity of organisations are values, norms and the bounded rationality of individuals as well as the administrative history influenced by unintended consequences, path-dependent outcomes and administrative culture (Scott 2006; Milio 2007). As Europeanisation is not a theory *per se*, a number of researchers in the field have taken recourse to historical institutionalism in order to develop theoretical concepts and hypotheses. The main reason is that it recalls ‘the complementary part that informal constraints of rules, norms, conventions and beliefs have in the institutional scaffolding, which is the source of path dependence, and which part tends to change slowly’ (North 1997, pp. 13-18). To share the perspective of historical institutionalism: ‘institutions once formed, shape the range of possibilities and have a continuing and largely determinate influence over the choices that will be made at all levels and phases of the policy cycle’ (Ongaro 2009, p. 14).

In particular, the study of public administration lends itself to the use of historical institutionalism, as scholars have suggested (Ongaro 2009; Streeck and Thelen 2005), in topics as diverse as the modernisation of European public administrations or EU foreign policy. A study of the national bureaucracies may be considered a prerequisite for the evaluation of the effects of pre-accession assistance. Knowing the structures and morphologies of national civil service systems could help identify where efficiency is an attribute of the existing bureaucratic techno-structure. Besides, one may examine the techno-structure of pre-accession assistance and its capacity to realise desired outcomes by employing staff, creating agencies and building up standard operating procedures (Dunleavy 2006, pp. 16-21,28-30).

### **2.3. Multi-level governance**

Multi-level governance (MLG) is not only a conceptualisation of governance in the EU but also, as a system of getting things done, it may have a path-shaping influence in candidate countries. The term originated from a study of EU regional policy where it was used to describe ‘a system of continuous negotiation among nested governments at several territorial tiers – supranational, national, regional and local’, which were relevant to that policy but has now expanded to become a catch-

all notion of EU governance (Hooghe and Marks 2003, p. 235). Academically the term was used to provide a description of the EU decision-making system which in the past two decades has expanded to cover stakeholders from a multitude of territorial levels and actors outside the state organisation (civil society, NGOs, private sector).

However is lack of agreement as to the depth and breadth of MLG in the EU. There is also scepticism about the assertion that it is a distinctive theory, and a tendency to view it rather as a description of the EU and an amalgam of theories (Jordan in George 2005, p. 107). Detractors have doubted its ability to generate testable hypotheses and therefore have been disputing its theoretical grip (George 2005, p. 116). Even so, it is a very powerful and flexible description, capable of capturing future developments.

Particularly important in that respect is the distinction between Type I and Type II MLG (Hooghe and Marks 2003; Marks and Hooghe 2004). Type I MLG refers to a finite number of territorial tiers and jurisdictions with a general-purpose mission based on federalist foundations and a system-wide durable architecture.<sup>1</sup> Membership of this type of institution is non-overlapping and intrinsic, ranging from collective demands for independence of a population to the regional language and identity of an ethnic group (Marks and Hooghe 2004, pp. 17-20). Type II MLG is markedly different. It refers to institutions of specific purpose, with more limited duration, extrinsic, fluctuating and intersecting membership and competing jurisdictions. This is clearly depicted in the acronym FOCJ: Functional, Overlapping, Competing, Jurisdictions (Frey and Eichenberger 1999). In Europe, cross-border regions or EU agencies may serve as an example of Type II MLG. The practice is more common in the US. Public-choice academics (Ostrom 1972) consider task-specific governance structures as a way to address common pool resource problems or to organise public service industries e.g. transport industry, power industry as in the US special-purpose districts.

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<sup>1</sup> This is the type of governance most commonly associated with the EU.

MLG is seen as belonging to the tradition of institutionalist political analysis. This may mean historical institutionalist and constructivist political analysis requiring the piecing together of a detailed historical narrative (Bache 2008b). This type of research assumes the complexity of changes and requires the careful tracing of processes to identify causation. Interviews are central in this, but the accounts that agents give of their actions can be misleading and should be balanced by other forms of evidence (Finlayson *et al.* 2004, pp. 136-142). Other approaches perceive MLG as based on rational choice institutionalism (Keating in George 2005, p. 118); however, MLG has encompassed more than the mathematised and quantified concepts that one would expect from rational choice and relied instead on a variety of methods including case studies.

#### **2.4. Europeanisation**

Europeanisation is a systematised term in the field of European Studies. It is concerned with the domestic adaptation to European integration, the domestic impact of Europe (Graziano and Vink 2008, p. 7). There is a question about the boundaries of Europeanisation research (Radaelli and Pasquier 2008), for instance whether it covers enlargement and countries outside the EU (Featherstone 2003). Europeanisation refers to the adaptation of politics, policies and polities in the MS and candidate countries in response to pressures from the EU level. This influence is wide-ranging, differentiated, and can produce both direct and indirect effects. Another crucial qualifying statement is that convergence should not be assumed (Radaelli and Pasquier 2008). The key argument is that ‘institutions matter’ as intervening variables between EU causes and domestic effects. Institutions are not restricted to the state sector or national governments. Further, while it is possible to look at a MS and measure whether or not it is Europeanised, outcomes are not static and Europeanisation should be viewed more as a process than an end state (Goetz 2001).

There have been numerous attempts to define the notion of Europeanisation. Four of the most common definitions are mentioned below, and the section concludes by selecting the one most appropriate for investigation in this thesis.

(i) Early and commonly-cited approaches of Europeanisation viewed it as a process and stressed its influence particularly on politics and policies. Europeanisation is an: *incremental process re-orienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making* (Ladrech, 1994, p. 69 in Featherstone 2003, p. 12).

(ii) A dual approach conceives Europeanisation as *a two-way process, both top-down and bottom-up*. The first element emphasises *the evolution of European institutions as a set of new norms, rules and practices*, while the second element refers to *the impact of these new institutions on political structures and processes of the Member States* (Börzel 2002, p. 193). Nevertheless, a candidate country may have only limited opportunity to project its preferences and influence policy developments in the EU. Turning to the top-down impact on politics, policies and policies, a central hypothesis is the idea of institutional or policy misfit between the EU and the MS, which creates adaptation pressures (Green Cowles *et al.* 2001). This is, however, a necessary but not sufficient condition for policy change, while the predictive capacity of this misfit hypothesis has been considerably criticised (Haverland 2008, 2006).

(iii) More inclusive approaches satisfy different research interests applied within and outside EU boundaries, and are not limited to either institutions or individuals. In one of these, Europeanisation is delimited to: *Processes of (a) construction, (b) diffusion, and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things', and shared beliefs and norms which are first defined and consolidated in the making of EU public policy and politics and then incorporated in the logic of domestic discourse, identities, political structures, and public policies* (Radaelli 2003, p. 30).

(iv) Finally, narrower definitions serve technical aspects of particular policies but, in a similar vein to the above strands, perceive Europeanisation as *the reorientation or reshaping of politics in the domestic arena in ways that reflect policies, practices or preferences advanced through the EU system of governance* (Bache 2008a, p. 2). The



main focus of the thesis shall inevitably be within the boundaries of the latter two definitions, because the evolution of European-level institutions is not a primary concern in this study.

Nevertheless, it is useful to see how these are further specified in the literature. Thus, particular aspects of Europeanisation may entail: (i) administrative adaptation of executive government to a continuous system of negotiations within the EU, (ii) adaptation of interest groups and social movements, and (iii) normative consequences, such as deep-rooted ideational values (Graziano and Vink 2008). Although all three phenomena are of interest, this thesis is mostly about the first point: the impact of the EU on the polity of a candidate country. Taking these aspects as starting points, five conceptual propositions were made:

- There is nothing necessarily top-down about focusing on domestic adaptation.
- The research scope should be expanded to include direct (implementing legislation) and indirect effects (horizontal effects of European integration, spillover, training, learning).
- The research scope should allow differential impact.
- The differential impact should not be restricted to changing policy domains but allow for a wide potential domain of impact (political structures, discourses, identities).
- The dynamics of change should be generalisable to the effects of regional integration (Graziano and Vink 2008, pp. 8-9).

Of the above points, a particular interest in the second, the fourth to a certain extent, and the fifth, makes more sense in the context of this dissertation.

The above five propositions lead to a ‘bottom-up-down design’ (Vink and Graziano 2008, p. 10). However, the use of a bottom-up research design does not imply any predisposition on whether Europeanisation is a top-down mechanism or a society-driven process. This thesis shares this view and, while it treats pre-accession

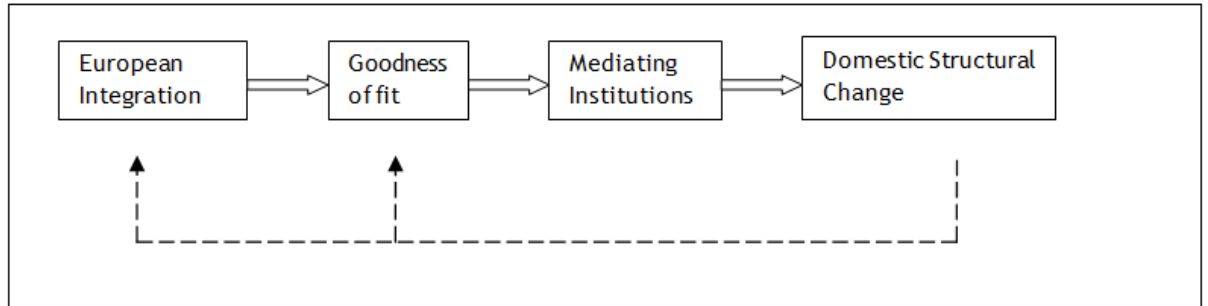
assistance as an independent variable, it also employs techniques used in bottom-up research, as is discussed in the methodology chapter.

Direct effects of Europeanisation are specified as those associated with certain European models, while indirect effects are related to new opportunities and constraints, horizontal effects, the result of increased competition and cooperation, diffusion and learning. A direct effect could be the restructuring of a ministry to cope with EU obligations. Indirect and horizontal changes are not the result of top-down imposition but of policy competition/cooperation. Scholars stress the need to distinguish between globalisation and Europeanisation and to look beyond EU pressures by taking into account endogenous processes within national political systems. They also consider it interesting to pose the question of how domestic policies change indirectly, even in cases where explicit European models are absent (Vink and Graziano 2008, pp. 8,16). It is not always possible, they argue, to see a European effect by looking at a label which says 'European' (Graziano and Vink 2008, p. 16). Other approaches have tried to make a more structured contribution to the analysis of Europeanisation. They accept the standard model that EU pressure, mediated by intervening variables, leads to reactions and change at the domestic level including resistance and inertial responses. However, they emphasise that intervening variables are grounded in a social constructivist or rational choice institutionalist framework and not *ad hoc* explanations based on the peculiarity of political systems (Radaelli and Pasquier 2008).

Arguably the most well-known conceptualisation of the process of Europeanisation is that of a three-step model (Green Cowles *et al.* 2001). European politics and institutions are an independent variable and the pressure created by Europeanisation is a function of the degree of fit (misfit) or congruence between 'Europe' and the domestic level (Caporaso 2008). Thus, pressures to adjust and goodness of fit, mediated by domestic-level factors, produce certain outcomes. The first stage of the model corresponds to European integration, the second stage to fit or misfit, and the third stage to mediation.

Figure 1 below shows this mutual-feedback relationship. This structure is non-recursive and each variable directly or indirectly affects the others (Caporaso in Graziano and Vink 2008). For instance, European integration affects goodness of fit (Graziano and Vink 2008, p. 33) and vice versa.

**Figure 1: Europeanisation and domestic change**



Source: Caporaso (2008, p. 28).

Where the distance between the domestic political administrative system and the EU models is larger, there is institutional misfit, which gives rise to adaptation pressures. However, adaptation pressure is a necessary but not sufficient condition for change (Börzel and Risse 2003). Other possibilities could be the absence of change, symbolic change or active subversion attempts. Even these possibilities are not steady, and outcomes may change over time.

A mediating factor could be every domestic political institution that affects the impact of European integration (Caporaso 2008). A distinction is made between two sets of mediating factors: the first one may include formal and informal institutions and domestic cultural factors, i.e. cooperative/oppositional, facilitating/obstructive, and federal/unitary; the second set of mediating factors are veto points or veto groups, which include trade unions, employers, parties and their capacity to obstruct, slow down or amend legislation (Caporaso 2008).

The importance of examining rival alternative hypotheses, such as globalisation and domestic politics, is also stressed in the literature. This should help researchers avoid prejudging the role of Europeanisation. Graziano and Vink make a distinction between Caporaso's standard model and a bottom-up approach (2008). The latter starts and finishes at the level of domestic actors and checks if, when and

how the EU provides change in any of the components of the system of domestic interaction that includes actors, problems, resources, policy style and discourses (Radaelli and Pasquier 2008, p. 41). Adaptation pressure is a condition of Europeanisation in the standard model, but not in the bottom-up approach. They claim that this approach can control for alternative hypotheses via process-tracing and time-sensitive political analysis (Graziano and Vink 2008).

For these authors, Europeanisation affects domestic structures directly or indirectly, because collective and individual actors gain access to resources outside the nation state (2008). Europeanisation modifies centre-periphery relations by altering the capacity of local-regional governments. It may also affect social norms through the diffusion of paradigms (Graziano and Vink 2008). Thus, Europeanisation can be explored as politicisation and socialisation. The first should use the study of long-term dynamics, conflicts, cleavages and political resources to locate the winners and losers of Europeanisation. The second one covers the interaction of elites but also the construction of identities as the process through which beliefs, norms and values are diffused and institutionalised (Graziano and Vink 2008, p. 43). Turning to the dependent variable aspect of Europeanisation, several outcomes are possible ranging from transformation to adaptation, inertia, retrenchment and even hostile reactions to Europe.

Aspects of Europeanisation involve socialisation processes and politics of learning and knowledge diffusion (Radaelli and Pasquier 2008). The Open Method of Coordination is viewed in this vein. Moreover, other instances of subtle impacts of socialisation processes are stressed, such as ideational convergence, and interpretations of policy paradigms and ideas. Emphasis is given to the political construction of impacts, and Europeanisation is approached as discourse. Discourse on EU policies takes different forms from rhetoric to policy narratives. It is a set of ideas and an interactive process. The ideational part is further divided into a cognitive activity (enabling actors to make sense of reality based on knowledge, policy analysis, information about actors and resources) and a normative activity (based on values and referring to what should or must be done). The interactive part means impacts should be studied in the context of interaction among policy-makers

when policy is formulated and in the mediation of political communication to the public (Radaelli and Pasquier in Graziano and Vink 2008).

#### **2.4.1. Indicative applications through the lens of Europeanisation**

Europeanisation research has also been concerned with the study of public administration in the Members States (Knill 2001; Jordan 2002; Esmark 2008) and candidate countries (Dimitrova 2002; Malovà and Haughton 2002; Goetz 2001) or a common European space of administration (Olsen 2003). More precisely, Knill's study was concerned with the Europeanisation of national administrative structures for environmental policy in Germany and Britain. Jordan's work provided a departmental view of administrative Europeanisation in Britain, again in the field of environmental policy, and Esmark's research focused on administrative Europeanisation in Denmark. Gradually, with the help of a recent public administration focus in EU studies (Trondal 2007), there is a shift towards expanding the research agenda to cover issues of Europeanisation in the field of public administration, particularly the Europeanisation of administration in the candidate countries. In this vein, Trondal proposes two types of administrative fusion in the EU: the first shows characteristics of an emerging EU model of administration to encompass other territorial levels, while the second allows more variation and diversity in the shape of politico-administrative relations (2009).

One of the studies on the Europeanisation of public administrations attempts to assess the impact of EU legislation on national administrations by examining two analytical dimensions of sectoral administrative arrangements: administrative style and administrative structure (Knill 2001). Administrative style includes patterns of regulatory intervention and aspects characterising administrative interest intermediation. Administrative intervention is based on the following elements: logic, type, content, and degree. With regard to administrative structure, the vertical and horizontal allocation of competencies between different public authorities is examined: whether European influence leads to centralisation, decentralisation (vertical perspective) and concentration or dispersion (horizontal perspective) (Knill 2001). It is also assumed that the institutional compatibility between European

policies and national administrative arrangements defines the domestic impact of European policies (Knill 2001). The ‘degree of adaptation pressure which European legislation exerts on national administrative arrangements is conceived of as the independent variable’ (Knill 2001, p. 41). The author stresses that administrative traditions are not static but depend on national capacity for administrative reform. These traditions can be subject to developments that can alter the scope of sectoral adaptation and the institutional scope of European adaptation pressures:

- A first step for fully examining the degree of adaptation pressure is to provide an institutional assessment of the compatibility of national and European policies. However goodness of fit is an insufficient indicator of ‘the institutional scope of the changes’ required by the EU legislation.
- There is a need to qualify it by examining how ‘core’ the challenged national institutional arrangements are, or otherwise by investigating the institutional embeddedness of national arrangements.
- The last step is concerned with institutional factors affecting the potential for general national administrative reform (Knill 2001, p. 43).

The first step is based on a comparison of administrative style and structure at the EU and national level, but it leaves unanswered questions regarding the embeddedness of challenged institutional arrangements and whether they constitute a part of the core.

Another study on national agencies in the EU concluded that national governments may be split, so that national regulatory agencies operate in a ‘double-hatted’ manner, serving both ministerial departments and the Commission (Egeberg and Trondal 2009a). Consequently, in this view, the implementation of EU policies at the national level is neither indirect through ministerial departments nor direct (through Commission-driven national agencies) or relying solely on horizontal agency networks, but compound networks where several sources of power are present simultaneously.

One may take into account a number of generative mechanisms for gradual change, except cases of external governance shocks offering possibilities of change.

Some form of consensus exists among public administration scholars that institutional change takes place in an incremental and complementary fashion regarding old structures. Thatcher and Coen (in Egeberg and Trondal 2009a) argue that regulatory forms set up in different points in time tend to complement each other and co-exist rather than replace each other. In a similar vein, Streeck and Thelen (in Ongaro 2009, p. 15) identify mechanisms through which gradual change may take place. The first one, layering, is defined as the creation of a new policy or institution without eliminating the old. Other forms are: conversion (formal reform, replacement or elimination of an existing policy or institution), diffusion (Parrado-Diez 2008), displacement (discovering and activating alternative institutional forms that existed before), drift (gradual and sometimes unplanned adaptation of institutions), and exhaustion (the institution gradually loses its purpose and, though formally still in place, it ultimately breaks down).

The literature provides answers on how organisational autonomy can be operationalised. Egeberg and Trondal (2010) take the frequency of contact between institutions as a potential indicator for agency autonomy, agency influence and inter-institutional coordination: the less contact, the more autonomy, the less agency influence, the less inter-institutional coordination. On the other hand, they expect the more contact the less agency autonomy, the more agency influence, the more inter-institutional coordination (Egeberg and Trondal 2010, p. 4). Furthermore, when measuring agency autonomy, they take into account the perceived importance of various actors when important decisions are made within their issue area, the extent to which steering signals from other actors are emphasised, and the extent to which agency personnel identify themselves with the central administration as a whole: the more they identify with the executive, the less independent the agency should be. Agency influence is defined as the extent to which agencies succeed in getting their argument across. Finally, the authors measure inter-institutional coordination through the perceptions on how good coordination of various actors is considered to be and through 'the perceived degree of mutual trust'. A contribution on the limits of Europeanisation in Greece poses a number of useful research questions, which can be replicated in studies of institutional change in other countries (Featherstone and Papadimitriou 2008).

A number of studies employing broadly (historical) institutionalist logic are presented below and juxtaposed with what this study intends to do. A 2005 study examined Europeanisation and regionalisation in the EU's enlargement into CEE (Hughes *et al.*). Emphasis was placed on three issues arising from the use of conditionality and the role of the Commission as an institutional motor for enlargement: (i) it examined the nature of EU conditionality and located it within a historical context of Western conditionality (asking questions about the elements of conditionality and whether they were consistent over time); (ii) it was centred on the role of the Commission as the key EU agency monitoring and reporting on the candidates' progress in meeting conditionalities (investigating if the Commission acted as a unified actor with a consistent and clear approach to compliance and implementation in the CEECs); and (iii) it explored how effective conditionality was by examining the actual policy and institutional outcomes in the CEECs and by testing how resilient the domestic institutions were in resisting conditionality, instrumentalising it, and preferring endogenous policies and structures over EU models (Hughes *et al.* 2005, p. 3). The project attempted to answer these research questions by means of a comparative policy study across institutions and countries temporally. It involved an extensive programme of interviews (287) in five CEEC countries.

#### **2.4.2. Europeanisation and Enlargement**

In line with a wider debate on governance in the field of European Studies, this study covers the problem of the application of the EU's external governance terms in the area of pre-accession assistance in a candidate country. It is concerned with the influence of the CARDS and IPA instruments in that respect, in particular on administrative practices and structures in institutions and stakeholders involved in the management of EU funds in Croatia.

Although questions relevant to the role of pre-accession instruments seem somewhat neglected in European public policy studies, the topic is strictly connected with a growing field of research on the effects of EU beyond its borders. Several scholars have examined similar issues either in relation to candidate countries,



neighbouring countries or third countries and their receipt of EU development aid (Zielonka 2007, pp. 44-64; Schimmelfennig and Sedelmeier 2005, pp. 3-25; Chandler 2006; Holden 2009).

The Enlargement as a whole, has been portrayed as a successful case of EU external governance and dubbed the 'EU's most successful foreign policy' (Schimmelfennig 2008). Relevant research reached a peak around the last phase of the fifth Enlargement (Schimmelfennig and Sedelmeier 2005; 2002; 2005). Four broad categories of investigation were defined: the macro-politics of Enlargement at EU level, the applicant enlargement politics, the MS enlargement politics, and the impact of enlargement (Schimmelfennig and Sedelmeier 2005, pp. 6-9). There are also other more critical approaches that echo conceptualisations of power in international relations theory by approaching the EU's role in the politics of Enlargement as neo-medieval, neo-colonial or empire-building (Zielonka 2007; Chandler 2006). More importantly, one of the early conscious attempts to apply the notion of Europeanisation to the Eastern Enlargement was made by Grabbe (2001, 2003, 2006). The application of the concept of Europeanisation in the context of Enlargement is now widely spread, but the bottom-up dynamics are still somehow curtailed because of the barrier of non-membership.

In the past decade, the CEECs became the focus of a rich academic debate on issues of transition, democratisation, and enlargement. Furthermore, studies of EU enlargement and pre-accession political conditionality in CEE were keen to point to the potential effects of the enlargement process on the candidate countries. However, a large part of this research has been on major events and has tended to adopt a foreign policy perspective on developments and outcomes. Attention was centred on the CEECs, and the Europeanisation of national executives and legislative bodies within them. The more incremental and intricate institutional change taking place during the enlargement process was neglected. Although the focus was on pre-accession conditionality, the specific role of pre-accession financial assistance was downplayed *a priori*.

During the 1990s, SEE was under the fog of war, and the research agenda was kept to a minimum. Relative little research of an interdisciplinary nature was undertaken on the transformative impact of the EU in this region. As a result, enlargement-induced institutional reforms in SEECs remained understudied. On top of that, financial assistance was not a popular field of investigation, with the exception of some accounts that remained outside the notion of Europeanisation (Bailey and De Propriis 2004; Tulmets 2005) and other occasional contributions on institution-building issues (Bechev and Andreev 2005).

## **2.5. Administrative capacity**

Since the end 1990s, administrative capacity has become a watchword in the discourse of state-building, public administration reform and almost all modes of governance. The reason appears to be threefold.

First, the proposition that effective public administration does not exist in the absence of market forces or civil society, which albeit corroborated retroactively by the collapse of actually existing socialism, was absent in the 1980s and 1990s, because the desideratum of the minimal state was monopolising the IFIs' reform agenda in Eastern Europe and the developing world at the time (Fukuyama 2004; North 1997, p. 13). It was only in the late 1990s that the realisation was made of the importance of institutions and the emergence of a new conventional wisdom that good governance should take precedence over other reform efforts.

Second, the proliferation of the ideas of New Public Management (NPM), which prescribed a results-oriented, managerial-like model for the public sector in contrast with the hierarchical Old Public Administration (OPA), led to a constructive discourse where the appraisal of existing administrative capacity and the likely effects of reform efforts on administrative capacity had a prominent role.

Third, the emphasis given by the EU in the pre-accession period of the fifth enlargement on the administrative capacity of the candidate CEE states is a continuing concern for current candidates and potential candidates and a focus for pre-accession policies and assistance. The EU's administrative requirement for future MS has a varying number of interpretations ranging from the identification in a

stricter sense with the capacity to harmonise with the *acquis*, or sections of it, to administrative capacity, or, in a wider view, to the capacity to conform to emerging administrative developments or governance requirements at EU level.

### **2.5.1. General definitions**

There has not been a clear definition of administrative capacity as yet, because the term denotes different qualities to different scholars depending on their theoretical viewpoint. Besides, an increased diversity of interpretations is expressed, as the term is applied as a determinant for action, a criterion for compliance, or a benchmark for assessing the course of developments in a field. In order to analyse the concept of administrative capacity, one has to deconstruct it to its component elements. Thereupon, capacity is seen as the ability, the power, the strength or aptitude to engage in a particular activity and carry it out successfully. According to Grindle and Hildebrand (1995, p. 445), who examine capacity in the context of the public sector, capacity is the ‘ability to perform appropriate tasks effectively and efficiently and sustainably’. Furthermore ‘administrative capability means the institutional capacity of a government...to formulate, and carry out plans, policies, operations, or other measures to fulfil public purposes’ (Stone in Scott 2006, p. 2).

Subsequently, capacity-building ‘refers to improvements in the ability of public sector Organisations, either singly or in cooperation with other Organisations, to perform appropriate tasks’ (Grindle and Hilderbrand 1995, p. 445). It is a derivative of administrative capacity literature commonly used by students of development to the point that it is considered a synonym for capacity development. However, Grindle and Hilderbrand deliberately refrain from providing a detailed list of the appropriate tasks, that is to say they view the situation, history and necessity as determinants of the tasks, and they call for an examination of the appropriateness of the tasks within a given country.

Besides, other relevant terms have come to the fore. Government capacity can be used to express the government-specific implications of civil service reform, which is considered a broader notion distinguishable from administrative capacity

(Scott 2006, p. 9). Other authors have adopted the term ‘governance capacity’ which, dependent on their working definition of governance, may have two wider interpretations. First, it may be used to denote the capacity of the state, the public authorities, to orchestrate a functioning governance system where governance is the interaction between political institutions and civil society in the management of formal public policies (Leonardi 2005, p. 13). Such a meaning, which allows for a bottom-up approach in institution-building and the emergence of sub-national governance, could be significant in the context of MLG Europeanisation and EU accession conditionality. Within that context, the concept of regional administrative capacity has arisen with regard to the implementation of the EU Structural Funds (Milio 2007, p. 434). However, the term ‘governance capacity’ is more commonly linked with efforts of IFIs to promote the rule of law and efficient, democratic and transparent procedures in the developing world.

Moreover, administrative capacity pertains to the public administration, the government or the executive. Thus, the possibility that the term may apply to business administration seems to be ruled out *a priori*. However, with the pro-managerial turn in public administration instituted by the school of New Public Management, such distinctions become blurred. In that sense, reference could be made to ‘managerial capacity’, which while remaining a more generic and impersonal attribute of the examined institution as a whole, perhaps implies that the personal qualities of the manager may have some implications for capacity. To depart from the NPM–OPA debate, other scholars distinguish administrative capacity from both state capacity and policy capacity, although they recognise that the ability of organisations to achieve their specified goals depends on wider factors that lie beyond the public sector and the precise definition of policy goals (Painter and Pierre in Scott 2006, p. 2).

Nevertheless, a distinction has been proposed between personal and non-personal aspects of administrative capacity (Mentz 1997; North 1992). It is argued that most civil servants enter administration with a certain level of capacity already acquired, to which, apart from formal education, factors such as the environment, values, and mindset play an important role in formulation. Subsequently, the process of formal education is continued by means of in-service training. In Mentz’s

argumentation, some elements that may usually be considered contextual to the study of administrative capacity become inherent parts of administrative capacity, such as the size, scope and scale of the performance of the total political system. Apart from the macro-level, Mentz identifies the efficiency of the implementation of a specific policy issue, rationality, and the ability to serve the needs of the community as significant determinants of capacity at the non-personal level.

### ***2.5.2. Administrative capacity in the EU context***

For a good part of the EU's recent history, the notion of administrative capacity has been present in EU parlance, but what does it really imply for MS, candidates and the EU? The reader had the opportunity to notice that the term is borrowed from the wider public administration and international aid nexus of literature. But the fact that the EU's jurisdiction spans a non-negligible number of sectors, as well as having implications for states outside EU borders through the powerful process of enlargement or the neighbourhood policy, does not contribute towards a single acceptable definition of administrative capacity in all aspects of EU activities. However, this does not exclude the possibility of devising a definition to address issues of administrative capacity in the various governance and sectoral levels across the EU. The reluctance to express an overarching definition may lie in the fact that administration has been predictably out of the scope of intergovernmental bargaining in the EU. Moreover, supranational entrepreneurship has not been able to push towards such a development either. All in all, the key to answering the question is whether a EAS has arisen. This will be seen as a tipping point that will unleash all the dormant elements of the public administration discourse in the EU.

Moreover, the EU is considered by some analysts as speaking with two voices on issues of administrative capacity, adopting variable stances over time and distinguishing between members and non-members. This situation, whether legitimate or not, is portrayed through the remainder of the section dealing with questions of operationalising the term, its legal basis, its relation with administrative developments in the EU, and linkages with administrative conditionality in the pre-

accession process. Finally, a discussion of its component elements in the case of pre-accession was deemed necessary.

Administrative capacity was a central issue on the enlargement agenda, and it was in the pre-accession period that the term entered the EU vocabulary. The 1993 Copenhagen criteria were the precursor of the EU's administrative conditionality on the candidate countries. Dimitrova (2002, pp. 177-178) traces the emergence of the administrative capacity or 'bureaucracy criterion' in early interpretations of the Copenhagen criteria in the European Councils of Essen in 1994 and Madrid in 1995, which delineated the steps for the adoption of internal market rules and for building administrative structures respectively. In 1997, with Agenda 2000, the Commission made a further step in the direction of stressing the importance of capacity, which became in itself a criterion for membership, 'seemingly on a par with the other three Copenhagen criteria' (Olsen 2003, p. 519; Dimitrova 2002, p. 178; Petričušić 2007, pp. 305-308). Subsequently, the Commission strived to operationalise the newly adopted criterion both in terms of its relation to sectoral parts of the *acquis* and in terms of a newly created general horizontal capacity criterion. With regard to the latter, OECD/SIGMA developed a baseline administrative capacity assessment tool.

Furthermore, there is no such thing as administrative capacity proper. On the contrary, horizontal and sectoral administrative capacities are inextricably linked. General administrative capacity was defined for the first time in the Commission's 'White Paper on the Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union', where sectoral administrative capacities were covered to a greater extent than horizontal; and the need to ensure adequate administrative capacities was first mentioned in the 1995 Madrid European Council (Verheijen 2000, p. 16; Dimitrova 2002, p. 178). Hence, horizontal administrative capacity is considered a synonym for administrative reform, while sectoral capacity is related to specific areas of the *acquis* and has a more technical character. However, emphasis on sectoral aspects of administrative capacity often overshadows the horizontal component of the term, because certain ambiguities of the Enlargement governance make horizontal capacity harder to define. Thus, sectoral capacities were prioritised in the beginning of the past

enlargement round, and it was only later in the pre-accession period that the EU started using the OECD/SIGMA horizontal administrative capacity benchmarking exercise as assessment tool in evaluating candidate state progress. In addition, the SIGMA-defined version of the general administrative capacity criterion has been hailed by some scholars as a potential test for defining an administrative *acquis* in the EU (Verheijen 2000, p. 56).

Nevertheless, horizontal aspects of administrative capacity were nearly ignored in progress reports since the year 2000, and this has had implications for candidate states. Recent evidence shows that while the new MS have performed well in core EU issues such as the transposition of directives, their performance in horizontal policy management, the programming and implementation of the Structural Funds, competitiveness and fiscal management is mixed if not poor, as indicated by low absorption rates of Structural Funds and by the fact that only five of the CEE-8 met the Maastricht criteria three years after enlargement (Verheijen 2007, pp. 1-6). In addition, political elites in CEE are yet to adopt the notion of the civil service as a public good in order to help overcome state capture and induce reform. This effect can be partially attributed to the pre-accession conditionality bias in favour of sectoral capacity, which was seen as efficiently promoting the EU agenda, although sometimes at the expense of national administrative development needs or priorities.

Despite all this progress, standard methods of appraisal of administrative capacity remained largely a *terra incognita* within the borders of the EU. However, a breakthrough has been noted with regard to the implementation of the Structural Funds, where the strictly defined nature of the policy and stringent rules of management and implementation have, according to some scholars, allowed for an equation of administrative capacity with the efficient management of the funds (Milio 2007, p. 435). It should not come as a surprise that Verheijen (2007, p. 4) uses the absorption capacity of EU funds in the new MS as an indicator of administrative performance and capacity.

Nevertheless, it is extremely valuable to this discussion to be able to clarify whether there is a common model, a definition of public administration in the EU or at least a common target, to which MS administrations will converge. Dimitrova

(2002, pp. 76-77), adopting a social constructivist perspective, argues that administrative compliance is a question of ideas or norms of institutional design to be transferred through Enlargement governance and suggests that an examination of whether the EU has a clear set of rules and ‘identifiable, durable and specific set of norms with regard to administrations’ should take precedence over evaluations of institution-building in administrations. Scholars have not reached a unanimous verdict on the nature, the scope or the existence of common administrative norms in the EU. Hence, in order to compensate for the lack of a treaty provision on public administration and the weakness of the part of the *acquis* which pertains to public administration issues, some analysts have suggested that there is some sort of treaty provision on procedural issues at most (Petričušić 2007, p. 308) or that a non-formalised version of the *acquis* could still be present (Kadelbach in Olsen 2002). There is some validity in this assertion insofar as it depicts a certain trend, visible for instance in the reference of the Charter of Fundamental Rights on the ‘right to good administration’ (Article 41). On the other hand, critics dismiss the argument’s underpinning on presumably ‘common principles’, based on a lax interpretation of administrative and constitutional arrangements and the case law of ECJ, as being far-fetched (Olsen 2003, pp. 513,516; Dimitrova 2002, p. 180). After all, public administration remains a sacrosanct aspect of national sovereignty for a considerable number of MS with little or no sign of willingness to upload jurisdiction in that field to Brussels.

The European Commission in turn employs a medium-sized bureaucracy and, given the budgetary constraints, its own administrative capacities are fairly modest (Olsen 2003, p. 514). Thus, as Olsen concludes, there has not been convergence through attractiveness and imposition, as EU-level developments show. However, national patterns have often been adapted in order to follow changes at EU level, and in the case of CEE there has been some constitutional convergence (Malovà and Haughton 2002, p. 106).

In spite of the ambiguities associated with the discourse on the EAS, central administrations in Europe have been at the centre of the debate between the Weberian Public Administration and NPM. However, NPM has failed to captivate



continental public administrations and seems to have lost its early ideological strength, as it becomes increasingly contested (Goetz 2001, pp. 1034-1035). Consequently, CEE and SEE countries have been reluctant to adopt managerialist NPM features for their public administration, which they see as foreign to their national and cultural traditions, which are more prone to the classical model (Nunberg 1999, p. 264). Besides, the European Commission has implicitly favoured the Weberian model of civil service, and the underpinning argument behind the EAS is essentially one based on 'Old Public Administration' (Dimitrova 2002, p. 179; Olsen 2003, p. 510).

Furthermore, the question of how the EU's own administrative canvas affects administrative conditionality in the candidate countries is more than necessary when discussing issues of administrative capacity off the EU borders. Hence, two possibilities loom large in the case of administrative capacity-building in candidate and potential candidate countries. First, the EU's own inconsistency in terms of administrative capacity, where the common pattern is the lack of a common definition or model of public administration, may have detrimental effects on its soft power and the rigorousness of the Europeanisation process as a whole, thus challenging the credibility of the EU's administrative conditionality (see Olsen 2003, p. 519). Second, despite the obvious handicap of EU Enlargement governance demanding compliance with rules that are not formally articulated for its own MS, Europeanisation could cause institutional developments by means of the uncontested dominance of the prescribed model in the post-communist countries. Thus, Eastern Europe could prove to be a testing site for administrative developments as yet unknown in the core EU countries. As EU governance literature has shown, peripheral countries and regions have often served as testing sites for reforms before their application to the EU core. Hughes *et al.* (2004, pp. 531-532,537) provide evidence that Commission officials, frustrated in their attempt to further Commission competences in regional policy, used enlargement conditionality to pursue this particular agenda in the candidate countries.

Nevertheless, the extent to which this power asymmetry between the EU and the candidate countries creates uniform developments in CEE is disputed. Hughes *et*

al. (2004, pp. 527,547) examine the development of regional policy in CEE, which they consider as a thin part of the *acquis*. Theoretically, this thinness could give the Commission the leeway to pursue an informal conditionality, but as the Commission was struck by internal divisions on the issue, its attempts had at best an ambiguous or limited character. Besides, Eriksen (2007, pp. 335-339) argues that ‘even in international systems with noticeably asymmetric power relations, seemingly weak domestic actors will have opportunities to obstruct externally imposed solutions’. He underlines the stickiness of national institutions in Eastern Europe and suggests that the dominant institutional pattern is variation. Cultural and historical traditions and a desire to restore them to the pre-communist form have at times been prioritised over compliance with EU requirements, as in the case of Croatia. Finally, Dimitrova (2002, p. 186) holds the experience with implementation in the EU to be true in CEE as well, namely that actors try to regain at the implementation stage what they lost at the decision-making stage.

In Cohesion policy, the discussion of absorption capacity preceded that on administrative capacity. The absorptive capacity of a region with regard to the SF is ‘the capacity to achieve output targets (set ex-ante in OPs) that allow for the allocation of Funds that have been earmarked for this region in advance’ (Hervé and Holzman 1998, p. 61). Therefore, in Cohesion policy administrative capacity is seen more as the ability to deliver and implement OPs. According to Hervé & Holzman, an absorption problem is usually considered to exist if a region cannot achieve an absorption rate of 100%. However, they consider this view input-oriented and uninformed about effectiveness of allocations and the fiscal shock caused by the transfers. They propose instead an output-oriented definition of a transfer-related absorption problem as *any economic mechanism that prevents the economy from achieving the highest growth path available, given the present value of transfers. Such a growth path maximises the difference between the present value of output with and without transfers, i.e. the present value of additional output induced by the transfers. The applied discount rate is the long-run market rate of interest* (Hervé and Holzman 1998, p. 62).

Although the effects of fiscal transfers on growth are beyond the scope of this research, it is interesting to note that Hervé and Holzman name as causes of transfer-related absorption problems a series of reasons for non-increase in production capacities, such as technical administrative incapacity (which implies higher-than-necessary costs to get things going), rent-seeking activities and rising consumption (Hervé and Holzman 1998, p. 65). A further number of reasons they list is: timing-related problems, information disadvantage of the transfer-disbursing authority, and public choice considerations (deliberate choice of sub-optimal projects). It is worth examining whether these reasons can be relevant as mitigating factors of the effects of pre-accession assistance on capacity.

The EU Commission definition of institution-building refers to the development of structures and systems, human resources and management skills needed to implement the *acquis* (Dimitrova 2002). The EU makes a further distinction into sectoral capacities and horizontal capacities, with the latter being used as a synonym of public administration reform and the first being related to individual chapters of the *acquis*. According to a study of administrative capacity in the context of the Structural Funds, the measurement of capacity starts with a distinction between *structure, human resources, systems and tools* (Netherlands Economic Institute 2002). The 2006 Thematic evaluation of Phare Public Administration and Judiciary capacities in Bulgaria and Romania defines the concept as: *the creation and maintenance, within a system of governance, of all organisational structures, competencies and resources required of a national public administration and judiciary if they are able to take on the obligations of the Copenhagen membership criteria* (European Commission 2006c).

#### **2.5.2.1. Administrative capacity as an accession requirement**

Assessment of administrative capacity is inextricably linked with the recent enlargement process. In previous enlargements, it was not an issue of great salience, but in an EU of 27 and more MS it is doubtful that internal market standards could be enforced with ease in the absence of these capacities (Verheijen 2000, p. 7). Thus, after an initial emphasis on democratisation in CEE, the EU shifted attention to

governance capacity (Bechev and Andreev 2005, p. 8). In that sense, conditionality has been employed as an instrument to facilitate certain administrative developments. However, conditionality may have more far-reaching implications, as it is ‘a form of power that the EU wields not only to induce national governments to behave in certain ways and embark on particular measures and policies, but also to shape the institutional environment within the target state’ (Anastasakis and Bechev 2003). Besides, the candidate states have to comply with several sectoral aspects of administrative capacity included in the *acquis* that correspond to the negotiating chapters, for instance as Chapter 22 (formerly 21) on Regional Policy and Coordination of Structural Instruments points out: ‘member states must have an effective institutional framework and adequate administrative capacity to ensure programming, implementation, monitoring and evaluation in a sound and cost-effective manner from the point of view of management and financial control’ (European Commission 2005b; Hughes *et al.* 2004, pp. 536-539).

On the other hand, one of the pitfalls of fast-track transposition of the *acquis* is that it may deprive the exercise of feedback functions in the respective political systems of the candidate countries and tarnish the legitimation of the enlargement process. For Malovà and Haughton (2002, p. 112), such emergency procedures for the adoption of the *acquis* may hamper the emergence of a procedural culture of political bargaining and cross-party consensus-building. ‘Europeanisation by decree’, as Knaus and Cox lament (2004, p. 55), while phenomenally promoting the accession process may progressively undermine administrative capacity in the candidate states as contradictions with administrative and cultural traditions may resurface and prove to be a stumbling block in the long run.

The fact that administrative capacity does not have a treaty basis, or a foundation in EU policy documents except for informal guidelines, and is often negatively defined in Commission’s opinions on candidate progress, may cast doubts about its distinction from institution-building. Bailey and De Propriis (2004, pp. 82,89) use the terms institution-building and administrative capacity interchangeably but insist on the distinction between institutional capacity-building and capability. They consider the misfit between the two, where the latter is the ‘ability of

institutions to carry out the policy-making effectively or implementing tasks they were set up for', as an indication of why the excessively ambitious goals of twinning had a partial success on the ground. Similarly, Bechev and Andreev (2005, pp. 16-21) examine institutional change in the Western Balkans through the lens of social capital, based on the assumption that any institutional arrangement should enjoy a level of public support in order for it to last, and thus they attempt to link the success of institution-building in the Western Balkans with social capital. Their critical approach of CARDS as being top-down on the state-level governance part and quasi-bottom-up on actions that affect society ought to take into account that it is sometimes preferable to build on the stable soil of state institutions rather than on social capital, given the volatile mixture of particularistic and ethnic interests in Balkan societies. The Commission's argument that enhanced institutional capacity will benefit society as a whole in the mid-to-long term and the authors' apology of bottom-up strategy lie at two opposite ends, for the ideal arrangement could be to promote sound institutions step by step with expanding public trust in them. As a recent study of the CEE-8 has shown, system reforms that occur in a step-by-step process starting from the core government institutions in coalition with senior civil service officials are more likely to be successful (Verheijen 2007, p. 45).

It is true that in the case of European pre-accession, the concept of institution-building has been endowed with clearer tasks, but this has not led to its full operationalisation. There is some agreement among scholars that in the course of the enlargement process there was a move from the more generic term 'administrative capacity' to the more specific 'institution-building', which was adopted in 1997 (Dimitrova 2002, p. 178; Milio 2007, p. 435; Hughes *et al.* 2004). The EU definition of institution-building is 'developing the structures and systems, human resources and management skills needed to implement the *acquis*' (Commission in Dimitrova 2002, p. 179). Dimitrova views the institution-building turn of the EU as an increase in the importance and complexity of its administrative-capacity requirement, stemming from what she calls 'the path-dependent logic of conditionality'. In the Western Balkans, a similar approach was followed by the Commission, a core element of which was again institution-building, although according to Tulmets (2005, p. 56) institutional capacity was neglected in the early stages of CARDS due

to a neoliberal bias. Bechev and Andreev (2005, p. 8) perceive institution-building as the creation of both public/state and civic institutions which marks the transition from an initial emphasis to post-war reconstruction to the enhancement of the state's governance capacity, not least by providing legitimacy through participation. In the case of PHARE, 'institution-building' meant the creation of planning and management authorities, while 'institutional capacity' focused more on the strengthening of 'public administration and organisations that have a responsibility in implementing and enforcing Community legislation'(Leonardi 2005, pp. 141-142). Consequently, administrative capacity-building is usually a different term than institution-building, since its subjects are bodies entitled with the task of administrating, whereas institution-building may also embrace other actors or bodies that emanate from the state, civil society or initiatives of transnational governance.

Some of the pitfalls related to administrative capacity-building have preoccupied scholars. Grindle and Hilderbrand have warned about the potential negative effects of reform efforts for administrative capacity (1995, p. 452). Scott (2006) provides evidence of administrative reforms in Hong Kong, which corroborate his argument that existing administrative culture is a key determinant of the course of change in the public sector. Finally, Goetz (2001) considers it possible for enclaves of excellence to be created through the specific focus of administrative-capacity programmes on liaison offices in the national administration, which could even have detrimental effects on the capacity of the administration as a whole, as they are siphoning off funding from other departments. After accession, the closure of accession management units may not lead to absorption of their expertise from a delegitimised public administration, but to a brain drain abroad or to the private sector.

Finally, there is no doubt that the question of administrative capacity is important. Administrative incapacity can hinder reform efforts and lead societies and polities into disarray, while pushing them into the back seat of European governance. The reason is that the administrative capacity of candidates and potential candidates has far-reaching implications for a number of critical areas, most of which are crucial for existing members to be successful: (i) it influences the overall level of competitiveness of a state and is a necessary element for achieving the Lisbon,

Gothenburg and Europe 2020 goals; (ii) it determines the successful implementation of the Structural Funds; (iii) it is an essential part of any sound fiscal management plan and necessary for achieving the goals of EMU; (iv) it is an important requirement of the Stabilisation and Association Agreements (SAAs); and (v) a criterion for EU accession; (vi) it is of utmost importance in securing the *modus operandi* of the EU and mutual trust between MS, as high levels of divergence among MS may jeopardise the internal market; (vii) it is indispensable for achieving growth, attracting investment and succeeding in economic recovery after transition; (viii) it enables the emergence of a healthy civil society and allows participation in EU MLG on equal terms; and (ix) it is tantamount to a learning response to adaptation pressures arising from the EU level and to Europeanisation (Petričušić 2007, pp. 303-308; Verheijen 2007, pp. 1-6,43-46).

## **2.6. Studies on Croatia**

A small but growing number of studies have focused on the Europeanisation of Croatia and more specifically on sectoral policy change. It is crucial to identify the ones with explicit references to pre-accession assistance. First, distinctive regional science contributions build on policy advice generated through CARDS projects to study challenges for Croatian regional policy in the context of pre-accession, territorialisation and decentralisation and the institutional capacity for regional development at the county level (Fröhlich 2006; Malekovic *et al.* 2011; Maleković *et al.* 2007). Second, research on civil service reform in Croatia as a precondition for PAR, reflects on the work of relevant CARDS projects, including the CARDS 2001 'Public Administration Reform' (Petričušić 2007). Chapter 6 elaborates on the achievements of the project.

Furthermore, a recent study has examined EU external governance in Justice and Home Affairs (JHA) in Croatia and FYROM (Trauner 2009). The analysis of Croatia is based on the CARDS twinning project 'Integrated Border Management: Border Police', implemented with the help of German and Slovenian twinning partners. According to the author, the project redrafted legislation, and changed administrative structure and hierarchy (Trauner 2009, p. 781). The article also

explains three modes of external governance according to which rule adoption takes place, following Schimmelfennig and Sedelmeier (2004): (i) an external incentives model that is based on cost-benefit rational calculations that explain rule adoption; (ii) a social learning model where actors are motivated by internalised identities, values and norms; and (iii) a lesson-drawing model which hints at adoption of EU rules owing to dissatisfaction with the status quo. The article favours the first model and considers policy conditionality a key variable for successful *acquis* adoption and a prime means of external governance. Nonetheless, Trauner's work, although reminiscent of studies in the rational choice domain, is centred on policy conditionality, lacks the analytical breadth required to present actor constellations and preferences at the project level, and accepts stated project outputs unreservedly.

Moreover, an important academic contribution on MLG in SEE covers four SEECs in a comparative study of institutional developments from 1995 to 2007 (Bache and Andreou 2010). It focuses on Cohesion policy, pre-accession assistance, environment and migration issues, and follows a theoretical and methodological approach highly relevant to this study. An article by the same team, entitled 'Europeanisation and nascent multi-level governance in Croatia', examined signs of emerging MLG and a movement towards a more compound polity (Bache and Tomšić 2010). As a study close to the subject of the thesis, it is worth exploring the analysis and conclusions in detail. CARDS and IPA are characterised as 'pre-accession instruments of Cohesion policy'. This could only be partially valid as (i) CARDS was not strictly an instrument of Cohesion policy – with the exception of some projects – and (ii) it did not explicitly aim at mitigating regional disparities. Its early phase in particular was aiming at post-war reconstruction; (iii) it was centrally managed and project-centred; and (iv) it did not lend itself to a regional development approach (see empirical part). CARDS did not prepare for SF programming and implementation but for the SAP, and later on it acted as a financial tool of EU enlargement policy. On the other hand, the authors' assertion could prove partially accurate for IPA, which is by definition paving the way for the Structural Funds (at least components II, III, IV). In a nutshell, Bache & Tomšić's view of pre-accession instruments as necessarily geared towards EU regional policy goals, prevents the consideration that the perpetuation of centralisation and control of key policy-making



domains may not be an indication of central government gatekeeping but of the weak and diffused mandate of the instruments.

Some further points merit a mention. First, decentralisation began to interest the ‘epistemic community’ after the nation-building period (Bache and Tomšić 2010, p. 72). The use of this concept denotes a scholarly community and according to an influential approach it entails some form of a governance network of experts sharing common beliefs (Haas 1992). The authors do not present concrete evidence for the existence of such a network in Croatia. Even if the term is used in a casual sense, it is worth examining the existence of socialisation effects which could affect policy-making, management implementation and perhaps trigger domestic institutional change. Second, there is a significant coverage of interventions in regional policy literature (see Chapter 3) not mentioned by the authors, who conclude that comprehensive domestic regional policy is absent in Croatia. Third, reference to CARDS and its components noting that the programme was used from 2001 until 2004 is not entirely accurate, as Croatia remained eligible for the CARDS regional component until 2006. In addition, given the programming delay in CARDS, a large number of projects were still being implemented by the end of 2008 (see empirical chapters). Fourth, the concepts of fit-misfit and adaptation pressures are not properly clarified unless reference to them in the parent article suffices. There is also an inconsistency between two statements: ‘Therefore, we can expect some degree of misfit with established arrangements in Croatia that will require significant adjustment’ (Bache and Tomšić 2010, p. 72) and ‘As noted above the misfit between EU and Croatian modes of governance is high and so is the degree of adaptational pressure’ (Bache and Tomšić 2010, p. 73). Making a clear and consistent assumption about the degree of misfit is critical for the empirical testing of the assumption and the formulation of a conclusion.

Furthermore, their critique of the Regional Operational Programmes (ROPs) prepared under CARDS 2001 instruments is confined to the non-implementation of the documents and fails to acknowledge other potential positive effects which are shown in the empirical part of this study. While they reveal some of the institutional weaknesses of the Central State Office for Development Strategy and Coordination

of EU Funds (CODEF), they seemingly put the blame on the institution itself rather than look for causal explanations in the core executive's decisions to establish CODEF under this particular organisational design. Besides the near omission of the Ministry of Economy, Labour and Entrepreneurship (MELE) and other actors such as the Ministry of Finance and the CFCA, their succinct references to the Ministry of Regional Development, Forestry and Water Management (MRDFWM) and its department of Integrated Regional Development, the Central State Office for Administration (CSOA) and the establishment of regional development agencies without examining if they are operational, may not provide concrete evidence for the emergence of MLG functions. Nonetheless, it may be useful to consider their findings on partnership, especially in an effort to draw parallels with discussion of relevant structures in this study.

It appears that a clear interpretation of findings in MLG or Europeanisation terms is missing. There is also some confusion between causes and effects: '...developments can be attributed primarily, but not exclusively, to EU effects', 'EU technical assistance has been crucial to the establishment of county development agencies...' and some weakness in tracing the key influence (Bache and Tomšić 2010, p. 76). In the discussion of the causes of domestic change, the authors cite the accession process and direct and indirect effects of the *acquis* rather than pre-accession instruments and of the instrumental role of national ministries for gatekeeping and developing new structures. Also, the conclusion that 'the combination of powerful financial incentives and the enthusiasm to complete accession led to a transformation in domestic policies and practices in the field of regional development' is not supported by their own evidence, which points to a more superficial change. They see these results as thin learning and type II MLG but do not link these claims with developments in particular organisations. The current project will attempt to test these views.

Finally, Bache and Tomšić (2010) comment on the weak sub-national capacities for project preparation and implementation especially with regard to human resources, although their coverage of central government administrative capacities is not equally detailed. The establishment of NUTS II regions – purely for

statistical purposes – has led the authors to expect the development of relevant administrative capacity for strategic development, although this remains to be seen. The mushrooming of regional development agencies (RDAs) in Croatia – some of them operating in the time of fieldwork with a skeleton crew and non-functional – has been hailed as a rapid growth in sub-national activity. This statement provides evidence from champion counties in Croatia (Varaždin, Istria) and could not be considered to be representative of a stronger trend.

Thus, particular emphasis is given here on the three pre-accession financial instruments that constitute a part of the whole of the Europeanisation process. Nevertheless, the two projects are not fundamentally irreconcilable given the common ground in the coverage of the policy areas of regional policy and pre-accession financial assistance and the case study of Croatia. The two projects also converge on some of their empirical and theoretical questions, as well as the preference for a theoretical and methodological approach based on historical institutionalism. Bache *et al.* add a sixth factor to the mediating factors for domestic change defined by Caporaso *et al.*, which they name political or partisan contestation (Bache *et al.* 2007). They also follow Caporaso's three-step model, to which they add a final box on whether the outcome is a reorientation or reshaping of politics according to Type I or II MLG. In this thesis, Caporaso's approach is followed in reference to the main mediating factors. The additional elements suggested by Bache *et al.* are taken into account where empirical evidence supports making relevant assertions.

## **2.7. Application of theoretical concepts to the study**

Similar to the scarcity of research on Croatia's experience with pre-accession assistance, the role of financial aid in EU external governance remains a relatively neglected area of study (Lavenex and Schimmelfennig 2009). The few relevant studies focus on contractual relations, such as those required for the management and implementation of assistance. Thus research attention, misled by the technical and procedural surface of the instruments, is easily diverted from the undoubtedly rich array of informal and indirect actions that characterise pre-accession aid. This study

seeks to address this gap. A further contribution concerns the level of analysis. Although the projected Croatian accession by July 2013 (European Commission 2011b, p. 1) may attract additional research interest, this study comprises the first in-depth analysis of conditions and changes at the level of departments, agencies and sub-units and an exceptional focus on programme and project levels. A third area of conceptual originality lies in the unpacking of administrative capacity into the constituent elements of administrative processes, human resources development, and changing administrative structures, and locating it among the outputs of the process of Europeanisation; in other words, as a dependent variable rather than an intervening variable, shaping other policy outcomes as is typically the case in Europeanisation research designs. The impact of enlargement through financial assistance for administrative capacity-building in Croatia is studied via the examination of the change of structures, resources, actors' preferences, ability and behaviour.

The role of pre-accession assistance may be overlooked by researchers as concomitant with other tools of external pressure. However, it constitutes the starting point for the introduction in the case of most candidate countries of Cohesion policy, and one cannot rule out path-dependent outcomes of this early encounter with these precursory instruments from extending well into the future implementation of the policy.

This study is located within the conceptual framework of Europeanisation as the domestic impact of Europe, particularly in terms of modernisation and institutional change. The essential concern remains whether external, EU, international stimuli or domestic institutional and power settings are the critical factors behind administrative change. This thesis shares this view and, while it treats pre-accession assistance as an independent variable, it also employs techniques used in bottom-up research, as is discussed in the methodology chapter. The study will seek to complement other similar studies (Chatzigiagkou 2009; Bache and Tomšić 2010; Hughes *et al.* 2005) by replicating the part of their work touching upon domestic developments in the case study of Croatia, especially with regard to national administrative structures.

A main difference between the work by Bache and Andreou and this study is that while their primary empirical and theoretical concern is MLG, which they consider an outcome of the process of Europeanisation (Bache *et al.* 2007, p. 2), in this thesis administrative capacity is examined as an outcome. Bache *et al.* recognise that pre-accession programmes are concerned with developing capacity for participation and require adaptation and governance change (Bache *et al.* 2007, p. 5). They also embrace a reading of pre-accession instruments as all being characterised by a multi-level approach, a view that is also expressed by Hughes *et al.* (2005, p. 68). These assertions will be supplemented and scrutinised in this study with a more fine-grained analysis of the impact of PHARE, CARDS and IPA in Croatia.

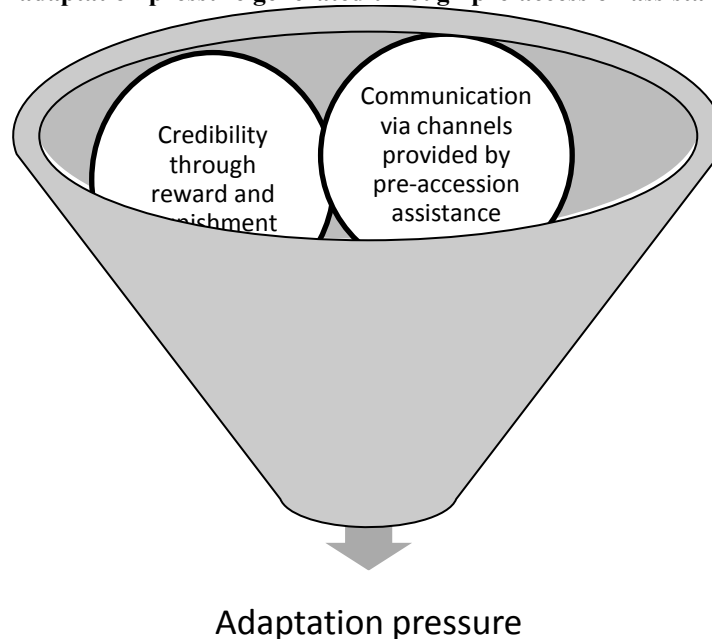
In addition, this study extends the time coverage of the Croatian case until 2011. Furthermore, as methods stemming from historical institutionalism are used in this study, the strength of this approach also employed by Bache *et al.* (2010) is tested in practice. In particular, this research attempts to bridge concepts: it approaches administrative capacity-building as a part of the output of a wider process of Europeanisation, which is potentially instituted by CARDS/IPA as tools of external governance. Finally, this study seeks to corroborate or challenge the conclusions of previous relevant research based on empirical evidence. The question is whether the Croatian case reveals new insights which can inform the literature on external governance.

Thus, as was shown above in line with theoretical models of Europeanisation, changes occurring at a European level with regard to pre-accession assistance may affect the goodness of fit of candidate countries. Instances of misfit, where the domestic institutional setup is different from the European norms, rules or policies, are considered to generate adaptation pressures. The intensity of these pressures is attributed somewhat deterministically to the bipolar concept of institutional fit/misfit. While in the literature it is plausibly stressed that adaptation pressure is a necessary but not sufficient condition for change, perhaps it makes sense (especially when covering pre-accession situations) to repeat this statement one step earlier in the process and challenge the immediateness of the link between fit/misfit and adaptation pressure. That amendment should cover some cases of misfit which may persist in

time, despite what the model would characterise as high adaptation pressure. For pressure to be effective, it must (i) be credible, backed by conditionality including rewards or punishment within a timeframe conveying a sense of urgency, (ii) be adequately communicated to rational and informed domestic actors, and (iii) exceed domestic opposition, otherwise it could be neutralised (see

Figure 2 below).

**Figure 2: Funnel of adaptation pressure generated through pre-accession assistance instruments**



Source: own elaboration.

### **Institutionalism**

In this study, institutionalism guides the discussion of the different responses to EU pre-accession assistance pressures in various Croatian government institutions. The influence that early choices about the institutional arrangements, which cater to the management and implementation of EU funding, may have in the future should be borne in mind when exploring the impact of pre-accession assistance on the institutional environment in Croatia. Most of these actions do not occur in the form of spectacular reforms and radical shifts of administrative structures but on a subtle and incremental basis. Rather than taking place at the level of the national executive and cabinet ministries, novel, EU-induced configurations may appear at the level of

units within departments or agencies. It is the amassment of these bits and parts of EU institutional influence in these government organisations that is paving the way for certain path-dependent outcomes, which otherwise would have been out of the question.

(i) Historical institutionalism is employed here in the context of Europeanisation based on pre-accession assistance instruments, because it allows the use of the path-dependent logic of the goodness of fit and the logic of appropriateness. This should help explain why, in the presence of pre-accession assistance instruments, the Croatian administration followed different paths of compliance in several of the case studies based on the characteristics of each case. Of particular importance are also methods used in historical institutionalist studies, such as process-tracing and archival research on government documents.

(ii) Sociological (constructivist) institutionalism is a suitable instrument for looking at the Croatian administrative culture, prevailing rules and norms which can be conducive or not to administrative capacity-building. It could emphasise facilitating factors and obstacles to administrative capacity within the Croatian public administration bodies, departments or agencies, and explain the intricate effects of the pre-accession instruments, especially those related to learning and socialisation. Besides, the positive role of the Structural Funds and pre-accession assistance for learning is emphasised (Leonardi 2005, pp. 67-88). Furthermore, a relevant study should be able to draw on the theory of public administration in order to identify and discuss concepts and enabling or disabling factors in the Croatian national administration. National political culture and administrative culture and traditions should be taken into account by both approaches. This is definitely important in terms of the success of pre-accession assistance in strengthening administrative capacity-building. Thus, consensus on the definition and policy prescriptions for administrative capacity-building can take place.

(iii) Notwithstanding the additional complexity of the pre-accession environment, rational choice institutionalism (Shepsle 2006; Tsebelis 2002) can be employed to provide an account of the course of actions related to the set-up and running of pre-

accession assistance. Besides, using this logic should offer useful insights on the strategic choices of institutional and collective actors involved in the process which spans several policy arenas. In addition, enabling and disabling factors of administrative capacity-building should be sought at these various arenas. This study will show whether empirical evidence supports these assertions. Domestic actors can reappropriate European norms and policy paradigms to implement their own policies (Radaelli and Pasquier in Graziano and Vink 2008). The preferences and strategic choices of the domestic and external actors involved in the pre-accession assistance decision-making and policy-making, management and implementation can be parsimoniously explained by a rational choice approach. These actors include the government either as a whole or as sectoral ministries and specialist government agencies with functions related to the management and implementation of the funding, the parliament, the European Commission and its Delegation, the public administration, neighbouring countries, regional, local and civil society actors and capacity-builders (consultants, twinned and seconded national experts). As one of the mechanisms of Europeanisation (Grabbe 2003), pre-accession assistance creates opportunities and constraints for domestic and external actors, thus it is possible to see their preferences under the light of reform stimuli emanating from CARDS. These preferences are shaped by calculations of cost (calculus approach) from each individual or collective actor. The number of veto players is also critical, as multiple veto players, institutional or factual, generally erect more barriers to CARDS-induced reform as they strive to defend the status quo against an unwanted outcome (Tsebelis 2002). In addition, each actor's choices are bound by informational asymmetries which are often used to the advantage of the more informed actors.

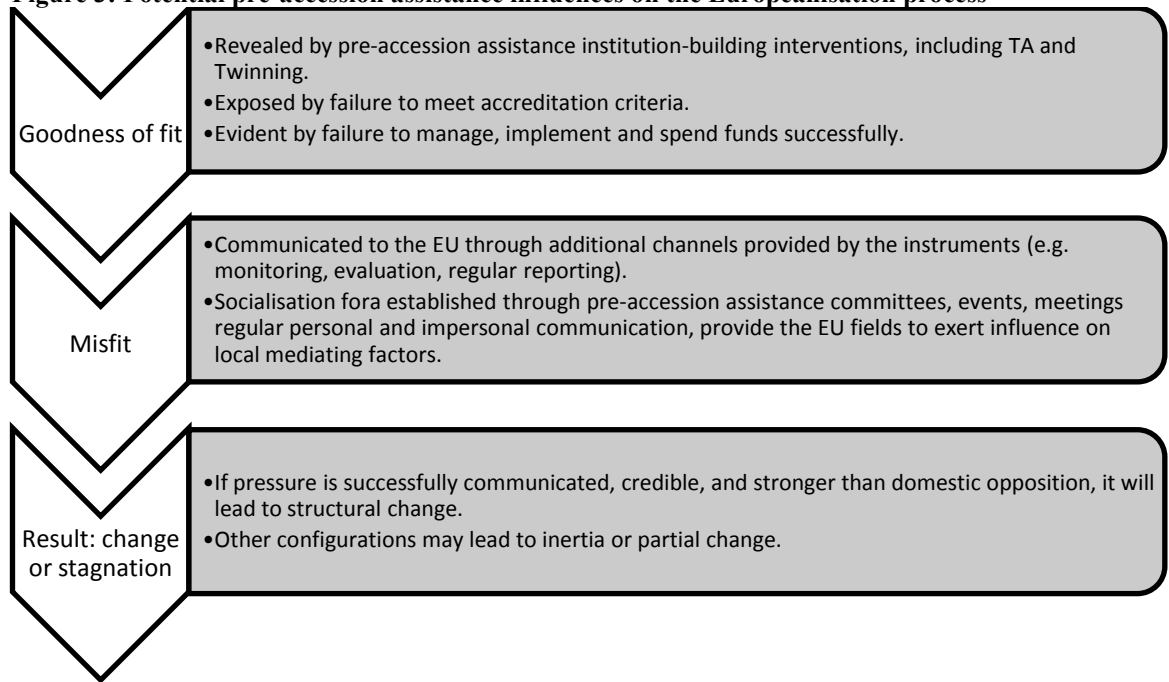
(iv) This thesis adopts a holistic approach to institutionalism, because the EU way can be understood by taking recourse to the largest possible variety of institutional approaches. The first point of attention is an old institutional assessment of formal, state, systemic institutions. Second, it is an attempt to establish rules that constrain (financial management rules) as well as incentives (transfer of resources). In the long run, values may be inserted and conditionality may show path-dependent outcomes. Besides, the EU promotes institutional stability and institutional isomorphism by spreading standard operating procedures in candidate countries. This



way, stable expectations from institutions may lead to some form of increased technocratic or procedural legitimacy. Finally, the EU maintains institutions which otherwise would probably not exist in the context of these countries (population ecology approaches). Organisational niches are created for this purpose corresponding largely to EU policy areas. Likewise, in the case of Croatia, persistence of law may have facilitated Europeanisation. It may also be that new legislation may mean reviving or further burdening another implementation structure; however, it frequently involves the formation of another structure (Peters 1999, p. 90). This could be either top-down (repeating hierarchical government structures) or bottom-up (network or partnership).

Summing up, the various strands of institutionalism provide a useful source of distinct but complementary concepts and mechanisms through which to study the impact of external pressures on institutional outcomes. Figure 3 below attempts to portray the potential role of pre-accession instruments in the Europeanisation process of candidate states. Table 1 below examines the goodness of fit of domestic institutions in Croatia with pre-accession assistance. That is to say that different characteristics and institutional requirements of the three pre-accession assistance instruments may also affect goodness of fit.

**Figure 3: Potential pre-accession assistance influences on the Europeanisation process**



Source: own elaboration.

**Table 1: Institutional misfit with pre-accession instruments in Croatia**

<b>Instrument</b>	<b>Goodness of fit/ institutional misfit</b>	<b>Adaptation pressure</b>
<b>CARDS (2000-2004 in Croatia)</b>	Initially centralised and focusing on post-war reconstruction	<b>Limited</b> pressure related to the project-based model.
	<b>Misfit</b> on the eve of decentralisation of assistance to Croatia	<b>High</b> in the case of the CFCU/Ministry of Finance. Medium in general
<b>PHARE (2005-2006)</b>	Similar management with later phase of CARDS therefore similar degree of fit/misfit	<b>High</b> in the case of the CFCU/Ministry of Finance and later CFCA.
<b>IPA (2007-2013)</b>	<b>Institutional misfit</b> particularly in relation to components II-IV	<b>High</b> pressure in the case of the line ministries, coordination authority, operational structures etc.
<b>Cohesion Policy and Structural Instruments (future)</b>	<b>Institutional misfit.</b> Better chances of goodness of fit if administrative capacity is improved through the influence of IPA.	<b>Very high</b> but potential pressure at the sectoral level depends on the successful implementation of IPA.

Source: own elaboration.

This study accepts the views of previous studies on the nature of EU conditionality (Hughes *et al.* 2005), although such an inquiry is beyond the scope of this research. Nor does it intend to examine in an exhaustive way the role of the Commission, although, where possible, information was gathered to help assess its part in the establishment of administrative capacity in Croatia. In a sense, this study shares a closer affinity with the third element of the work by Hughes and his collaborators in the case of Croatia through a narrow focus on pre-accession instruments and administrative capacity. However, a point of departure is that this study also embarks on a thorough investigation of developments at the project level, which is absent from Hughes *et al.* and other similar studies. Therefore, this approach has a stronger bottom-up dimension, as advocated by Radaelli and Pasquier (2008, pp. 35-45), from a Europeanisation research-design perspective. Further, Hughes *et al.* conceptualise conditionality in soft terms involving differentiated influence and a thin *acquis* in terms of Chapter 22 (Regional policy and structural instruments). This is not entirely satisfactory, because the accreditation process for the structures in the pre-accession assistance system is based on hard conditionality tests, as will be portrayed in this study. In addition, this thesis examines the techno-

structure of pre-accession assistance and its capacity to realise desired outcomes by employing staff, creating agencies and building up standard operating procedures (Dunleavy 2006, pp. 16-21,28-30).

The main concern here is to establish the existence of mechanisms which, in the event of a particular cause (e.g. pre-accession status), generate an effect or outcome (in relation to administrative capacity). These may be sociological, rationalist or other mechanisms described above. The key empirical task is to examine whether such mechanisms are in operation and set in motion by pre-accession assistance. The third step of the Europeanisation model, as presented by Caporaso, namely the intervening effects of mediating factors, is well developed and could be replicated in the Croatian case.

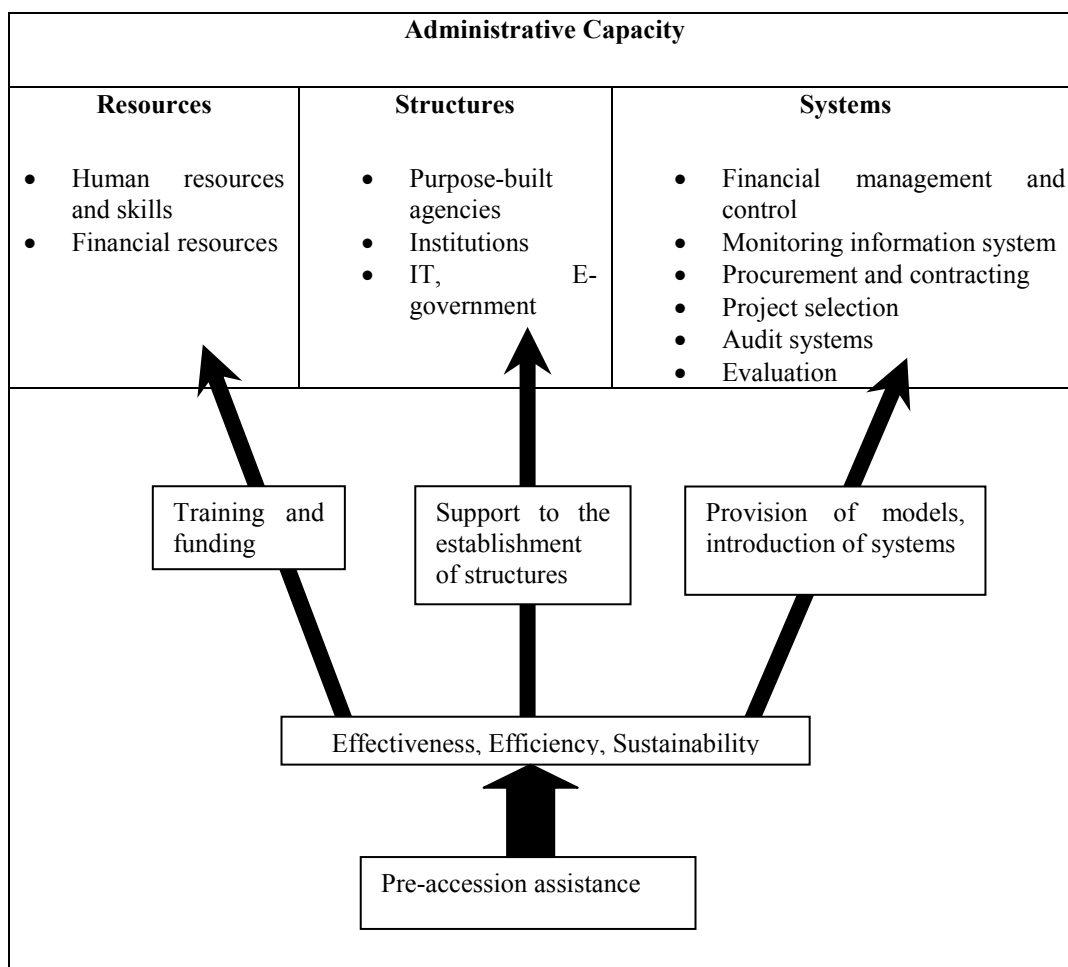
For the first group of mediating factors (formal and informal institutions, domestic cultural factors), the following may be hypothesised: (i) In the case of Croatia, administrative culture may act as a mediating factor for institutional change. However, administrative culture is not uniform between government organisations or within them. A wider cleavage in Croatian politics and administration, which is the one between nationalists and Europeanists (Fisher 2006, pp. 3-22), could have repercussions on domestic administrative change. Another domestic mediating factor may be the centralised and unitary characteristics of the Croatian state. This could possibly mean that there is a condition of institutional misfit between the EU requirements for the establishment of NUTS II regions. However, structural change would depend on how concrete the prescribed EU model is (what the EU wanted in terms of the establishment of regions), given that softer conditions allow higher discretion with regard to the extent of change. (ii) Examples of the second group of mediating factors (veto points) can also be found in Croatia. For instance, an old guard of statesmen and officials within the (then) ruling Croatian Democratic Union party (HDZ) could effectively be a veto player in cases that resist institutional change.

### **2.7.2.1. *Developing a framework for analysing administrative capacity***

The definition of administrative capacity in this study is the possession of all those resources, structures and systems that enable a public organisation to perform its required functions in a sustainable way. The required functions can be either those related to the implementation of the *acquis* in a sector or the capacity to manage and implement specific financial instruments such as CARDS, PHARE or IPA. In the above definition, resources refer to human resources as well as financial resources bestowed on an institution. Structures are the purpose-built institutions either for policy-implementation in a sector of the *acquis*, or the management and implementation of pre-accession assistance. The establishment of public agencies and semi-autonomous organisations to provide public services is considered a change in government structure (Ongaro 2009, p. 3). Structures also include the existence of the appropriate equipment such as IT and e-government. Systems and tools refer to the adoption of manuals of procedures, financial control and audit, monitoring and evaluation, personnel selection criteria, sufficient policy coordination and the appropriate legal framework. In the public management literature, the term ‘processes’ is largely synonymous with systems here (Ongaro 2009, pp. 2-3).

Sustainability would be tantamount to the instruments’ outcomes extending beyond the programming period, e.g. sustainable structures, trained staff retained by departments, organisations or agencies. With regard to financial assistance, the issues of effectiveness and efficiency are important: the first would be linked to setting up the institutional structures, performing the training, improving the human resources or hiring qualified staff, investing in ICT and e-government; while the latter would mean an optimal input-output ratio, financial management and control, monitoring information system, audit, project selection, procurement and contracting and evaluation. Table 2 below visualises the analytical framework.

**Table 2: Analytical framework of administrative capacity used for this study**



## 2.8. Elaboration of the hypotheses

Eight hypothetical points were developed to direct the development of the empirical part of the thesis. They were based on the literature elaborated above and/or grounded on issues raised in the preliminary review of policy documents. In particular, hypotheses 1a, 2a and 3 are drawn exclusively from the literature. Hypothesis 1b occurred from the fieldwork, while hypotheses 2b, 4a, 4b and 5 can be located both in the literature and in fieldwork (see Table 3 below).

The first hypothesis (1a) examines the probability that a conflict arising between SF institutions and national management models may lead to separate

structures. The question touches on issues raised in the MLG literature and the body of research on agencification in the EU. The likelihood that institutional developments related to EU funding are following a type II MLG arrangement (Marks and Hooghe 2004, pp. 17-20) and a tendency towards FOCJ (Frey and Eichenberger 1999) is recorded through this assumption. In addition, the hypothesis helps establish whether the course of setting up ‘double-hatted’ executive and normative agencies for the Commission and MS (Egeberg and Trondal 2009a, p. 779), has found any application in the context of pre-accession in Croatia. Furthermore, it tests the assumption of the literature on administrative Europeanisation that institutional compatibility between national and EU policies defines EU impact (Knill 2001). In this regard, the centrality of the challenged domestic institutional arrangements is seen as a major determinant of the degree of (adaptation) pressure. The mode of institutional change is also captured in the literature as expressed in the notion of ‘layering’ (Streeck and Thelen 2005). Finally, there are similar references from research on PHARE/Twinning in the EU-10, which explain ‘ideational cross-fertilisation processes’ and ‘institutional hybridization’ (Tulmets 2005, p. 83).

The hypothesis, though still guided by the literature, adopts a more specific focus in the case of Croatia. It considers three main steps in the domestic reaction to EU pressures: (i) a state of conflict or incompatibility exists between the management model for national resources and institutional functions required for the management of the Structural Funds; (ii) new institutions are established outside the core executive; and (iii) they are bestowed only limited power of influence and control over national policy.

The second hypothesis (1b) notes that when resources provided by the EU to the candidate country are limited, this acts as a disincentive for compliance. This point is related to the aspects of the institutional literature stressing the importance of positive incentives and rewards for compliance. It is based on the pilot fieldwork as well as the argumentation of international pressure groups advocating a more generous IPA funding (European Stability Initiative 2005). Parallels can be probably

found with reports of last-minute boosts in administrative capacities in the EU-10 before accession.

This hypothesis is formulated in a way that captures some of the potential results of limited EU support. It is assumed that (i) the flow of EU resources remains limited in the short-to-medium term or at least that this is anticipated by the country concerned; and (ii) staffing actions and the establishment of necessary structures and processes are either postponed or take place in a partial form.

The third hypothesis (2a) stipulates that a lack of domestic consensus is an obstacle to reform. This hypothesis stems from the Europeanisation literature. In line with this starting point, it investigates the ability of domestic cultural factors and veto points (Caporaso 2008) to generate a reform consensus and therefore permit EU impact. It builds on research focusing on structural characteristics of national systems of governance and the role they play in facilitating/obstructing change. The distinction between simple and compound polities is employed in this regard (Schmidt 2006 in Bache *et al.*). The ensuing assumption is that unitary states with disorganised systems of representation find it hard to adapt to EU policies. Similar case studies have been carried out in the EU-15: Greece is a simple polity with disorganised interests (Featherstone and Papadimitriou 2008, p. 36). Croatia is also characterised as a simple polity with a majoritarian representation, which adds to the rationale for the above assumption (Bache *et al.* 2010, p. 32). Other contextual factors blocking the emergence of a reform consensus have been presented in the literature as ideological or related to the policy direction. For instance, transition reports in the CEECs argued that prioritisation of economic reform and anti-statism slowed down PAR (Nunberg 1999). More recent studies have emphasised the implementation record in the aftermath of reform attempts in the EU-10, stating that lack of consensus denigrates reforms to a dead letter and results in reform reversals (Bachtler *et al.* forthcoming 2013, p. 4). Finally, in the formation of this hypothesis, attention was paid to similar assumptions about the fate of reforms in the SEE countries (Bartlett 2008) i.e. ‘if the government is an anti-reform coalition then effects of aid agency are compromised unless clear conditions are set’.



The hypothesis aims at investigating three specific aspects of limited consensus on reform: (i) the lack of political and general will for deep change; (ii) the possibility that reform initiatives have a short term character or declaratory form; and (iii) ultimately dysfunctional structures are not challenged.

The fourth hypothesis (2b) is concerned with how the clarity of the EU message on reform requirements influences attempts by the beneficiary country to avert compliance. This hypothesis is strongly anchored in the institutionalist body of research and the role of organisations in setting and communicating a clear and consistent conditionality. It is based on a study of the EU-10, which among others investigated on one hand the role of the Commission as a unified actor with a clear and consistent approach and on the other hand examined how resilient domestic institutions were in resisting ‘conditionality, instrumentalising it and preferring endogenous policies and structures over EU models’ (Hughes *et al.* 2005, p. 3). Furthermore, a study of institutional reform in the SEE countries hypothesised that clear conditions may overpower anti-reform coalitions (Bartlett 2008). Lastly, pilot fieldwork suggestions that the necessity of reform prescriptions is put in doubt by public officials also shaped this hypothesis.

The hypothetical situation investigated is that no clear information is provided to the candidate country to establish that political administrative changes required by the EU result from the formal pre-accession criteria. The second point is that the candidate country’s national government and political elites will search for options of limited compliance. A minor point is that bilateral contacts with EU MS may be used to explore such options.

The fifth hypothesis (3) suggests that technical assistance can hinder the performance of target institutions. This assumption is founded on the aid-effectiveness literature. It follows arguments that aid loses its effectiveness due to limited absorptive capacity by beneficiaries and weak public administrations (Dalgaard and Hansen 2001 in Bartlett 2008). In the EU-15, technical administrative incapacity has been specified as an obstacle in some countries (Hervé and Holzman 1998). In the WB, researchers have found little evidence of impact on growth (Kekic

2001) and that aid is used to support consumption rather than productive investment (Boone 1996 in Bartlett 2008).

The hypothesis is descriptive of an aid-dependence situation: (i) the target organisation lacks experience and familiarity with management, coordination and implementation of pre-accession assistance; (ii) it is difficult to maintain adequate staffing levels; and (iii) problems thus become chronic, necessitating a continuous provision of technical assistance to poor long-term effects.

The next two hypotheses focus on the role of the Commission. The sixth hypothesis (4a) looks at the comparative effectiveness of decentralisation and deconcentration in the management of pre-accession assistance. This is mostly based on pilot fieldwork references to the role of the Commission and its Delegation (ECD). Related studies on the role of the Commission in the EU-10 stressed that it used enlargement conditionality to further a particular agenda in the candidate countries in order to expand its competences in regional policy (Hughes *et al.* 2004, pp. 531-532, 537).

The hypothesis examines cases where the initiative of planning and managing administrative capacity-building interventions is carried out by the ECD. It assumes that a higher effectiveness should be expected in such cases.

The seventh hypothesis (4b) postulates that pressure exerted by the Commission may accelerate reform. This hypothesis originates from the rational choice emphasis on positive and negative incentives. The *acquis* in Chapter 22 is sometimes viewed as soft (Hughes *et al.* 2005), but this may give more leeway for Commission interpretations; there is also an opposite view that Chapter 22 contains hard conditionality (Grabbe 2006). Existing research on SEE countries has employed external incentives models (Trauner 2009) and suggests that conditionality is used not only to induce reforms but also to shape the whole institutional environment (Anastasakis and Bechev 2003). Critical approaches stress that strict Europeanisation conditionality may undermine administrative capacity as administrative and cultural traditions resurface (Knaus and Cox 2004); emergency procedures are considered an

obstacle to consensus-building (Malovà and Haughton 2002). Analyses of institution-building in the WB have concluded that any institutional arrangements should enjoy a level of public support to succeed (Bechev and Andreev 2005) and that a step-by-step approach that encourages public trust in institutions along with the establishment of new structures is more likely to succeed (Verheijen 2007).

The hypothesis presupposes that active leverage and intensive pressure for compliance in a particular sector is exerted by the Commission. As a result, changes are expected to be introduced faster and over a wider range and finally be more effective.

The last hypothesis (5) explores the possibility that top public managers may not be promoted on merit. This hypothesis is broadly based on studies of the individual role in shaping institutional behaviour. It is argued that personal qualities of managers have implications for capacities (Mentz 1997; North 1992). Antecedent factors favouring the appointment of poorly-skilled officials may be sought in the administrative culture literature, which is considered a key determinant for the course of change in public administration. Studies on Croatia refer to the politicisation of all directorates and sensitive posts in the public administration (Badjun 2004, p. 152). Similar assertions are made in the pilot fieldwork on the deliberate appointment of incompetent cadres in key posts.

The hypothesis scrutinises three elements of a policy of a non-meritocratic appointment and promotion system: (i) competent personalities may be able to achieve sectoral targets with regard to the accession criteria and the *acquis*; (ii) this is in conflict with interests affected by early and swift compliance and effective implementation; and (iii) top managers are removed and others are re-appointed.

**Table 3: Statement of the hypotheses**

Code	Concise form	Detailed form
1a	Conflict between Structural Fund institutions and national management models may lead to separate structures	If the institutional functions that serve the management of EU funds conflict with the management model for national resources, the preference is to establish institutions performing management functions outside the core executive with limited power of influence and limited control over national policy.
1b	Limited resources may deter compliance	If the anticipated (short-to-medium term) flow of EU resources is limited, staffing actions and the establishment of necessary structures and processes are either postponed or take place in an incomplete and non-operational form.
2a	Lack of consensus as an obstacle to reform	In the absence of a political and governmental consensus about the necessity of reforms in the country's institutional structure with the aim of producing a more effective and efficient function of the state as an EU candidate, the legislated change and reform programmes take a more short-term and declaratory form and do not put functional structures in place.
2b	Without clear EU information, candidates may aim to circumvent soft conditions	In the absence of sufficient information with regard to what extent the EU's proposals for changes in national political-administrative arrangements result directly from pre-accession criteria, the national government and political elites resort to the advice of sympathetic Member States in the search for options other than full compliance.
3	Technical assistance can hinder performance	In cases of inexperienced governmental agencies and departments not familiar with the procedures for managing, coordinating and implementing pre-accession instruments and Structural Funds, and where the overall maintenance of sufficient staffing levels is difficult, there is a high chance that the bodies in question will be trapped in a situation of chronic provision of ineffective technical assistance and poor long-term effects.
4a	Decentralisation versus deconcentration	If the initiative of planning and managing interventions of administrative capacity-building is undertaken directly by the European Commission Delegation, a higher degree of fulfilment of objectives is achieved.
4b	Commission pressure may accelerate reform	If active leverage and more intensive pressure for compliance in a specific direction is exercised by the European Commission/the European Commission Delegation, the introduction of changes takes place with a greater speed and range and bear fruits faster.
5	Top managers may not be promoted on merit	Where competent personalities in senior civil service and government are in a position to fulfil their sectoral targets adequately in relation to the accession criteria and the <i>acquis</i> , but they enter into conflict with interests that seek to manipulate compliance time and postpone effective implementation, these figures are pushed aside and not exploited in the future.

## **Conclusion**

This chapter has presented the theoretical building blocks for assessing the influence of pre-accession assistance on national administration, framed by the literature of Europeanisation, EU external governance and enlargement. Given the empirical object of enquiry, particular emphasis was given to accounts of the Europeanisation of public administration. Although there is a lively scholarly debate on these various strands of literature, it is the combination of attention to specific instruments of EU financial assistance, the debate on the Europeanisation of state institutions, and the application of these in the pre-accession context of Croatia that makes this study a valuable contribution to the state of the art.

The Europeanisation conceptual framework was presented as a useful organising device to shine analytical light on the critical factors underpinning administrative change. Europeanisation is conceptualised here as the domestic impact of Europe, in close alignment with the definitions given by Radaelli and Bache and the standard model proposed by Caporaso. The key conceptual toolkit of this perspective, in particular the notions of goodness-of-fit (or misfit) and mediating factors, provides this study with analytical leverage for assessing the Croatian case (see Chapter 3 for an extended discussion).

Moreover, this work has benefited from a limited number of studies on the state sector, governance and regional policy in Croatia. Although it has taken issue with the use of concepts in some of these studies, it attempts to find common ground, especially when the relevance of the topic and some plausible conclusions they provide allow it.

To sum up, the strands of new institutionalism supporting the concept of Europeanisation were exploited to provide a theoretical underpinning for the introduction of institutional changes in Croatia as a result of pre-accession assistance. The considerable emphasis given in this study to tracing institutional developments in Croatian institutions back in time through the thorough examination of primary and secondary information may explain some closer affinity with the historical institutionalist perspective. Despite its rather eclectic approach in developing a

sophisticated understanding of exactly how institutions affect behaviour (Hall and Taylor 1996, p. 950), historical institutionalism offers the advantage of incorporating both a calculus (rationalist) and cultural (constructivist or sociological) approach, which makes it reconcilable with contributions from other institutionalist viewpoints. Therefore, the empirical material in this study determined the approach followed: assigning a prevalent role to historical institutionalism but allowing for sociological and rational interpretations where concrete evidence could support them. Thus, the chapter offered a convenient grouping of explanations comprising, on one hand, sociological, cultural approaches including elite socialisation and learning and, on the other hand, actor constellations and preferences.

In addition, the chapter has defined the term administrative capacity. Its origins can be traced in the development literature and the conditionality of IFIs and global governance actors. Of the various definitions of the term, its perception as the ability to perform appropriate tasks efficiently, effectively and sustainably is not uncommon in literature, while other accounts stress the role of the government in bringing about the capacity to fulfil public purposes. Moreover, it was considered useful in this chapter to refer to the position of administrative capacity in the NPM-OPA debate and correlate it with overall trends in public administration. In order to further clarify the term, an outline of the meaning of similar terms such as capacity-building, institution-building and institutional capacity was provided.

Furthermore, in the EU context, the term takes a considerable number of interpretations. Prominent examples of it are its use in the analysis of administrative performance of MS and their success in the transposition of EU legislation, as well as its utmost importance in the implementation of the SF, where it can be examined at national and sub-national levels. In addition, the notion of administrative capacity is central to the governance of EU enlargement, where it refers to a specific criterion for accession. It is also more narrowly defined as the capacity to transpose the *acquis*. A study of the history of the term in the EU shows an evolution from generic references in early EU pre-accession documents to a move towards the operationalisation of the term and the distinction between two component parts: horizontal and sectoral capacity.

In addition, the function of the EU's administrative conditionality in instigating public administration reform is important, notwithstanding the pitfalls and dangers that EU-centred conditionality may impose on administrative capacity. Besides, the role of administrative capacity in the potential emergence of EAS is significant and is portrayed as such in the essay. In future studies, it might be useful to look at administrative capacity-building in the CEE-10 that did not end with accession and draw some lessons for accession candidates and potential candidates in SEE. Finally, a study of the specificities of national administrative cultures, socio-cultural factors, politico-administrative relations and institutional history is deemed necessary in order to clarify their influence in enabling or disabling capacity-building.

The definition of administrative capacity adopted is based on three aspects – structures, systems and resources – which will form the basis for the subsequent analysis. Lastly, eight research hypotheses were presented in order to guide the analysis that follows in the empirical parts.

### **3. The broader institutional settings in the Western Balkans and Croatia at the outset of pre-accession assistance**

The early origins of a Croatian state can be traced in medieval hegemonies established by Croatian tribes in parts of the Western Balkans from the 7<sup>th</sup> to 9<sup>th</sup> century AD. In the 12<sup>th</sup> century, Croatia entered a dynastic union with Hungary, but certain elements of Croatian statehood, such as the assembly (Sabor) and the viceroy (ban), were preserved (Goldstein 1999). The Ottoman territorial advances in Croatian territories in the 16<sup>th</sup> century led Croatian rulers to seek the protection of the fellow catholic Habsburg monarchs. In 1538, Croatia was divided into civilian and military provinces, the latter of which were ruled directly by the Habsburgs who encouraged south Slavic Orthodox populations to settle in the area and wage war on the Ottomans. In the following three centuries, various forms of dependence on either the Austrian or Hungarian thrones existed in the Croatian provinces. A national movement developed in the 19<sup>th</sup> century centred on the 'Illyrian' idea. In 1918, the Croatian Sabor declared independence from the Austro-Hungarian empire and joined the State of Serbs, Croats and Slovenes (Goldstein 1999). After WWII, Croatia became a constituent republic of socialist Yugoslavia. However, Croatian demands for more linguistic autonomy, civil rights and economic decentralisation were stifled in the 'Croatian Spring' of 1971 (Goldstein 1999). The 1974 Yugoslav constitution granted more rights to the republics and constitutional entities but did not reduce the centrifugal forces within Yugoslavia. The declaration of independence in June 1991 under its then border was opposed by Belgrade and the Serbs of the old military borders. A series of armed conflicts lasted until 1995, and in 1998 Croatia regained control of all its territory.

Federal Yugoslavia's political and economic demise in the late 1980s was a missed opportunity for administrative overhaul. Following that, government structures were hurriedly set up at the national level to compensate for the loss of the federal tier. In the 1990s, the state of affairs in the newly independent republics was dominated by ethnic, religious and cultural divisions that resurfaced after half a century of communist rule. Violence and retribution absorbed the lion's share of the scarce state resources and traumatised society. Under these circumstances, the need



to revamp the state institutions and improve the quality of governance was neglected or suppressed. In the 2000s, the EU and international institutions' conditionality became more assertive about the need for deeper, structural change in the public administration. The institutional framework and history may explain much about the difficulties of administrative capacity-building in Croatia. Besides, it is crucial to understand the initial conditions in order to appraise the results of assistance to the country.

The institutional background in Croatia is reviewed in this chapter. First, the chapter considers the initial encounters of the countries of the WB region with early modern bureaucracy, basically as a part of the Austro-Hungarian Empire. Second, the chapter briefly examines the major institutional developments at the time of the united Yugoslavia followed by a reference to political and institutional settings before the country's demise and the new institutional landscape of independent Croatia. Third, the work presents the evolution of the administrative and legal framework in Croatia over the period covered in this dissertation (c. 2000-2011); it studies developments at the centre of government, the quality of governance, and the state of public administration. The chapter concludes with an overview of the administrative capacity needed for pre-accession and the structural instruments and a summary of the major steps made in this vein.

### **3.1. Institutional traditions in the region of the Western Balkans**

Sharp differences permeate the region of the WB and characterise nearly every aspect of political, economic and social life. Economic and social statistics vividly portray this divide. Religion, ethnicity, history and culture both unite and divide the people of the area. Economic disparities exist between neighbouring countries and at the regional level. Complex institutional arrangements and cases of dysfunctional states and unresolved status of relations are still present to this day (Kosovo, Bosnia-Herzegovina, bay of Piran dispute). In addition, the level of association with the EU is not uniform; there are frontrunners and laggards, although crucially Serbia, which is a pivotal country for Balkan stability, has intensified its

efforts for EU membership. The public administration was not an exception from the overall trend of fragmentation, although common paths exist.

Much of the Western Balkans' administrative malaise has been attributed to the legacy of the Ottoman Empire, and the prevailing religions in the region. On the other hand, countries that were once part of the predominantly Roman Catholic Austria-Hungary (Slovenia and Croatia-Slavonia) are said to benefit from the bureaucratic culture of that empire. Main proponents of this view, which could be called 'the empire legacy thesis', have argued that Western Christendom is more favourable for institutional or economic performance than the legacies of the Ottoman empire or Eastern Christendom (Winiński 2003; Mendelski 2007; Huntington 2002; Dimitrova-Grajzl 2006). However, such an assertion constitutes a chronological jump, since it ignores the administrative systems that were established after the collapse of the empires, most notably the public administration of the Socialist Federal Republic of Yugoslavia. Moreover, the challenges facing the WB relate to the transition from communist dictatorships to democracy and market economy, unlike the previous century when the fundamental issues that the region faced were the transition from late feudalism to capitalism and from empire rule to statehood.

To return to the potential role of empires, historians who have studied the Austrian bureaucracy and its associated administration have criticised its negative sides, but also stated that 'compared with Eastern and Southeastern Europe, it represented a very honourable degree of order, accuracy, honesty and humanitarianism', while its bulk remained intact from corruption (Jászi 1961). Nevertheless, although renowned for its uniformity and impartiality, the Austro-Hungarian bureaucracy was one of the pillars of an empire dismissive of any form of change, immortalised for its Kafkaesque practices (see Taylor 1976).

Furthermore, despite the nominal autonomy of the Croats, after the compromise of 1867 the Balkan territories of the empire were mostly controlled by Budapest, which followed a policy of Magyarisation, installing Hungarians in the higher echelons of an Austrian-style bureaucratic system in the Balkan territories

(Koppa 1994). Under these circumstances, any learning effects of the Austro-Hungarian administrative system on the countries of the Western Balkans are hard to trace, let alone to correlate with their current performance in administrative capacity.

If the influence of the past is a significant factor accounting for the relative success of the Slovenian and Croatian public administrations, then what has been the legacy of the Ottoman bureaucratic system in the rest of the Western Balkans? Some scholars have addressed the question of empire legacy, which they see as emanating from a political science approach stressing path dependence and historical institutionalism, in a more systematic context (Mendelski 2007). One explanation keeps a distance from historical determinism. While it acknowledges that the institutional and administrative factors of the last Ottoman century were characterised by (i) low governmental effectiveness, (ii) high corruption, and (iii) weak rule of law; and that the autocracy, corruption and parallel economic structures of the communist era may have upheld these patterns; it maintains that there is no causal link between the failed administrative system of the late years of communist rule and maladministration in the Ottoman years, because the flaws of communism were evident in Eastern Europe as a whole and were not particular to the Balkans (Mendelski 2007). Furthermore, an index by Ahrens suggests that Bulgaria, an Ottoman successor, was on an equal footing in institutional quality with Hungary and Czechoslovakia (in Mendelski 2007, p. 9). On the other hand, proponents of the detrimental effects of the Ottoman legacy hold it responsible for the lack of trust in government and in market systems, the submissive attitude towards authority, the lack of representative organisations, and the leniency towards evasive behaviour (Dimitrova-Grajzl 2006). Their main hypothesis is that the roots of the great divide between SEEs and CEEs lie in the distant past of the Ottoman and Habsburg empires (2006).

Despite circumstantial evidence stemming from a first reading of indicators that can lead to this assertion, it is rather doubtful to consider that the Ottoman legacy can have such a retroactive power. Dimitrova-Grajzl (2006) recognises that Serbia's delayed transition, in contrast to Slovenia's success, may be attributed to war, but insists that the Ottoman legacy explains the difference between Slovenia and

Bulgaria. However, the suggestion that a distant legacy should take precedence as an explanation of institutional reform over other factors such as the resolution of government to proceed with reform is implausible. In Bulgaria, it was the survival of elements of the communist regime that delayed the commencement of transition, not the remnants of the Ottoman rule. Finally, for Mendelski (2007) the Ottoman legacy thesis does not explain differences in the speed of transition between the Balkan countries (Romania and Bulgaria performed better than Serbia, FYROM, and Montenegro). In his view, the answer should be found in the external influence of the EU and external shocks.

Nevertheless, it should be acknowledged that communism in the Balkans adopted many forms. This was where it found its most totalitarian expression (Hoxha, Ceausescu), in the more loyalist Moscow satellites such as Bulgaria and in the course of experimentation with self-management under Tito (Koppa 1994; Vagioni *et al.* 2005). More than that, the different path followed by the Balkan states even in the early years of transition vindicates the assertion that Balkan communism was strikingly different from the version in Central Europe (Koppa 1993).

These views could be further elaborated by adding the legacy of war, and ethnic and religious divisions, which are more obvious in countries lagging behind than for instance in Bulgaria and Romania. While nobody could ignore the presence of the Turkish minority in Bulgaria and the large Roma and Hungarian populations in Romania, it seems that in countries perceived as frontrunners in integration with the EU (not surprisingly because respect for and protection of minorities is a centrepiece of Copenhagen conditionality), the various ethnic groups have reached a *modus vivendi* very different from that in Serbia, Kosovo and Bosnia-Herzegovina (BiH). In addition regardless of the validity ascribed to historical institutionalism, and the empire legacy thesis, the empires in the Balkans have shaped identities until today. Distinctive characteristics of the region such as the identification as Muslim by nationality in Bosnia and the Sandžak<sup>2</sup> have their roots in the reality of the millet

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<sup>2</sup> Ethnically mixed former Ottoman province shared between Serbia and Montenegro with a Muslim majority.

system<sup>3</sup> under the Ottomans, which encouraged no ethnic distinctions, and which was constitutionally legitimised in the Yugoslav era. Another relevant factor is the strong adherence of the Balkan nationalisms to historicism, according to which history takes the form of a topical imperative, completely out of proportion and beyond rationality. Despite this unassailable role of the past in the current affairs of the Balkans, the importance of distant history as an explanatory variable of current administrative and institutional preferences is more limited. As the Croatian case will illustrate, the reformist agenda has been influenced in the recent past by an impulse from decision-makers to restore national administrative traditions, with an affinity in the socialist and pre-socialist era, more than being driven by calls for compliance with the EU, which does not seem to be constrained by the legacy of the empires.

### **3.1.1. The socialist period and the challenge of transition**

The communist bureaucracies were apparatuses implementing the desiderata of an extremely centralised, party-dominated and unaccountable system of governance. Towards the end of the regimes they served, their deficiencies had become inherent traits causing widespread resentment for corruption, inefficiency, and red-tape practices. The main pillar of this system of governance was police-state oppression and persecution of dissidents, the gradual disapproval of which led to the destabilisation and collapse of the whole structure in the 1980s.

The Socialist Federal Republic of Yugoslavia constituted a unique case among the socialist countries of Eastern Europe with a bureaucratic culture that differed significantly from the latter. It was established in 1945 as a single-party socialist state, the only one to have been liberated by domestic partisan forces; it covered roughly the same boundaries as the pre-war kingdom of the same name. The federation (then officially the Federal People's Republic of Yugoslavia, later the Socialist Federal Republic of Yugoslavia) comprised six constituent republics including Croatia. Initially, the Communists followed the Soviet command system and drafted a five-year plan. The entire industrial sector was nationalised. However, the establishment of farming collectives was not as effective, because farmers

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<sup>3</sup> Religious communities in the Ottoman Empire were allowed to be ruled under their own system.

opposed collectivisation. Eventually, some small private landholdings (up to 10 ha) were allowed, along with large state-owned holdings in the areas of Danube and Vojvodina (Bartlett 2008, 9).

The clash of the Yugoslav leader, Tito, with Stalin in 1948 heralded an era of political, economic and social experimentation in Yugoslavia, culminating in the establishment of a unique economic and administrative structure. In the economic sphere, Tito replaced imperative economic planning with indicative economic programming in what was advocated as an effort to increase the economic and legal independence of firms and free the economy from excessive bureaucracy (Vagioni *et al.* 2005). The state retained the ownership of the means of production, but management was undertaken by workers. The system evolved into a unique Yugoslav model of market socialism (Bartlett 2008). Under the system of 'self-management', the population had some familiarity with elements of the market economy. Smallholding farmers entered agricultural cooperatives, and industrial output increased by 10% (Bartlett 2008); the country opened up to Western markets and ran an important although deficient trade relationship with the EEC.

In parallel, a new constitutional accommodation addressed the question of nationalities by the decentralisation of economic power to the republics. Political and administrative power was devolved to republics and local administrations, which was an arrangement enshrined in the 1963 constitution. In the international political field, Yugoslavia became a leading power of the non-aligned bloc, while it enjoyed a much more fruitful relationship with the West than did the USSR and its satellite states.

In the field of public administration, non-aligned Yugoslavia again pursued a different path within the socialist world. The Yugoslav state had preserved the key features of the pre-WWII public administration. The administrative system was in fact a variant of the continental model, retaining many of its traditional elements, because communist isolation meant that it was unaffected by adjustments to the model in the rest of Europe (Eriksen 2007). Verheijen (2003) also agrees that there was the notion of a professional civil service in Yugoslavia. The main reason for this continuity was that when the partisans came to power, they retained all the former

civil servants who were not Nazi collaborators or openly anti-communist. Thus, in Yugoslavia, deep-rooted administrative traditions and a public administration suspicious of novelty and innovation survived nearly half-a-century of communist rule (Eriksen 2007). The result was a system which, with its excessive formalism in the application of law, outsmarted the mainstream version of the continental system, which entails the exercise of state power by a set of codified legal provisions and consequently implies ‘that public administration is a law-bound quasi-judicial activity’ (Eriksen 2007).

Economic growth and industrialisation lasted until the 1970s. As early as 1965, institutional reforms supported by an IMF loan allowed enterprises to keep and reinvest a greater part of their profits. Growth slowed down from the 7% per year from 1960 to 1964 to 4% between 1965 and 1970. The more rational use of the workforce by the enterprise managers led to a drop in employment, while agricultural holdings could not sustain a large number of employees. This led to double-digit unemployment that reached 17% by the end of the 1980s (Bartlett 2008, p. 10). The lack of tight financial control at the federal level, and the regionalisation of foreign exchange, led to high external debt. Diminishing exports left the country vulnerable to the 1979 oil crisis. The IMF agreed to provide a \$2.2 million adjustment loan, but it was lenient on its fiscal austerity conditionality because of the political importance of Yugoslavia to the West. The World Bank had also been active between 1961 and 1982, providing \$2.2 billion on infrastructure, often negotiating with republics (Dyker in Bartlett 2008, p. 11).

The complex institutional architecture of Yugoslavia did not prevent the development of centrifugal forces in the republics. In Croatia, a dissident movement known as ‘Maspok’ broke out in 1971. It was led by the Croatian League of Communists, who demanded greater autonomy for their country and a higher share of foreign exchange earnings from tourism. The movement was suppressed and its leaders removed from power. However, some of the issues raised were addressed by the 1974 constitution, which granted greater self-government to republics and constitutional entities. The model combined elements of market and plan in a complicated system (Bartlett 2008). The system of social protection was also

decentralised under the 1974 constitution to local self-managed interest communities at an extra cost and with increased bureaucratic complexity (Bartlett 2008).

The decentralisation of power had dire consequences; the republics borrowed from the international financial markets, to cover a trade deficit and increased consumption. The federation had effectively become a system of loosely associated republics and entities with their own monetary and fiscal policy and five-year development plan (Mihailović in Bartlett 2008, 12). With central banking decentralised to the republics, republican elites were following an expansionary money-supply tactic to favour local self-managed enterprises (Bartlett 2008, p. 12). Fiscal recklessness was encouraged at the level of republics, while the federal government was expected to foot the bill. A coalition in favour of loose monetary policy at the federal level and less-developed areas blocked the necessary reforms. In the same period, inflationary pressures escalated. Economic stagnation continued in the late 1980s and social product declined. IMF and World Bank loans in the late 1980s proved ineffective. In view of all these factors, reform attempts at the eleventh hour seemed futile.

### **3.1.2. The fall of Yugoslavia and the independence of Croatia**

In an environment of economic hardship and mutual suspicion, the Yugoslav republics were drifting apart. Slobodan Milošević became the leader of the League of Communists of Serbia in September 1987. Soon afterwards, attempts to restore Serbian influence in Kosovo and the reactionary anti-bureaucratic revolution were launched. Meanwhile, Branko Mikulić was elected leader of the Federal Government of Yugoslavia. Under the Mikulić government, a far-reaching reform programme was initiated, supported by a standby agreement with the IMF. The programme included a new law on enterprises that allowed private enterprises to be founded, a liberalised foreign trade regime, and a foreign investment law. Mikulić resigned in 1989 after his government faced a series of industrial actions and the opposition of northern republics.

The next federal Prime Minister Marković initiated what became known as the Marković reform (1989-1990). Among the measures taken by the new



government was the federal privatisation law (Bartlett 2008, p. 14), including the privatisation of social enterprises and reforms that would ensure transition to the capitalist market and the demise of self-management. At the beginning of 1990, a radical macroeconomic programme to tackle inflation was set in motion. Restrictive fiscal and monetary policy was counterbalanced with a social protection programme. The start-up of small businesses was also encouraged, and the dinar was pegged to the Deutsche mark, which brought price stability and diminished inflation. Despite signs of the programme's success, self-interested republics undermined it. It is possible that the northern republics of Croatia and Slovenia were broadly supportive of liberalising reform, but none wanted to shoulder the adjustment cost. In 1989, non-communist political parties were legalised. The first elections which took place in Croatia in April 1990 brought the pro-independence HDZ into power. Nationalist forces across Yugoslavia openly violated the adjustment programme, and the IMF decided to freeze the standby agreement.

Croatia declared its independence on 25 June 1991. As the country contained some majority Serb-populated areas and the largest part of the Yugoslav coastline, the Yugoslav People's Army (JNA) and ethnic Serbs militarily opposed Croatian independence. The war lasted six months. During the conflict, the Yugoslav army occupied Vukovar, and ethnic Serbs in the breakaway 'Serbian Republic of Krajina' controlled one-third of the country until 1995. By 1 January 1992, a ceasefire had been agreed, and soon afterwards the country was recognised internationally. In 1995, *manu militari*, Croatia recovered the occupied territories except Slavonia, a UN-protected area that was reintegrated in 1998. The war caused extensive damage to the economy, including Croatia's vital tourism industry, and it left a legacy of war-time hyperinflation.

Following membership of the IMF in 1992, a negotiated standby agreement increased Croatia's credit rating and gave the country access to financial markets. In October 1993, the government initiated a stabilisation programme (Bartlett 2003, pp. 45-46). In 1994, international credit donors agreed to a restructuring of the country's debt. Inflation fell to 2% by 1995. Between 1995 and 1997, GDP rose by an average of 6% per annum. An extended funding facility of \$486 million was agreed with the

IMF in 1997. Despite superficial success, the economic conditions deteriorated, especially the balance of payments, because of increased imports while exports stagnated. The country was characterised by low productivity and high labour costs because of the fixed exchange rate terms associated with the stabilisation programme. In 1997, international debt had increased to \$6.1 billion or 33% of GDP (Bartlett 2003, p. 109).

Legislative elections in 1995 gave the HDZ another term. Its leader, Franjo Tuđman, won the presidential elections in June 1997 by rhetorically denouncing the International Criminal Court on the former Yugoslavia. Despite its relative progress, Croatia was seen as an outcast during the 1990s. Tuđman followed a policy of state-building based on hard-line nationalist views, which inevitably meant that the country was deeply involved in the Yugoslav wars as one of the main belligerents. His death in 1999 ended the country's international isolation that had characterised the final years of his rule. It marked the end of the era of violent state-building and signified Croatia's commitment to European integration and significant improvements in the field of human rights and rule of law.

In Croatia and Serbia, attempts to return to some aspects of the traditional administrative system had been evident in the early 2000s. Although in deep crisis throughout the 1980s, united Yugoslavia was better prepared to accede to Western economic and political structures in the dawn of the post-communist era than its Balkan neighbours or its constituent republics a decade after its demise (Vagioni *et al.* 2005).

### **3.1.3. Transition of institutions in Eastern Europe**

Transition in the sphere of public administration did not gain momentum as early as other reform efforts in the economic field. The main aspects of transition are price liberalisation, privatisation, macroeconomic stabilisation, and large-scale institutional reform (Dewatripont and Roland 1996). While recipes for macroeconomic stabilisation were offered in abundance by the IFIs in the early stages of transition, the same is not true with regard to the optimal pace and stages of

transition. Big bang, shock therapy and gradualism have puzzled economists and policy-makers alike, and, as complementarities between reforms were hard to predict, the domestic purchase of policies was unclear and the resolution of governments to proceed could not always be assumed.

Public administration reform was initially slow in all transition countries. Nunberg (1999) has attributed this to two facts: the prioritisation of economic reform and the anti-statism that spread after the collapse of the regimes. The early politics of transition were portrayed in critiques as based on developing country experiences with emphasis on Washington consensus, which stressed liberalisation and deregulation, open trade, decreasing the role of government, fiscal discipline, efficient public spending priorities, the attraction of FDI and the establishment of a competitive exchange rate; these otherwise much-needed policies were based on the false assumption of ‘markets without institutions’ (Kekic 2001). Bureaucracy may have reached its most extreme form under communist rule, but it is also a main characteristic of a capitalist state, and as the new institutional economics teach: ‘the market itself is a political construction and there cannot exist a properly functioning private sector, without a properly functioning public sector’ (Peters 2003; Grindle and Hilderbrand 1995). This situation has been the main problem of the ‘orthodox paradox’ which ‘called attention to the problematic need for a relatively effective state apparatus to carry out the reforms required by the minimalist solution to the role of the state’ (Grindle and Hilderbrand 1995). Csaba (2003) pursued the similar argument that:

*[...] extending the role of the market requires strengthening the core state, while the policy of grievances and the individual rationality of (buying clients) must be subordinated to collective rationality (as transparency and accountability). In concrete terms this requires financial discipline [...], limiting the size of redistribution [...], strengthening the rule of law in the economy and, last but not least, enhancing the role of technocratic agencies [...].*

As a result, the realisation of the great role of institutions led to the acknowledgement of their importance in the post-Washington consensus (Lavigne 1999).

The double task of establishing market standards and transforming a centralised, party-dominated bureaucracy into a modern, efficient, performance-oriented organisation was by definition uneasy. Reform on the administrative side, Nunberg (1999) argues, had to be concentrated on three efforts: those that were related to the restructuring of the administrative process, the apparatuses of the government; those that referred to employment relations; and finally those that attempted to develop a professional civil service cadre. The laborious efforts to set up institutions rested upon a combination of pre-communist and communist vestiges and elements from abroad, but the bureaucracies of the former system waged fierce resistance to comprehensive reform (Nunberg 1999). As Olsen (2003, p. 509) comments on change of public administration in general, but still providing a topical argument in the context of post-communist transition, ‘administrative history is not “efficient” in terms of adapting institutions rapidly to environmental change or reform efforts’. Finally, Tulmets (2005, p. 83) rightly observes that ‘logics of path dependencies were constantly present’ as transfers of rules did not take place on the basis of an ‘organizational tabula rasa’. In other words, she echoes Nunberg’s point when she claims that the reformulation and interpretation of national rules paved the way for ‘ideational cross-fertilization processes’ and ‘institutional hybridization’ between legacies of the old system and Western influence.

With such impeding forces in action, it came as no surprise that administrative transitions were delayed in both the CEE and SEE. Throughout post-communist Europe, the prevailing notion was that achievements in PAR had been limited compared to the overall course of transition (Verheijen 2003). Verheijen also perceives PAR in transition as an endeavour of comprehensive and holistic nature and likens it to a development rather than a reform situation. For him, piecemeal and ill-sequenced attempts are to blame, as national reform strategies were often abandoned (*A New Administration* in 1995 Bulgaria) or IFI-sponsored reforms lacked ownership (Albania). Moreover, the question of civil service reform was

erroneously treated as coterminous with the introduction of new civil service legislation, the development and adoption of which has consumed much of the energy for reform. However, this practice did not prove to be the panacea that would resolve problems of politicisation, fragmentation and instability (Verheijen 2003). Serious structural problems in central state administrations have been identified until recently (UNDP in Verheijen) and include the lack of a clear conception of the role of the state, the presence of leftover elements of the previous system, dominance of mechanical and technical approaches to public administration with limited scope for strategic thinking, dysfunctional intra- and inter-sectoral coordination systems, opaqueness of public administration, and lack of clarity in terms of accountability. Finally, Verheijen suggests some country-specific reasons for the complexity of structural reforms: the redefinition of the role and position of ministries, their subordinated organisations and the core executive unit and the need for radical change in accountability systems which have both cultural and institutional implications. He refers to three further reasons for the failure of reforms: the lack of political consensus on reform, the problem of reform design, and the mixed signals from external organisations.

Similar problems persist in the WB, although they are perhaps more aggravated and multifaceted. In the countries of former Yugoslavia, in addition to the two transitions to liberal democracy and market economy, a third one became a reality: a transition from a federal state to secession and self-determination. Thus, it was also an attempt for state-building, since some entities that became independent gained statehood for the first time (Slovenia, FYROM, Bosnia-Herzegovina, and Kosovo) (Sotiropoulos 2000; Koppa 1993). These transitions in the economic and political system and the self-definition of citizens came about with the outbreak of four crises: legitimisation, redistribution, participation and penetration (Koppa 1993). Ironically, it was the evasive 'anti-bureaucratic revolutions' which brought the nationalist leaders to power, and animosity towards dysfunctional administrative structures was skilfully manipulated to erupt upon the constitutional status of constituent entities. Other factors that determined the slow pace of systemic administrative change in the WB were the reluctant leadership and the unclear intentions of governments with regard to transition, the unpreparedness of people for

economic, social and political change, the lack of a democratic culture and more importantly the rise of nationalisms, ethnic conflict and war, which required extraordinary measures of war mobilisation and the subsequent instability, rampant criminality and refugee flows, as well as the high-risk economic environment that thwarted many efforts for exiting the Balkan deadlock (Vagioni *et al.* 2005).

### **3.2. The EU-Western Balkans relationship**

Since the fifth enlargement, the EU's enlargement policy has focused almost exclusively on the WB and Turkey. However, the WB countries have been treated differently than their central European neighbours, although in principle elements of conditionality that applied to the latter were used in the former. Nevertheless, the EU was for the best part of the 1990s neither clear on the region's accession prospects nor assertive in the major objective of post-conflict stabilisation. Internal EEC/EU disputes hindered its capability to take bold initiatives in the area at the outbreak of the Yugoslav wars. Gradually, the EU overcame the initial shock and moved towards the recognition of the newly independent republics, exerting some influence on the ceasefire and peace agreements (Hill and Smith 2005). The US-brokered Dayton/Paris peace accords marked the end of the first phase of EU intervention in the Balkans (1989-1996), a period of fragmented and reactive policy.

The post-Dayton reality forced the EU to launch a policy supportive of the new constitutional arrangements. Thus, the Regional Approach (1996-1999) was born. The approach emphasised commitment to regionalism in the Western Balkan states and made it an element of EU conditionality for the integration of the WB, contrary to the bilateralism that prevailed in the EU's relationship with CEE (Bechev and Andreev 2005, p. 32). The main objective was to support the peace agreements by promoting democratisation and the relaunch of economic activity through the provision of aid for reconstruction and economic reforms. Mutually-beneficial contractual relations between the SEECs and EU financial instruments would reverse the course of post-war isolation of the region (Milić 1997). The underlying assumption of this approach was that integration to Europe, a rapprochement of national interests and political regimes, as well as convergence of security concerns

were prerequisites for breaking with the past. The effectiveness of assistance was considered guaranteed only in conditions of economic stability, flourishing intra-regional trade and trade with the EU, which could lead to a virtuous cycle of growing prosperity contributing to further regional cooperation. The return of refugees and internally displaced persons, and cooperation with the International Criminal Tribunal for former Yugoslavia (ICTY), were treated as issues of salience, and they dominated EU conditionality up to the end of the 2000s.

Despite its credible rationale, the Regional Approach failed to deliver on its promises. Instead, the development gap between the CEECs and the SEECs grew in the relevant period. Furthermore, the construction of the policy was seen as flawed, stressing a disproportional conditionality according to which ‘policy instruments were used as carrots and sticks to lever compliance with the EU view of the correct policies in the fields of democratization, human rights and economic reform’ (Bartlett and Samardžija 2000). This stringent conditionality imposed on the SEE states had adverse effects, as it allowed cooperation with the most advanced and penalised the lagging and neediest countries of the region. Under the autarchic Tuđman and Milošević regimes, Croatia and Serbia found themselves excluded from EU policies for the region (Bechev and Andreev 2005, p. 32). Thus, conditionality jeopardised any aspirations for regional cooperation to the extent that ‘to call it a “regional approach” was in effect to disguise its essential content, which was really designed as a set of individual bilateral policies with little effective regional coordination’ (Bartlett and Samardžija 2000). Moreover, aid was insufficient and full trade liberalisation with the EU was out of the question. The SEE countries themselves did not embrace the policy. They remained reluctant towards trade liberalisation, and although not openly hostile to regional cooperation, they perceived the calls for ‘a return to the Balkans’ as a setback to their integration in the Euro-Atlantic structures (Kotios 2001). The only exception was perhaps the launch of the South East Europe Cooperation Process (SEEC) in 1997, an intergovernmental initiative without a permanent secretariat or regular agenda (Altmann 2003). Not surprisingly, the 1999 Kosovo crisis and the frailties of the Bosnian state highlighted the limits of the approach, and the EU moved towards an institutionalisation of

relations with SEE (Demetropoulou 2002; Bartlett and Samardžija 2000; Bechev and Andreev 2005).

The 1999 NATO intervention acted as a catalyst for strengthening international and EU political will. Thus, in April-May 1999, the Regional Approach evolved into the Stabilisation and Association process (SAP). The SAP is the EU's policy framework for the Western Balkans and a part of the enlargement process. Its three main aims are stabilisation and transition to the market economy, regional cooperation, and EU accession. In June 1999, the Stability Pact for South-eastern Europe (SPSEE) was launched at the EU's initiative, signifying an attempt by the international community to replace the previous reactive approaches with a comprehensive conflict prevention strategy. The main instrument of the SPSEE was the regional table, which consists of three working tables covering stabilisation, human rights and democratisation, economic reconstruction and development, and security issues. The SPSEE was an attempt to engage all interested international actors (more than 40 countries, international organisations, IFIs etc.), to which the EU contributes through the SAP particularly in the field of institution-building, good governance, democratisation and post-conflict reconciliation (Chandler 2006, p. 99). The founding document of the SPSEE recognised a European perspective for the SEE countries. In the May 2007 summit of the SEECP in Zagreb, a decision was taken to establish a new Regional Cooperation Council in Sarajevo, and it became operational in early 2008. The Council assumed the responsibilities of the SPSEE upon the completion of its mission, signalling a move towards regional ownership of the regional cooperation process (European Commission 2007c, p. 12).

Despite the SPSEE's ambitious goals and rhetoric, it was overshadowed by the SAP, which followed a far more structured approach that offered a partnership based on three elements: trade concessions (Autonomous Trade Preferences), economic and financial assistance (CARDS, IPA) and contractual relationships (Stabilisation and Association Agreements). The SAP promoted capacity-building in the countries of the region to conform to European standards, including the *acquis*. In the field of trade, the EU liberalised a large part of its trade with the SEE countries. Moreover, the autonomous trade measures, which were extended in 2005 until 2010



and in 2011 until the end of 2015 (The European Parliament and the Council of the European Union 2011), have increased the volume of EU trade with the region. The SAAs also foresee trade liberalisation measures apart from political dialogue, legal harmonisation and cooperation in other areas. In addition, the EU has encouraged the conclusion of a Central European Free Trade Area (CEFTA)<sup>4</sup> to cover all Balkan countries; with support from the Commission, CEFTA entered into force in July 2007 (European Commission 2007c).

The SAP's built-in conditionality was obvious in the requirements for the satisfaction of numerous economic and political obligations before the conclusion of a SAA, which were similar to those in Europe Agreements but offered a less intense form of association while emphasising regional cooperation (Phinnemore 2003, p. 103). This rigorous conditionality was centred on issues of democratisation, human rights, rule of law, free elections, early stages of economic reform, good neighbourly relations and compliance with the Dayton agreements and the ICTY. The Commission considered that 'the effectiveness of conditionality in driving reforms depends on maintaining a credible prospect of eventual integration into the Union[...], to help the [candidate] countries to overcome crisis, state weaknesses and challenges to democracy' (European Commission 2007c, p. 9).

Nevertheless, critics considered the SAP a differentiated approach among candidate countries, which is evident in the 'selective bilateralism' dictated by EU conditionality (Kotios 2001; Bartlett and Samardžija 2000). In addition, the SAP has been accused of putting the relationship of tutelage and the process of external regulation and relationship management before the ultimate goal of accession and in many cases pursuing it as an end in itself (Chandler 2006, p. 121). Thus, some argue that while the EU has not been reluctant to intervene in the Balkans, 'its initial concern was not enlargement per se but the ability to exercise power without taking on the overt responsibilities of empire', and its reply to the dilemma of 'Enlargement or empire' has been an 'Empire in Denial' through the emphasis on partnership, ownership, good governance and civil society-building. According to Chandler (2006, pp. 106, 117), the SAP established unequal partnerships by promoting 'one-

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<sup>4</sup> Based on an amended version of the CEFTA agreement of the CEE countries in the 1990s.

size-fits-all' institution-building, by demanding economic sacrifices that only make sense within the prospect of membership, and by creating and funding 'virtual civil societies' and donor-based NGOs isolated from the broader constituency.

The EU argued that the regional approach was a cornerstone of its policy for the WB, but disparate levels of development, as well as economic and political progress among the countries of the region, accounted for the bilateral nature of pre-accession ties with the Union. This was reflected in the different stages of the contractual relations of each state with the EU, although all of the WB countries have moved towards a SAA over time. The status of the Western Balkan countries as potential candidates was first recognised in the European Council of Feira in 19-20 June 2000, reaffirmed in the EU-WB summit in November 2000, and reiterated in the Thessaloniki European Council and EU-WB Summit in 2003. The Thessaloniki agenda set important priorities in support of closer relations with the EU, and together with the SAP it provided the framework for EU policy in the region. A part of this agenda comprised European Partnerships, which were modelled on the pre-accession process and showed particular actions required in order to achieve progress in the roadmap of the SAP. The partnerships determined short-and-medium-term priorities for each stage of the pre-accession process, to which the countries replied with national action plans depending on each country's stage of development. Partnership should be incorporated completely in the internal policy agenda including the legislative, budgetary and administrative planning. The partnerships were the foundation of the CARDS assistance to the Western Balkans; however, the Commission proposed revisions to give higher priority to governance issues, state-building and socio-economic and administrative reform from an earlier stage, which were reflected in the IPA programming (European Commission 2007c, pp. 9-10, 18). The following section summarises the EU's roadmap for the SAP. Table 4 provides information on the progress of the WB countries in the accession process. Figure 4 visualises three levels of EU conditionality in SEE and Section 3.3.2 explains the lessons learned from the CEECs.

### **3.2.1. A roadmap for the SAP**

In 2005, a roadmap for the accession process of the WB countries was adopted. According to the roadmap, all the WB countries are eligible for support by certain European instruments. A sufficient degree of stabilisation is required before the EU agrees to open SAA negotiations. Then, in a feasibility report, the Commission recommends to the Council whether and under which conditions SAA negotiations can start. Subsequently, negotiations can be concluded, provided that there is sufficient progress in areas of reform. Accordingly, the SAA is signed and ratified by the EU and the future associated country, and upon ratification it enters into force. Trade-related provisions are applied even before the SAA's entry into force by means of an interim agreement. The successful conclusion and implementation of an SAA is a basis to assess a country's readiness to move on to the phases of candidate status and accession negotiations.

A successful track record in SAA implementation is essential for the EU to consider a membership application. The Commission then issues its Opinion and the EU decides whether to recognise a candidate status or not. The candidate status is recognition of a closer relationship of the country with the EU, and it is accompanied by intense political dialogue and provision of aid in all fields, thus preparing a country to assume the responsibilities of membership as in the implementation of the Structural Funds. A SAA is a necessary but not sufficient condition for opening accession negotiations, which will also depend on the fulfilment of the Copenhagen criteria and the political criteria outlined in the Helsinki European Council as well as cooperation with the ICTY. At the end of the accession process, the Commission issues its Opinion, the European Council decides following unanimity as a rule, and the European Parliament gives its assent. However, implementation of the SAA and the fulfilment of SAP criteria continue until the day of the eventual accession, and any negative record has implications for the pace of the accession process (Enlargement Strategy Paper 2005, 9-11). Nevertheless, the SAP process can also be decoupled from a membership prospect, although no country has expressed such a preference (Chandler 2006).

**Table 4: SAP status, Accession status, past EU assistance and IPA assistance in the Western Balkan countries**

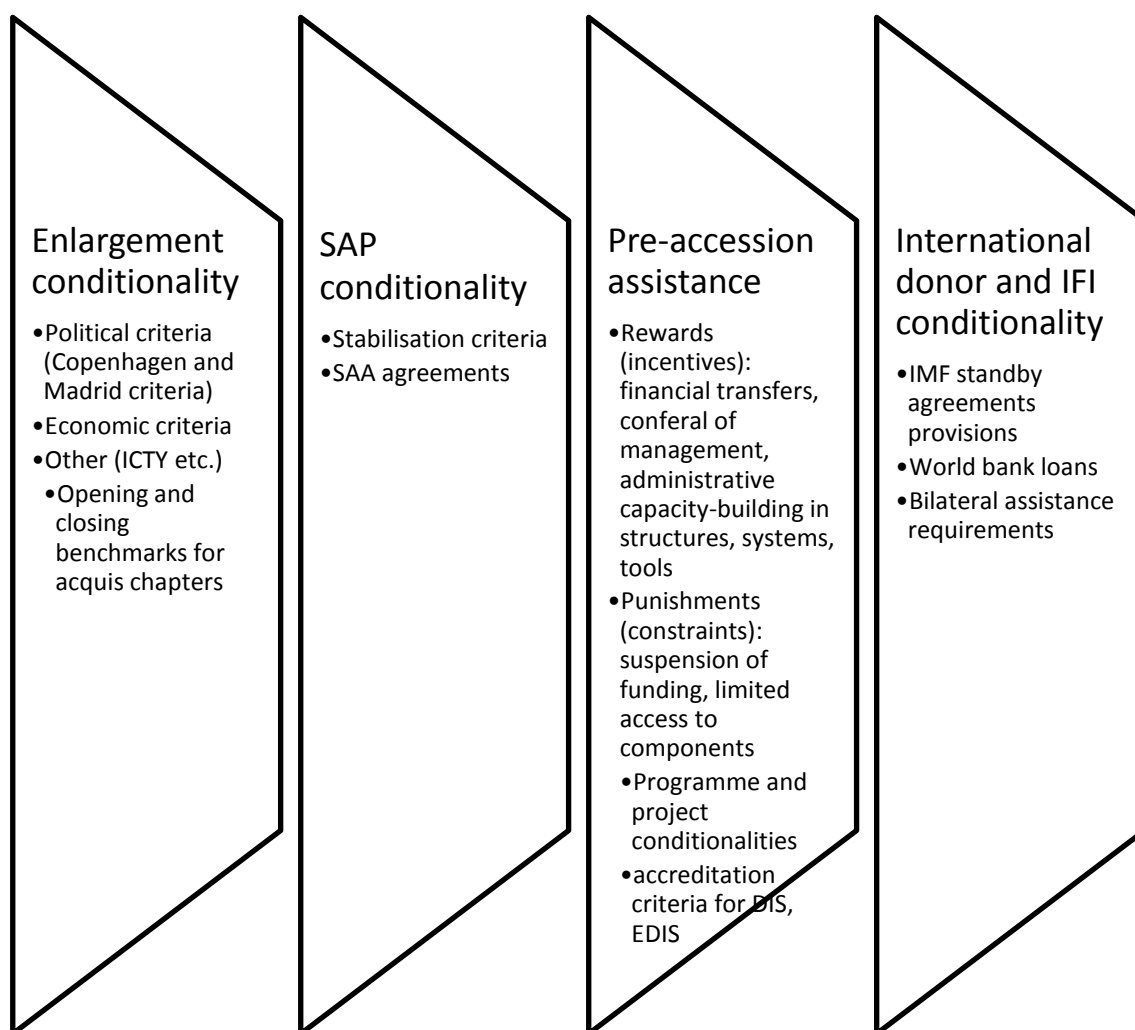
<b>COUNTRY</b>	<b>SAP STATUS</b>	<b>EU ACCESSION</b>	<b>EU ASSISTANCE</b>	<b>IPA</b>
<b>Albania</b>	SAA: signed on 12 June 2006. Entered into force 1 April 2009. Interim agreement on trade and trade-related measures entered into force in December 2006.	Potential candidate (Thessaloniki 2003).	CARDS allocation 2000-6: €315.5 million.	Multi-annual Indicative Planning Document 2007-2009 (MIPD) adopted in May 2007. Multi-annual Indicative Financial Framework (MIFF) <sup>5</sup> 2008-10 of €245.1 million.
<b>Bosnia and Herzegovina</b>	SAA: initialled on 4 December 2007. Signed on 16 June 2008. July 2008: Interim agreement on trade and trade-related measures entered into force.	Potential candidate.	1991-2000: €2 billion through ECHO, PHARE, OBNOVA. CARDS allocation 2000-6: €502.8 million.	MIPD 2007-9 adopted in June 2007. MIFF 2008-10 contains €269.9 million.
<b>Croatia</b>	SAA: signed on 29 October 2001. Entered into force on 1 February 2005. In the meantime, from 1 March 2002 to 2005, Interim Agreement on trade and trade-related measures was applied.	Application: 21 February 2003. Candidate status: 18 June 2004. Opening of negotiations: 3 October 2005. Accession: 1 July 2013.	Fully eligible for CARDS until 2005 (€278.8 million allocated 2000-2004) but since then only for the regional component due to pre-accession (2005-6 €245 million from PHARE, ISPA, SAPARD).	MIPD 2007-9 adopted in June 2007. MIFF 2008-10: €451.4 million.
<b>Former Yugoslav Republic of Macedonia</b>	SAA: signed on 9 April 2001. Entered into force April 2004.	Application: 22 March 2004. Candidate status: 16 December 2005.	Eligible for assistance since 1996. EU assistance has amounted to more than €870 million since 1992 through ECHO, PHARE, OBNOVA, emergency response. CARDS allocation 2000-6: €298.2.	MIPD 2007-9 adopted in April 2007. MIFF 2008-10: €244.3 million.
<b>Serbia</b>	SAA: signed on 29 April 2008 along with the Interim agreement on trade and trade-related measures. Ratification of SAA from EU-27 underway.	Potential candidate. Serbia submitted its application on 22 December 2009. Commission recommended granting Serbia candidate status: 12 October 2011.	CARDS allocation 2000-6 (including Montenegro and Kosovo) €2559.8 million.	MIPD 2007-9 adopted in June 2007. MIFF 2008-10: €584.4 million.

<sup>5</sup>All data for MIFF 2008-10 are a result of own calculations based on MIFF 2008-10 adopted on 8 November 2006 revised where appropriate according to the most recent Commission proposal for the envelope for Kosovo in 2008, which is included in the MIFF 2009-11 (06.11.2007).

<b>Montenegro</b>	SAA: signed on 15 October 2007. Entered into force 1 May 2010. Interim agreement entered into force on 1 January 2008.	Application: 15 December 2008. Candidate status: 17 December 2010.	N/A	MIPD 2007-9 adopted in June 2007. MIFF 2008-10 €99.9 million.
<b>Kosovo under UNSCR 1244</b>	No contractual relations. SAP Tracking Mechanism for Kosovo (STM) established in 2002.	N/A	€1.8 billion in total EU assistance to date. Since 1999, €1.1 billion through CARDS included above under Serbia.	MIPD 2007-9 adopted in June 2007. MIFF 2008-10: €258.1 million.

Source: European Commission, various DG Enlargement documents.

**Figure 4: Pre-accession assistance among other levels of conditionality in Southeast Europe**



Source: own elaboration.

### 3.2.2. Croatian administrative framework and EU membership reforms

Croatia is considered to be a simple polity with a majoritarian system of representation. The state exerts a dominant role in the policy-making process (statism) and follows a unitary structure (Bache *et al.* 2010). Labour relations show elements of tripartite collaboration (Lisicar in Casale 1999, 91-117). Until 1993, Croatia was heavily centralised, it lacked an intermediate tier of government, and the state sector was overly politicised. The 1990 constitution effectively established a semi-presidential system with a powerful presidential post. In recent years, Croatia has become increasingly successful in its candidature for accession to the EU, which is estimated to occur on 1 July 2013 (European Commission 2011, 3).

In January 2000, Croatia saw the first government change in its history as an independent state, as a six-party coalition led by the social democratic party under Ivica Račan came to power. In addition, Stjepan Mesić was elected president of the republic. The new coalition government ended the period of international isolation and pursued a reformist agenda in stark contrast with the nationalist and populist politics of the past. It engaged in a number of constitutional reforms, including altering the semi-presidential system to a parliamentary one and adopting a unicameral legislature (an upper body was abolished), as well as an attempt at decentralisation and the establishment of local and regional self-governance. It also set the country on a path of accession to Euro-Atlantic structures.

The WB-EU summit was held in November 2000 in Zagreb to mark the occasion of Croatia's rapprochement with the EU. In May 2001, a feasibility report by the Commission suggested the opening of negotiations for a SAA. Croatia benefited from autonomous trade measures since November 2000. The SAA was signed in October 2001 and an interim agreement came into effect in March 2002 (European Commission 2004b, p. 6). Participation in the SAP and the signature of the SAA (although it entered into force in 2005) created, among others, the obligation of *acquis* approximation and strengthening of state institutions including an emphasis on PAR (Title VII, JHA, Article 75, Reinforcement of Institutions and Rule of Law; CARDS country strategy paper).

Nevertheless, the loose internal cohesion of the government coalition negatively affected the speed of reform on the economy, military, judiciary and public administration (European Commission 2003). At the end of 2002, the situation in seven key areas for stabilisation and association was mixed: on one hand, there was greater political stability, democratic consolidation, and the adoption of constitutional law on the protection of rights of minorities. On the other hand, a new law failed to free state media from political intervention, the government showed weak cooperation with ICTY, and despite adoption of a reform strategy the judiciary remained problematic; corruption and organised crime were still not being tackled; structural reforms were slowed down because of the feeble government coalition and public opposition to unpopular measures; despite legislative progress, administrative capacity-building was needed, especially in the state aid office and law enforcement; lastly, a stronger public administration was needed to implement reforms (European Commission 2003). Meanwhile, the opposition (HDZ) regrouped under a new party leader in 2002. Nationalist and anti-European hardliners split from the party. The government resigned on 5 July 2002 over a coalition dispute and a new reshuffled cabinet with the remaining partners was formed by the end of the same month again under the incumbent PM Račan. Coalition disputes dragged on under the new settlement (European Commission 2003).

In February 2003, Croatia applied for membership of the EU. Marred by internal strife on the indictment of General Gotovina to the Hague, the government's parliamentary support weakened. The HDZ returned to power in December 2003, this time as a pro-Europeanist force, reconfirming the goal of EU membership as a national strategic goal. Other goals showing continuity with those of the previous government were the SAA/IA programming and the implementation of the NPEI (merged with adoption of the *acquis*).

In 2004, the Commission issued its Opinion on the membership of Croatia to the EU, in which it expressed its overall satisfaction with the legislative progress related to the SAA and the *acquis*. Following the positive Opinion and acknowledgement of compliance with the ICTY, the country gained candidate status in 2004 and entered a new period of wide-ranging reforms to comply with EU

membership criteria. However, even if the establishment of administrative capacity was set as an objective in the first national programme for the integration of Croatia in the EU (December 2002), progress was slow, with the judiciary and administrative capacity undermining the implementation of legislation (European Commission 2004b, p. 8).

It has been recognised that ‘the smoothness of transitions after the collapse of the coalition in 2002 and after the 2003 elections, suggests that respect for democratic institutions in the “new” post-SFRY and post-Tuđman era has taken root’ (SIGMA 2004). Changes in the system of government included the abolishment of the previous semi-presidential system and one of the two chambers of the parliament (SIGMA 2004). Despite Croatia’s candidate status, negotiations could not start until October 2005 due to lack of cooperation with the ICTY. Nevertheless, progress had still to be made with regard to legal approximation especially in implementation and enforcement. Judicial and administrative capacities remained points of weakness. A study on the reform of public administration was completed in 2003; however, apart from some elements of civil service reform, it has not been implemented. The new HDZ government decided on a rearrangement of government competencies. In December 2003,<sup>6</sup> the number of ministries was reduced from 19 to 13. Replacement of top managers was carried out, but there was no change at lower ranks. In the Ministry of European Integration (MEI), all the assistant ministers remained and one became state secretary (equivalent to deputy minister) (European Commission, p. 2). For a summary of legal and institutional developments in Croatia in the period of concern, see Table 5 below.

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<sup>6</sup> Act on the Organisation and Competence of Ministries and State Administrative Organisations, 2003, amended in 2004.



**Table 5: Legislative and institutional changes in the Croatian Public Administration (2001-2009)**

Year	Month	Legal act/ policy development
2001	July	<ul style="list-style-type: none"> <li>• Law on Civil Servants and Civil Service Employees 27/01</li> <li>• Law on Local and Regional Self-Government (Official Journal 33/01)</li> </ul>
2002	June	<ul style="list-style-type: none"> <li>• Public procurement law in force (January 2002)</li> <li>• Decree on publications and registry for public procurement (February)</li> <li>• Decree on the procedure of procuring goods, services and works of minor value (February)</li> <li>• Criminal procedure code amended (June)</li> <li>• Law of the Office for Suppression of Corruption and Organised Crime</li> <li>• Law on the execution of the state budget</li> </ul>
2003	December	<ul style="list-style-type: none"> <li>• Civil Service training centre established</li> </ul>
2005	July	<ul style="list-style-type: none"> <li>• Law on the Organisation and Scope of the Ministries and State Administrative Organisation</li> <li>• Law on Civil Service adopted</li> </ul>
2006	January	<ul style="list-style-type: none"> <li>• Civil Service Law entered into force</li> <li>• The CSOA begins work on a Public Administration Reform Strategy</li> </ul>
	April	<ul style="list-style-type: none"> <li>• New Independent Civil Service Council to deal with complaints set up</li> </ul>
	September	<ul style="list-style-type: none"> <li>• Policy paper commits the government to draft a revised General Administrative Procedures Act by 2007</li> </ul>
		<ul style="list-style-type: none"> <li>• New law on direct election of municipal and city mayors as well as country prefects</li> </ul>
2007		<ul style="list-style-type: none"> <li>• Policy paper covering underlying principles for the planned new Law on General Administrative Procedures (GAPA)</li> <li>• Hitrorez project to simplify or remove some regulatory procedures</li> </ul>
2008		<ul style="list-style-type: none"> <li>• Public Administration Reform Strategy 2008-2011 adopted</li> <li>• Further implementing legislation for the law on civil service adopted</li> </ul>
	April	<ul style="list-style-type: none"> <li>• 2008 Civil service training plan adopted</li> </ul>
		<ul style="list-style-type: none"> <li>• New Administrative Inspection Act</li> <li>• Number of employees at CSOA increased from 114 to 120</li> </ul>
	September	<ul style="list-style-type: none"> <li>• Proposal for a revised General Administrative Procedures Act</li> </ul>
2009		<ul style="list-style-type: none"> <li>• New Law on General Administrative Procedures (LGAP)</li> </ul>
	July	<ul style="list-style-type: none"> <li>• Ministry of Administration created (formerly the Central State Office for Administration)</li> </ul>
		<ul style="list-style-type: none"> <li>• Amendments to the Civil Service Code of Ethics</li> <li>• National Training Strategy for Officials and Servants in Local and Regional Self-Government Units 2009-2013</li> </ul>

Source: SIGMA reports; Avis; 2005-2009 Croatia Progress reports (European Commission 2003b).

### 3.2.3. Macro-economic settings

Macroeconomic settings have been reasonably stable in Croatia since 2000. The economy registered a steady growth of almost 5% per year from 2001 to 2006; inflation was brought down to single-digit levels, and unemployment was declining. Expansion was based on falling interest rates and the growth of credit to the business sector and households, as well as a recovery of the tourism sector. Large-scale investments in infrastructure such as a road-building programme also played a role.

Croatia has also experienced exchange rate stability, its currency (the kuna) is pegged to the euro, and fluctuations are managed tightly by the Croatian Central Bank (HNB). The bank has been reticent in using interest rate policy, because any appreciation of the kuna would damage the Croatian enterprises' weak competitiveness, while depreciation would increase indebtedness. The main problems in that period were the low export competitiveness, the slow rate of business start-up, the considerable level of state shares in large industries, and subsidies to problematic sectors such as the shipyards. To this should be added the low international competitiveness and the country's foreign debt. The economy has depended considerably on state-led growth and the tourism industry, a model which has capacity limits (Bartlett 2008).

The end of the expansionary period in 2003 exposed a problem in the balance of payments, as exports remained uncompetitive while imports increased (Bartlett 2008). In 2003, a standby agreement was reached with the IMF for a loan of \$141 million. The IMF demanded a decrease in the budget deficit from 4.5% of the GDP in 2004 to 2.9% by 2007, a reduction of subsidies to the economy by 1.2%, and a reduction in the public sector wage bill by 1.5% (Bartlett 2008, p. 25). The IMF also required that changes made to the pension formula be reversed, state-shares in privately owned enterprises be disposed of by 2005, as well as a cut in spending on defence and healthcare and an increase in education and science. Although the country suffered from twin deficits (current account and budget deficit), it has improved its fiscal performance through reining in spending. The country is a net recipient of FDI, but inflows do not balance the CAD. Gross foreign debt rose to almost 90% of GDP in 2006, fuelled by bank and corporate borrowing from abroad. A factor that hinders the exercise of independent monetary policy is the *de facto* 'euroisation', with bank liabilities overwhelmingly denominated in foreign currency (Barisitz 2007).

#### **3.2.4. Foreign assistance: IFI and EU support during the 1990s**

Croatia benefited from foreign assistance through many sources in the 1990s. However, aid was not co-ordinated or seamlessly provided. In total, the country received €488 million from 1991 to 2002 (included), of which €292 million were

spent on humanitarian and relief assistance (European Commission 2003b). In the 1996-2000 period, emphasis was placed on the return of refugees and internally displaced people, demining, democratisation and independent media (European Commission 2003b).

The main assistance-providers in the WB in the 1990s were the European Commission and the World Bank Office of SEE. The EIB also provided loans to Yugoslavia from 1995 to 2004, to Croatia for the transport sector, local municipalities and the private sector. The EBRD, which put forward a more relaxed democratic conditionality, was able to assist at a time when Croatia faced exclusion from EU funds. The EBRD loaned Croatia €1.3 billion from 1991 to 2004, which amounts to half of the capital of €2.9 billion invested in the WB during the same period (Bartlett 2008, p. 174). Most of the bank's work in Croatia covered micro-finance, project-finance and support to the SME sector, but it was also provided in joint schemes with other donors in the form of two programmes (TAM-BAS: Turn-around Management – Business Advisory Service). The Council of Europe Development Bank also financed reconstruction and return projects in Croatia. In general, the commercial basis of funding from European Development Banks favoured more-developed and stable economies such as Croatia, which received a significant proportion of the funds allocated to the Western Balkans (Bartlett 2008, p. 175).

Other donors active in the region of the Western Balkans include UN institutions and bilateral donors. The UNDP has focused on capacity-building through public administration reform programmes to promote effective governance, and capacity-building for NGOs. To these may be added aid provided by USAID, DfID, GTZ, SIDA, Caritas and World Vision, as well as other bilateral donors. Since 1999, international assistance has been coordinated through the mechanism of the Stability Pact (see Section 3.2 above). Past EU assistance to Croatia from 1996 to 2000 was provided through the OBNOVA technical assistance programme for reconstruction. This was succeeded by CARDS assistance, as discussed in the relevant chapter.

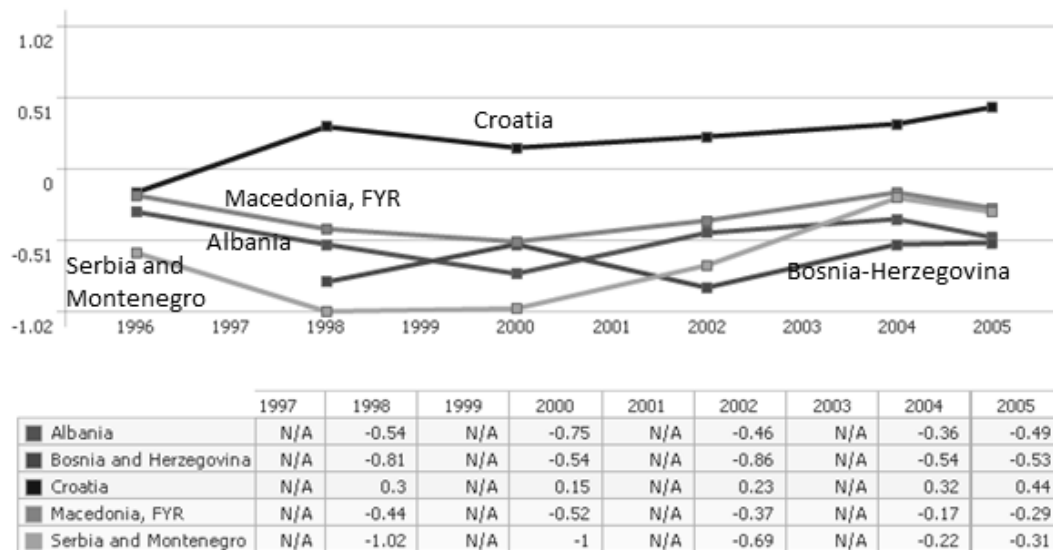
Inconsistency of objectives between aid providers has been observed in the Croatian case. A series of problems have been identified with regard to the provision of aid, which also relates to the case of the WB, e.g. costly adaptation to the *acquis*, and conflicts with IMF advice to cut budget deficits. Another problematic point is that 'aid is used to support consumption rather than productive investment' (Boone, 1996 in Bartlett 2008). In a study covering aid to the WB, Kekić found little evidence of impact on growth in the region (in Bartlett 2008, p. 169). Even in the case of pro-reformist governments, aid is considered to lose its effectiveness after a point due to the limited 'absorptive capacity by recipient countries and ineffective use by weak public administrations (Dalgaard and Hansen, 2001 in Bartlett 2008, p. 170). Another hindrance for aid effectiveness may be the long chain of principals and agents in which donors and recipients have different interests. Bartlett outlines conditions for the effectiveness of aid in these circumstances: in case where donors and recipients are aligned, he considers the existence of two principals to be manageable. An additional assumption is that if the government is essentially an anti-reform coalition, then the effectiveness of the aid agency is compromised unless the donor sets sufficient and clear conditions on the use of aid. Such incidents are considered common in the WB (Bartlett 2008). Other authors raise issues of appropriateness, and whether policy transfer is voluntary or coercive (Dolowitz and Marsh in Bartlett 2008) and informed by the local context. Particular unintended consequences identified in the WB have been distortions of labour markets, 'internal brain drain' or even pressure on housing due to the presence of foreign experts. Other unintended consequences include a preference of recipients for the perpetuation of aid through a deliberate delay in reforms and reconstruction works.

### **3.2.5. Quality of governance**

Qualitative indicators show that Croatia is in a better position with regard to the quality of governance in comparison to its SEE neighbours (see Figure 5 and Figure 6 below). However, it is trailing the EU average and CEE-5 in terms of governance indicators, particularly in the rule of law (Badjun 2004). The government effectiveness indicator shows some stagnation against a general trend for rapid improvement evident in most other indicators (see Figure 7 below). The stickiness

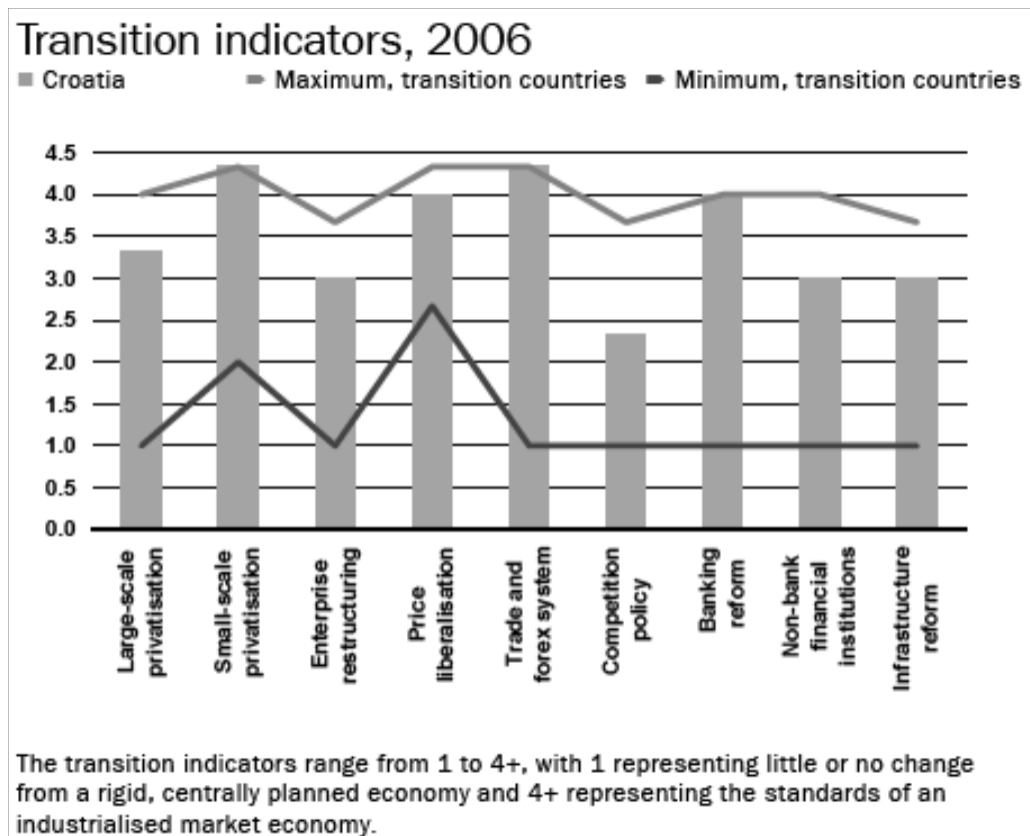
and inertia of institutions, anti-reform coalitions within the state administration, and the long-term horizon of capacity-building exercises may explain this; however, local observers see the Croatian public administration as a problem *per se*, as ‘the weakest link in the institutional development of the country’ and an obstacle to its European integration (Badjun 2004, p. 158).

**Figure 5: Government effectiveness in the Western Balkans 1997-2005**



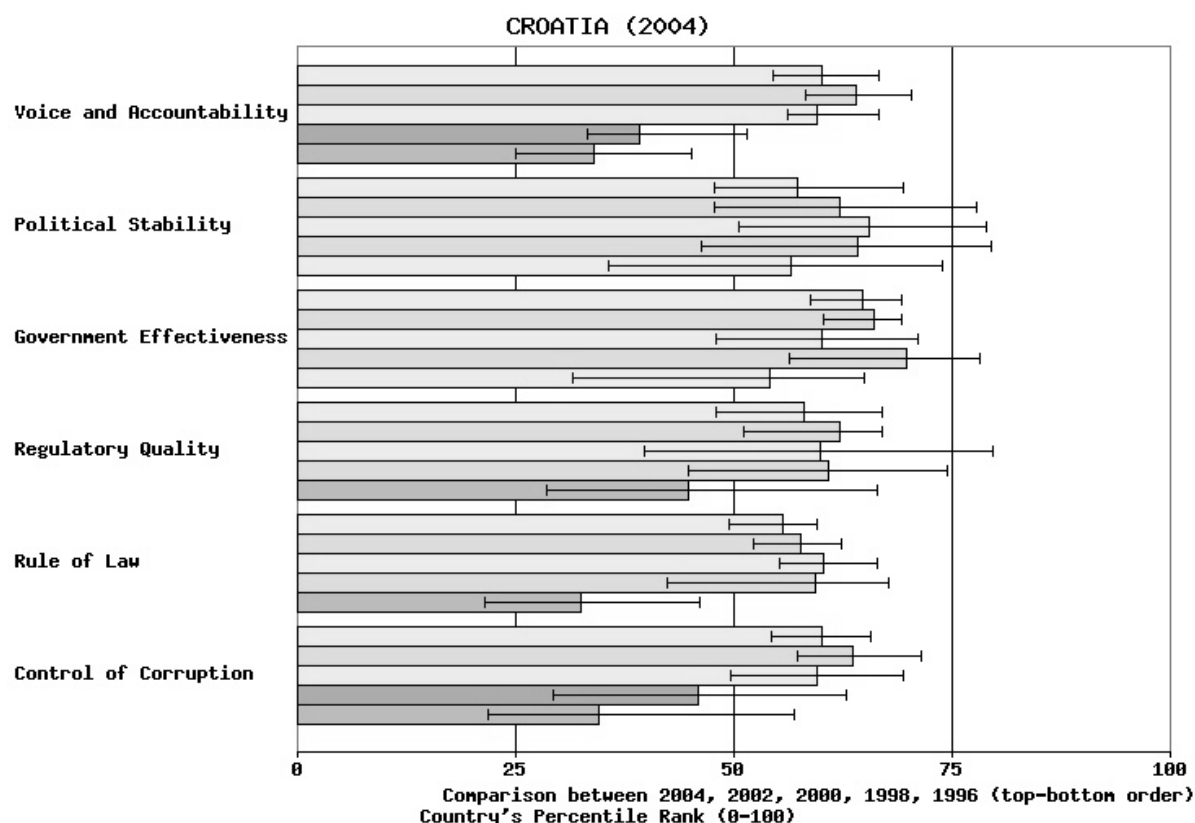
Source: (Datagob 2007).

Figure 6: Transition indicators for Croatia



Source: (EBRD 2007).

**Figure 7: The percentile rank on six governance indicators for Croatia: the percentage of countries worldwide that rate below the selected country**



Source : (Kaufmann *et al.* 2007).

### 3.3. Pre-accession financial assistance

In the WB, the EU characterises pre-accession financial assistance as an inherent part of the enlargement process, with the aim of serving the goals of the SAP and the accession process, thus performing a role similar to that of PHARE towards the Europe Agreements in the enlargement of the CEEC-10 (Grabbe 2003; Hughes *et al.* 2005). This assistance has provided a channel of communication between the candidate states and the EU. Although each instrument is pursuing its own objectives, which are outlined in the relevant regulation, they introduce EU systems, tools and procedures, prepare structures, and they improve skills and human resources, while in parallel they exercise a central role in the EU discourse in candidate and potential candidate countries. Thus, they perform a threefold function as (i) messengers of Europeanisation, (ii) forerunners of the Structural Funds, and (iii) channels of communication between the candidate countries and the EU. Therefore, pre-accession assistance is viewed not only as an instrument of

enlargement governance, but it also coexists with policy-relevant parameters at candidate country and EU levels. In that respect, the politics of the EU pre-accession assistance are *mutatis mutandis* not radically different than those in the other fields of EU policies and are to an extent subject to the rules of EU governance.

### **3.3.1. PHARE and Twinning**

From 1989, EU financial assistance to the CEECs was provided through PHARE, which initially meant ‘Poland Hungary Assistance for the Reconstruction of the Economy’, but was extended in 1993 in terms of both budget and countries. The programme has been through many phases, and from an original demand-driven and policy-oriented emphasis on critical aid modelled on aid to the developing world, it gradually moved towards supporting transition-related reform needs, and more importantly institution-building (Hughes *et al.* 2005). PHARE was reformed in 1997 to become accession-driven, promoting the adoption of the *acquis* in view of the eventual membership of the CEECs. PHARE emphasised priority measures for the adoption of the *acquis*, whether through improving administrative capacity or by supporting related investment (European Commission 2003a). Moreover, starting from 1999, a specific ‘Twinning’ instrument was streamlined through PHARE in order to assist candidate countries achieve administrative compliance and organisational capacity for the implementation of the *acquis*. Thus, Twinning and Twinning Light, which took place through the secondment of national experts from MS, became the main instruments for institution-building under the PHARE regulations. However, the overly technical character of twinning was considered of rather limited value in influencing overall administrative developments, as the national self-definitions of administrative performance were dominant in most cases, and the reform commitment of those hosting twinning projects was variable (Grabbe 2001, p. 1024; Papadimitriou and Phinnemore 2004, pp. 619-637).

However, the SEECs found themselves virtually excluded from PHARE assistance due to their dim prospects for membership and non-compliance with EU conditionality (Demetropoulou 2002, p. 94). In any case, interesting comparisons can be drawn between the estimated impact of PHARE assistance to the CEECs and



attempts to devise criteria to measure its contribution in the field of administrative capacity and the case of CARDS/IPA assistance in the WB.

A clash of interests between the Commission and MS resulted in PHARE being administered by the Commission, but legally lying in the second pillar in an attempt by the MS to control the competences of the Commission and the EP in this field and dominate relations with Eastern Europe (Hughes *et al.* 2005, p. 22). In addition, the Commission had an early predilection towards an institutional reconfiguration of the territorial dimension of governance that favoured MLG and partnership in regional policy (Hughes *et al.* 2005, p. 167). From 1996 to 1999, the Commission also actively sought to shape the process of regionalisation in candidate countries through PHARE regional programmes (Hughes *et al.* 2005, p. 167). However, nearer the accession date in 2000-2001, this earlier normative concern was superseded by a more functionalist and technocratic logic with emphasis on centralised management and control of the Structural Funds, thus bringing capacity and coordination issues to the fore (Hughes *et al.* 2005, pp. 167-168). Niemann (2006, pp. 67-112) provides an exhaustive account of the role of EU institutions including the European Parliament and the Commission in shaping the PHARE programme. He also discloses the negotiating positions of several MS, for example the UK, Netherlands and Ireland, which considered Technical Assistance a top priority, possibly in part in view of their strong consultancy sectors (2006, p. 98). This may explain the share of TA in all subsequent pre-accession instruments including CARDS and IPA, and it is particularly interesting in view of the addiction to Technical Assistance reported in some institutions in Croatia.

Hughes *et al.* conceptualise the mechanisms of Europeanisation and recognise the key role among others of aid and twinning as instruments for the fulfilment of functional and normative goals (institutional convergence, normative assimilation, communicative symmetry, network fusion) (2005, p. 143). To establish whether an outcome has been one of effective implementation of EU policy rather than a case of rhetorical conditionality, they employ a method of tracking policy changes over time (Hughes *et al.* 2005, p. 11).

### 3.3.2. Lessons learned from the CEECs

Experts agree that the results of PHARE in the CEECs have been mixed at best, especially in boosting administrative capacity. Administrative capacity issues proved to be the most challenging in the last round of enlargement, and yet they were left until last (Amato 2005, p. 30). The record of Bulgaria and Romania is instructive in this regard, as their public administration continues to exhibit deficiencies not cured during the pre-accession period (Horvat and Maier 2004). This is obvious in the case of the effective and efficient management of the Structural Funds, which requires complicated institutional procedures and bureaucratic expertise that was not fully acquired during the pre-accession phase. The reasons for this are manifold, but a first group of explanations can be associated with the very design and structure of the PHARE programme. First and foremost, PHARE did not have a visible and direct counterpart in the SF as was the case with ISPA and SAPARD, therefore it failed to establish a clear link with future requirements for the implementation of the Structural Funds. However, PHARE's Economic and Social Cohesion (ESC) component was designed to support similar projects as in ERDF and ESF, and the cross-border cooperation part of the programme mirrored INTERREG. Nonetheless, this approach was confined to the project level within an annual programming cycle. This fragmentation into short-term programmes could prove detrimental to the promotion of capacity because 'capacity-building efforts are by definition taken to be *long-term learning processes*' (Gunnarsson 2001, p. 17). The fact that there is an inevitable learning curve is stressed by Weise *et al.* (2001, 136), who recognise that 'a crucial role in transition is played by institutional learning and the ability to implement the policies according to prevailing procedures and norms' (in Leonardi 2005, p. 148).

Furthermore, PHARE (and ISPA) was based on a Decentralised Implementation System, which requires ex-ante control by the ECD. Bailey and De Propris (2004, p. 89) deplore the top-down imposition of templates and patterns of implementation, which might not be optimal for a country's position. On the other hand, SAPARD is implemented on a fully decentralised basis (EDIS, Extensive Decentralisation Implementation System), according to which the Commission is

limited to ex-post control. Moving from DIS to EDIS is conditional upon capacity strength and performance (European Commission 2007e).

Leaving aside issues of PHARE design, the conclusions of its evaluations are insightful. A particular problem stressed by analysts was that the objective of twinning to establish a modern and efficient administration was excessively optimistic: the reform of public administration was very slow, and institution-building did not end with accession (Bailey and De Propris 2004, pp. 88, 92). The 1999 evaluation of the PHARE PAR programmes points out that there are no clearly identified formal criteria to judge the contribution of the programmes in strengthening administrative capacity. Moreover, the evaluation adopts a logical framework approach that combines the perspectives of accession and transition. It recognises that performance has been somewhat below acceptable and that the high-risk political nature of central government projects has led to a drop in effectiveness. In addition, and very closely linked with the weaknesses of the programming cycle discussed above, the PHARE PAR programme was not designed to have a broad-based and comprehensive impact on PAR in the beneficiary countries. Furthermore, performance declined over time, while effectiveness and efficiency were found to be stronger than impact and sustainability. The programmes were concentrated on management and human resources, with information technology having only a secondary role. Lack of in-house expertise and strategic PAR concepts inhibited the success of many of the programmes, while the limited coordination of donors was another setback (European Commission 1999).

The recommendations of the evaluations were aimed at a number of actors. It was deemed necessary that the EC should develop its own competence in the field of public administration as well as formal criteria for accessing administrative capacity, while each country should develop a national strategy for PAR. It was proposed that the whole process should move from inputs-driven towards an outputs-driven approach, which would further strengthen conditionality by making finance conditional upon effective implementation to improve effectiveness, donor efficiency, impact and ownership (European Commission 1999). More recent evaluations of PHARE in Bulgaria and Romania have shown that the performance of

PHARE has improved over time but remains mixed, and outputs were delivered adequately despite contractual delays. Twinning was found to be effective for institution-building, increasing administrative capacity. Finally, in an environment of varying sectoral performance, public administration and the judiciary showed inadequate progress, while PHARE had only limited effect on preparations for the Structural Funds with progress attributed to own efforts of authorities due to imminent accession (2006 Report on PHARE, Pre-accession and Transition instruments).

The 2002 NEI report on assessing the administrative capacity of the candidate countries to effectively manage the Structural Funds mirrors the concerns of the PHARE evaluations about the lack of formal and specific criteria for measuring the effects of pre-accession instruments (2002). Thus, the NEI was engaged by the Commission to define benchmarks and baseline indicators of administrative capacity. The relevant report recognises that in theory the results of the pre-accession instruments could be measured, but it regards such a task as difficult due to the newness of the instruments (ISPA, SAPARD) or their changing character (PHARE ESC). Interesting points of the report include that the ratio between design and requirements determines supply-side administrative capacity, while measuring starts with a distinction between structure, human resources, systems and tools (Netherlands Economic Institute 2002, 2-3). For the key indicators formulated, the absorption rate of pre-accession instruments is measured (2002, 19).

### **3.4. CARDS and IPA**

The Community Assistance for Reconstruction Development and Stabilisation (CARDS) was the EU's main instrument of financial assistance to the WB in 2000-2006. CARDS's broad aim was to function as a tool for the implementation of the Stabilisation and Association process (SAP). The Instrument for Pre-accession Assistance (IPA) is the EU's pre-accession programme in the 2007-2013 period for all candidate and potential candidate countries, including the Western Balkans. However, it should be noted that even though CARDS and IPA are two distinctive programmes that may be pursuing similar objectives and focusing on

the same areas, there is scope to consider them as two different cases. Nevertheless, CARDS and IPA are categorised under the collective term of pre-accession assistance, despite the fact that the pre-accession element is less substantial in CARDS. Given the chronological precedence of CARDS, it is presented here first, and IPA follows.

#### **3.4.1. CARDS**

In its early years, CARDS served the immediate goal of reconstruction, but later it shifted its focus to capacity-building and home and judicial affairs. CARDS differed from PHARE in some respects: it contained a regional component and had a dual management system, partly deconcentrated in the form of EAR (responsible for FYROM, Serbia, Montenegro and Kosovo) or exercised by the EU delegations in the other national capitals. It was not a pre-accession instrument in the strict sense, and it was allowed a partial role in Croatia, the only WB country with credible prospects of membership, through its regional cooperation scheme. Moreover, CARDS was perceived as pushing high-intensity institution-building a step further, whereby the aid provider becomes sufficiently engaged with local institutional actors to identify specific obstacles to reform and develop solutions adapted to local circumstances (Chandler 2006, p. 111). Exemplified by the PHARE twinning programmes, high-intensity institution-building under CARDS was seen (by its detractors) as bypassing accountability in pursuing a top-down external regulation of internal affairs.

On the other hand, many of PHARE's weaknesses also manifested themselves in CARDS. The lack of strategic guidance and support to public administration, understaffed and untrained bureaucracy that hindered the implementation of the programme, a prevailing pattern of centralisation, lack of ownership and top-down approach, quickly worked to undermine many of CARDS's innovative elements. The regional component was not only meagrely funded but also suffered from low levels of institutionalisation and motivation for regional initiatives (CARDS Evaluation 2004). Furthermore, the CARDS institution-building programme was seen as broad and horizontal and thus not pursuing any specific goals in a pre-accession context, failing to reconfirm EU commitments (European Stability Initiative 2005; Bushati 2007). It would not be irrelevant at all to attribute

some of the obstacles faced by institution-building in the Western Balkans to the prevalent practices of state capture and the seasonal character of public administration (See ANNEX IV for information on CARDS legal basis, objectives, components, conditionality).

#### 3.4.2. IPA

The Instrument for Pre-accession Assistance (IPA) is a financial assistance programme for EU candidate and potential candidate countries in the 2007-2013 programming period. The IPA was introduced in January 2007 as the sole pre-accession instrument in the new budgetary period. The total sum initially proposed for IPA by the Commission in the 2007-13 period was some €14 billion, which was subsequently reduced to €11.468 billion (European Stability Initiative 2005, p. 3; Council of the European Union 2006, p. 91). According to the IPA regulation, there is a clear differentiation between potential candidate and candidate countries: the first group (Serbia, BiH, Albania, Kosovo under UNSCR 1244) will have access to the transition assistance and institution-building component as well as the cross-border cooperation component, while the second group (Croatia, FYROM, Montenegro) will enjoy additional support from a regional development component, a human resources development component and a rural development component, which are precursors of the EU's Structural Funds and Common Agricultural Policy (CAP).

The EU has justified this differentiated approach on the basis of a necessary 'graduation' between candidate and potential candidate status, while stressing the non-preparedness of the potential candidates, the lack of decentralised management and autonomous programming and management capacities in the potential candidates, which prohibit the effective and efficient implementation of a type of assistance that mirrors the SF. However, it seems that this differentiation is either selective or based on *ad hoc* considerations rather than following a long-term strategy. Post-enlargement fatigue might account for the EU's insistence on offering a type of assistance to potential candidates that virtually continues the CARDS appropriations and probably lacks a pre-accession character.

Moreover, the EU's approach towards the WB states differs from that towards Bulgaria, which found itself in a similar situation in the late 1990s. The EU's resolve for the accession of Bulgaria resulted in dramatic policy and institutional change as the country began to put in place the systems required to benefit from pre-accession assistance (European Stability Initiative 2005, p. 9). Nevertheless, the WB potential candidate countries are in a much less privileged position. As the Multi-annual Financial Frameworks for 2008-2010 and 2009-2011 showed (there was no MIFF for 2007-2009 due to delays in the approval of the budget for 2007-13 and in the adoption of the IPA regulation), the per capita average of 2004-2006 of €23 under CARDS would have been reached for all Western Balkan countries by 2010 at the latest. The Commission argued that no country would receive less in 2007 than in 2006, and that BiH and Albania would receive no less than the annual average of the funding each received in 2004-2006. In order to justify this anomaly, the Commission stressed the fact that 2004 was a 'frontloaded' year of increased funding. For Croatia and FYROM, a level of over €30 per capita was envisaged for 2008. Finally, a new financing facility to promote the development of civil society through capacity-building and exchange projects was to be established under IPA (European Commission 2007c). Furthermore, through the abolishment of the EAR, beneficiary countries have more ownership of pre-accession assistance, while measures have been taken to increase donor coordination.

It is obvious from the above that the delay in the adoption of the first MIFF under IPA made an assessment of administrative capacity-building a complicated task. There is ground to stress the continuity of components I and II with CARDS. However, components III and IV invite a different approach, because they involve preparations for the implementation and management of ERDF and ESF respectively. Finally, it seems doubtful that assistance for economic and social development through component I would have an impact on capacity in potential candidate countries comparable to that of components III and IV on candidate countries. (See ANNEX IV for information on IPA legal basis, components, conditionality). For a comparative summary of the main characteristics of CARDS and IPA, see Table 6 below.

**Table 6 Comparative elements of CARDS and IPA**

	<b>CARDS</b>	<b>IPA</b>
<b>Period</b>	2000-2006	2007-2013
<b>Money</b>	€4.65 billion (and €210 million decided in Thessaloniki)	€11.468 billion
<b>Main aim</b>	To support participation by the recipient countries in the Stabilisation and Association Process (SAP).	To assist candidate (Annex I) and potential candidate countries (Annex II) in their progressive alignment with the standards and policies of the EU, including where appropriate the <i>acquis</i> , with a view to membership.
<b>Objectives</b>	<ul style="list-style-type: none"> <li>➤ reconstruction, aid for the return of refugees and displaced persons, and stabilisation of the region;</li> <li>➤ the creation of an institutional and legislative framework to underpin democracy, the rule of law and human and minority rights, reconciliation and the consolidation of civil society, the independence of the media and the strengthening of legality and of measures to combat organised crime;</li> <li>➤ sustainable economic development and market-economy-orientated reform;</li> <li>➤ social development with particular reference to poverty reduction, gender equality, education, teaching and training, and environmental rehabilitation;</li> <li>➤ the development of closer relations among recipient countries, between them and the EU and between them and countries that are candidates for accession to the EU, in coordination with other instruments for cross-border, transnational and regional trans-boundary cooperation with non-member countries;</li> <li>➤ fostering regional, transnational, cross-border and interregional cooperation among the recipient countries, between them and the EU and between the recipient countries and other countries of the region.</li> </ul>	<ul style="list-style-type: none"> <li>➤ strengthening democratic institutions as well as the rule of law including its enforcement;</li> <li>➤ the promotion and the protection of human rights and fundamental freedoms and enhanced respect for minority rights, the promotion of gender equality and non-discrimination;</li> <li>➤ public administration reform, including the establishment of a system enabling decentralisation of assistance management to the beneficiary country in accordance with the rules laid down in Regulation (EC, Euratom) No 1605/2002;</li> <li>➤ economic reform;</li> <li>➤ the development of civil society;</li> <li>➤ social inclusion;</li> <li>➤ reconciliation confidence-building measures and reconstruction;</li> <li>➤ regional and cross-border cooperation.</li> </ul> <p>Particularly for the candidate countries:</p> <ul style="list-style-type: none"> <li>➤ the adoption and implementation of the <i>acquis</i>;</li> <li>➤ support for policy development as well as preparation for the implementation and management of the Community's common agricultural and cohesion policies.</li> </ul> <p>Particularly for potential candidates:</p> <ul style="list-style-type: none"> <li>➤ progressive alignment with the <i>acquis</i>;</li> <li>➤ social, economic and territorial development including, inter alia, infrastructure and investment-related activities, in particular in the areas of regional, human resources and rural development.</li> </ul>



<b>Focus on administrative capacity</b>	Priorities: <ol style="list-style-type: none"> <li>1. democratic stabilisation</li> <li>2. economic and social development</li> <li>3. justice and home affairs</li> <li>4. administrative capacity-building</li> <li>5. environment and natural resources</li> </ol> <p>And a regional component consisting of 10% of total funding.</p>	Components: <ol style="list-style-type: none"> <li>1. transition assistance and institution-building</li> <li>2. cross-border cooperation</li> <li>3. regional development</li> <li>4. human resources development</li> <li>5. rural development</li> </ol>
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Source: Pre-accession assistance regulations, European Commission documents (see ANNEX IV).

### 3.4.3. Channels of influence

Influences are governed by the contractual relation between the European Commission and the government that controls funding in terms of resources and conditionalities (rules or objectives governing the use of resources). As shown in ANNEX IV, explicit and direct channels of influence comprise the regulations and programming documents, and in particular the volume of funding allocated to administrative capacity-building. It is important to note here that the programming documents claim that institution-building in state institutions is also an objective under other (than administrative capacity building) headings of the CARDS programme. On the basis of the Stability Pact and the SAP, there is a division of labour between the IFIs and the European Commission and coordination of assistance with other donors in order to ensure continuity and coherence of assistance. The CARDS Country Strategy Paper for Croatia states that there is an established mechanism for coordination and exchange of information on assistance programmes between the Commission delegation in Zagreb and the MS missions to Croatia. In addition, it argues that the Commission offers a comparative assistance as a donor, given its comprehensive overview of the *acquis* and EU policies. The response strategy is also presented as being complementary to the World Bank's country strategy.

With regard to rules and requirements associated with EU assistance, there was conditionality at three levels in the case of CARDS:

1. SAP conditionality: refers to democratic reform and respect for human and minority rights, credible commitment for economic reform, willingness to

develop good economic and political relations as well as good neighbourly relations, compliance with the Peace agreements and the ICTY and respect for other conditionalities. In cases of violation of these principles, the Council on a proposal by the Commission can take appropriate measures through the SAP review mechanism. These measures may include suspending assistance or granting assistance by other means.

2. Programme-level conditionality, according to the regional strategy paper, may be imposed including specific reform targets or adoption of sectoral policies. In this context, cross-conditionality may be applied.
3. Project-level conditionality, which includes specific conditions necessary to achieve projects' immediate objectives and the commitment of the beneficiary authority (e.g. financial control measures).

As stated in the Regional Strategy Paper, programme and project conditionality is defined in the Financing Memorandum, which also reiterates the political conditionality.

Another area where certain rules and procedures need to be adopted is in the management of EU assistance. Certain benchmarks must be met before moving from centralised to decentralised and extensive decentralised management. Furthermore the EU exercises accession conditionality. First, in the case of a candidate country such as Croatia, the Copenhagen criteria of 1993 apply. Second, the Madrid European Council in 1995 also specified that candidate countries must be able to put the EU rules and procedures into effect. There is a requirement for the candidate country to create the conditions for its integration by adjusting its administrative structures. This refers not only to the approval of legislation but also to its subsequent implementation and effective enforcement through the appropriate administrative and judicial structures. Third, a screening of the 35 chapters of the *acquis* takes place, resulting either in the start of negotiations or setting opening benchmarks which have to be met before the opening of negotiations in any of the 35 chapters of the *acquis*. On opening a chapter, closing benchmarks are set defining the

conditions for closing a chapter. Monitoring of progress takes place throughout the negotiation process. Lastly, international donor and IFI conditionality is exercised in parallel with EU demands.

For a schematic presentation of EU conditionality see Figure 4.

## **Conclusion**

Croatia's turbulent recent history has left a complex institutional environment characterised by serious dysfunctions, although some elements lend themselves to reform and adaptation to EU standards. Alongside other Western Balkan countries, the precursors of the Croatian state operated in a multi-ethnic, multi-religious environment where public administration was renowned for adherence to formality and legality. The influence of the Austro-Hungarian strand of the Continental model of bureaucracy that continued in socialist Yugoslavia was considered a mixed blessing at the dawn of Croatia's transition to a market economy and closer association with the EU. This seems to corroborate a common explanation influenced by historical institutionalism: to associate current levels of institutional development with legacies of the past, particularly that of multiethnic empires. While it is not hard to trace the marks of empire rule, it is more prudent to attribute the course of institutional development to a clustering of factors, taking into account subsequent developments. Yugoslavia's model of market socialism and privileged relationship with the West could have provided a set of more favourable initial conditions for accession to EEC/EU structures.

However, the political and economic history of Yugoslavia's last decade was indicative of what would follow in the 1990s. A paralysed federal government was unable to implement fiscal and economic reforms, as republican elites invested in a revival of national traditions, seeking national self-determination at any cost. War events set the former Yugoslav states on a path of divergence with the rest of the transition economies. The military effort absorbed scarce state resources and caused huge losses. At a time when economic and political reforms were already on track

in Eastern Europe, international assistance in the Western Balkans had to be channelled towards reconstruction, stabilisation and refugee return.

In 2000, Croatia started to break with a recent past of autarchic rule under Tuđman. Political reforms in that period committed the country to EU membership. Overall, Croatia scored better in quality-of-governance indicators than its Western Balkan counterparts, but it was some distance from the EU MS and even the CEE-5. However, the state of the public administration was inadequate to facilitate the performance of tasks related to EU membership. While several Croatian governments acknowledged the problem, declarations of public administration reform did not materialise because of political discord, the lack of political will and steering, and weak capacity for implementing reform. Legislation passed in this period was moving in the right direction, but in certain cases it lacked clarity and its effectiveness was undermined by weak enforcement. The persistence of a bureaucratic culture in the public administration hostile to reforms can be explained by some structural conditions which bred politicisation, corruption and incompetence in the state sector: opaque and non-meritocratic recruitment, erratic training, poor civil service management and human resources management, low salaries and low job attractiveness. Administrative capacity was weak in areas important for pre-accession and structural instruments. The budgetary process showed serious deficiencies, decentralisation (although promised) had not materialised, capacity for public procurement was weak, relevant legislation conflicted with the *acquis*, the production of statistics was unreliable and did not provide regional data, and the monitoring, control and audit system for EU funds was underdeveloped.

By examining the challenges and setbacks and the overall experience of transition in the Western Balkans and Croatia, this chapter developed an understanding of the initial conditions and the ensuing path towards administrative reform. The chapters which follow seek to shed additional light on the role of EU financial assistance in the reform efforts in the Croatian public administration. Case-specific evidence will show to what extent Croatia has moved on from these initial conditions with the help of CARDS and IPA instruments to establish the administrative capacity required for an EU member country.

## **4. Methods**

This chapter discusses methodological issues and sets them in relation to research philosophy. The research question is further analysed and explained following its first statement in the introduction. The first section presents the epistemological positions and the methodological implications for the research project. While it acknowledges the merits of positivist thinking in political science, it adopts a perspective closer to realism. The ontological starting points and the epistemological foundations of major theories of European integration, such as neofunctionalism and intergovernmentalism, and more recently MLG and social constructivism, are also briefly examined. Finally, methodological implications and consequences for the scope and the analytical techniques in accordance with the philosophical assumptions of this research are studied.

For the sake of better understanding methodological issues, a number of methods employed in similar studies are discussed. In the course of the chapter, apart from references to the methodological literature relevant to the study, a discussion of the merits and constraints of the chosen research methods is initiated. With this information, the chapter proceeds to describe the methods used in the study as a whole, and in the empirical chapters in particular, namely process-tracing through in-depth case studies of state institutions, elite semi-structured interviews and literature reviews. Finally, the chapter discusses important issues such as case study selection, endogeneity, and the small-N/large-N situation, and it proposes methodological tools to prevent them from evolving into problems for this research.

### **4.1. Research hypothesis and main research question**

#### **4.1.1. Scope**

This study focuses on the impact of EU pre-accession instruments on national administrations. The main question is: to what extent does national administrative capacity change under EU influence? The inquiry was limited to Croatia, and the main EU influence examined was that of financial assistance in the form of CARDS and IPA, although attention was paid to other influences and intervening variables.

The financial assistance instruments covered in the study were active in the 2000-2006 and the 2007-2013 programming periods. CARDS implementation started in 2001, but early projects are not covered extensively in this study, because administrative capacity-building under the instrument essentially started in 2003. The main bulk of projects examined were those implemented during the period from 2003 to 2009 with some limitations which apply to the fieldwork: (i) information on the early years of CARDS is largely lost for the Croatian administration due to a number of conditions which will be examined in the empirical part, and (ii) IPA was still in its infancy in 2009.

As the empirical information was gathered in December 2008 and spring/summer 2009, the empirical part of the project constitutes mostly a snapshot of conditions in the Croatian bodies and institutions examined around this specific timeframe. Nevertheless, an effort was made to track institutional changes which precede and postdate the fieldwork period. The desk research was undertaken in the 2008-2011 period, covering material from 2001 until 2011.

#### **4.1.2. Research question**

The main purpose of this study was to establish whether and how EU pre-accession assistance in the form of CARDS and IPA acts as an instigator of institutional change (Europeanisation) via its influence on administrative capacity. The study's three major objectives were: to contribute to the growing literature on institution-building (Europeanisation) in the Western Balkans, to define and operationalise the term 'administrative capacity' in the context of Enlargement and pre-accession, and to conduct in-depth case study research on how CARDS and IPA affect administrative capacity in Croatia and how they interact with other factors influencing administrative capacity.

This has resulted in three subordinate questions: (i) Can the case of institution-building via CARDS and IPA be integrated in the wider literature on institution-building/ Europeanisation in the Western Balkans and why? (ii) What would be the definition and operationalisation of the concept of administrative capacity in the context of enlargement and pre-accession? (iii) What did the changes

in the institutional framework involve? How has this affected the ways in which national and EU funding programmes are formulated, managed and implemented? How have these adjustments influenced the role, the set-up, the structure, the resources, systems and procedures on which national institutions are based?

There is some interconnection between the questions. The first one is addressed through the literature review in the chapter on theory and the Croatian institutional background (the main arguments in favour of including this study under the wider rubric of institutional change are its policy relevance and gaps in the literature). References to administrative capacity within this strand of literature were presented. For the second task, another literature review was undertaken, more focused on the particular challenges of defining and operationalising the term identified in the selected literature ranging from evaluations, policy studies, and EU policy documents to international development literature. The results of the review were used to derive the definition of administrative capacity for the empirical part. For the third question, which constitutes the main bulk of the empirical part of the research, a mixture of desk research and fieldwork was employed, as will be shown below.

The last question entailed a number of secondary questions. These can be categorised into three groups: (i) with an emphasis on specific time periods, questions about general horizontal change, administrative reforms, financial resources, legal changes, changes of systems and institutional and policy coordination in the Croatian public administration save for the influence of CARDS and IPA; (ii) questions on explicit CARDS and IPA influence on the institutions/bodies examined, further broken down into questions related to specific aspects of administrative capacity, i.e. human resources, financial resources, structures, systems, institutional coordination (personnel numbers, skills, funding and flow of resources; establishment, internal structure, equipment of bodies; financial control and audit, monitoring and evaluation, personnel selection criteria; institutional coordination, policy coordination, tendering, contracting, payments, procurement); and (iii) questions on why CARDS and IPA had this influence and the role played by other external or domestic factors. The complete set of fieldwork and

desk research questions is presented in ANNEX I along with the questionnaire given to the interviewees. Inspired by the respondents' replies to the fieldwork questions, this study moved on to present a set of five more hypothetical points which can be found at the end of the theory chapter. These are more abstractly formulated and lend themselves to drawing parallels with experience from other cases of institutional change within and outside Croatia.

## **4.2. Research philosophy and methodology**

### **4.2.1. Ontological points**

The choice of research methods used in this project stems from a particular epistemological position. These epistemological and ontological points are further clarified below, followed by a presentation of their methodological implications for this study.

Research on the EU is deeply embedded in the uniqueness of the EU system and the alleged *sui generis* nature of the course of European integration, so that wider ontological considerations often constitute second-rate options. In addition, different ideas on Europe and distinctive perceptions of the predominant character and the teleology of integration have fuelled an on-going debate. That is not to say that research on European integration has been unaffected by the ontological underpinnings of studies in politics and other social sciences. However, this insularity has been somehow sought after, as in the field of international relations, where according to Wendt, scholarship is more likely to progress if the focus is shifted from ontology to epistemology, because there is more scope for agreement in the latter (1999, p. 91). In contrast with this view, Wight's assertion is that ontology is far from unambiguous and that 'some of the strict distinctions between ontology and epistemology are based on a quite questionable fundamental distinction, rather than on an awareness of the interaction effects between both' (Wight 2007, pp. 40-56; Kratochwill 2007, p. 7).

Nevertheless, the epistemological and ontological underpinnings of major theories of European integration can still be traced, namely neofunctionalism, intergovernmentalism and more recently social constructivist and institutionalist



accounts, and MLG. However, their theory status is sometimes contested; the case of social constructivism is instructive in that respect: detractors portray it as ontology, while supporters defend its distinct meta-theoretical approach, which offers an ontology (Wiener and Diez 2004; Moravcsik 1999).

On another point, neofunctionalism is linked with the behavioural revolution of the 1950s and has similar positivist roots (Rosamond 2000, p. 8). Despite its non-normative character and its preference for empirical data, neofunctionalism has been criticised as implying normative purposes. However, since its founder admitted its obsolescence, neofunctionalism has been cleared of such charges (Haas in Rosamond 2000). As a theory of European integration, neofunctionalism proposed a mechanistic, linear approach that considered the oversight of the supranational technocratic elites as indispensable to the advancement of integration, which could take place through a series of functional spillovers in an incremental process, with a starting point in economic issues and a new political community as an end result (Haas 2003). Ontologically, neofunctionalism has similar foundationalist premises to the rest of the behavioural and positivist accounts, namely that there is a world independent of our apprehension of it, and that testable and observable hypotheses of causal relationships, informal conventions and recurring patterns could offer law-like generalisations (Marsh and Stoker 1995, pp. 4,12,14).

On the other hand, intergovernmentalist thinking shares the foundationalist ontological assumption with neofunctionalists that a real world exists independently of our knowledge of it. A particular strand of intergovernmentalism, Moravcsik's liberal intergovernmentalism, views European integration as a nested game of domestic preference formation, interstate bargaining, which leads to lowest common denominator outcomes, while he recognises the role of supranational institutions in facilitating negotiations (Marsh and Stoker 1995, p. 37). The theory is anchored to foundationalist ontology and positivist epistemology, owing to its two components of liberal institutionalism and intergovernmentalism.

Another concept with increasing application in studies of the EU is MLG, which was examined in Chapter 2. The term originated from a study of European regional policy by Gary Marks where he used it to describe 'a system of continuous

negotiation among nested governments at several territorial tiers – supranational, national, regional and local’ relevant to the policy but now expanded to become a catch-all notion of EU governance (Hooghe and Marks 2003, p. 235). While common criticisms of MLG reject the assertion that it is a distinctive theory, and view it rather as a description of the EU and an amalgam of theories (Jordan in George 2005, p. 107), the growing literature on the concept can be categorised as stemming from a foundationalist ontological position similar to the aforementioned theories of integration. However, from an epistemological point of view, most theorists of MLG can be located in what Marsh and Furlong refer to as the realist camp (Marsh and Stoker 1995, p. 37). A realist ontology, plus a relativist epistemology, lead to a critical realist approach which is a more preferable term, because references to realism may at first reading cause confusion with well-established theories of international relations, such as political realism and structural realism or neorealism.

In conclusion, one could argue that there are fundamental differences between the domestic and international arenas in terms of preference formation or the lack of a regulatory authority at the international level. That seems to be a foundationalist ontological claim common to the above theories (although MLG posits the sub-national arena as well). Social constructivism, which is anti-foundationalist, could argue the opposite, and rest on an interpretivist (interactionist) epistemological position, which rejects the language of causality and sees ‘scientific’ knowledge as a matter of interpretation or understanding, rather than explanation. Since critical realism is the preferred approach, the methodological implications of this choice will now be portrayed.

#### **4.2.2. Critical realism**

Before analysing the implications of the selected approach for knowledge-generation, it is prudent to provide a more thorough justification for it. This thesis has been deterred from adopting a strictly positivist point of view, because it would have been inappropriate for the analysis of the implications of EU pre-accession programmes on a candidate state and especially on its administrative capacity. In such a case, the major positivist-oriented theories of European integration have only

partial relevance. For instance, liberal intergovernmentalism can provide a plausible account of the preference formation in view of the enlargement, but it is certainly not fit for explaining change in domestic political and administrative institutions of candidate countries.

Second, due to its nature, this study looks at a clustering of explanations in reply to the causal statements. It accepts that social phenomena do have causal powers; however, it is open to the view that some social structures cannot be directly observed (Marsh and Stoker 1995, pp. 30-31). These views bring this research close to critical realism, which can offer useful insights because it perceives core critical realist assumptions – such as the objective existence of reality as well as our conceptually-mediated knowledge of it, the stratification of reality, the fallible but not equally fallible dimension of knowledge, the quest for generalisations and the assertion that facts are theory-laden but not theory-determined – as important and enabling factors for the evolution of the project (Danermark *et al.* 2002, p. 16). Finally, the emphasis on the practical relevance of research inherent in critical realism is relevant to studies of social phenomena (Danermark *et al.* 2002, p. 24).

With regard to methodological implications and knowledge-generation in this field of research, the approach followed here has certain advantages. The adoption of a multi-method approach serves the goal of establishing generalisations, and it helps to overcome shortcomings on either the quantitative or qualitative side, which can be attributed to the specificities of the geographical area on which this project focuses (Western Balkans). Moreover, this study accepts the holistic nature of critical realist research and uses case studies in clarifying the contextual role of mechanisms in generating administrative change (Fleetwood and Ackroyd 2004). Although quantitative methods can be used to measure administrative capacity in the Western Balkans, this project follows a qualitative analysis that focuses on how administrative change is perceived, how administrative capacity is built by the pre-accession instruments, and how this affects administrative performance.

### **4.3. Methods used in other similar studies**

This section links the research theme with the wider literature and relevant methodologies. First, as this study belongs to the field of European Studies, it is informed by the methodologies in the discipline. In explaining the origins, the design of the pre-accession instruments and the politics behind the adoption of such programmes, one can draw insights from the most important theories such as neofunctionalism, intergovernmentalism, social constructivism and MLG. The first two are ideal to cover developments at the European stage, but as this is a study of particular policy instruments, it draws more on the latter two in order to gain a good theoretical grip on domestic and sub-national developments. Besides, an important strand of Europeanisation, the one examining the EU-related effects on national politics and policies, commonly borrows theoretical and methodological tools from neo-institutionalism: social constructivist, rational choice or historical institutionalist as seen in Chapter 2.

The methods used in theories of European studies have been mixed with a strong preference for case studies, such as on the European Commission as supranational entrepreneur in neofunctionalism, Andrew Moravcsik's study of the intergovernmental bargaining that led to the Single European Act, and the main case study of MLG: the European structural policies. However, the conflict between rival theories of European integration has been such that, for instance, detractors of MLG have doubted its ability to generate testable hypotheses and have therefore disputed its theoretical grip (George 2005, p. 116). Leaving aside the previous assertion, MLG has been viewed as based on rational choice institutionalism (Keating in George 2005, p. 118); however, MLG has moved beyond employing only the mathematised and quantified concepts that one would expect from rational choice and has relied instead on a variety of methods including case studies.

A number of relevant studies are presented below, along with a comment on their selected methods.

#### **4.3.1. Europeanisation – Multilevel Governance**

Before presenting the research methods and design followed here, it is useful to provide a brief overview of how some studies of Europeanisation of public administration have tackled issues of methodology. Europeanisation research commonly employs a number of research methods either singly or in parallel. An attempt to overcome the strict qualitative-quantitative dichotomy which is represented by case study research designs on one hand and statistical-regressional methods on the other hand has gained momentum. Researchers tend to embrace theoretically informed comparative cases studies moving away from past emphasis on descriptive case studies (Haverland 2008, p. 67). Haverland (2008, p. 67) recognises the merits of multiple strategies and Keating (2009, p. 311) calls for methodological pluralism.

**Table 7: Seven Europeanisation studies: methodological approaches and objects of analysis**

Author(s)	Object(s) of analysis	Methods
Knill (2001)	The impact of EU legislation on national administrations.	Cross-national comparison. Two in-depth case studies of Britain and Germany.
Maor and Stevens (in Haverland 2008)	The impact of European integration on recruitment and training in the UK civil service.	Hypothesised that the EU matters and contrasted observable implications of this with implications of new public management. By using this alternative explanation, they were able to indicate the EU impact.
Hughes, Sasse, & Gordon (2004,2005)	Europeanisation and Regionalisation in the CEECs.	Focused on how effective EU conditionality was by examining the actual policy and institutional outcomes in the CEECs and by testing how resilient the domestic institutions were in resisting conditionality, instrumentalising it, and preferring endogenous policies and structures over EU 'models'. Comparative policy study across institutions, countries and temporally. Extensive programme of interviews (287) in five CEEC countries.
Egeberg and Trondal (2009b)	Europeanisation of Norway's central administration.	One of the few Europeanisation studies applying quantitative methods. Relies on large N survey data within Norway's central administration.
Bache (2008b)	MLG	Institutionalist and constructivist political analysis, requiring the piecing together of a detailed historical narrative.
Parrado (Parrado-Diez 2008, pp. 230-251)	Institutional change in Spanish central administration.	Case studies of paths of changes in three Spanish organisations to show that the Spanish central administration has undergone considerable managerial changes in non-autonomous and semi-autonomous agencies through layering and diffusion.
Christensen & Nielsen (2010)	Comparative analysis of 25 agencies operating at EU level.	Qualitative analysis of the political and historical setting within which independent agencies are established based on documentary and secondary resources. Quantitative study as a part of which a database with information on task and authority of agencies and formal organisation covering both internal governance structure and relationship to EU institutions, member governments and affected interests was constructed. Independent variables measure formal authority of agencies while dependent variables measure formal autonomy. Executive appointment procedure considered a key variable in studies of bureaucratic autonomy.

Table 7 above summarises the methodological approaches used in the above studies of Europeanisation. For instance, a study of Europeanisation of national administrations by Knill (2001) employs case studies. Likewise, another study on recruiting and training in the UK civil service contrasted observable implications of the EU with those of NPM and was able to indicate EU impact (Maor and Stevens

1997). A comparative policy study relied on rich interview and case-study material to test how resilient domestic institutions were in resisting conditionality (Hughes *et al.* 2005). Bache's studies adhere to a historical and constructivist institutionalist view of MLG, which relies on historical narrative through the use of interviews, albeit not without concerns about the accuracy of the accounts given by agents (2008b). Similarly, a historical institutionalist study by Parrado-Diez uses case studies of paths of changes (2008). Two studies were indicative of the use of quantitative methods: the first was based on large N survey data on Norway's central administration (Egeberg and Trondal 2009b), and the second was based on a comparative analysis of 25 agencies operating at EU level. Lastly, Milio's contribution on administrative capacity prefers case studies of regions (2007).

There are also other approaches outside the Europeanisation camp that adopt a more critical alternative perspective. Holden (2009) examines the case of EU external aid as a means of developing its structural power.<sup>7</sup> Using a heterodox approach based on IR New Political Economy, he attempts to answer the key question of whether the EU has the capability to use its substantial aid funding strategically.<sup>8</sup> The study focuses on the capability of the EU side to further its aims. Commenting on the role of indicators used to measure success, Holden maintains that they may be easier to derive for economic reform but the more institutional dimension of this sphere is also qualitative and poses similar challenges. In his approach to evaluating EU aid, he includes the performance measurement criteria of specific donors and reinterprets the OECD Development Assistance Committee (DAC) criteria of relevance, effectiveness, efficiency, impact and sustainability. For instance, he takes relevance as referring to the structural objectives of the donor rather than the development needs of the recipient. He accepts that many studies look at the organisational structure of aid agencies as this determines the coherence of the donor's activities. Holden uses country case studies to give depth and meaning to his argument. His key variables include the strength of the actual recipient state, the

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<sup>7</sup> 'The power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate' (Strange 1994, pp. 24-25; Holden 2009, p. 4).

<sup>8</sup> Strategic is defined as conscious planning on behalf of the organisation to change the external environment in pursuit of certain medium-to-long-term objectives (Minzberg *et al.* 1998, pp. 3-22).

concentration of economic power and the link between economic and political power.

#### **4.3.2. Evaluation studies**

Moreover, one can exploit methodologies from more specialised literature such as that on Structural Funds, capacity-building and evaluation (including the study of policy documents, evaluation documents and regulations). Given that pre-accession assistance predates the Structural Funds for the candidate countries, the issue of administrative capacity-building in the case of the Structural Funds is very relevant. In that respect, one could construct indicators of administrative capacity based on similar approaches in the literature. For instance, a study undertaken by the Netherlands Economic Institute has constructed baseline indicators for candidate countries to effectively manage the Structural Funds (Netherlands Economic Institute 2002). In addition, Milio (2007) based her research on two case studies of Italian regions and used administrative capacity as an independent variable and the Structural Funds implementation as a dependent variable claiming that capacity is positively correlated to implementation.

Furthermore, *one can refer to indicators constructed by the EBRD, the World Bank and the OECD/SIGMA*. The EBRD transition indicators include an attempt to operationalise, among others, the concept of governance based on a classification system which is used to track reform developments since the beginning of transition. Progress is measured against the standards of the industrialised market economies in a measurement scale from 1 (rigid planned economy) to 4+ (industrialised market economy) with each country's performance being assessed by the bank's economists (EBRD 1995). The World Bank measures six dimensions of governance including government effectiveness, which comprises the quality of public services, of the civil service, its degree of independence from political pressures, the quality of policy formation and implementation, and the credibility of government commitments. The bank uses various individual sources of data on perceptions of governance which are subsequently processed by means of a statistical methodology known as the



unobserved components model to construct aggregate indicators (Kaufmann *et al.* 2007, pp. 3-4).

An assessment of the administrative costs of the ERDF and Cohesion Fund was based on a detailed literature review, a quantitative survey and a qualitative survey (SWECO International 2010). An interesting aspect of the quantitative survey was the development of six different questionnaires on relevant areas (national coordination, programme preparation, programme management, programme certification, programme audit, beneficiaries). A significant methodological observation is that the majority of the study's respondents were reluctant to provide information. The study listed a number of reasons for this namely (i) the large number of studies focusing on the SF community, which decreases willingness to respond; (ii) the sensitive nature of the requested information and concerns about the type of conclusions drawn from similar studies; (iii) that providing good information on the questions asked was time-consuming; and (iv) the high degree of estimation involved as some of the questions covered the future and the fact that some respondents did not feel knowledgeable or confident to reply. Finally, the report mentioned the high level of staff turnover and the high level of distrust within the SF community as serious issues to be overcome (SWECO International 2010, p. 17). The response rate of the quantitative study was 60%, and the quality of information varied and was not always complete. On the other hand, the project relied on 45 qualitative sample studies focusing on comparisons to the previous period, reflections on the bottlenecks and areas of improvement. These studies were based on interviews and reviews of documentation.

#### **4.4. Methods used in the study**

This research project consisted of three main phases: a preparatory phase (2007-2008), a fieldwork phase (2008-2009) and a synthesis phase (2009-2012). The first phase's main objectives were: to clarify the project issues, define the overall conceptual and analytical framework, finalise the research questions and provide indicative hypotheses for possible answers. It also provided the basis for the focus of

the fieldwork phase. The fieldwork took place in two parts in December 2008 and May-July 2009.

#### **4.4.1. Case studies**

In measuring administrative capacity, quantifiable concepts can be used in a quasi-experimental way. Thus, CARDS (a policy initiative) can be evaluated by comparing two organisations (groups), one of which receives the policy initiative while the other does not. Alternatively – and this is followed in the present study – they may be compared before and after the introduction of the initiative with regard to administrative capacity. This two-way cross-temporal comparison facilitates evaluation of the effectiveness of the policy initiative (Peters 1998). In order to achieve generalisation, findings from case studies and their context are transferred to more general and abstract relations, for instance a typology (Flick 2006, p. 38). Participant observation was also employed as a research method at times, especially since this is a policy-relevant study. However, such studies require more time and involvement in particular organisations on the part of a researcher than the length of the fieldwork could allow.

The merits of the selection of Croatia relate to its nearing the end of the long road of accession and thus functioning as paragon for administrative capacity-building in other Western Balkan countries. More technical reasons include the full eligibility of the country for IPA funding since 2007 and its relatively more stable political and economic environment. Furthermore, the case study method is employed again in a number of subordinate case studies of institutional bodies involved in certain capacities in pre-accession assistance. As it is shown later, it is the mainstay of the research tactics used in the empirical chapters.

#### **4.4.2. Process tracing**

The importance of thick description and process-tracing is stressed in Europeanisation research (Vink and Graziano 2008). Driven both by choice and necessity, this research employed a method of process-tracing by examining government documents, interview transcripts and other sources to see whether ‘the causal process a theory hypothesizes or implies is in fact evident in the sequence and

values of the intervening variables in that case' (Tansey 2007). This method was used to give an answer per case on the plausibility of path-dependent forces of historical institutionalist accounts of institutional change and the views on elite socialisation expressed by some Europeanisation scholars, to name but two prominent applications.

A case of application of process-tracing in the Europeanisation literature is found in the study by Hughes *et al.* The authors conceptualise the mechanisms of Europeanisation and recognise the key role among others of aid and twinning as instruments for the fulfilment of functional and normative goals (institutional convergence, normative assimilation, communicative symmetry, network fusion) (2005, p. 143). To establish whether an outcome has been one of effective implementation of EU policy rather than a case of rhetorical conditionality, they employ a method of tracking policy changes over time (Hughes *et al.* 2005, p. 11).

#### **4.4.3. Literature review**

This research is based on three main literature fields. First, it is relevant to policy literature and policy evaluations of EU pre-accession instruments and Cohesion policy in a wider sense. Second, as CARDS and IPA are pre-accession instruments, this research is situated within a larger body of work covering issues of Enlargement and policy transfer to candidate countries and MS. The above brings us to the last literature field where this study is situated, that of historical institutionalism.

The main five document types studied (based on Evalsed 2003) were:

- i. policy documents
- ii. programme documents
- iii. statistical sources
- iv. evaluations
- v. research.

Apart from secondary sources, it was helpful to draw on the results of the exploratory fieldwork done in December 2008.

Policy documents were used to provide information on the context, the strategy, the aims, the challenges the Western Balkan countries and Croatia were facing, the progress in fulfilling requirements, specificities of the public administration, and as a source of descriptive indication of administrative capacity. They also provided information on specific criteria and benchmarks that can be sought elsewhere.

Programme documents provided the basis for making evaluative judgments of administrative capacities, as they defined specific objectives for administrative capacity-building, clarified budgetary allocations that showed the financial weight of administrative capacity in the programmes, outlined expected results, and listed indicators of achievements which were in turn used to develop evaluation indicators. In addition, programme documents contained information on the beneficiaries and therefore were used in identifying which organisations would be part of the study.

Statistical sources were useful in a number of ways, as they provided information on the context for the programme, revealed apparent impacts, and showed whether the objectives remained relevant (Evalsed 2003). They were particularly useful in assessing the resources component of the definition. Nevertheless, the availability of statistics was a problem.

Evaluations were an important source of information. They were used to inform indicators, identify strengths and weaknesses of methodologies and tools, and to make comparisons. They also replied to some of the questions regarding CARDS/IPA influence.

Research literature plays a role similar to that of evaluation and was used to embed the research question into broader research agendas. It provided a theoretical framework and tools that increased the theoretical coherence of the entire research project. Particularly useful was literature evaluating the effects of pre-accession on administrative capacity (SIGMA 2003; Nunberg 2000; Verheijen 2007) or the effects of SF on administrative capacity.

The exploratory fieldwork was an important test for the soundness of the methodological and conceptual approach, the policy relevance and problem-orientation of the research question; it also provided information on the credibility of certain sources, proposed indicators and focus organisations, and made other secondary sources available. It was also an early indication of what aspects the response to the research question was likely to cover given the context, problems and pragmatics of Croatia and Croatian state administration. The main fieldwork was a source of vast additional evaluation and other documented information, produced the main bulk of interview transcripts, and to a limited extent offered an opportunity for participant observation.

#### **4.4.4. Semi-structured interviews**

Thirty-one interviews were conducted with policy-makers, academics and researchers, regional development experts, practitioners, consultants, regional authorities, European Commission officials, government officials, and senior civil servants. In selecting the sample of interviews, the project was driven by the availability of contacts and used a mixed technique of purposive and snowball/chain referral sampling. Key institutions – such as the European Commission Delegation (ECD), the Central State Office for Development Strategy and Coordination of EU Funds (CODEF), the Ministry of Regional Development, Forestry and Water Management (MRDFWM), the Ministry of Finance (MFIN), the Ministry of Economy, Labour and Entrepreneurship (MELE), the Central Finance and Contracting Agency (CFCA), and the World Bank – were particularly singled out for interviews. However, the World Bank and the CFCA personnel did not grant an interview. A general reluctance to share concrete statistical data on absorption rates and public management was experienced especially in government ministries. For a list of interviews see Table 18 in ANNEX I and the ensuing description of the interviewees' background.

This study was constrained in its use of methods by the availability of requested information. Audit reports were not made available by either the European Commission Delegation in Zagreb or Croatian authorities and consequently there

were no figures on absorption rates, congestion of tendering against contracting deadlines and rejection rates. Thus, the research topic could not be covered fully in that respect. A civil service registry was still under establishment, and concrete figures on resources allocated to pre-accession assistance/ Structural Funds were not (made) available.

#### **4.4.5. Data analysis**

A qualitative data analysis approach was followed for fieldwork interview material, notes and documentary resources. Pre-identified themes and concepts relevant to the research questions were used in the interview questionnaire. Questions and topics from the interview schedule were further refined with the help of the respondents' feedback in the first pilot fieldwork study. Transcribed interview text was coded along the questionnaire themes as well as topics, ideas, concepts, terms, phrases and keywords used by the respondents. Descriptive summaries of the respondents' positions were then drafted under headings corresponding to research themes. Other available documentary material was gathered under each heading, seeking where possible to triangulate interview findings. Some limited experimental use of Computer Assisted Qualitative Data Analysis Software (CAQDAS) in the form of NVivo 9 took place. However, none of the reporting or other functions tested were finally used in data analysis.

### **4.5. Methods used in the empirical research**

#### **4.5.1. Methods used for analysing the influence of CARDS and IPA on structures**

Based on fieldwork material, a number of institutions showcasing the influence of CARDS and IPA on structures are investigated in more detail in Chapter 5. In the case of CARDS, the coverage includes relations of the National Aid Coordinator and to some extent the CFCA/Ministry of Finance with other institutions involved in CARDS. In the case of IPA, the study of those interactions is limited to components I (TAIB) and IIIc (Regional Competitiveness). Following fieldwork material, the study focuses on the National IPA Co-coordinator (CODEF), the Strategic Co-coordinator for Components III and IV (CODEF) and the Ministry of

Economy, Labour and Entrepreneurship (MELE, HOS for IPA IIIc), the Ministry of Regional Development, Forestry and Water Management (MRDFWM, responsible for measures of IPA IIIc, Head of Operating Structure (HOS) for cross-border cooperation) and where possible the Ministry of Science, Education and Sports (MSES). MELE interviewees were unwilling to provide answers to specific questions and MSES interviewees had very limited experience with IPA, which affected their responses. Table 8 below shows the institutions and structures analysed.

In the course of the analysis of structures, the above questions are answered per case based on the small-N sample of institutions studied through document research and elite interviews. Fieldwork interviews were undertaken in the Department for Preparation and Implementation of EU programmes and projects, which is the department responsible for IPA IIIc within MELE. The Directorate for Labour and Labour Market in MELE, which is responsible for the IPA IV Human Resources Development Operational Programme (HRD OP), was not covered. Interviews covered the Directorate for Integrated Regional Development of the MRDFWM, which is responsible for the Cross-border Cooperation OP (IPA II). The relevant department is also responsible for some priorities under IPA IIIc. CODEF and Ministry of Science, Education and Sports (MSES) interview material was also used as well as the views of consultants, academics and Commission Delegation officials. Evidential support was sought at the sub-national level with the help of fieldwork interviews undertaken in the counties of Sisak-Moslavina and Lika. As the number of cases is small, the results were definitely influenced by the respondents' personal perceptions and interpretations.

**Table 8: Institutions and structures analysed**

Instrument		Institutions		Structures
CARDS		National Aid Coordinator		
		CFCA/Ministry of Finance		
IP A		National IPA Co-coordinator (CODEF)		Allocation of management responsibilities: <i>operating structure (managing authority)</i> <i>Implementing agencies</i> <i>National Fund (Certifying Authority)</i>  Institutional relationships: <i>Monitoring committees</i> <i>Inter-ministerial coordination</i>  Partnership structures
	Component I (TAIB)			
	Component IIIc (Regional Competitive ness).	the Strategic Co-ordinator for Components III, IV (CODEF)		
		Ministry of Economy, Labour and Entrepreneurship (MELE, HOS for IPA IIIc)	Department for Preparation and Implementation of EU programmes and projects (MELE)	
			Directorate for Integrated Regional Development (MRDFWM)	
Ministry of Regional Development, Forestry and Water Management (MRDFWM, responsible for measures of IPA IIIc, HOS for CBC)				
Component II		Directorate for Integrated Regional Development responsible for the CBC OP (IPA II).		

#### 4.5.2. Methods used for analysing the influence of CARDS and IPA on resources

The analysis of resources relied mostly on a qualitative methodology in the study of specific cases, in the form of six central government ministries and agencies and, based on the availability of information, county authorities. Rich fieldwork material gathered from a series of semi-structured interviews with senior Croatian government and ECD officials, as well as civil servants, consultants and local academics, was exploited by means of a process-tracing methodology, which aimed at defining, where possible, the precise role that EU financial assistance has had on the resources of the sample institutions in Croatia. Purposive and snowball sampling were used. The study of interview transcripts was supplemented by desk research of grey literature and academic publications, which assisted in triangulating interviewees' views and tracing key influences of pre-accession assistance. The main interest here was developments within the boundaries of each institution, examined especially with regard to resources.



**Table 9: Institutions and projects analysed**

Institutions	Projects
Ministry of Public Administration (formerly the Central State Office of Administration)	CARDS 2001 – ‘Public Administration Reform, Support to Civil Service Reform and Training System’
	CARDS 2003 – ‘Further Support to the Reform of Public Administration’ (for CSOA)
	IPA 2008 – ‘Implementation of the General Administrative Procedures Act’ (CSOA/MPA)
Ministry of Regional Development, Forestry and Water Management (MRDFWM)	CARDS 2002 – ‘Strategy and Capacity Building for Regional Development’ (for MRDFWM)
	CARDS 2002-2004 – ‘Sustainable Development in Return Areas and Sustainable Development in Areas of Special State Concern’ (for MRDFWM, counties)
	CARDS 2004 – ‘Capacity Building for Managing Funds for Regional Development’ (for MRDFWM)
Central State Office for Development Strategy and Coordination of EU Funds (CODEF)	CARDS 2003 – ‘Support to National Development Planning’ (for CODEF)
Ministry of Science, Education and Sports (MSES)	CARDS 2003 – ‘Intellectual property infrastructure for the research and development sector’ (for MSES)
Central Finance and Contracting Agency (CFCA), previously a part of the Croatian Ministry of Finance as the Central Finance and Contracting Unit (CFCU)	CARDS 2004 – ‘Support to the National Aid Co-ordinator, the National IPA Co-ordinator and Croatian State Institutions in the Preparation of the PHARE 2006 Programme and Identification of IPA 2007 programming priorities’ (for CFCU/CFCA)
Ministry of Finance (MFIN)	Analysis not project-specific
Ministry of Economy, Labour and Entrepreneurship (MELE)	Analysis not project-specific

This analysis of resources focused particularly on six Croatian state bodies: the Ministry of Public Administration (formerly the Central State Office of Administration), the Central Finance and Contracting Agency (CFCA), which was previously a part of the Croatian Ministry of Finance as the Central Finance and

Contracting Unit (CFCU), the Ministry of Finance and the Central State Office for Development Strategy and Coordination of EU funds (CODEF), the Ministry of Economy, Labour and Entrepreneurship (MELE), the Ministry of Regional Development, Forestry and Water Management (MRDFWM), and the Ministry of Science, Education and Sports (MSES). The results of EU assistance projects in these seven institutions were discussed in an effort to delineate the programmes' effects on administrative capacity there. Furthermore, the question of how EU assistance affects financial resources in Croatia was addressed with a specific emphasis on the role of adequate human resources in securing absorption of the funds.

In particular, the following nine projects were studied: CARDS 2001 – 'Public Administration Reform, Support to Civil Service Reform and Training System' (pertaining to the CSOA case study); CARDS 2002 – 'Strategy and Capacity Building for Regional Development' (for MRDFWM); CARDS 2002-2004 'Sustainable Development in Return Areas and Sustainable Development in Areas of Special State Concern' (for MRDFWM, counties); CARDS 2003 – 'Further Support to the Reform of Public Administration' (for CSOA), 'Support to National Development Planning' (for CODEF), and 'Intellectual property infrastructure for the research and development sector' (for MSES); CARDS 2004 – 'Support to the National Aid Co-ordinator, the National IPA Co-ordinator and Croatian State Institutions in the Preparation of the PHARE 2006 Programme and Identification of IPA 2007 programming priorities' (for CFCU/CFCA), 'Capacity Building for Managing Funds for Regional Development' (for MRDFWM); IPA 2008 – 'Implementation of the General Administrative Procedures Act' (CSOA/MPA). Table 9 above shows the institutions and projects covered in the analysis of resources.

#### **4.5.3. Methods used for analysing the influence of CARDS and IPA on systems**

The analysis of systems was based mostly on a desk research review of the grey literature including EU and IFIs reports, and project and evaluation reports. Reference to information gathered through fieldwork interviews had a subsidiary

role. Table 10 below lists the institutions and projects covered in the analysis of systems.

**Table 10: Institutions and projects covered for analysing systems**

Institutions		Projects
Ministry of Economy, Labour and Entrepreneurship (MELE)	Directorate of Public Procurement System	CARDS 2002 Twinning Project ‘Strengthening the Croatian Public Procurement System’
		CARDS 2002 project ‘Strengthening the Capacity of the State Commission for Supervision of Public Procurement.’
		PHARE 2005 TWL ‘Strengthening the Administrative Capacity to implement the new legislative framework of public procurement’.
Ministry of Finance (MFIN)		IPA 2007 TAF ‘Strengthening the administrative capacity of the Ministry of Finance of the Republic of Croatia in relation to the implementation of the new concession and public-private partnership legislation’ – TWL
Agency for Public-Private Partnership		IPA 2007 TWL ‘Strengthening of the Administrative Capacity of the Agency for the Public-Private Partnership in the Republic of Croatia in Relation to the Implementation of the New Public-Private Partnership Legislation’.

#### 4.6. Research design / appropriateness of the methods

The sub-sections above show how a part of literature addresses methodological questions arising in similar research topics either from a primarily qualitative or a quantitative standpoint. Nevertheless, overreliance on generally quantitative indicators at the expense of tacit knowledge may not always be advisable. In measuring administrative capacity, for instance, absorption capacity may be taken as an indicator of government efficiency, but this may preclude an understanding of other mechanisms or factors in play at certain national institutional settings. Another important burden to value-freedom and impartiality in research in that case may be that the aforementioned indicators reflect the respective normative agendas of the institutions that constructed them. Besides, despite their relevant titles, when applying these indicators in a study, a misfit may occur if irrelevant theoretical concepts are applied, a situation called *conceptual stretching* (Sartori in Collier and Mahon 1993). This could be the case if one uses the World Bank government effectiveness indicator as a sole indicator of administrative capacity, as it can only provide an assessment of one component of capacity, that of effectiveness.

Therefore, the preference here is for methodological approaches that allow interpretation of the findings of the indicators and tests of their validity by comparing them with other qualitative evidence collected through the conduct of research.

In studies of public administration, the usual path at least takes into account the 'state of the art' in public-sector performance and effectiveness-measuring. However, one should keep in mind that 'the major purpose of performance measurement is to raise questions, it seldom if ever provides answers by itself as to what has to be done' (Hatry in Heinrich 2007, p. 25). Ideally, a performance-measurement system should cover all the main categories of relevant information, which include input, process, efficiency, outputs and impact information. Moreover, this thesis studies the influence of organisational, individual-level and contextual and environmental factors in organisational performance of the specified cases, thus acknowledging the importance scholars have long ascribed to such factors. However, in this topic, resources for performance measurement may be fewer, thus this study has set more modest goals for using performance data probably in the form of comparative measures of efficiency. In conclusion, to increase the policy relevance this dissertation chose to focus more on how to improve administrative capacity and less on the precise measurement of performance.

Nevertheless, in order to secure the impartiality of measurements, the study first examined the meaning of administrative capacity in practice in different places. Thus, it followed the principle that accurate description is necessary before moving onto explanation. In addition, it was useful to investigate in more detail the relationship between capacity and its components, namely efficiency, and discuss whether calls for increased capacity and efficiency were backed by evidence or were used as instigators for public administration reform. Subsequently, the study posed the question of why administrative capacity is hard to build. The reasons may include low pay, low productivity in the public sector, corruption, contravention of rules, short-term stay of experienced staff in office, or pronounced differences between departments. Apart from studying evaluation criteria of administrative capacity used in different contexts, the study provides its own mostly qualitative data. A lot of information became available through interviews which could support/disprove quantitative data through plausible qualitative explanations. Field interviews were

semi-structured and interviewees included programme administrators, experts and researchers with a particular interest in the topic. The first interviews were used to gain an in-depth understanding of how the programmes operate and to guide the development of hypotheses for analysis (Heinrich 2007, p. 32).

Projects with progress in administrative capacity-building in countries where CARDS was managed by EAR (European Agency for Reconstruction) may be regarded as preliminary evidence in favour of EU financial assistance. Even in the cases of Albania and Bosnia-Herzegovina, which are two of the most problematic in the region, progress has been made with regard to police reform in Bosnia-Herzegovina and some improvement, albeit insufficient, in tax administration in Albania. A positive conclusion on CARDS role in strengthening administrative capacity can be inferred by the government-effectiveness indicator given by Kauffman *et al.* (2007), which is used to examine an upsurge in government effectiveness among the major beneficiaries of CARDS especially between 2004 and 2002, that is to say within the CARDS programming period. However, correlation does not always indicate causality. Other political, historical and socio-cultural factors such as commitment to European integration, distinctive local traditions, and the overall development of a country may also have been responsible.

#### **4.6.1. Critique of the methods: problems and pragmatics**

When providing a critique of the literature review as a research method, one should emphasise the importance of knowing where the literature review ends. Prolonged and unfocused readings beyond the norm often result in challenges to the researcher's belief in the originality of the research. It might also jeopardise the quality of the research outcome because of the limited time dedicated to formulating the researcher's own arguments (Dunleavy 2003; Hart 2005).

Another setback that applies not only to cross-cultural but also to cross-temporal forms of the comparative approach is that some concepts are not shared among different cultures (and nations) and perhaps have been unaltered by time in cross-historical approaches (MacIntyre 1971, p. 263; Collier and Mahon 1993, p. 845). The question of the concepts on which a comparative study is based is seen as

a complex one that requires 'refined models and subtle interpretations' especially in cross-national comparisons (Dogan and Pelassy 1990, p. 26). The same problem has led to the development of the notion of *functional equivalence* which is no less problematic than the inconsistency of concepts among the different nations it seeks to cure (Bartolini 1993, p. 146; MacIntyre 1971, p. 268; Dogan and Pelassy 1990, pp. 37-39). In addition, in Croatia the IPA programme or even the Structural Funds may be considered functional equivalents of CARDS, and therefore its usefulness as a control group may be limited. A potential solution would be to increase the number of cases. On the other hand, the establishment of equivalences is such a vital tool for comparative research that an inconclusive attempt to define equivalences may lead to the relinquishment of the study (Collier and Mahon 1993, p. 845). In cross-temporal studies, functional equivalences may prove useful if the researcher manages first to overcome fundamental methodological drawbacks, such as the lack of information and definitional problems like the distinction of temporal units, allowing him to proceed with the examination of functions (Bartolini 1993, pp. 146-147).

Comparative case studies face even more protracted constraints. One of the most common is *the Small-N Large-N problem*, which refers to the large number of variables and the simultaneous scarcity of cases (King *et al.* 1994, p. 220). In particular, this study investigates administrative capacity in Croatia. However, one may find that capacity is determined by numerable other factors beyond CARDS, while the limited number of the cases will restrict the validity of the observations. From a geographical perspective, comparative studies that follow area logic, as in the area of the Western Balkans, may explore the benefits of comparing between more comparable units, in that geographical proximity may be accompanied by other similar attributes. Nevertheless, some analysts have voiced concerns about the topicality and suitability of such an approach, especially in view of the danger of being based on a false assumption of comparability (Rustow in Lijphart 1971, p. 688).

Moreover, a serious problem can be that of *endogeneity*, according to which the values that independent variables take on are sometimes a consequence rather than a cause of the dependent variable (King *et al.* 1994, p. 185). This is more than

evident if one compares this research topic with Milio's study of regional administrative capacity (2007). While this study treats CARDS as an independent variable and administrative capacity as a dependent variable, Milio uses administrative capacity as an independent variable that affects regional performance. According to King *et al.* (1994, p. 192), a possible solution to the problem is to transform endogeneity into an omitted variable bias and then search for a subset of observations in which these sources of bias do not apply.

Finally, to enhance the validity of measurements, this study tries to achieve triangulation. In the literature triangulation has evolved from a validation strategy to a broader research approach. Triangulation is defined as 'the observation of a research issue from at least two different points' (Flick 2006, p. 305) which are considered to involve 'different perspectives, participants, methods or analyses' (Robson 2007, p. 655). In order to achieve triangulation of data this thesis obtains information from different sources. The fieldwork relied on different sources (including Croatian central government officials, local and regional government officials, EU administrators, Croatian and international regional development practitioners and Croatian academics), from different places (the capital Zagreb, Sisak and Split-Dalmatia counties) in different points in time (the pilot fieldwork took place in December 2008, the main fieldwork in May-July 2009 and desk research from 2008-2011). Triangulation of theories is achieved through the examination of data from different theoretical perspectives: although the study assigns a prevalent role to historical institutionalism, it allows for sociological and rational interpretations where concrete evidence supports them. Last the variety of methods employed in the study (literature reviews, case studies, process tracing and semi-structured interviews) provided a sound basis for triangulation between methods.

*Case study selection bias* is another factor that a researcher could consider in more detail. For instance, if a study sought to explain why Croatia has developed its administrative capacity more rapidly than the other Western Balkan countries, it is implicitly looking for some antecedent factors that this country possesses to a greater degree than the rest (Geddes 2003, p. 91). In that case, one can only collect part of

the information needed, the extent of the antecedent factors in Croatia, which may lead to the possibly erroneous conclusion that any characteristic of this country is a cause. Geddes (2003, pp. 94-95) maintains that for theories to be persuasive they must be tested on at least a few cases other than those examined in the initial development of the idea. The above could be true for institutions/cases within the case study of Croatia.

Another potential pitfall one has to avoid is adding a *restrictive condition* after observing data, and then proceeding as if the theory were correct. If a prediction is conditional on several variables, making a theory less restrictive by dropping one of the conditions would be desirable (King *et al.* 1994, p. 21).

## **Conclusion**

This chapter provided an outline of the scope of the study and the main and subordinate research questions along with the methods used to fulfil research tasks, which comprised a mixture of literature review, desk and field research (along with process-tracing in case studies). The selection of methods was characterised by an emphasis on methods grounded on epistemological and ontological positions. The elaboration of those positions started with a broad discussion of ontological concerns in EU studies, including the contested ontological status of social constructivism and the positivist roots of neofunctionalism. Next to be presented were the foundationalist ontology of neofunctionalism and intergovernmentalism and the mixture of foundationalist ontology and positivist epistemology and foundationalist ontological claims and realist epistemology in liberal intergovernmentalism and MLG respectively. Social constructivism stood out as based on anti-foundationalist principles. It was noteworthy that the combination of realist ontology and relativist epistemology leads to critical realism.

In a rather loose sense, as its prescriptions were not followed religiously, critical realism was the preferred research philosophy in this study. That was because of the rather limited use that positivist theories could have in this particular study and the emphasis given here to multiple explanatory paths, which stands close to critical realist assumptions. An additional influence was the emphasis of critical realism on



empirical studies and the practical relevance of research. Moreover, the multi-method approach employed here is in accordance with the holistic nature of critical realist research. The contextual role of mechanisms emphasised by critical realism is revealed through case studies.

Furthermore, the chapter discusses how other studies negotiated relevant topics methodologically. The origins, design and interstate bargaining behind the establishment of pre-accession instruments are better explained through neofunctionalism and intergovernmentalism while MLG and social constructivism may also illuminate domestic and sub-national developments. Methods used in European studies are again mixed with an emphasis on case studies. More recently, strong calls were voiced for methodological pluralism in the field. Research methods used in particular studies in the field were examined in more depth.

In addition, a quite distinctive strand of literature, that of evaluation studies, was examined with regard to its use of methods. The use of indicators of administrative capacity occupies a central part of such studies, as shown by the NEI baseline indicators for Structural Funds management. Additional instances of the use of indicators in studies of the EBRD, the World Bank and the OECD/SIGMA were briefly discussed. An instructive study of the administrative cost of ERDF and the Cohesion Fund relies on a detailed literature review, a quantitative survey and a qualitative survey (SWECO International 2010). Reluctance to provide information constituted a methodological concern in that study.

As a logical sequence of the review of methods employed in the literature, the chapter presented the research methods used in this study. It explained the division of the study into three main chronological phases and provided justification for the use of Croatia as a main case study and the subordinate case studies of institutional bodies involved with pre-accession assistance in Croatia. Subsequently, the same section described the technique of process-tracing, which was used to check the plausibility of historical institutionalist explanations. An elaboration of the literature review mentioned the three main literature fields studied here: (i) policy literature, (ii) Enlargement and policy transfer literature, and (iii) historical institutionalist

accounts. Particular document types included (i) policy documents, (ii) programme documents, (iii) statistical sources, (iv) evaluations, (v) primary research material, and (vi) fieldwork.

In addition, the sampling technique for the selection of institutions for the 31 semi-structured interviews was explained along with methodological concerns about the availability of information and/or reluctance to share it. The methods used in the empirical analysis were also mentioned here: case studies and interviews for structures and resources, and some more reliance on desk research for the chapter on systems. The particular institutions and projects examined were also listed.

The last sections provided a critical view of the research design and the appropriateness of the methods. Some potentially harmful conditions such as overreliance on indicators, conceptual stretching, and weaknesses of performance-measurement systems were hopefully prevented through focusing on how to improve rather than how to measure administrative capacity and by examining the meaning of administrative capacity in practice in different places (see Chapter 2 above). Other points raised here were a critique of the literature-review method, a warning about issues not shared across cultures that could be interesting in view of the fieldwork in Croatia, and a reference to the problems of functional equivalences.

Lastly, some ways of addressing methodological pitfalls were cited: the Small-N Large-N problem, which could mean in this study that administrative capacity is determined by numerable other factors outside pre-accession instruments in a setting characterised by a scarcity of researchable cases; the problem of endogeneity, which is also evident in the administrative capacity literature; and the case study selection bias. These weaknesses could possibly be mitigated, as suggested in the literature, through the addition of more cases.

The next three chapters present the empirical results of the study on Croatia. Chapter 5 examines the influence of CARDS and IPA on structures in the Croatian public administration. Chapter 6 focuses on the influence of CARDS and IPA on resources in the Croatian public administration, comprising financial resources and

human resources and skills. Chapter 7 completes the empirical part of the dissertation, focusing on the influence of CARDS and IPA on systems and tools in the Croatian public administration.

## **5. Influence of CARDS and IPA on structures in the Croatian Public Administration**

Structure is defined as the ‘clear assignment of responsibilities and tasks to all agencies and institutions involved at all stages of the delivery cycle’ (Molle 2007, p. 196). In other words, structures are institutions, either purpose-built or explicitly assigned, for policy implementation in a sector of the *acquis* or for the management and implementation of pre-accession assistance. What emerges from this chapter is a discussion about the particular influence of CARDS and IPA instruments on structures in the Croatian public administration. More specifically, this chapter focuses on interactions between institutions involved with pre-accession assistance at the national and sub-national levels in terms of management, implementation, monitoring, coordination and partnership. Communications and exchanges between institutions at all levels are important here, rather than issues related to the internal management of organisations assigned pre-accession assistance tasks. Resources aspects of capacity in the organisations responsible for these functions are covered in Chapter 6.

The following sections present a review of the new institutions created and identify whether the shape of organisations in focus has changed. In addition, attention is given to whether inter-institutional relationships have changed as a result of pre-accession assistance. The chapter is divided in four main sections. The first one is dedicated to the allocation of management responsibilities in Croatia. The second section, which covers institutional relations, is further disaggregated into a sub-section referring to monitoring in the form of IPA and sectoral monitoring committees and a sub-section focusing on inter-ministerial coordination structures. The latter provides an assessment of structures and relationships for inter-ministerial coordination including horizontal coordination and coordination among and within institutions such as MELE, MRDFWM, MSES, MFIN and other ministries and counties. Lastly, a review of early policies towards the Croatian regions serves as preparation for the discussion of partnership structures that follows.

## **5.1. Management responsibilities and structures**

The starting point for this assessment of structures is the hypothesis that the CARDS and IPA influence should be more obvious in the establishment of management and implementation structures in the recipient states. Such institutional changes may be almost entirely attributable to EU assistance to which (at least in principle) they owe their existence and constitute newly-formed parts and processes of the public administration. As explained in Chapter 3, the form of these structures may differ slightly between candidate/potential candidate countries in accordance with the level of association with the EU, the degree of decentralisation of assistance, and national considerations. However, all of them perform certain core tasks as stipulated by the EU regulations.

Below, the structures established for IPA components I-IV are examined, as well as the proposed structures for the management of the Structural Funds after accession. IPA component V (rural development) is not covered here due to the quite different nature of agricultural interventions, although the view of some of the respondents was that the component constituted an adequate connecting link between relevant accession and pre-accession instruments (SAPARD and EAGGF) (CON1, CON2).<sup>9</sup>

At the time of the fieldwork, eight management authorities were planned for the management of an equal number of Structural Funds OPs. A Croatian government action plan in 2008 (Government of the Republic of Croatia 2008a) proposed the establishment of one Managing Authority in the Ministry of Sea, Transport and Infrastructure to manage the Transport OP and another Managing Authority in the Ministry of Environmental Protection, Physical Planning and Construction for the Environment and Energy OP. Some government institutions were expected to host more than one Managing Authority (Government of the Republic of Croatia 2008a, p. 18) (see also Table 20 in ANNEX II). The Ministry of Economy, Labour and Entrepreneurship was expected to host the Managing

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<sup>9</sup> For a presentation of IPA operating structure see Box 9 in ANNEX II; for a comparison with SF MA see Box 10 in ANNEX II; for administrative capacity requirements under chapter 22 see Table 19 in ANNEX II.

Authorities for the Economic Competitiveness OP and the Human Resources Development OP. The Ministry of Regional Development Forestry and Water Management would include the Managing Authorities for cross-border cooperation (six OPs) and the Integrated Regional Development OP. Finally, it was proposed that the Managing Authorities for the Public Administration and the Technical Assistance OP were established at CODEF.

The management structures (operating structures) established for IPA were precursors to those structures, and despite the limited financial flows they showed a high degree of complexity (see Figure 8 in ANNEX II). Thus, in five cases, Structural Funds Managing Authorities were expected to be established in institutions already responsible for the IPA OP operating structures: the Ministry of Regional Development, Forestry and Water Management, the Ministry of Sea Transport and Infrastructure, the Ministry of Environmental Protection, Physical Planning and Construction, and the Ministry of Economy, Labour and Entrepreneurship. Of these, the Ministry of Economy, Labour and Entrepreneurship is responsible for two OPs: the Human Resources Development OP (IPA Component IV) and the Regional Competitiveness OP (IPA Component IIIc). The IPA implementation structures are specified in the regulations on the scope and content of the responsibilities and powers of the bodies responsible for the management of IPA (NN 18/07) (Government of the Republic of Croatia 2006b, 2008c).

#### **5.1.1. IPA Component I**

The IPA Transition Assistance and Institution Building (TAIB) Component was the closest successor of PHARE under the IPA system. It is available to both candidate and potential candidate countries<sup>10</sup> and is managed by DG Enlargement (European Commission 2012e). This component provides financing to Croatia for institution-building, particularly activities supporting the fulfilment of the political and economic membership criteria and the ability to assume the obligations of membership in the areas of Justice and Home Affairs and Public Administration

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<sup>10</sup> In less-developed countries, investments are particularly related to the transition to democratic institutions and the market economy.

Reform (European Commission 2012c). Assistance is programmed in the form of annual national programmes. In Croatia, the role of the Managing Authority for IPA I is performed by CODEF's Department for EU Programmes in the Field of Capacity Building for EU accession. The CFCA is the implementing agency.

### **5.1.2. IPA Component II**

The second IPA component is dedicated to cross-border cooperation between candidates and potential candidates and EU MS. It is also available to candidate and potential candidate countries and is managed by DG Regio and DG Enlargement, although the role of the latter is more dominant in the IPA countries. In the case of Croatia, cross-border cooperation takes place with Hungary, Italy and Slovenia from the MS, and Montenegro, Serbia and BiH from the Western Balkan neighbours. The country also participates in the European Territorial Cooperation transnational programmes 'Southeast Europe' and 'Mediterranean' (European Commission 2012c). In Croatia, the Head of the Operating Structure for IPA II is the Ministry of Regional Development, Forestry and Water Management (MRDFWM), particularly the Directorate for Integrated Regional Development. The CFCA is the body responsible for contracting and implementation (Implementing Body).

The responsibility for cross-border cooperation originally lay with the Ministry of European Integration (CON1, CON2). It was subsequently transferred to the Ministry of Sea, Tourism, Transport and Development (MSTTD). Finally, in January 2008, after the November 2007 parliamentary elections, the Ministry of European Integration was split up<sup>11</sup> and the competence for cross-border cooperation was transferred to the newly-formed Ministry of Regional Development Forestry and Water Management.

The European Commission and the European Commission Delegation supported by DG Enlargement initially favoured the CFCU for the management of IPA II. However, the reported opinions of audit bodies from DG Regio and DG Enlargement leaned towards the establishment of an Implementing Body in the

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<sup>11</sup> Part of it merged with the Ministry of Foreign Affairs to form the Ministry of Foreign Affairs and European Integration.

MRDFWM (ECD1). The result was the establishment of the Agency for Regional Development of the Republic of Croatia (ARR), with the adoption of the relevant regulation on 24 December 2008 (NN 155/08) (CODEF 2010c). In 2009, the Regional Development Agency (RDA) was still under the process of accreditation (ARR 2009). If successful, the RDA would assume responsibility for contracting and implementation of IPA Iib, which consists of three CBC programmes with non-member countries (Croatia-BiH, Croatia-Montenegro and Croatia-Serbia) and two transnational programmes (Southeast Europe and Mediterranean) (ARR 2009). The RDA was subsequently recognised as an implementing body for IPA Iib, assuming that role from the CFCA by Commission decision in August 2010 (CODEF 2010c).

### **5.1.3. IPA Components III-IV**

IPA Components III (Regional Development) and IV (Human Resources Development) serve the aim of preparing the candidate country for Cohesion policy (European Commission 2012c). In Croatia, activities under Component III are grouped in three OPs corresponding to relevant subcomponents (IIIa: Transport, IIIb: Environment, and IIIc: Regional Competitiveness), while Component IV is served by a Human Resources Development OP (see Figure 8 in ANNEX II). The operating structure for IPA Component IIIc (Figure 9 in ANNEX II) rivals the overall IPA implementation structure in terms of complexity. The organisational chart of the Regional Competitiveness Operational Programme (RCOP) management structure shows 49 forms of relationships, some of them interrelationships (double arrows), without managing to provide an exhaustive coverage of the management structure. The structure has existed since mid-2007, but the contract was officially signed on 25 March 2008 in the form of an operational agreement between bodies for IPA IIIc (GOV9, GOV10). Strategic Coordination for IPA Components III and IV is performed by CODEF, which is known as the authority responsible for the overall coordination of IPA.

Elaborating further on the operating structure for IPA IIIc (Regional Competitiveness), it should be noted that a state secretary of MELE acts as the Head of Operating Structure (HOS) with the same ministry also being the body responsible



for the relevant OP; in particular, the Department for Preparation and Implementation of EU Programmes and Projects assumes a role equivalent to that of a Managing Authority. Responsibility for priority axes and measures is divided between the three ministries: MELE (PA 2 /M 2.1, PA 3/M 3.1), MSES (PA 2/ M 2.2) and MRDFWM (PA 1/M 1.1). MELE, MSES and MRDFWM produced the OP for regional development (ECD2).

#### **5.1.3.1. *Ministry of Science, Education and Sports***

Priority 2 Measure 2 (technology transfer and support services) is a MSES responsibility. MSES respondents noted that the clearly-defined operating structure for IPA IIIc involving three ministries and other bodies is a novelty for the Croatian public administration (GOV9, GOV10). The ministry will be an Intermediate Body within the Structural Funds. The Business Innovation Centre (BICRO), which was established by the ministry and financed by the World Bank, is also a part of the IPA operating structure and is anticipated to be a large beneficiary under the Structural Funds (GOV9, GOV10).

#### **5.1.4. *Assessment***

The IPA system is on one hand more akin to the Structural Funds with an operating structure, a Managing Authority and Implementing Bodies that perform the role of the CFCU. On the other hand, in the opinion of a ECD official, the structure is perceived to be unclear and confusing, because a series of new bodies established along with the CFCU will only receive limited IPA funding until the Structural Funds become available (ECD1). Therefore, the administrative cost for the Croatian public sector is deemed disproportionate to the tasks actually carried out. Similar views are expressed by Croatian experts who stress that IPA is an instrument ‘halfway between the pre-accession assistance and EU Cohesion policy’ as it contains elements of both, but is also a cause of ‘additional administrative burden and complication’ because ‘additional institutional and administrative adaptations will be necessary later’ (Dvorny and Frkić 2008, pp. 57-58). Evidence from the EU-10 also confirms the existence of a clear distinction between accession and pre-accession structures especially in the field of evaluation, where the post-accession

institutional flux accounted for the loss of much knowledge gained during pre-accession (Ferry and Olejniczak 2008, p. 55). The above views are further corroborated by this thesis. A comparison of the IPA OS in Box 9 in Annex II shows the additional functions that an MA performs. In addition, Box 10 in Annex II juxtaposes the IPA regulation article that pertains to the OS with the SF regulation article on the MA.

Therefore, the Croatian administration faces the challenge of building an IPA system that will essentially be valid for the Structural Funds. It is not only the administrative burden that is deemed high, but also the inconsistency between early Commission recommendations insisting on capacity-building in the CFCU and the subsequent emphasis on the creation of a large number of small bodies, which caused frustration in the ranks of the Croatian public administration, as a respondent stated (ECD1). Besides, even though the Croatian administration is required to build structures with sufficient capacity and resources to manage large amounts of funds in order to get accredited, in fact it will only receive limited IPA funding. This paradoxical situation, where a large number of personnel assigned to manage the Structural Funds will have little work throughout an open-ended pre-accession process, has caused difficulties and confusion in the Croatian administration and especially in the light of additional Commission requirements (ECD1).

IPA TAIB interventions are project-based and lack multi-year planning and strategic perspective, which sets them apart from the future requirements for the Structural Funds. At least three interviewees working in the consultancy sector with previous PHARE experience were critical of the IPA TAIB component and its suitability to prepare the Croatian administration for EU membership (CON3, CON1, CON2). It was noted that, similar to PHARE, IPA TAIB is project-driven and expects ministries and bodies to produce project ideas, which in the case of administrative capacity-building usually take the form of projects to hire consultants. In view of the Structural Funds, the capacity that the organisation needs is to be successful in programme design (CON3). Therefore, the attempt to accommodate the needs of both candidate and potential candidate countries in this component has led

to the preservation of the former PHARE design, which is not optimal for acceding countries such as Croatia.

In addition, it seems uncertain whether the implementation of Component II could serve the overall IPA philosophy of bringing candidate countries closer to the Structural Funds system. On one hand, the formal criteria for the conferral of management take into account pre-accession procedures, structures and processes that are very similar to those of the Structural Funds. In the opinion of a respondent, this is a striking difference from PHARE, which relied on staffing levels and staff knowledge of pre-accession procedures (ECD1). On the other hand, there are doubts that IPA Component II can achieve the goal of bridging pre-accession and Structural Funds for the territorial cooperation objective, as it is based on one-year financial agreements, which is in stark contrast with the management of Structural Funds (ECD1). The potentially dysfunctional institutional design of this particular IPA component with DG Enlargement in charge is considered to be at the heart of the problem. That is because CBC is still partially operating through the vision of PHARE and CARDS and perpetuating the weaknesses exhibited by PHARE, an instrument driven by DG Enlargement with external aid rules that left candidate countries unprepared for the management of the Structural Funds (ECD1). In conclusion, confusing Commission requirements and the shifting agenda of the Croatian Government (including government reshuffles, reorganisation of the relevant ministry portfolio, and constant recycling of public officials in posts related to the EU funding system) following election results created a difficult environment for the implementation of the CBC component (CON1, CON2).

As already indicated, capacity-building efforts under PHARE and CARDS and the early phases of IPA worked in different directions. The recommendation was to keep the CFCU and then move to a decentralised approach. However, this transition was not carefully coordinated and prepared, to the point that doubts were raised about Croatia's, the Delegation's and the Commission's understanding of the bridge between pre-accession and the Structural Funds (ECD1). Croatian experts corroborate this view. The dilemma Croatian policy-makers were faced with was between 'ensuring the absorption of funds which are under an upcoming contracting

deadline or investing into the IPA management system and ensuring the absorption of much more significant funding at a later date' (Dvorny and Frkić 2008, p. 58). Other Croatian scholars indicate that the two processes of pre-accession assistance implementation and preparations for Cohesion policy 'sometimes run on parallel tracks that are not adequately connected, which has led to, or has been a result of, institutional fragmentation and weak administrative coordination between several central administrative bodies formally in charge of these policy areas' (Đulabić and Manojlović 2011, pp. 1064-1065). With regard to IPA IIIc, given that three ministries (MELE, MSES and MRDFWM) will assume the implementation of the whole programme, the view of one interviewee was that much would depend on their ability to improve coordination (ECD2).

#### ***5.1.5. Implementing Agencies***

In the case of decentralised management (as in Croatia), the operating structure comprises one or more implementing agencies (IAs) established within the national administration of the beneficiary or under its direct control (Article 75.2 EC 718/2007 and Article 31 on specific bodies). After consulting the NIPAC, the National Authorising Officer (a state secretary in the Ministry of Finance) designates Programme Authorising Officers (PAOs) to head the IAs. PAOs in turn designate Senior Programme Officers (SPOs) from the officials within the ranks of the administration and charge them with the implementation of IPA TAIB projects. Under the overall responsibility of the PAO, the SPOs are responsible for technical aspects of operations within line ministries, they assist PAOs in the good and timely preparation and implementation of operations at technical level, and they are in charge of coordination within each priority axis set down on the project proposal (Article 75 EC 718/2007)(European Commission 2007a).

Under the IPA system there are six institutions responsible for tendering: (i) the Central Finance and Contracting Agency, (ii) Croatian Railways – Infrastructure, (iii) Croatian Waters, (iv) the Environmental Protection and Energy Efficiency Agency, (v) the Croatian Employment Service, and (vi) the Agency for Vocational Education and Training. To these could be added the Regional Development Agency

(inactive at the time of writing). The SAPARD agency is outside IPA (ECD3, ECD4). The CFCA, which was first established under the Ministry of Finance as the CFCU and later became independent, has dealt with CARDS, PHARE, ISPA and subsequently IPA projects. The NAO is President of the Management Board of the CFCA (Government of the Republic of Croatia 2007). The resulting separate systems of operating structures for each OP or part of an OP involves the MRDFWM, the Ministry of Transport, the Croatian Employment Service, and the Agency for Vocational Education as separate implementing bodies (ECD1).

An assessment of the strengths of the implementing agencies in the IPA system should take into account that on one hand the CFCA is the agency with the longest history. It is considered to be somewhat more competent than the other newly-established agencies (ECD2).<sup>12</sup> On the other hand, the other Implementing Bodies are learning and taking control of projects in the other components. However, at the time of the fieldwork, the implementation of IPA had essentially not started, the Implementing Bodies had not begun to operate fully, and the CFCA was still seen as the agency with the biggest capacity (ECD2). Besides, what was described as the main problem faced by the agencies was the young and inexperienced staff (ECD2). Nevertheless, the young staff was portrayed as being motivated and willing to learn. In a nutshell, under the decentralised system the Delegation exercises only ex-ante control. Therefore, much relies on the Implementing Agencies if the system is to work properly.

#### **5.1.6. National Fund (Certifying Authority)<sup>13</sup>**

On accession, the National Fund at the Ministry of Finance, which is presently in charge of the financial management of IPA, will take over the role of the Certifying Authority (European Commission 2007f). The National Fund acts as a central treasury and is in charge of tasks of financial management of assistance under the IPA Regulation, under the responsibility of NAO (Article 26 EC 718/2007). In particular, it is in charge of: organising the bank accounts, requesting funds from the

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<sup>12</sup> For the CFCA, see also Chapter 6.

<sup>13</sup> Formerly Paying Authority, now Certifying Authority.

Commission, authorising the transfer of funds received from the Commission to the operating structures or to the final beneficiaries, and financial reporting to the Commission (Article 26 EC 718/2007).

There is an analogy between the IPA National Fund and the Certifying Authority under the SF, however the SF Regulation places far more emphasis on the certified and accurate nature of statements, compliance with Community rules, adequate information on procedures and verification, the results of audits, the requirement for computerised accounting records and for keeping accounts of recoverable amounts (Article 62 EC 718/2007).

## **5.2. Institutional Relationships**

### **5.2.1. Monitoring committee**

Monitoring is a key function under both the Structural Funds and the IPA regulations. It is supposed to provide an on-going analysis of the programmes' progress as regards their planned results with an aim to improving management and implementation and addressing weaknesses. The responsibility for monitoring lies with the MS under the SF regulations (Molle 2007, p. 214). Under IPA regulations, monitoring can be performed by the beneficiary state in cases of decentralised management, or by the European Commission in cases of centralised management (Articles 60 and 59 of EC 718/2007 respectively). Monitoring committees are established to perform the relevant tasks, comprising key management and implementation actors involved in the EU funding system. The monitoring committee (MC) is the highest decision-making body in each OP and an illustration of the intensive inter-institutional collaboration that is needed to run an OP. Much of the preparation for the MC meetings takes place at the Managing Authorities (or the operating structures as shown above) and Implementing Bodies, which make concrete proposals to the MC based on their everyday monitoring tasks and their interactions with the final beneficiaries (Molle 2007, p. 214).

In Croatia – as in other cases of decentralised management of assistance – an overarching IPA Monitoring Committee is established as well as a number of Sectoral

Monitoring Committees for each component and/or OP (TAIB Sectoral Monitoring Committee, Regional Development Sectoral Monitoring Committee, Human Resources Development Sectoral Monitoring Committee and Rural Development Sectoral Monitoring Committee). For the IPA CBC component, Joint Monitoring Committees are established for each CBC programme. The IPA TAIB committee in particular can be assisted by the establishment of Sectoral Monitoring Sub-Committees to monitor programmes and operations in monitoring groups (Article 83.6) (for a thorough presentation of the rules on IPA Monitoring Committee, see Box 2 ANNEX II).

#### **5.2.1.1. *IPA Monitoring Committee***

The first IPA Monitoring Committee was held in July 2008. The second IPA Monitoring Committee took place on 6 July 2009 in the Ministry of Economy, Labour and Entrepreneurship (CODEF 2009f, a). The meeting was co-chaired by the State Secretary of CODEF (NIPAC) and the Head of the European Commission Delegation. It was also attended by representatives of Croatian state institutions involved in the implementation of IPA and Commission officials. The meeting dealt with the status of implementation of the five IPA components in Croatia and commented on the draft annual reports on IPA implementation that had been prepared by CODEF as the technical secretariat of the monitoring committee.

The IPA Monitoring Committee convened for a third time on 8 July 2010 in the offices of the Central Finance and Contracting Agency (CODEF 2010d). It was co-chaired by the National IPA Coordinator (State Secretary of CODEF) and the Head of the European Commission Delegation. The meeting was attended by representatives of the Croatian state institutions involved in the management of IPA and of the European Commission. The meeting discussed the status of implementation of the five IPA components and commented on the draft annual report presented by CODEF as the technical secretariat of the monitoring committee.

#### **Sectoral Monitoring Committees**

The first Sectoral Monitoring Committee for IPA TAIB was held in May 2008 (CODEF 2008b). The second meeting was held on 16 December 2008. The

conclusions and recommendations of the IPA TAIB Sectoral Monitoring Committee are sent to the IPA Monitoring Committee. The meeting was jointly chaired by the state secretary of CODEF (and NIPAC) and the Head of the Commission Delegation and attended by representatives of the Ministry of Finance, the CFCA, the IPA Audit Authority, DG Enlargement and the European Commission Delegation.

The National Authorising Officer and state secretary at the Ministry of Finance reported on the progress in fulfilling EC standards with regard to the use of pre-accession funds and the financial status of projects approved for IPA funding under Component I for 2007. The NIPAC presented the annual report on the implementation of projects financed under Component I and the director of the CFCA reported on the agency's plans for preparation and execution of the then upcoming contest. The representatives of the European Commission presented the new procedure for approving changes of financial contracts and summaries of projects (project fiches) and the activities of internal and external audit were discussed. The members of the IPA TAIB Monitoring Committee adopted the annual plan for monitoring projects under IPA Component I (CODEF 2008c).

On 8 June 2009, the IPA TAIB Sectoral Monitoring Committee met again in the premises of CODEF. The meeting was co-chaired by the NIPAC and the Head of the Commission Delegation. Representatives of the Ministry of Finance, the CFCA and DG Enlargement of the Commission also attended. The meeting covered the functioning of the decentralised system of implementation and the financial status of the IPA TAIB programme. The annual implementation report of IPA Component I was presented and changes to the project fiches were discussed as well as the internal and external audit activities and the status of programme evaluation for Croatia in 2009. Meetings on the national capacity for evaluation and monitoring IPA Component I were planned for the second half of 2009. The next Sectoral Monitoring Committee for IPA TAIB was scheduled for December 2009 (CODEF 2009b).

Between the IPA I Monitoring Committee meetings, Sectoral Monitoring Sub-Committees convened twice a year and their conclusions and recommendations



were submitted to the monitoring committee. An example of a Sectoral Monitoring Sub-Committee was the one held on 28-30 October 2009 to monitor the implementation of more than 140 CARDS, PHARE and IPA decentralised projects in six areas including public finance, public administration and statistics. The sub-committees were chaired by representatives of CODEF on behalf of the National Co-ordinator for EU assistance and were attended by representatives of the CFCA, the National Fund and the European Commission Delegation (CODEF 2009d).

Subsequently, on 15 December in the premises of CODEF, a Sectoral Monitoring Committee for IPA Component I was held, along with a Joint Monitoring Committee to monitor the decentralised projects under CARDS and PHARE. The meeting was co-chaired by NIPAC (and also state secretary of CODEF) and the Charge d’Affaires of the Commission Delegation in Croatia. The meeting was attended by representatives from DG Enlargement of the European Commission, the European Commission Delegation, the Ministry of Finance, the CFCA, the Audit Authority and the State Audit Office. In the meeting, the activities of internal and external audit and the annual plan for monitoring the implementation of projects to be financed within Component I of the IPA were discussed, as well as the annual plan for evaluating programmes and projects in 2010 (CODEF 2009c).

Another Sectoral Monitoring Committee meeting for Component I took place on 9 June 2010, presided by the State Secretary of CODEF and NIPAC and the head of the B1 Unit (Croatia) of DG Enlargement. The meeting was also attended by representatives of DG Enlargement, the European Commission Delegation, the Ministry of Finance, and the CFCA (CODEF 2010b). The meeting received the annual report for IPA Component I, examined the functioning and financial status of the decentralised system of implementation for IPA Component I, and discussed activities relevant to implementation and evaluation, and internal and external audit. The next meeting was scheduled for December 2010.

The third Sectoral Monitoring Committee for IPA Component IIIC ‘Regional Competitiveness’ was held on 3 December 2008. It was the first official meeting after the signature of the Financing Agreement for IPA between Croatia and the

European Community, which was confirmed by the Croatian Parliament in November 2008 (CODEF 2008a). The Sectoral Monitoring Committee comprised representatives of ministries responsible for the implementation of the OP, the European Commission and the EC Delegation and representatives of partner institutions, civil society, socio-economic partners and representatives of local governments. The Committee was co-chaired by the Head of Operating Structure for Component III C (who is also state secretary in MELE) and the Head of the DG for Regional Policy in the European Commission.

According to a CODEF press release, after a thorough discussion on the proposed implementation of the activities to be financed under the OP, the Committee expressed satisfaction with progress achieved so far, and confirmed that it was going to meet again in six months (CODEF 2008a). A meeting of the Sectoral Monitoring Committee of the OP 'Human Resources Development' was held on 25 May 2010 (CODEF 2010e).

#### **5.2.1.2. Assessment**

IPA Monitoring Committees did not convene in 2007, reflecting the delay in IPA programming and implementation. However, three shadow Sectoral Monitoring Committees took place for the Operational Programmes for Transport, Regional Competitiveness and Environment, dealing with issues relevant to the rules of the procedural internal functioning of the committees (European Commission 2008b, pp. 29-30). The Commission also offered advice on the preparation of a Strategic Work Plan including a technical assistance plan. In addition, a number of missions undertaken in 2007 aimed at advancing and concluding preparatory actions for programme implementation. Finally, the first Sectoral Monitoring Committee for the HRD OP met in December 2007.<sup>14</sup> The first Sectoral Monitoring Committees were scheduled to take place in May or June 2008. Monitoring is a crucial part of the execution of aid. Commission Delegation officials considered monitoring as a part of

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<sup>14</sup> The first informal SMC for the RD OP took place in November 2007 EUROPEAN COMMISSION 2008b. Commission Staff Working Document, Technical Annexes to the Report from the Commission to the Council, the European Parliament and the European Economic and Social Committee 2007 Annual IPA report. Brussels.

the tactics employed on their behalf to ensure effectiveness and sustainability of assistance. The officials claimed that they dialogue and discuss in the project steering committees, and in case of errors they address matters of concern with regard to the structures in place.

The monitoring committees were portrayed as a forum where CODEF and other institutions are directly asked questions when specific things must be in place. The Commission insists on some things being done, and in certain cases it withdraws funding as leverage. The complexity of interactions between the Commission and the government was likened to life within a family (ECD4).

Information gathered through monitoring is fed into the system of EU conditionality. Commission Delegation officials explained two possible effects of conditionality: compliance and non-compliance. In the latter case, the two main options are to use the money for another purpose or not use the money. Both options have been chosen on different occasions, however when the Commission is keen on securing the effects of new roles in practice, not just government legislation, funding may be suspended (ECD4).

Communication does not rely only on the regular meetings; the CFCA was reported as also performing a communicating role (GOV12). Monitoring was considered to be satisfactory at the time of the fieldwork, but in the beginning, when IPA institutions were established, monitoring was considered as merely a formal requirement. Officials have reported that monitoring later became a part of the process and there was a sense of benefit from it for the administration (GOV12). Nevertheless, examination of the press releases of the monitoring committees and sub-committees held in the 2008-2010 period shows that no reference was made to the civil society participation that is foreseen although not imposed by the IPA regulations.

### **5.2.2. Inter-ministerial coordination**

Inter-ministerial coordination is a key element of successful implementation of EU assistance, given the multitude of actors involved in the planning, management

and implementation process. A successful record of coordination as regards pre-accession instruments could be a starting point for the efficient use of Structural and Cohesion Funds following accession. This section focuses primarily on inter-ministerial coordination structures as exemplified by CODEF and its configurations as NAC/NIPAC and Strategic Coordination (see Box 3 ANNEX II). Secondly, it deals with issues of inter-ministerial and inter-departmental coordination as well as intra-departmental coordination within Croatian government such as MFIN, MRDFWM, MSES, MELE, and CSOA. In Croatia, several weaknesses have been identified concerning the structures of inter-ministerial coordination. They are discussed here, followed by an examination of the role of CARDS and IPA in building the relevant structures.

A weak performance in terms of inter-ministerial coordination has been stressed by assessment reports, the European Commission, academics and employees in the EU assistance field. Coordination on European issues was in the remit of the MEI. Already in 2004, every ministry had a European Co-ordinator and many had established European Coordination Departments (European Commission 2004b, p. 15). However, overall policy coordination was weak, because there was no overarching body for policy supervision of decision-makers, and planning and decision-making tended to be politicised and fragmented (European Commission 2004b, p. 16). In addition, a 2007 Sigma report found that coordination between ministries remained insufficient, and that the overall capacity at the centre of government regarding policy coordination was still low (2007). Furthermore, Puljiz and Maleković (2007, p. 12) noted that, although the existence of a strong coordination mechanism is of particular importance in the context of EU regional policy, this had not been the case in Croatia, where there was still no communication or coordination framework in place that would involve actors from central, regional and local levels. A job satisfaction survey among civil servants working in the EU assistance field confirmed that there was a need for better coordination and communication between institutions and their employees, including better external and internal coordination and clarification of responsibilities (East West Consulting 2006, p. 16).

Improving coordination constituted a stated goal for the republic of Croatia under the five main directions set out in the State Administration Reform Strategy 2008-2011, alongside other measures that were expected to enable the transition from the principle of structure to the principles and practice of good governance in line with the best European standards (Central State Office for Administration 2008, p. 2). The strategy also recognised the need to strengthen the coordination of strategic planning for the purpose of better connection of plans from certain state administration bodies with the strategic objectives of the government, and it designated CODEF as the competent authority. Furthermore, the Strategic Development Framework 2006-2013 referred among others to insufficient coordination capacity as a factor which decreased the efficiency of measures for regional development and inhibited the formulation of an overall regional development policy (Government of the Republic of Croatia 2006c).

#### **5.2.2.1. *Influence of CARDS***

Chapter 6 refers in detail to the establishment of CODEF as a separate entity by government decree in May 2006. What matters in terms of structures is discussed here. CODEF, which was previously a directorate within MFAEI, also replaced a government planning office responsible for national policy. The decision was considered by both CODEF interviewees and ECD respondents as a domestic Croatian rearrangement not asked for by the EU (GOV1, ECD3). While CODEF officials (GOV2) argued that CODEF constituted a major step towards the effective and efficient coordination of assistance and a strong indication that the Croatian government was determined to fulfil its obligations under Chapter 22 of the *acquis*, ECD officials and consultants voiced concerns about CODEF's coordinating capacity, the coherence of its functions, and its relative inter-institutional power in the Croatian public administration, especially as it did not constitute a cabinet ministry (CON6, ECD3, ECD4).

#### **5.2.2.2. *CARDS 2003 Support to National Development Planning***

Further to the partial discussion of the achievements of this study regarding human resources in the following chapter, there is a need to examine its influence on

coordination. In particular, the project's specific objective 1 was to: 'increase support for the development process and the capacity to deliver it through improved administrative coordination and enhanced provisions for involvement by stakeholders and the social partners' (CARDS 2003 2007).<sup>15</sup> Objective 2 was 'to create sustainable mechanisms for inter-ministerial coordination' (CARDS 2003 2007). Of the project's planned results, the first and the sixth were more relevant to structures: (i) institutionalised inter-ministerial coordination with its own regulation and functioning secretariat. A mechanism of regular and systematic involvement and information provision to the Croatian political leadership about the national development planning process; and (vi) government structures set up and/or strengthened for management, monitoring, implementation, evaluation, financial management and control of the Strategic Coherence Framework (SCF) and OP in the framework of the pre-accession funds and the future Structural Funds. This includes a clear link to the Croatian national budget for co-financing provision.

#### **5.2.2.3. *Assessment of structures and relationships***

As regards the fulfilment of the first planned result, the project's final report refers to the decree establishing CODEF and related legislative acts assigning the coordination of EU programmes in Croatia to CODEF.<sup>16</sup> Therefore, CODEF was established in May 2008 during the duration of the CARDS 2003 project. Furthermore, the final report notes that 'CODEF called and convened: the Inter-ministerial Coordination Group, chaired by the State Secretary/NIPAC, comprising state secretaries of the key economic and social ministries and meeting twice monthly for the preparation of the SCF and approval of the OPs, and discussion of strategic issues concerning preparations for future SF; and inter-ministerial working groups (IWGs) which have met as frequently as required for the elaboration of the

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<sup>15</sup> The original wording focused on increasing the political commitment to the development process, generating involvement and stimulating debate by ministers, but was reformulated by the contracting authority and counterpart during the inception period.

<sup>16</sup> The Decree on Internal Organisation of CODEF was adopted on 25 May 2006, Gazette no. 59/06. Coordination of EU programmes in Croatia was assigned to CODEF through the Act of Organisation and Scope of Central State Administrative Authorities (Official Gazette no. 199/2003, 30/2004, 136/2004, 22/2005 and 44/2006) and the State Administration System Act (Official Gazette no. 75/93, 92/96, 48/99, 15/2000, 127/2000, 59/2001 and 199/2003) CARDS 2003 2007. Support to National Development Planning Final Report. CARDS 2003 2007.

OPs, for which CODEF provided both the chair and secretariat functions. The IWGs have become the basis for Sectoral Monitoring Committees for the monitoring of each OP’.

In the case of the second planned result, the final report stated that all the government structures for the management and implementation of IPA Components III and IV had been established and formalised with the approval of the four OPs and that they would be subject to accreditation during 2008. However, the report noted that ‘the funding available after accession will be much greater and the scope of the Structural and Cohesion Funds much wider, leading to additional OPs with new institutions performing the role of managing authorities, and new institutions performing the role of intermediate body even in OPs in the current policy areas, the IPA institutional arrangements will provide the foundations on which the post-accession structures can be created, as set out in the Structural Funds strategy and plan. The four OPs also detailed the co-financing requirement which will be met by the national budget’ (CARDS 2003 2007). Although the report expressed confidence that the new approach to coordination in the form of the inter-ministerial working group will stand the test of time for Structural Funds programming (CARDS 2003 2007), the 2005 country report for Croatia noted that continuity of these structures – IWG and national partnership structure – had to be ensured (European Commission 2005a). Finally, the project report stressed the benefits of coordination, arguing that all IPA bodies are dependent on each other for their individual performance. In particular, the report argued that bodies fulfilling similar roles but in different OPs can minimise ‘quadruplication’ of effort through a process of collaboration and mutual learning under central guidance and coordination (CARDS 2003 2007).

According to the project’s final report, the IWGs were established by CODEF on 23 February 2006 to draft the IPA OPs and identify a project pipeline for each of them. They remained an integral part of OP elaboration until the OPs were finalised. As the report states, the IWGs for RCOP and HRDOP proved to be a necessary mechanism for clarifying and making progress at strategic and project levels. The preparation of the Environmental Protection Operational Programme (EPOP) and the Transport Operational Programme (TOP) were driven by a smaller number of

institutions, therefore the relevant IWGs met less frequently. Attendance at the IWGs was at senior level, comprising the line ministries, the Central Bureau of Statistics and other state-funded agencies in the case of RCOP and HRDOP (CARDS 2003 2007). The project team encouraged the establishment of the IWG and assisted in preparing the agendas for meetings, working closely with the Deputy State Secretary of CODEF; it attended meetings and offered advice on technical issues and contributed to discussions and produced guidelines for IWG members on preparing OPs, explaining the hierarchy of priorities, operations and projects and defining monitoring indicators (CARDS 2003 2007). In total, over 30 meetings were held and the project identified this as an achievement among the other outputs of Work Package 1 (National Development Planning and Programming).

The Strategic Coordinator for IPA III and IV, as discussed, follows the practice of the Structural Funds coordination authority. The role of the latter ‘embraces an interface with the Commission on strategic and regulatory matters, the management of horizontal matters (including horizontal OPs), and ensuring consistency of approach, high standards and synergies in both programming and implementation, for the benefit of both the administration and beneficiaries’ (CARDS 2003 2007). The CARDS 2003 Final Report notes that although the coordination role covers the whole system, CODEF’s closer partners at the centre of government were the NAO and the National Fund. As regards contact with the operating structures for each OP, this would predominantly involve ministries taking the lead responsibility (HOS), evolving into Managing Authorities under the Structural Funds (CARDS 2003 2007). In that respect, CODEF’s Department for EU Programmes in the Field of Economic and Social Cohesion undertook the coordinating task, with four sections overseeing the OPs under development.

In addition, the project assisted by providing matrices with proposed functions for institutions in IPA structures and played a facilitating role in the OP drafting process, as will be discussed in Chapter 6. Although the inception report identified a need for enabling legislation for IPA management, this was not possible as the IPA implementing regulation had not entered into force (CARDS 2003 2007, p. 22).



#### **5.2.2.4. Overall – horizontal coordination**

There is agreement among the persons interviewed that pre-accession assistance led to an improvement of previously weak or non-existent coordination structures. However, further work was considered necessary. Below, views on the horizontal coordination are discussed, as well as inter-ministerial and interdepartmental coordination. Finally, an attempt is made to present the causes of the most common coordination problems.

The need to improve overall coordination was stressed by Croatian officials. A respondent who held various posts in the Croatian state sector expressed the view that there was considerable scope for improving inter-ministerial coordination (ECD2). Comparing the administration's performance in 2002-2003 and December 2008, the respondent noted that in the latter period, under IPA, several line ministries had a role in the operating structure, indicating at least some formal assignment of coordination duties. However, although coordination was reported to exist, there was room for improvement, especially within IPA IIIc. Finally, the interviewee stressed that she considered inter-ministerial coordination to be a serious challenge once the programming for the Structural Funds started. In conclusion, the official suggested that inter-ministerial coordination structures exist, albeit in a non-perfect form, but definitely more extensive than in the previous couple of years (ECD2).

Some enhancement of coordination was also reported. A respondent from the consultancy sector stated that institutional coordination among the ministries has improved. Pre-accession assistance was viewed as having played a role in this through the need to set up inter-ministerial committees and working groups for document and programme preparation. However, the same interviewee noted that these coordination groups are rather formal at times, and they meet occasionally to fulfil nominal requirements (ACA3).

Nevertheless, overall coordination was still considered to be problematic. With the exception of the top government level, where regular meetings take place, coordination was said to be ineffective between the departments in the ministries. With regard to EU funding, the interviewee noted that the ministries lack information

from their departments working on EU programmes (ACA3). It was reported that different departments in different ministries are ignorant about the strategies, Technical Assistance (TA) projects and actions that other departments are implementing. Finally, the interviewee was optimistic that IPA could work and improve coordination because it is disaggregated into five components, each one involving different actors. The contact added that lessons from CARDS and PHARE benefited the way that IPA is run. ‘Technical assistance and knowledge was pumped into the Croatian public administration’. The NIPAC organises meetings with representatives from different IPA components. The interviewee’s impression was that each institution in charge of each IPA component has a clear view of the role of other institutions in the system. However, the respondent noted that institutions outside IPA components have not achieved this level of awareness and involvement.

An inhibiting factor for administrative capacity-building in Croatia is the existence of parallel structures.<sup>17</sup> A respondent noted that although the Commission’s preference is for a single system for the management of funds, the Croatian authorities have created a structure for EU purposes, while national funds including investment on regional development are channelled differently. This is considered to be a system of dubious transparency infected with cronyism and politicisation (ECD1).

#### **5.2.2.5. Central State Office for Development Strategy and Coordination of EU Funds**

As regards CODEF, it fell short of executing its coordinating mission. Some respondents were not convinced that close coordination has been achieved. CODEF was outside the cabinet hierarchy and lacked the political power to influence and monitor the performance of individual ministries (ECD3, ECD4).

There were even reports of a diminishment of CODEF’s role. Corroborating this view, a local consultant (CON6) claimed that the influence of CODEF on ministries was diminishing, and that as a state actor in charge of strategy and

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<sup>17</sup> Streeck and Thelen (2005) identify mechanisms through which gradual change may take place. The first of these – layering – is defined as the creation of a new policy or institution without eliminating the existing one. Other forms comprise conversion, diffusion, displacement, drift, exhaustion.

coordination it was marginalised. The respondent attributed this in part to the role of the prime minister at the time, as well as a hostile culture towards independent initiative from other state bodies. Besides, the previous state secretary of CODEF, as a member of the ruling party, had achieved greater publicity for CODEF's activities. In comparison, the interviewee added that the new state secretary was considered competent and qualified for the post, but 'was not part of the system'. The respondent referred to other consultants with experience in on-going projects with CODEF, who shared the view that CODEF was underperforming. In the respondent's view, the European Commission Delegation should exercise a stronger role in coordinating assistance.

However, CODEF was seen as more successful in softer forms of coordination. The respondents stated that CODEF in its coordinating role really helps in pulling together different ministries. As regards the internal organisation of the Department for managing EU funds, CODEF has been reported as sending letters to the minister thus raising awareness about the importance of certain issues (CON6).

#### ***5.2.2.6. Ministry of Economy, Labour and Entrepreneurship***

Problems of coordination also involve the relationship of MELE to other ministries, although government officials tend to downplay them. A respondent close to MELE argued that institutional coordination is perfect, and this is achieved without any problems through a system of regular meetings with very clear roles (GOV5). Despite this euphoric view, at least in one case, coordination appeared to be driven by consultants (Preparatory meeting on the Draft Regional Competitiveness OP 2011-2013).

#### ***5.2.2.7. Ministry of Regional Development, Forestry and Water Management***

The view from the MRDFWM was that coordination was improved through the CARDS projects, especially the CARDS 2002 Strategy and Capacity Building for Regional Development Project (GOV7). The Directorate for Integrated Regional Development is responsible among others for coordinating all other line ministries with respect to the regions. The lessons learned from CARDS have reportedly

strengthened the administrative capacity of the ministry to perform its coordinating role. According to the respondent, in the process of preparing the strategy and the law on regional development, the best practice of the EU was followed with respect to partnership and coordination as two main principles of Cohesion policy. In particular, the steering committee that led the whole process consisted of the representatives of all the line ministries, the main decision-making bodies, senior officials, state secretaries or assistant ministers. In the respondent's opinion, the role of coordination of the respective ministries was clearly recognised (GOV7). The ministry was also involved in the coordination and technical implementation and monitoring of the CARDS 2002, 2003, 2004 projects of sustainable development in areas of special state concern. The interviewee considered the familiarisation with EU procedures and principles such as coordination as the main benefit and strength gained from the assistance projects.

#### **5.2.2.8. *Ministry of Science, Education and Sports***

Two radically different accounts of coordination in MELE have been reported. Respondents from the Ministry of Science, Education and Sports noted that coordination is good within the Directorate for Science (GOV9, GOV10). In the department for managing EU funds and action plans, there was reported to be close and efficient collaboration on a daily basis. The Director of Science was considered to be involved and aware of the necessity to build the capacities of the department. However, coordination with the higher levels in the ministry (state secretary, minister) could be slowed down because of different priorities and budgetary constraints. IPA had a positive influence on coordination within the ministry and between ministries. The interviewees noted that the impact of the EU was very important in the field of coordination, because it made Croatian bodies work together. Before that, ministries dealing with the same areas had limited cooperation.

On the other hand, external experts expressed opposing views. A consultant familiar with the Ministry of Science, Education and Sports considered coordination within the ministry and between the departments to be very low (CON5). According to this respondent, in some cases planning is not an open and participatory process

but focuses on ‘who to exclude and who to include’. For instance, invitations to attend what should be public meetings announcing a new grant scheme were sent to some of the interested parties, while others were deliberately not notified. However, the respondent acknowledged that training sessions funded through EU assistance and the establishment of informal contacts of civil servants from various government institutions have enhanced informal coordination. Finally, the interviewee noted that there is considerable rivalry between the ministries, which impacts negatively on coordination in Croatia.

#### **5.2.2.9. Ministry of Finance**

Coordination problems were acknowledged in the MFIN. A source close to the Ministry of Finance noted that horizontal coordination was difficult everywhere (GOV12). Although there were operational, implementation agreements between the different bodies (NAO, PAO, and SPO), in practice it was sometimes difficult to operate, because these people were not only part of the EU process but also part of the regular process of each body or ministry, having to perform other tasks within the ministry. In the respondent’s view, effective institutional coordination also depends on the body, the minister and the person in charge. On paper, according to the interviewee, formalised monthly meetings followed all the requirements. However, other ministries complained because horizontal coordination should be more efficient. The respondent noted that coordination and communication were initially carried out to fulfil the formal obligations, but added that there was subsequently a sense of ownership and benefit.

#### **5.2.2.10. Other ministries and counties**

With regard to the Central State Office for Administration/Ministry of Public Administration, the picture was mixed. An interviewee from the CSOA/MPA referred to the lack of coordination within that institution. CARDS and IPA assistance did not focus on improving coordination (CON4). Regular coordination meetings took place in the past but ceased to do so after the departure of the deputy state secretary who initiated them. The Public Administration Reform Strategy – a

responsibility of CSOA/MPA – was considered to be well coordinated and the implementation of measures monitored.

At the county level, officials emphasised their own efforts and exposed the central government's weak performance. A contact from a county administration stated that cooperation among counties occurred at the counties' initiative (LGOV1). The respondent mentioned that cooperation has improved. The interviewee criticised the weakness of the MRDFWM and the lack of regional development law in the absence of which 'the [central] government can finance political games with the budget'. The 'overloaded and frustrated' government was held responsible for the lack of coordination, according to the interviewee.

Analysts have described slow overall progress in terms of coordination. A respondent from an academic/research institute described a mixed picture of institutional coordination (ACA4). Directorates were later reported as holding meetings and people as having become more available for meetings. However, at the operational level, it was considered difficult to obtain concrete information on what they were doing.

The CARDS 2002 Strategy and Capacity Building for Regional Development established a coordination group comprising 'most of the key ministries and central institutions which impact on economic and social development in the regions' (CARDS 2002 2003a). Two groups were envisaged: a project management (core) group, and key ministries/institutions which would work together as the project steering committee.

#### **5.2.2.11. Assessment**

Pre-accession assistance was seen as the main driver for inter-institutional coordination in Croatia. Respondents recognised the formal coordinating role of inter-ministerial committees and working groups established through the CARDS and IPA instruments, as well as informal effects and wider awareness stemming from the participation of public officials in training sessions. These constituted rare occasions for the establishment of informal contacts between administrators who

operate in a system of governance that is characterised by a centralised and fragmented approach to policy-making, especially at the central government level. In Croatia, the isolation of public bodies from other state institutions and civil society has been pursued to a certain extent, because ministries strove to preserve any information advantage, reduce the dissemination of information to competing public institutions, and secure resource allocations favourable to the power base of senior officials and their political organisations through strict gatekeeping.

In most cases, some sense of ownership and benefit from coordination was instilled by pre-accession assistance. However, effective coordination has been hampered because of different priorities and budgetary constraints in ministries and departments. Coordination was also seen as depending on the individual workload and other duties beyond EU funding for public officials taking part. In the relevant ‘blame game’ for the weakness of coordination, county officials held the central government responsible.

### **5.2.3. Partnership structures**

### **5.2.4. Decentralisation/regionalisation**

Administrative capacity required to implement the *acquis* on Chapter 22 (regional policy and structural instruments) is outlined as follows in the Commission’s Opinion: (i) design and implement regional development plans, (ii) identify responsibilities of ministries and other administrative bodies involved in the management of Community funds, (iii) close cooperation between the Commission, the competent national and regional authorities, economic and social partners and private enterprises involved in the financing of programmes and projects, (iv) develop the required financial mechanisms, (v) monitoring, (vi) control and evaluation of programmes and projects, (vii) ensure co-financing of programmes and projects, and (viii) present a convergence programme in order to qualify for Cohesion Fund support (European Commission 2004b, p. 99).

The implementation of the above requirements in Croatia has been problematic. Decentralisation, which was thought to permit the reorganisation of the

political system by strengthening local governments, was raised as an issue by EU assistance. The process was recorded to have been initiated by the post-2000 government. It was expected that administrative capacities would be built up at the local level, providing local authorities with adequate financial resources (European Commission 2002a, p. 2) .

The country follows a centralised system of governance and wide regional differences persist. The government's performance in building up 'administrative capacity providing local authorities with financial resources' has been below what is expected (European Commission 2002a, p. 2). First, the status of the local administration is established by the constitution. The country followed a two-tier territorial organisation, and it is divided to 21 counties (including Zagreb, which is both a city and a county) as units of regional self-government, 426 municipalities (rural areas) and 121 towns (self-governing cities, urban areas) (See Figure 11 in ANNEX II) Second, a series of laws govern local and regional government. The Local Government Act (bill passed in April 2001) defines responsibilities (water supply, sewerage, primary healthcare, pre-school primary education), increasing competences in these areas for the counties. Some additional competences for elementary education were transferred to the city budgets. However, the transfer of personnel and salaries in education was never enforced (European Commission 2004b, p. 16).

The Act on Financing Local Government regulates financing (based on tax-sharing and non-tax revenues)(European Commission 2004b, p. 14), although the Commission stressed the need for more legislative clarity (European Commission 2004b, p. 16). The counties are financially dependent on the centre, but decentralisation was set as an objective of the Public Administration Reform Strategy (Bache *et al.* 2010). This trend did not change with the entry into force of the law on local and regional self-government in July 2001. Administrative and financial capacity-building at the local level has not been strong, due to the refusal to allow the performance of tasks that should be undertaken by local governments (European Commission 2003b, c). Despite this legislative activity, reports throughout the period continuously cited the lack of decentralisation. At the central level, the state lacked



implementing mechanisms which could clarify goals and transfers. At the local level, administrative capacities were lacking, although municipalities were overstaffed (European Commission 2003c, p. 6).

Throughout the 2000-2010 decade, Croatia had no regional policy legislation in the strict sense. Some acts dealt with particular areas: Islands Act, Act on Areas of Special State Concern, Act on Hilly and Mountainous Areas, Act on the Reconstruction of Vukovar, and the Act on the Regional Development Fund. The main mechanisms provided by these acts were tax relief, although financial support for projects was also foreseen. In February 2002, a fund was established to channel privatisation proceeds to poorer regions. However, there were no allocation criteria, insufficient coordination, and no designated institution responsible for regional policy at the national level (European Commission 2003c).

Although a specific regional policy law is not necessary for EU structural policy, existing laws should be aligned with SF regulations. The government had expressed its intention to prepare a National Development Plan (NDP) between 2005 and 2007. The NDP would be based on earlier planning documents, e.g. the Development Strategy of the Republic of Croatia, the National Strategy for Regional Development, sectoral strategies and regional development programmes. No administrative and territorial regions were established at NUTS II level, however work on NUTS II and III regions was underway. No GDP data on NUTS II or III level were available, although regional disparities were very large. Progress was needed on the availability and reliability of regional statistics (especially GNP/capita/PPS, and unemployment rates at NUTS II and III levels for determination of eligible areas for programming and monitoring). The 2004 Commission opinion stated that work on capacity-building for regional development began late and relied heavily on CARDS projects that started in late 2003 (European Commission 2004b, p. 99).

The institutional framework for regional policy was dominated by the Ministry of Public Works, Reconstruction and Construction which was appointed as coordinating body in March 2003; its relevant part was absorbed by the Ministry of

Maritime Affairs, Tourism, Transport and Development in early 2004 (MSTTD, an earlier form of MRDFWM, prepared legislation and decisions, managed and monitored island and regional economic and social programmes and projects and carried out evaluation). The implementation of development programmes was the responsibility of various bodies at the regional and local levels, while monitoring was largely carried out by the responsible ministries. Formal inter-ministerial coordination mechanisms needed to be established. Croatia also lacked clearly-defined structures for the partnership principle. Coordination between the central and local levels was informal and *ad hoc*. Single partnership structures were required for each form of assistance, covering preparation, financing, monitoring and evaluation of the assistance. There were no proper systems and mechanisms to ensure monitoring and evaluation of the quality and impact of development programmes. Standardised methodology and cross-sectoral procedures needed to be introduced.

In general, the opinion found Croatia's regional policy mechanisms at a very early stage and noted that considerable efforts were needed to define strategies, create administrative structures, and implement programmes to allow Croatia to apply Community rules and channel funds from EU structural instruments in the medium term (European Commission 2004b, p. 98).

#### **5.2.5. Partnership**

Partnership structures in Croatia in the period researched exist either in an embryonic or *ad hoc* form and refer to three main cases: (i) county partnerships first established in eight Croatian counties (zupanije- equivalent to NUTS III) by a CARDS project; (ii) some early form of partnership exercised during the programming and implementation of IPA; and (iii) the proposed regional partnerships to be associated with the Structural Funds implementation, currently part of a MRDFWM legislative action (for a map of Croatia's counties and regions see Figure 11 in ANNEX II).

In the first case, County Partnership Councils (CPCs) were established in 2004 in the framework of the CARDS programme in eight counties and later

followed by the remaining thirteen. The purpose of the CPCs was to prepare and monitor Regional Operational Programmes. These ROPs were prepared at the county level and were not equivalent to Structural Funds ROPs. Although not formally required and of a consultative non-binding nature, the CPCs and the pilot ROPs they produced were considered as a positive learning experience, good practice and efficient consultation tools in county strategic planning and regional development policy implementation (ECORYS 2008). Although their role was already limited, some CPCs ceased to convene after the adoption of the ROP.

Furthermore, membership was not uniform or stable among the CPCs. Although all the relevant sectors were represented (local self-government, private sector, civil society, public and state institutions), the general trend was towards an overrepresentation of local self-government and an underrepresentation of state institutions (complete lack of participation in three cases) and in some cases of civil society (ECORYS 2008, pp. 7-8). In addition, there is a mixed picture with regard to the procedure for the appointment of the chairman of the CPCs. The criteria for selecting members differ from county to county, but most respondents in the relevant study cited the significance of organisations, communication skills and past practice. An example of the low level of institutionalisation of partnership processes was the existence of a rulebook only in some CPCs (12 of the 20 in the relevant study). Furthermore, there was no uniform rule with regard to frequency of meetings, with five of the CPCs not convening again after the adoption of the ROP. The quality of the cooperation between CPC and county administration varied from county to county and was enhanced in cases of previous exposure to international assistance.

In the case of IPA preparation, the Inter-ministerial Working Group for the RCOP allegedly sought to inform relevant stakeholders on IPA and the Structural Funds and receive input on the OP (Republic of Croatia 2007). The IWG consisted of representatives of the central government, state institutions and the CARDS 2003 Support to National Development Planning project. Reportedly, the sub-national level was involved through a parallel consultation with the county authorities organised by the MSTTD. Project proposals submitted by some of the counties were based on the pilot county ROPs previously prepared under CARDS. In drafting the

OP, regional, local, civil society and business-sector stakeholders had somewhat less than a marginal role, euphemistically labelled in the OP text as ‘a light approach to partnership consultations’ (Republic of Croatia 2007, p. 37). Socio-economic partners, sub-national self-government units and sectoral institutions, selected from the regular interlocutors of the line ministries, were invited to attend one partnership consultation meeting which took place on 5 March 2007 and focused on an introduction to IPA and a presentation of the OP, measures and priorities to the partners. Of the 25 partners attending this event, only five provided written suggestions related to the SWOT, participation in measures, and additional investment.

In conclusion, the unassuming partnership consultation process under the IPA RCOP has been interpreted by the authors of the OP as representing agreement and consensus of the various stakeholders on the contents of the OP. However, to do justice to this effort, one should recognise the possible awareness-raising effects on a future pool of IPA and Structural Funds beneficiaries.

Finally, the latest step towards the implementation of the partnership principle in Croatia was completed with the adoption of the relevant law in December 2009 and the completion of the National Strategy on Regional Development in May 2010. Article 6 of the act states that: ‘the policy of regional development is based on partnership and cooperation between public, private and civil sectors as understood under the cooperation among government bodies, county (regional governments, local governments, businesses, scientific community, social partners and NGOs in the area of the statistical regions)’. It also notes that ‘the planning documents of regional development policy-making will be subject to a consultation process with the relevant Partnership Council’ (Hrvatski Sabor 2009).

The legal basis of the Statistical Regions’ Partnership Councils is provided by articles 18-19 of the Law on Regional Development of Croatia, which is further elaborated by section 6.1.4 of the National Strategy for Regional Development. The Partnership Council is established as an advisory body at the level of the statistical regions (NUTS II). Membership of the council includes representatives of state

administration, county governments, large cities, social partners, businesses, trade unions and civil society and the scientific community. The responsibilities of the Partnership Councils are to define common development priorities of local (regional) governments in the area of statistical regions and propose development projects (Article 18). In addition, the strategy foresees the participation of the Councils in the monitoring of programme documents intended for the statistical regions and the provision of guidance for county development strategies (Ministartstvo Regionalnog Razvoja 2010, p. 81). The Croatian Regional Development Agency will assume the administrative tasks for the Council.

The role of the CARDS programme has been critical in the establishment of partnership structures in Croatia. The first drafts of the National Strategy for Regional Development were prepared under the CARDS 2002 project, Strategy and Capacity Building for Regional Development. Although technical assistance was provided under the CARDS 2002 project, the strategy was not finalised and a CARDS 2004 capacity-building project assisted particularly in the finalisation of the strategy in strengthening partnership at the national and local, especially regional levels, NUTS II and NUTS III levels. The NUTS II (statistical) regions in Croatia lack any structures, even administrative, and were established solely for the purpose of finalising the National Regional Development Strategy and for the process of programming and preparing projects for EU funds (GOV7). The MRDFWM initiated the process of setting up partnership at the NUTS II level. Even before the adoption of the relevant law and strategy, the ministry sent a letter to the Croatian counties to propose four persons from their county partnership council who would become members of the NUTS II Partnership Council (GOV7). The partnership also consists of representatives from the central ministries. The ministry's goal was to combine bottom-up and top-down approaches in creating a structure at the NUTS II level, where the representatives of the central and the county levels would decide together on the priorities for the NUTS II level. Finally, respondents from the MRDFWM noted that the preparation of the documents of the strategy and the law on regional development was done in partnership with all the relevant stakeholders, not only from the central state sector but also from the regions and the private sector. The steering committee ensured the close coordination of the main decision-making level

at the MRDFWM with other ministries and institutions such as the Fund for Regional Development, the Croatian Employment Service, and the fund for Employment and Development (GOV7).

Despite the recent breakthrough, the process of strengthening partnership structures in Croatia has been long and difficult. Some respondents close to the Commission Delegation recognised that the consultation process was not usual for Croatian practice and that the administration had to be forced to follow it. Especially with regard to human resources development and regional development, the state administration is not the main concern and instead civil society and the business sector should be taken into account during the programming exercise and elaboration of the programmes, and they have to be included in monitoring and implementation (ECD2). Although the interviewee suggested a recent improvement in the implementation of the partnership principle, it was argued that in the IPA programming the consultation that Croatia was supposed to present to the Commission was performed in a minimal way to fulfil the requirement, and that effectively there was no consultation (ECD2).

Therefore, more attention needs to be paid by the Croatian authorities in observing the partnership principle not only with local and regional self-government stakeholders but also with civil society at the local and regional levels (ECD2). Respondents admitted that the culture of consulting civil society on matters of public policy was weak in Croatia. This is not explained by a weak civil society, because civil society in Croatia was reported as being well developed (ECD2), but rather it is attributable to the administrative model of the central state (bureaucratic, legalistic, centralist).

## **Conclusion**

This chapter examined the influence of pre-accession assistance on structures in the Croatian public administration. It focused not only on the formal structures established for the management of the assistance, but also on the interactions among institutions at the national and sub-national levels. First, it examined whether the

shape of inter-institutional relationships has changed as a result of the pre-accession assistance. In addition, with the help of a growing literature on administrative change and the spread of executive agencies in the EU, it investigated the existence of a similar trend in Croatia and whether it produces similar outcomes of administrative change as those reviewed in the literature. In particular, it studied a number of cases in more depth, including interactions relevant to partnership, communication and coordination within IPA components I, II and IIIc, as experienced by respondents in some line ministries and counties.

Second, a section was dedicated to the allocation of management responsibilities in the form of operating structures established for IPA with a view to assuming future responsibilities for the Structural Funds. A concise reference was made to implementing agencies owing to the still-nascent state of these institutions. However, the National Fund of the Ministry of Finance, which on accession will take over the role of the Certifying Authority, was not covered in any length due to lack of relevant empirical information.

Third, the chapter took a closer look at formal institutional relationships in the form of Croatia's familiarisation with IPA Monitoring Committees. Fourth, inter-institutional coordination was discussed in three ways: by reference to the formal role ascribed to CODEF in that context; through a closer investigation of the role of CARDS assistance to CODEF; and by comparing formal and official views on inter-ministerial coordination with those held by the envisaged beneficiaries of this enhanced coordination in other ministries and counties, not only with regard to their own portfolio but also from the perspective of overall coordination. Lastly, three known phases in the development of partnership structures in Croatia were presented: the pilot county partnerships, the IPA partnership requirements, and the NUTS II partnerships.

Beyond doubt, the role of IPA assistance has been decisive in the establishment of the new operating structures for the management of IPA in the Croatian government institutions and ministries. However, as a general remark, this change follows a process of 'layering' as described by Streeck and Thelen (2005):

another layer of government offices is added to manage the new tasks without a widespread change or elimination of old institutions. Of the eight Managing Authorities envisaged for the management of the Structural Funds, five perform similar tasks under IPA. Nevertheless, the IPA system is very complex and confusing, thus the administration faces a high risk of perpetuating chaotic lines of responsibility under the SF system.

The first IPA component's affinity with the PHARE instrument is also considered to be one of its main weaknesses, as the project-based nature of interventions and the absence of multi-annual planning and strategic perspective may limit its support to the proper implementation of the SF after accession. In the second IPA component, the administration faced both similar and new challenges. On one hand, inherent in the IPA I and II architecture, the yearly horizon of the financial agreements does not lend itself to a fruitful implementation of the CBC component, which offers lessons for the implementation of the Structural Funds territorial cooperation objective. On the other hand, the formal criteria take pre-accession into account. Despite that, a clash between the recommendations of the various Commission directorates about the preferred institution to be responsible for contracting and implementation has led to a diffusion of responsibilities between the MRDFWM and the agency for Regional Development. This has resulted in a climate negative to institutional change under IPA in Croatia, which has also been affected by the limited funding allocated from IPA to these skeleton institutions.

The complexity of the operating structures for IPA IIIc constitutes a novelty for the Croatian administration, although much will depend on CODEF's performance as Strategic Coordinator and the MRDFWM's management. Overall, the six agencies expected to perform tendering under IPA are short on experience and, with the exception of CFCA, the agency with greater capacity, are not fully operational. The success of implementation in an environment of decentralised assistance will depend on the ability of the implementing agencies to perform their assigned tasks.



With regard to monitoring, IPA Monitoring Committees did not convene in 2007 due to the general delay in IPA programming and implementation. In the early days of IPA, monitoring was perceived simply as another formal requirement. However, later on, the administration developed a sense of benefiting from it and the Commission exploited the monitoring meetings as a means of exerting active leverage.

In addition, the issue of inter-ministerial coordination has been covered, which is of critical importance for the successful implementation of the pre-accession assistance and the Structural Funds programmes. In that respect, the administration's performance has been characterised as weak by studies of the Croatian Government, practitioners and state officials. Improving inter-ministerial coordination constitutes a national strategic goal. What matters more in terms of structures is the coordinating function of CODEF and the provision of pre-accession assistance for its strengthening. In that respect, the CARDS 2003 Project 'Support to National Development Planning' formally achieved its planned results through the establishment of CODEF as a coordinating body and the setting-up of the Inter-ministerial Coordination Group for the preparation of the Strategic Coherence Framework and the approval of IPA OPs and the Inter-ministerial Working Groups that developed the OPs. However, the continuity and the expansion of these structures has to be ensured in the case of the Structural Funds, while CODEF's weak influence on other government institutions limits scope for effective coordination.

Nevertheless, despite existing coordination problems, progress made with the establishment of new IPA operating structures is significant. Within IPA structures, awareness and involvement of state institutions has increased with the help of technical assistance, which at times substitutes for national coordination. For institutions outside IPA, or interdepartmentally, the situation was not reported to have changed substantially. In any case, national funds for regional development are channelled through different structures than EU funding, and there has been no reform regarding a more transparent management of these resources.

The fieldwork study of ministries produced contradictory results. Ministry officials in MELE and MSES are convinced about the proper functioning of coordination structures, while consultants stressed the low level of coordination within the ministries and inter-ministerial rivalries. In the MRDFWM, a long experience with CARDS projects seems to have strengthened the ministry's capacity to coordinate the regions and the other line ministries as regards regional policy. On the other hand, respondents from the regions were strongly critical of the inadequate national coordination structures. In the MFIN, the multitude of roles performed by various bodies in addition to tasks related to EU funding is an extra burden for coordination.

Finally, the development of partnership structures has experienced three phases so far. The first relates to the establishment of pilot consultative County Partnerships with CARDS assistance under the supervision of the MRDFWM. Those councils had remarkably low levels of institutionalisation, fluid memberships and non-regular meetings. Their main product was a number of pilot non-binding ROPs for each region, and the initiation of county administration and stakeholders to the regional development planning process. However, it is generally recognised that the counties covered benefited hugely in terms of awareness of regional development processes.

In the case of IPA, the sub-national level had a marginal role in drafting the OPs. A parallel consultation with counties was organised by the MSTTD as regards the RCOP. One largely ceremonial and communicational partnership consultation with socio-economic partners, sub-national government and sectoral institutions served as a monument to the 'light approach to partnership consultations' followed in the drafting of IPA.

Last but not least, the adoption of the Law on Regional Development (December 2009) and the National Strategy for Regional Development (May 2010), which included the partnership principle in their provisions, constitutes a new era for Croatian regional policy. This long process pioneered under CARDS (2002 and subsequent projects) with the MSTTD (later MRDFWM) bore fruits with the

establishment of the Partnership Council as an advisory body at the level of statistical NUTS II regions with the aim of defining common development priorities and proposing development projects. It remains to be seen whether these structures will be assigned a more meaningful role under the Structural Funds, as until now the planning relates to an Integrated Regional Development OP. However, the recognition of the partnership principle by law in an administrative system which was until recently foreign to the culture of public consultation is an important step, although deeper systemic change is needed in order to build fully functional partnerships serving the interest of local and regional development.

While some change has been observed towards more frequent and efficient inter-ministerial coordination, in many cases this serves to fulfil formal requirements and institutions involved and it shows few signs of embracing the process and developing a sense of ownership. The existing power relations between the national and regional levels, as well as between government ministries, have not been seriously altered as a result. Besides, partnership structures are just being set up at the NUTS II level, and there have been some attempts, considered successful by local interviewees, to establish partnerships at the county level. It remains to be seen whether the embryonic institutions and structures established under the pre-accession assistance instruments will develop the level of interactions required for the successful implementation of Cohesion policy. The added value of pre-accession assistance interventions beyond raising awareness in the short-to-medium term has been limited.

## **6. Influence of CARDS and IPA on Resources in the Croatian Public Administration: Human Resources and Skills, Financial Resources**

Resources are considered one of the three pillars of administrative capacity, especially regarding the successful use of the Structural Funds. The term is used here to cover human resources and skills developed through the EU financial instruments in the Croatian public administration as well as financial resources and their flows and the absorption capacity in place. In particular, this chapter examines the case of human resources in Croatian government institutions which benefited from or were involved with EU pre-accession assistance. This chapter presents six case studies of CARDS/IPA influence on the human and financial resources of public administration in Croatia, which have been selected to cover all the main central government institutions where external assistance could have an influence. It attempts to show the influence of pre-accession aid on human resources and presents the main problems that Croatian public bodies faced with regard to human resources functions. Evidence of such influence on resources will be sought from information gathered during two-stage fieldwork in Croatia in 2008-2009. The key questions examined related to the context of the assistance in the organisations under study, the legislative and institutional framework, the management of human resources, and the management of the assistance. The 31 respondents were asked to comment on staffing levels, salaries, training and skills. They were also prompted to attribute changes to financial assistance, the pre-accession process or domestic and international triggers. Issues of sustainability of assistance were also covered. Desk research and academic publications were used to supplement the fieldwork conclusions; these were mainly project documents and reports, reviews of the Croatian public administration, and evaluations of pre-accession assistance.

The role of CARDS in PAR in Croatia has been evident from the beginning of the process and has been increasing over time, following the shift of attention from reconstruction and humanitarian assistance to institution-building objectives. The CARDS 2002-2006 Country Strategy Paper considered PAR an integral part of the SAP, since administrative capacity was needed to implement new legislation and

policies, given what was seen as the weak capacity and problematic operation and functioning of the Croatian Public Administration (European Commission 2002c). The priorities of assistance to the government were established for the planning and implementation of PAR as well as the development of a modern and professional civil service. The focus was on the institutional and administrative capacities of state institutions involved in the implementation of the SAA, emphasising legislative, regulatory, organisational and human resource issues. The programme selected public finance, environment, JHA, agriculture and competition as well as inter-ministerial cooperation structures, anti-corruption and anti-fraud measures as main policy areas for assistance (European Commission 2002c, pp. 28-29).

This chapter is divided in two main sections. The first covers issues related to financial resources and financial absorption capacity. The question of how EU assistance affects financial resources in Croatia is addressed with specific emphasis on the role of adequate human resources in securing absorption of the funds. The second main section examines the influence of CARDS and IPA programmes on resources and skills in Croatian government institutions. It is supported by six case studies of the influence of pre-accession assistance on an equal number of Croatian state bodies. The organisations covered are:

- the Ministry of Public Administration (formerly the Central State Office of Administration),
- the Central Finance and Contracting Agency (CFCA), which was previously part of the Croatian Ministry of Finance as the Central Finance and Contracting Unit (CFCU),
- the Ministry of Finance (MFIN),
- the Central State Office for Development Strategy and Coordination of EU funds (CODEF),
- the Ministry of Economy, Labour and Entrepreneurship (MELE),
- the Ministry of Regional Development, Forestry and Water Management (MRDFWM), and
- the Ministry of Science, Education and Sports (MSES).

The results of EU assistance projects in these seven institutions are discussed in an effort to delineate the programmes' effects on administrative capacity there (see Table 11 below for a list of aid interventions in each institution).

**Table 11: Overview table of assistance interventions studied per organisation**

<b>Case study organisation</b>	<b>External assistance provided</b>
Ministry of Public Administration / CSOA	CARDS 2001 Project CARDS 2003 Project IPA 2008 Project
Central Finance and Contracting Agency / CFCU	CARDS 2004 Project
Ministry of Finance (MFIN)	CARDS 2004 Project
Central State Office for Development Strategy and Coordination of EU Funds (CODEF)	CARDS 2003 Project
Ministry of Economy, Labour and Entrepreneurship (MELE)	Several CARDS projects, but assessment is not project-specific
Ministry of Regional Development, Forestry and Water Management (MRDFWM)	CARDS 2002 Project CARDS 2002-2004 Projects CARDS 2004 Project
Ministry of Science, Education and Sports (MSES)	CARDS 2003 Project

## **6.1. Financial resources**

Up until the mid-2000s, Croatian public finances exhibited many problems. They were the subject of frequent government interventions, they lacked transparency, and they were generally not reliable (European Commission 2003c, p. 20). The accountability of fiscal data was delayed (European Commission 2003c, p. 20) and the wage bill was often higher than budgeted, as for instance in 2002 (European Commission 2002d, p. 17; 2003c, p. 20). Those problems were attributed to a number of factors. First, sub-central government bodies were not integrated in the budget (European Commission 2003c, p. 20). In addition, extra-budgetary funds existed, but their transparency was uncertain (European Commission 2003c, p. 20). Furthermore, spending was poorly controlled. Medium-term planning was neither properly developed nor based on sufficient rules and procedures (European Commission 2003c, p. 20). Besides, accountability was weak (European Commission 2003c, p. 20).

Measures taken by the Croatian government in 2000-2003 partially addressed the situation. A new accounting method and Government Finance Statistics (GFS) classification was implemented in 2001 (European Commission 2003c, p. 20).

Furthermore, a new single treasury account (STA) that covered 2002 commitments was created, including the development of an accrual-based method (European Commission 2003c, p. 20). In addition, extra-budgetary funds were integrated in the budget, monitoring and reporting were expanded, and a new organic budget law was adopted in 2003. The medium-term results of the government actions were poor. The government did not resolve operational problems and did not address the need to consolidate treasury accounts. Furthermore, the implementation of STA progressed slowly but it excluded municipalities, health and social insurance (European Commission 2003c, p. 20).

In the area of government statistics, the situation until the mid-2000s was no different from that of the rest of the public sector. The Croatian Bureau of Statistics (CBS) staff received no training, there was a constant fluctuation of employees, and the bureau was not coordinated with other statistical providers. Fundamental principles of statistical law were not translated into rules of behaviour for staff, as no relevant rulebook existed (European Commission 2004b, p. 83). In the area of macro-economic and regional statistics, major improvements were required to reach the quality of the European system of national and regional Accounts (ESA 95) (European Commission 2004b, p. 84). The Croatian Government passed a new statistics act in June 2003 bringing the country into line with EU principles on reliability, confidentiality and individual data. Twenty-one offices in the counties executed tasks for the CBS but remained administratively independent. Despite legislative measures, administrative capacity still needed to be reinforced in 2004 in key areas such as macro-economic and regional statistics (European Commission 2004b, p. 100).

Croatia has been a beneficiary of EU assistance since the early 1990s. Total EU assistance to Croatia from 1991 to 2000 amounted to €369.09 million (European Commission 2002c, p. 20). Although the first commitments under CARDS were made in 2001, funding under CARDS regulations started with a two-year delay due to the backlog of projects funded by OBNOVA. From 2000 onwards, Croatia was allotted €278.8 million from CARDS, €245 million from PHARE, ISPA and SAPARD, and it will receive €910.2 million from IPA from 2007 to 2012 (DG

Enlargement 2008).<sup>18</sup> Croatia was the second largest beneficiary from CARDS and PHARE in the region of the WB following Serbia and Montenegro (including Kosovo). In total, 9.73% of the CARDS and PHARE funding to the WB was allocated to Croatia. Table 21 presents the CARDS programme allocations to the WB countries for the 2000-2006 programming period. Data for 2005-2006 for Croatia are given separately, because assistance in that period was provided through PHARE.

Based on the CARDS financial allocations in Croatia in 2001-2004, the sector of 'administrative capacity-building' was the third largest. It amounted to 16.11% of overall allocations in the given period. The financial weight of assistance to JHA, ACB and Economic and Social Development increased over the years. Allocations under the heading of 'environment and natural resources' remained relatively stable in terms of absolute values. Support to 'democratic stabilisation' diminished as the stability of the region increased (see Table 22).

An innovation of CARDS was the provision of regional allocations for the Western Balkans. The EU considered that the inclusion of a regional component in CARDS would further the goal of regional cooperation in the Western Balkans, a stated prerequisite for closer association with the EU (Table 23 shows the CARDS regional allocations for 2002-2003).

There have been absorption projects related with CARDS which are not clearly depicted in the official data. Absorption figures for 2002-2004 drawn from a release by CODEF staff show that the percentage contracted was above 95% (of the commitments) in all four programmes (see Table 24). However, these data reflect the situation towards the end of the programmes. In the middle of the CARDS programming period, the situation was different. In 2004, 64.8% of the amount committed was contracted, while in 2002 only 33.7% of the relevant amount was contracted (see Table 26).

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<sup>18</sup> see Table 21, Table 22, Table 23, Table 24, Table 25, Table 26, Table 27, Table 28 and Table 29 in ANNEX III.



Furthermore, the absorption of PHARE and IPA funding should be examined (see Table 25 for a display of the IPA envelope for Croatia from 2009 to 2011 by component). Data show that at the end of 2007, the two-year contracting delay inherited from CARDS affected PHARE 2006 and IPA 2007 programmes (see Table 27). Contracting rates of above 80% for all CARDS and PHARE programmes were achieved by the end of 2008 (see Table 28). PHARE payments were less than half of the appropriations for PHARE 2005 and less than 10% for PHARE 2006 (see Table 28). No contracting for any of the IPA 2007 and 2008 programmes took place until the end of 2008 (Table 28). Later on, data on implementation of EU assistance showed that higher contracting rates were only achieved with significant delays (see Table 29).

Total EU assistance to Croatia in 2001-2006, including CARDS (2001-2004), PHARE (2005-2006), PHARE CBC (2005-2006), ISPA (2005-2006) and SAPARD (2006), rose to €489.64 million (Instrument for Pre-Accession Assistance (IPA) 2008b, p. 55). In October 2009, the Commission proposed the financial package for Croatia after accession, with total commitment appropriations amounting to €3.568 million for 2012-2013 (European Commission 2009b, p. 13). This flow of financial resources has the potential of exerting a wider influence in the recipient state. Apart from the SAP and SAA conditionality, factors linked with the EU assistance comprise the accession conditionality including the Copenhagen membership criteria, the Accession partnership priorities, and programme- and project-level conditionalities, which create requirements for compliance with principles, standards and rules established at the EU level.

This conditional financial transfer could have wider consequences for the flow of domestic resources in a recipient country (fiscal effects of aid). For instance, a number of EU-related departments or directorates may be established, and personnel recruited or shifted towards performing EU related tasks, which creates a need to alter the wage bill or the structure of the state budget. The degree of this change, which may take permanent characteristics after accession, is determined by domestic factors and more importantly by the political will to subject wider sections of the state administration to a system influenced by EU models.

Furthermore, there is a considerable cost involved in taking action to fulfil EU requirements. For instance, the Croatian state budget was burdened with HRK 23 million for the implementation of the Public Administration Reform, which was an EU accession partnership requirement (Central State Office for Administration 2008, p. 51). Of course, EU financial aid programmes assisted in this direction. However, the PAR was essentially the result of international (EU) pressure in the context of an unequal partnership between the candidate country and the EU, and despite the obvious benefits of its desired outcome of a modern, accountable, transparent and efficient administration, domestic legitimation was questionable. Possible levels of compliance ranging from negation and denial to full compliance can be determined by success in mobilising stakeholders to view PAR as a strategy for Croatia and by Croatia. The same is true for the drafting of NSRF OPs, the success of the partnership process, where partners embrace them not as development tools but rather as formal requirements, despite having nominally gained ownership of the process. However, this problem has been faced by the new and some of the old Member States alike. The partnership principle is also considered to facilitate absorption (Marinov *et al.* 2006).

Furthermore, the EU can suspend the flow of resources in critical cases. This powerful tool was used in Croatia in 2005 and led to the freezing of PHARE assistance for about a year. The European Commission then intervened at a critical moment, before the move to EDIS. The positive result was that the capacities of the CFCU/CFCA were drastically enhanced, thus curing a serious deficiency in the management of EU funds. Therefore, the suspension of funding was an effective means of exerting pressure on the Croatian authorities to allocate domestic resources to EU-funding-related institutions. In addition, the co-financing requirement is another way that EU assistance influences the flow of domestic resources. CARDS is an exception, because it was fully funded by the EU but PHARE and IPA do foresee a level of national contribution to the projects.

Finally, it is debatable whether pre-accession assistance can have welfare-improving results (welfare effects of aid). The main reason for this is the limited level of funding. Another issue is the lack of sustainability of project results, which is

aggravated by a staff turnover problem. Of course, skills and techniques learned during training are often employed in areas other than those envisaged, quite commonly in the private sector by persons who quit the civil service.

## **6.2. Human resources**

*Citizens consider the administration distant, formal and corrupted, the media subject it to constant criticism. It is not perceived as professional and unbiased, but riddled with connections and the exchange of friendly services. It is expensive. The people in the administration do not get there because of professional criteria and are not promoted according to expertise and performance (Ured za strategiju razvitka RH, 2001:7 (Badjun 2004, p. 150)).*

Adequate human resources constitute an important element of administrative capacity, as was stated in Chapter 2. A schematic overview of reforms which have taken place as well as pending reforms was already presented in Table 5 (p. 99). In the remainder of the chapter, particular reference will be made to the role that EU assistance has played in training and improving skills in several ministries, government institutions and agencies. These institutions were the Central State Office of Administration (CSOA), the Central Finance and Contracting Unit/Agency (CFCU/CFCA), the Central Office for Development Strategy and Coordination of EU Funds (CODEF), the Ministry of Finance (MFIN), the Ministry of Economy, Labour and Entrepreneurship (MELE), the Ministry of Regional Development Forestry and Water Management (MRDFWM) and the Ministry of Science, Education and Sports (MSES). This section explores whether there are causal links between the programme and reforms which took place.

As the case of EU assistance to the CSOA has shown, pre-accession funds can have a decisive role in the development of human resources in the Croatian public administration given the very low starting point in terms of relevant capacities. This influence can take many forms, but assessment is based on the extent to which the objectives/priorities of the CARDS/IPA assistance were translated into practice with respect to: (i) the implementation of training or skills-development projects, (ii) the secondment of national experts from EU MS in the form of twinning

and the provision of technical assistance, (iii) the conduct of job satisfaction surveys and functional reviews, (iv) the creation of EU-funding-related posts, departments and directorates in the administration and the relevant needs in human resources, (v) the exercise of influence in the establishment of Human Resources Departments, and finally (vi) the adoption of legislation drafted with support from EU funds which can affect human resource management functions.

The legal basis for the Croatian public administration in the period examined was provided by the Croatian constitution (last amendment 2001). According to the constitution, holders of public powers are responsible to the parliament and access to the civil service is open to all citizens (Article 44). Organisation, operation and decision-making are regulated by law, except for the internal organisation of ministries which is within the government's authority. The scope of the public administration includes carrying out the direct enforcement of the law, administrative and inspection control and other administrative and professional matters. The public administration bodies include the ministries, civil service organisations, and county offices (as well as deconcentrated central government offices), including the city offices of Zagreb (Badjun 2004, p. 148).

Major administrative changes in this period include the Law on Local and Regional Self-Government (Official Journal 33/01), the rationalisation of the central state administration (deconcentrated) offices at the county level, and the adoption of the Law on State Civil Servants and Employees (Official Journal 27/01) (Koprić 2004, 5-6). The law governs the terms of employment and provides the legal basis for the status of civil servants and other employees. The law does not distinguish between state officials (political appointees) and civil servants, thus creating an unresolved status. The law on government regulates the work and authority of the government. A law on obligations and rights of state officials regulates rights and duties (European Commission 2004b, p. 14). In addition, a new law on the civil service was passed in July 2005 (Table 5). Actions and decisions of civil servants when deciding about citizens' rights and obligations are to be found in the Law on General Administrative Procedures; decisions may be appealed to a second-degree

administrative body and if not upheld then by an administrative court (European Commission 2004b, p. 15).

Throughout the period from 2004 to 2008, Croatia was described by the European Commission as lacking a complete legislative framework for a modern and professional civil service (European Commission 2004b, p. 116; 2008c, p. 7). At the same time, the existing legal framework was poorly enforced, e.g. on e-government initiatives (European Commission 2008c, p.8). Two of the 13 regulations necessary for the full implementation of the new Civil Service Law remained to be adopted. Another problem was that, under the existing GAPA, various administrative procedures were regulated through sectoral legislation which allowed high discretionary scope, increased inefficiency and bred corruption (European Commission 2007b, p.8; 2006b, p. 6). The implementation of the Civil Service Law was incoherent, owing to varying capacities across departments, the power of agencies, and autonomous agencies and lack of supervision (European Commission 2008c, p.7).

Throughout the period under study, the civil service continued to be politicised (European Commission 2007b, p.8; 2009a, p. 8). Policy implementation stayed in the hands of political advisors and even the recruitment of technical staff was politicised (European Commission 2007b, p.8). Croatian analysts stress that Croatia lacks a modern civil service culture. Aspects of *partitocracy* in the civil service are the politicisation of almost all directorates or sensitive posts and the marginalisation of non-party affiliated officials, as well as recruitment according to political connections:

*It is very difficult to break up the inheritance of clientelism and paternalism in which the administration has been focussed too much only upon itself. A culture of secrecy has been cultivated, favouring nepotism and arbitrariness, and citizens have always been made to feel subordinate in their encounters with the administration* (Badjun 2004, p. 152).

In the same period, weak human resources planning and management remained a serious shortcoming (European Commission 2008c, p. 7). Other issues

raised in the evaluations of Croatia's progress included the number of rulebooks (internal documents defining job descriptions and number of staff) and the inconsistencies between them, which created multiple public management standards under the 2001 Law on civil servants and public employees (European Commission 2004b, p. 15). A centralised form of decision-making and limited delegation to medium-and-lower-level management persisted throughout the period (European Commission 2008c, p. 7; 2009a, p.8). Croatia did not establish an effective civil service registry (European Commission 2009a, p.8).

Although the Commission's Opinion on Croatia's application for membership had stressed the need to improve recruitment and candidate selection in the public administration (European Commission 2004b, p. 15), until 2009 the recruitment procedure had not been the subject of significant changes and it was not merit-based (European Commission 2007b, p.8; 2009a, p.8). Promotion followed a mainly automatic system (based on years of service) that certainly did not encourage individual responsibility and productivity (Badjun 2004, p. 150).

Croatian law specified that government officials should undertake further training during their placement, which was the responsibility of each government body. However, the implementation of the law was delayed and happened in an uncoordinated manner. The Ministry of European Integration was seen as having invested more in the training of its employees but with unintended consequences, as the newly qualified personnel left the public administration for the private sector (Badjun 2004, p. 151). The MEI was the first institution to organise EU training for civil servants (European Commission 2004b, p. 16). Until 2003, Croatia lacked a civil service training unit. During the reorganisation of the MoJALSG, the unit was established but not in an operational form (European Commission 2004b, p.16). In 2002, only 33% of civil servants had degree-level qualifications, but academic qualifications were considered unrelated to what new recruits would encounter in everyday work practice in the ministries (Badjun 2004, p. 146). At least until the end of 2009, training and skills of the authorities at all territorial levels continued to be unsatisfactory (European Commission 2009a, p.8).

Civil service salaries were considered unattractive for young and educated professionals (European Commission 2004b, p. 15). There was a big private-public sector pay gap (Nestić 2005, p.147-153; Badjun 2004), which was especially discouraging young and educated professionals to join the civil service and encouraging those already hired to desert. A civil service payment freeze imposed in 2008 aggravated the situation. The salary system did not change in 2008, and at the end of 2009 low salaries continued to be seen as a serious concern (European Commission 2008c, p.7; 2009a, p. 8).

### **6.2.1. Case study A: the influence of CARDS/IPA on human resources in the Central State Office of Administration/Ministry of Public Administration (CSOA/MPA)**

The Central State Office for Public Administration, the government body responsible among others for Public Administration Reform (see

Box 4 ANNEX II), provided a case for EU assistance. The Ministry of Public Administration is of particular importance for PAR and human resources management in the Croatian state sector. Its institutional mandate covers competences exercised in the UK by the Cabinet Office, the Ministry of Justice, and the Department for Communities and Local Government, some of which are delegated or devolved to other institutions. These include the responsibility for holding the elections, the responsibility for PAR, the selection of personnel, and the supervision of the central government offices at the country level. Despite the existence of a relevant government institution, Croatia lacked a strategic framework for public administration reform. The process of drafting a strategy was initiated by CSOA in 2006, although it was not until 2008 that the strategy was adopted by the government. Besides, the management and administrative capacity of CSOA itself was insufficient (European Commission 2006b, p.7; 2007b, p.8). There was continued weakness in the management and administrative capacity of institutions responsible for PAR in 2008, as well as the problem of high staff turnover and lack of qualified personnel (European Commission 2008c, p. 7). However, the CSOA staff increased that year from 114 to 120, and their professional skills and competences improved through different kinds of training.

The creation of a Ministry of Public Administration was welcomed by the EU institutions and the donor community. The 2009 progress report found that the capacity of the new Ministry of Administration had further improved; however, it highlighted that PAR had not received the necessary political impetus (European Commission 2009a, p. 8). Below, the results of EU CARDS and IPA projects are assessed with regard to human resources in the Central State Office for Public Administration (subsequently Ministry of Public Administration).

#### **6.2.1.1. The CARDS 2001 project**

The CARDS 2001 project ‘Public Administration Reform, Support to Civil Service Reform and Training System’ comprised three **components** which sought (i) to modernise civil service legislation, (ii) to enhance the organisational capacities of the Central State Office for Administration (previously the MoJALSG) and other state bodies for the implementation of reform, and (iii) to develop and establish a system for educating civil servants (Government of the Republic of Croatia 2004, p. 74). The overall **goal** of the project was to support an effective and efficient civil service which could meet the standards and adopt the practices of the EU (Petričušić 2007, p. 317).

According to Petričušić (2007, pp. 317-318), the project **aims** were (i) to contribute to the civil service reform process through the establishment of a continuous training system for civil servants, (ii) to establish a central management and coordination capacity to deal with human resources, and (iii) to contribute ‘to the efficient implementation of the SAA by a capable, effective and transparent Croatian public administration and to assist Croatian state institutions in creating, implementing and strengthening the legal and policy framework in certain specific policy areas which support the SAA: enhancing administrative capacity among Croatian civil servants; and strengthening inter-institutional and sector-specific cooperation mechanisms within Croatian state institutions and with counterpart institutions in the EU MS and candidate countries’. The project had a **budget** of €1.5 million and lasted from 25 November 2003 to 25 November 2004 (DG Enlargement 2005).



#### **6.2.1.1.1. Achievements**

##### **1. Establishment of a training system for civil servants.**

A Civil Service Training Centre was established in the CSOA. This was a direct outcome of the CARDS 2001 project, as an official of the Ministry of Administration attested in the fieldwork interview (CON4). However, the same person noted that ‘the [Civil Service Training] Centre, was empty at the time, there were only two persons working in 2005, two or three’. The Training Centre was clearly not operational and consisted only of the director, three employees and some unofficially affiliated staff (European Commission 2005a, p. 13), a situation which continued in 2006 (European Commission 2006b). Eventually, in 2007, the Civil Service Training Centre started implementing horizontal training programmes (European Commission 2007b, p. 8).

##### **2. Establishing a central management and coordination capacity to deal with human resources.**

The Human Resources Planning, Management and Development Department in the CSOA was also established as a result of the project (CON4). The HR department was established ‘to coordinate all the activities related with the implementation of the civil service law, to provide advice, to control the implementation and to coordinate the activities on the horizontal level with institutions’. However, the same interviewee noted that there were only two persons employed in the department in 2005, ‘without any kind of work, as if they were sort of punished’ (CON4).

##### **3. Modernisation of civil service legislation and enhancement of organisational capacities of CSOA and other state bodies.**

The realisation of this objective proved the most problematic. In the early stages of the project, an in-depth analysis of the Croatian Civil Service was conducted, making use of benchmarks to test the state of the service and propose formulas for reform and improvement (Morganti 2004, p. 43). This helped to identify serious shortcomings in ten areas, affecting the management and development of human resources under the rules and procedures in use at the time (2003-2004). Morganti claims that all these shortcomings have been addressed through drafts of

primary and secondary legislation setting new norms and rules. The new civil service law drafted by the project aimed to drive away political interference in the civil service, reduce the risk of conflicts of interest, establish a merit-based system for the management and development of human resources, set the rules for a transparent and merit-based recruitment system, and merit and performance assessment based on objective and measurable standards. Therefore, this draft law included major measures towards the establishment of an effective, efficient and professional civil service in line with EU standards (Union of State and Local officials 2004). However, it was only adopted by the government after the implementation period in July 2005 and entered into force in January 2006 (see Table 5 in Chapter 3).

Results in the area of public administration reform were limited. During the progress of the project, a functional review of the management of human resources within the central administration was prepared, followed by a plan to develop a network of personnel departments in four pilot ministries and the CSOA (see also point 2 above) (Morganti 2004, p.45; DG Enlargement 2005). The project viewed the public administration as consisting of three main elements: (i) organised structure, (ii) human resources, and (iii) rules and procedures. It focused on structures, rules and procedures responsible for managing and developing human resources in the public administration. However, it recognised that rules and procedures could not be changed without a programmatic and policy framework.

The CARDS 2001 project was led by a consortium including the British Council and other institutions and was initially based in the then Ministry of Justice, Administration and Local Self-Government (MoJALSG). Thus, it worked closely with a taskforce created in November 2002 at the then Ministry of European Integration (MEI) with the objective of preparing a public administration reform policy paper by June 2003. However, national elections were to take place in November 2003, and the outgoing government did not take any reform initiative in response to the report. According to a 2004 SIGMA report, only the MEI exhibited the capacities to move the PAR forward; of the other two potential drivers of reform, the MoJALSG was seriously understaffed and the Ministry of Finance played a marginal role (SIGMA 2004). The project's response was to use the draft law as a

‘surrogate’ for the missing public administration and civil service reform policy (Morganti 2004, p. 46).

For some, the establishment of the CSOA was a specific outcome of this project (Morganti 2004, p. 45; Petričušić 2007, p. 317). It was likely to be a government response to accession-related pressures for improved coordination of public administration reform, which as practice showed, was not high on the government’s agenda. However, one interviewee’s comment (which also applied to CODEF) was: ‘In the past mandate of the present government, the post of the state secretaries was created instead of deputy secretaries. This was an own decision, an internal rearrangement not influenced by the EU’ (ECD3). Consequently, the establishment of this organisation has proved a halfway choice between a clear commitment for reform and the allocation of the necessary resources for it on one hand, and an attempt to micromanage change without seriously challenging the administrative system on the other hand.

#### **6.2.1.1.2. Assessment**

The project’s main results were the draft civil service law, the establishment of the civil service training centre and the human resources departments created in the CSOA and four ministries. However, when the project ended, those departments were not fully functional and operational mainly because of low staffing levels. Moreover, in practice the new civil service law could not bring about a widespread reform in the rules and procedures in the civil service towards greater efficiency, professionalism and depoliticisation. As several OECD/SIGMA reports argued, the legal framework with regard to administrative rules and procedures was not radically reformed through the new law and large-scale legislative and policy initiatives were still needed for years to come (SIGMA 2004; 2003; 2005, p. 4). Although the CARDS 2001 project was a first step towards enhancing administrative capacity by establishing a set of structures and procedures to manage civil service human resources, needs were much larger than what was initially anticipated and required subsequent pre-accession and IFI support, which will continue even after Croatia’s accession with the inclusion of an Administrative Capacity OP in the NSRF.

Furthermore, the project was hampered by the transformation of the institutions in focus, including a reshuffle and a change of government in 2003. The project was also based on optimistic assumptions about the required scale of reform and the numbers of civil servants affected by it (DG Enlargement 2005). It is also reasonable to assume that the successful implementation of this public administration reform project and the sustainability of its results were constrained by the prevailing culture at the managerial and state secretary level in the CSOA, which at the time and at least until the establishment of the Ministry of Public Administration was overly legalistic and bureaucratic and wary of foreign assistance projects (GOV3; CON4).

#### **6.2.1.2. The CARDS 2003 project**

Between the two CARDS projects, the CSOA received bridging project assistance with regard to HRM activities providing training for job analysts (CON4). CARDS assistance in CSOA resumed with a €2 million CARDS 2003 project entitled 'Further Support to the Reform of Public Administration – Support to implementation of the Civil Service Reform Programme'. This was a one-year twinning project which ended in December 2008 (CODEF 2010a). Building on the CARDS 2001 project, the aim was 'to support the on-going civil service reform process and legal framework development, including supporting institutional structures, in conformity with EU standards, in order to promote a unified accountable transparent and efficient civil service' (European Commission 2003b, p. 23). The scope was widened to cover (i) state administration at the sub-national level, and (ii) legal and organisational structures and administrative procedures, except civil service legislation. The main components focused on: (i) further development and implementation of the new legal framework for the civil service, (ii) development of the institutional and legal framework on administrative procedures to ensure *inter alia* adequate accountability mechanisms and citizen participation, and (iii) curricula development for horizontal training of civil servants (European Commission 2003b, pp.10-11).

#### **6.2.1.2.1. Achievements**

- 1) Further development and implementation of new legal framework on civil service

The project provided support to the Central State Office for Administration in the completion of subordinate legislation related to the new Civil Service Law. A pilot phase was then envisaged, in which four ministries and the CSOA participated. After the publication of guidelines and manuals on the established procedures, the new system would be tested, before the complete system could be applied to the state administration in its entirety (CSOA 2006, 2008).

- 2) Development of the institutional and legal framework on administrative procedures

The most important outcome of the project was a new draft law on General Administrative Procedures to replace the multitude of 85 administrative procedures. The new General Administrative Procedures Act (GAPA) incorporates many of the CARDS project proposals; however, in some areas it does not radically break with the past and its reform potential will be determined by the appropriate enforcement and implementation (SIGMA 2009a, pp.2-3). The law was scheduled to enter into force in January 2010 and would introduce simplified administrative procedures which were expected to increase transparency in the civil service. The new law also introduced some innovations in the recruitment procedure with the establishment of a written exam. This was a novelty for Croatia, as the recruitment process had remained unaltered in the entire pre-accession period until then. The implementation of the GAPA was assisted by an IPA 2008 project, which was an example of continuation of assistance.

- 3) Horizontal training of civil servants

In the field of human resources, the CARDS projects had significant influence on the building of capacity. The Human Resources Department created with CARDS support comprised ten employees in two units in mid-2009. In addition, the project assisted in the development of templates and the setting-up of a manpower plan for a year. As the interviewee (CON4) noted, there was a strong learning influence on the institution as a result of CARDS, which was also

attributable to the professionalism of the HR expert. The HRM-related activities funded by the CARDS 2003 project included training for recruitment procedure, performance appraisal, training needs analysis, job analysis, HRM basics, and advanced courses in HRM. A perceived very positive outcome was that these programmes were from that time offered for free to all civil servants (CON4). Therefore, sustainability has been achieved with regard to human resource development as the CSOA continued to develop fields which had benefited from CARDS support.

As regards the general problem of staff turnover in the Croatian civil service, the CSOA was not an exception. As an interviewee noted, the lack of a civil service registry can only aggravate the situation (CON4). While there was an obligation of state institutions to send data on their employees to CSOA, this was not done consistently. Moreover, technical assistance and staff training projects could be offered in vain in some cases, as skills gained during the projects were lost from the civil service due to the high turnover rate. The accession process has had an indirect effect of mitigating the staff turnover problem, as the government has followed a policy of agencification of many units related to EU tasks, e.g. CFCA. In these cases, the labour law applied instead of the civil service law, which bypassed the rigid nature of the civil service system and gave leeway for higher salaries and therefore higher staff retention rates. Nonetheless, although it partially addressed the need to increase effectiveness and efficiency of the public administration in the performance of EU-related tasks, this practice left the main bulk of civil service employees underprivileged. This also applied to the civil servants working in various EU-funding-related departments and directorates in the ministries which did not benefit from higher salaries.

#### **6.2.1.3. The influence of IPA**

From the TAIB component, an IPA technical assistance project in 2008 on the 'Implementation of the General Administrative Procedures Act' assisted the Ministry of Public Administration in the implementation of the act. IPA community support was €1.5 million; the national contribution was around 10% of the total

expenditure, namely €166,167 (DG Enlargement 2010b, p. 12). Project implementation started in November 2011 and was planned to last for two years.

The overall objective of the project was to support the Croatian state in developing a client-oriented administration through implementing the new General Administrative Procedures Act (GAPA). The stated purpose of the project was to ensure sustained institutional and professional capacities for timely implementation and efficient enforcement of the new GAPA at all levels of public administration, as well as improving the public awareness of citizens on issues related to GAPA and Public Administration Reform (PAR)(DG Enlargement 2010b, p. 2).

The project was linked with the provisions of the SAA, the 2008 National Programme for the Integration of the Republic of Croatia in the EU, the 2008 Croatia Accession Partnership, the Multi-Annual Indicative Planning Document 2008-2010 for the Republic of Croatia (MIPD), the Strategic Development Framework 2006-2013, the Public Administration Reform Strategy, and the Strategy for Training and Professional Improvement of Civil Servants (Project fiche, 2-4). Three results, supported by measurable indicators, were foreseen by the project: (i) the CSOA<sup>19</sup> prepared for management and implementation and efficient enforcement of the new GAPA, (ii) a comprehensive training programme designed and implemented for the efficient enforcement of the new GAPA, (iii) public awareness among the business sector and citizens on the opportunities and benefits enabled by the new GAPA. Activities were developed across three components corresponding to the aforementioned results (DG Enlargement 2010b, pp.7-9).

The project's potential influence in the area of human resources was to be expected from activities under the capacity-building in the CSOA component and the training component. For the first component, these included training which would be offered to civil servants in the Unit for the Implementation of the GAPA in the CSOA to plan and manage the GAPA. In addition, support was provided to the Training Centre on planning and organising education activities for the

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<sup>19</sup> As noted above, the CSOA was absorbed by the subsequently-founded Ministry of Public Administration.

implementation of the GAPA. For the second component, activities included a training needs assessment, identification of participating regional and local bodies, a training plan for all target groups, and a training programme as well as a ‘train the trainers’ programme (DG Enlargement 2010b, p.9). Besides, the project expected to shape the attitude of the civil servants operating within the administrative procedure framework in a much wider sense and promote adherence of civil servants to democratic values, ethics and the rule of law. Furthermore, it claimed that confidence in public administration, legal certainty, transparency and accountability, would increase as a result of the implementation of the GAPA.<sup>20</sup> The sustainability of the project relied on securing the necessary political support from the government and the funding for the training of civil servants at central, regional and local levels (project fiche). In terms of resources, the successful implementation of the project relied on the availability, professionalism and efficiency of the four members of staff in the Unit for the Implementation of the GAPA in the CSOA. The project fiche noted as a prerequisite that the CSOA executive management should ensure the implementation of adequate organisational measures and make human and financial resources available. The procurement notice was intended to be published in June 2009 upon fulfilment of these conditions.

#### **6.2.1.4. Other donors**

The CSOA has benefited from assistance provided by foreign governments and International donors. These included:

- Danish pre-accession assistance 2005-2007 ‘Public Sector Capacity Development’ (€1.8 million). This project built on the work of the CARDS projects by supporting the Education Centre for Public Servants (Civil Service Training Centre) in the development of training techniques and methodology. It also aimed to improve the overall human resources of the state administration. A permanent advisor was based at the centre during the implementation period; Danish pre-accession assistance was also available in 2008-2010 (€1.6m). It served the purpose of identifying special

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<sup>20</sup> For a comprehensive critique of the GAPA, see ‘Croatia Administrative Legal Framework Assessment’ May 2009, (SIGMA 2009a).



administrative procedures to be amended or repealed and proposing the most efficient method of harmonising these procedures with the new GAPA.

- A 2005 FCO project ‘Support to Public Administration Reform’ (€150,000), bridging CARDS 2001 and CARDS 2003.
- SIGMA assessments of legislative developments (PHARE 2006 project fiche, Enhancing Capacity of the Croatian State and Public Administration for Providing User Oriented Service).
- Swedish International Development Assistance funded a functional review of state administration bodies conducted by the Institute of International Relations.
- Technical Assistance Loan II – World Bank project – supporting consultancy services for functional reviews and pilot projects in Croatia (€0.18m).
- IPA 2007 ‘Development of Regulatory Impact Assessment’.
- CARDS 2003 ‘Capacity strengthening for Administrative Decentralisation’ (DG Enlargement 2010b, p. 10).

#### **6.2.2. Case study B: The influence of CARDS/IPA on human resources in the Central State Office for Development Strategy and Coordination of EU funds (CODEF)**

CODEF was established in May 2006 by a Croatian government decree which also set the departmental structure and the definition of roles for the sections in each department, leading to job descriptions for each staff member (CARDS 2003 2007, p. 26). It replaced a government planning office responsible for national policy. The setting-up of CODEF along with other state secretaries’ posts was an internal rearrangement of the Croatian Government not influenced by the EU (GOV1, ECD3), although there were recommendations by the European Commission (GOV2) (see also Box 5 ANNEX II).

Local consultants and Commission officials considered that CODEF lacked clear vision on its institutional role, and its influence especially on ministries has been diminishing in recent years (CON6, ECD3, and ECD4). Besides, they cited cases where emphasis was placed on secondary tasks outside CODEF’s main competences of strategic coordination of the funding (CON6).

#### **6.2.2.1. CARDS 2003: Support to National Development Planning**

The CARDS 2003 project ‘Support to National Development Planning’ had the purpose of enhancing ‘Croatia’s development planning and implementation capacity, through the elaboration of the Strategic Coherence Framework (SCF) and corresponding Operational Programmes, based on a wide consensus and in line with EU best practices and regulations’ (CARDS 2003 2007, p. 1). It had a budget of €1.6 million and lasted from 11 July 2005 to 31 December 2007.

The project’s specific objectives were: (i) to increase support for the development process and the capacity to deliver it through improved administrative coordination and enhanced provisions for involvement by stakeholders and the social partners, (ii) to create sustainable mechanisms for inter-ministerial coordination, (iii) to create a coherent and consistent legal basis for planning and implementation of national development measures established, (iv) to create a national development planning basis according to EU best practices and regulations, (v) to enhance the capacity of the Croatian administration for programming, as well as management and implementation of programmes in the framework of the pre-accession funds and the future Structural Funds, (vi) to create wide support among socio-economic actors, and (vii) to establish partnership arrangements as an integral part of national development policy and to meet the requirements of the EU partnership principle (CARDS 2003 2007, p. 1).

The planned results of the project were: (i) Institutionalised inter-ministerial coordination with its own regulation and functioning secretariat. An established mechanism of regular and systematic involvement and information provision to the Croatian political leadership about the national development planning process. (ii) Draft law prepared for programming and implementing the SCF and OP, consulted with European Commission and submitted for Government/Parliament approval. (iii) Strategic Coherence Framework (SCF) and corresponding Operational Programmes (OP) prepared in line with EC requirements (IPA regulations) on the basis of a wide participatory process, ready for approval by the Croatian Government and parliament. (iv) Capacity for programming increased in the Croatian administration, as well as management and implementation of programmes in the framework of the

pre-accession funds and the future Structural Funds. This includes development of analytical skills, process skills, expertise to create indicator systems, technical and financial management, monitoring and evaluation, and financial management and control. (v) Partnership arrangements established as an integral part of national development policy, including procedural regulations (CARDS 2003 2007, p. 2).

#### **6.2.2.1.1. Achievements**

Although much of the assistance under this project was concentrated in developing the planning and programming process, some of its components have potentially influenced human resources. In particular, objective (v), which was aimed at enhancing the capacity for programming, management and implementation of pre-accession assistance and Structural Funds, was realised mainly through training and transfer of skills. The project was reported to have achieved the involvement of Croatian authorities in the drafting of OP, programme and strategic documents over time (CARDS 2003 2007, p. 5). However, the focus of the project shifted three times – to reflect the introduction of IPA – and during the absence of an IPA implementing regulation, which hindered early efforts to support planning (CARDS 2003 2007, p.15). Institutional capacity-building activities constituted a separate work package. These activities comprised (i) help to identify IPA structures and specify roles and responsibilities, (ii) gap assessment in relation to IPA, (iii) gap-filling in relation to IPA, (iv) implementation of training programmes, (v) elaboration and update of operations manuals, (vi) design and establishment of a Croatian IPA and Structural Funds learning network, (vii) study tours, and (viii) gap assessment in relation to Structural Funds (CARDS 2003 2007, pp.41-44).

**(i):** Assistance was provided between May and December 2006 to help define an institutional structure for implementing IPA and clarifying roles, responsibilities and allocation of functions before progress could be made on staffing and systems of individual institutions. The formal establishment of CODEF by a government decree included the departmental structure and definition of roles for the sections in each department, leading to job descriptions for each staff member. A discussion paper on the ‘role and responsibilities of CODEF and managing authorities in IPA programming and implementation’ was based on guessed features due to the absence

of a final IPA implementing regulation (CARDS 2003 2007, p. 26). Once the first draft regulation became available, two matrices were prepared, which took each institution in the IPA structure, reviewed the requirements in the draft regulation and set out proposed functions for each stage of the programme management cycle. Institutional development took second place to programming as the top priority for IPA preparation until early 2007, but they came together through the descriptions of implementation arrangements for the draft SCF and OPs.<sup>21</sup>

**(ii) and (iii):** The stipulation of the IPA implementing regulation that accreditation should be approached as a process with a relevant roadmap, as opposed to a stable DIS or EDIS accreditation, meant that the CARDS 2003 project had to follow a parallel and iterative process of assessing development needs and meeting them through ‘gap assessment’ and ‘gap filling’ (CARDS 2003 2007). Of interest as regards human resources issues, a survey covering all CODEF staff was conducted in July-September 2006 to determine existing responsibilities, functions and tasks, existing baseline knowledge and skills, training and development needs and suggestions for improving the effectiveness of CODEF. A report summarising the results of the survey contained sets of proposals and ways forward in terms of training and personal/organisational development.

In addition, a series of workshops were held in the two IPA departments in the MELE as the lead ministry in RCOP and HROP with the purpose of planning and awareness-raising, as none of the departments or their staff had any previous experience of programme management (CARDS 2003 2007, p.29). These and other actions were necessary as part of the project’s support in the preparations for IPA accreditation,<sup>22</sup> with a focus on IPA Components III and IV and areas within CODEF’s responsibilities for programming, monitoring and evaluation, which also provided the main themes of the analysis of needs. Gaps identified in MELE were filled with systems, procedures and training (CARDS 2003 2007, p. 31). Functions were assigned on an individual basis, as for the accreditation auditors would follow

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<sup>21</sup> For the role of CODEF in IPA structures, see Chapters 3 and 7 description of IPA management and control system features

<sup>22</sup> Alongside a CARDS 2004 project in the Ministry of Finance.

the trail of each procedure to the responsible official. The project's specific contribution lies in the advice it offered to these two IPA departments in MELE on the allocation of functions by 'taking the structure of each department and drafting outline job descriptions, which ensure that equal functional responsibilities within that unit are assigned to specific staff'. A major obstacle mentioned in the final report was insufficient staff to cover all the required functions, which required the 'doubling up' of responsibilities (CARDS 2003 2007, p. 31). This problem persisted at the time of the fieldwork (GOV5, GOV6).

Moreover, the project implemented training programmes (iv), including one at the request of CODEF for economics and econometrics and a wider programme including planning techniques, monitoring and evaluation and programme cycle management for a broader audience. These programmes were passed on to the CODEF department for Preparation and Monitoring the Implementation of Development Strategy. The training delivered by the project team was in the form of nine workshops/seminars and focused on a specific foundation and technical skills for managing IPA and the Structural Funds and was aimed at CODEF and four operating structures (RCOP, HRDOP, TOP, and EPOP). The project team also helped (CODEF) prepare the operations manuals for IPA Components III and IV. The final report argues that procedures were developed with staff, not just for them, to ensure they 'own' the outcome and are able to explain the procedures (CARDS 2003 2007, p. 35).

In the design and establishment of the Croatian IPA and the Structural Funds learning network, the project advised on an on-going basis on the requirements of information and publicity under IPA and other EU funds, in the context of designing the IPA management system, drafting operations manuals and a study visit to UK. The CODEF website and a communication strategy were developed. Training was offered to four CODEF staff on the use of the website. Training was also offered to up to 40 officials on PR and interacting with the media.

The project also funded three study tours: the first in the UK for two CODEF staff, aimed at developing an understanding of best practice communication,

strategies and methods; the second in the Czech Republic for fifteen Croatian delegates, aimed at CODEF and the operating structures for RCOP and HRDOP (CODEF, MELE, MSTTD, MSES, MHSW, CFCU, Croatian Employment Service, Agency for Vocational Education and Training and the Agency for Adult Education) and focused on Structural Funds management; and a third study visit in Latvia aimed at CODEF and the operating structures for TOP, EPOP, as well as infrastructure projects. Finally, gap assessment with regard to the Structural Funds resulted in the development of a Structural Funds readiness strategy and Action Plan. According to the final report, the key theme was to identify benchmark staff levels to implement the SF. Projected financial allocations and OP estimates were used to identify institutions involved in the Structural Funds, as well as their roles and functions in order to 'project the administrative capacity needed to service the SF' (CARDS 2003 2007, p.42). This provided a target for each institution in terms of recruitment, training and system development.

An important output of work package 3 of the project was its report on the capacity of relevant institutions in Croatia to manage and implement IPA Components III and IV. The project report states that this assessment is a snapshot of the situation in December 2007, according to which IPA preparations should rather be viewed as a continuum in a shifting environment where other pre-accession instruments are being implemented; national, sectoral and regional policies and programmes were also present. In this environment, the report considers the accreditation process the only definitive examination of readiness and the conferral of management the 'only test that counts' (CARDS 2003 2007, p. 45). The analysis excludes final beneficiaries, as these are considered outside the 'circle' of IPA administration, and covers CODEF and institutions of the operating structures. The report defines the main criteria of the conferral of management as staff, procedures, laws and systems, thus excluding structures which are considered as given (CARDS 2003 2007, pp. 45-46).

**Table 12: Staffing levels for coordinating, managing and implementing IPA Components III and IV within CODEF and the Operating Structures (end of 2007)**

<b>Institution</b>	<b>IPA III and IV staff</b>
Central Office for Development Strategy and Coordination of EU funds	18
Central Finance and Contracting Agency (IPA Programme Section)	2
<i>Transportation OP</i>	
Ministry of Sea, Tourism, Transport and Development*	4
Croatian Railways	7
<i>Environment OP</i>	
Ministry of Environmental Protection, Physical Planning and Construction	6
Ministry of Agriculture, Forestry and Water Management	3
Environmental Protection and Energy Efficiency Fund	4
Croatian Waters	3
<i>Regional Competitiveness OP</i>	
Ministry of Economy, Labour and Entrepreneurship*	13
Ministry of Science, Education and Sport	5
Ministry of Sea, Tourism, Transport and Development	7
<i>Human Resources Development OP</i>	
Ministry of Economy, Labour and Entrepreneurship*	10
Ministry of Science, Education and Sport	7
Ministry of Health and Social Welfare	4
Croatian Employment Service	13
Agency for Vocational Education and Training	4
<b>All selected IPA Components III and IV institutions</b>	<b>110</b>

Source: Final Report CARDS 2003 project 'Support to National Development Planning'.

As it is reported, at the time 110 members of staff were engaged in the coordination, management and implementation of IPA components (see Table 12 above). However, the project report noted that in the absence of established practice, as in the Structural Funds, there is no benchmark to test the sufficiency of the size of IPA bodies in Croatia. The typical SF Managing Authority consists of at least 15

\* Includes Head of Operating Structure (state secretary).

staff and an intermediate body at least 30, but they are both in charge of larger and more diverse OPs and a more substantial volume of transactions respectively. Based on these remarks, the report concludes that the question of the appropriate staffing level can only be answered by reference to each institution, its role and functions as they should be depicted in the Human Resources part of the operational manuals (CARDS 2003 2007, p. 47).

Nevertheless, the report finds that the overall impression was that staffing in each institution is generally too low for the anticipated future workload. In the last six months of the project, staff levels were observed to increase, and in the HRDOP operating structure there was an upsurge from 16 in September 2007 to 38 in December that year. Besides, the report notes that low numbers of staff in specific functions, whose realisation falls late in the programming cycle, such as expenditure verifications, on-the-spot checks and evaluation, should not pose an immediate threat to the materialisation of IPA judging from a management perspective, as in the months following the end of the project design and set-up, project documentation, information and publicity, project appraisal and selection criteria and monitoring were a higher priority (CARDS 2003 2007, p. 55).

#### **6.2.2.1.2. Assessment**

In spite of training provided in the form of workshops and seminars, there have been some concerns about the overall effectiveness of these activities. A CODEF official stressed that providing the training is a necessary but not adequate condition for increasing capacity (GOV1). As the respondent argued, it also depends on retaining staff which have received training, and the mandate of the institution should remain stable. Another related aspect considered decisive by the interviewees, not just in CODEF but in general, is the quality of the consultancy work. Besides, according to the same CODEF official, measuring the quality of training in terms of number of workshops or attendees is problematic because it does not take into account if and how these skills are applied in each person's work. Therefore, assessment can only be done some time after the project has ended.



Another issue raised particularly by ECD interviewees, with regard to CODEF, was the debatable nature of CODEF's tasks and how they can be combined under the same institutional roof (macroeconomic matters and strategic planning office). ECD officials were critical of what they called 'addiction to technical assistance', which in their view is observed at a greater intensity in CODEF (ECD4). Despite the constant succession of TA projects, the personnel was considered incapable of drafting a project fiche (ECD3). This leads to strong dependence on consultants who do what the national institutions do not wish to do, usually the more complicated tasks. Eventually, this condition could put the sustainability of assistance in question (ECD3), as institutions are so dependent on consultants, which act as a replacement for capacity in weak institutions. This was also viewed as a weakness on the programming side, because TA cannot choose institutions strong enough to absorb assistance, whereas those who do the programming assign the most difficult tasks to TA (ECD4).

The ECD officials stressed that people who deal with assistance will find that one of the most important preconditions for giving a project to a certain institution is for that institution to have sufficient capacity to absorb the assistance. On the other hand, those who establish political priorities on the grounds of which programmes are determined will find that lack of capacity is the most important argument to provide the capacity. In practice, the officials noted, the weaker the institution or sector, the greater the chance that it will get the project and that the project will be difficult to implement, for the exact reason of weakness in the institution. In the officials' opinion, it is crucial for the institution to be able to build its resources during the lifetime of the project or even before so that the assistance can land softly and can be absorbed. However, this was impossible in Croatia because of the decision of the government not to increase the civil service for fiscal reasons, and the lengthy recruitment procedure which hardly leaves the consultants a chance to train them. As a result, the view from the ECD staff was that with CODEF the assistance has been focusing on rather similar things for eight years (ECD4).

On CODEF's role in coordination, interviewees commented that its ability to coordinate was not certain, as CODEF lacked power to influence things, and could

for instance admonish the Ministry of Transport for underperformance. As regards the staff turnover problem, it was also evident in CODEF and, according to interviewees, in the ECD, in 2005: 75% of staff in CODEF changed (ECD3, ECD4). In December 2008, the total number of people employed in IPA (including CODEF) was less than 200. Some of those working on IPA III and IV also worked on IPA I. Another issue was the destination of leavers from the state administration. Reportedly, there is a brain-drain to consultancies from people who received assistance (ACA2).

### **6.2.3. Case study C: The influence of CARDS/IPA on human resources in the Central Finance and Contracting Unit/Agency (CFCU/CFCA)**

The CFCU was created under the CARDS system as a department of the Ministry of Finance in 2001 (Department for Financing EU assistance programmes and projects/CFCU), following a MOU between the Croatian Government and the European Commission. The CFCU was accredited to operate in a decentralised manner in 2006. After the accreditation of pre-accession for CARDS and PHARE, the National Fund and associated internal audit was established (GOV12)(European Commission 2006a, p.3). Its role has been critical in the EU funds system, as it is the body performing the tendering and contracting.

In the beginning, when the MOU was signed, the CFCU benefited from centralised EU technical assistance managed by the EU Delegation and offered by five consultants (GOV12). However, the workload was not heavy at the time, as only several projects were decentralised. The consultants were invited to stay, but they rejected the offer because of the salary issue (GOV12).

#### **Staff turnover problem**

The Unit faced serious staff turnover issues, and most recruitment processes fell short of the requirements. The department started with 7-8 people, and there was no segregation of duties between contracting and procurement, no separation of functions with accounting and financial specialists. The fluctuation of people also negatively affected the institutional memory (CON6). As the CFCU grew, it could

not satisfy the EU requirements for adequate staff because of the lengthy civil service selection process of nine months. As a MFIN official noted, it was impossible to hire for instance ten additional staff in the five years that the CFCU was part of a ministerial department, because as soon as an opportunity arose in the private sector (offering quadruple salaries), staff left (GOV12). As a result, in every single year there was a vacancy of ten, of which only three could be covered through recruitment.

### **Suspension of funding and formation of the Central Finance and Contracting Agency (CFCA)**

As problems from CARDS accumulated, the implementation of PHARE was also hindered. For instance, the dossiers submitted to the delegation for approval were of a low standard, which led to a suspension of the decentralisation and funding for almost a year (ECD1). This prompted a government decision to transform the CFCU into an agency, the CFCA, in August 2007 (Vlada Republike Hrvatske 2007; Central Finance and Contracting Agency 2008, p. 3). In the case of the agency, the law on institutions would apply instead of civil service laws, thus allowing a different salary structure without adherence to the coefficients existing for the ministries and therefore facilitating the recruitment of recent graduates.

#### **6.2.3.1. CARDS 2004: ‘Support to the National Authorising Officer and National Co-ordinators in Decentralised Implementation and Management of EU assistance’**

The CARDS 2004 Technical Assistance project ‘Support to the National Authorising Officer and National Co-ordinators in Decentralised Implementation and Management of EU assistance’ served the purpose of developing administrative capacity in the Croatian state administration to efficiently use the funds in the EU pre-accession process and to strengthen Croatia’s absorption capacity (East West Consulting 2008, p. 7). The project operated from 27 March 2006 to 26 October 2008. The project’s budget was €3m.

The specific objectives of the project were to facilitate a smooth running of the then newly-accredited DIS system for the management of pre-accession funds in Croatia, the ability of the system to absorb EU funds and respond to the challenges arising from Croatia's progress in the accession process, and changes in financial instruments for its support (East West Consulting 2008, p. 7).

A further objective was to fulfill the minimum requirements for the implementation of IPA and to set up all the necessary elements of the IPA management and control system and develop them to a sufficient degree to allow the European Commission to conduct the necessary verifications to accredit DIS for implementation of IPA at the request of the NAO. The project's planned results are described in Box 6 (ANNEX II).

The project consisted of six components: (i) horizontal activities, (ii) support to NAO/Deputy NAO, (iii) support to the National Fund, (iv) support to the CFCU in procurement, (v) support to the CFCU in finance, and (vi) support to NAC/NIC in monitoring. In the text below, the focus is on components four and five, which affected the CFCU (East West Consulting 2008, p.19) (see Box 7 ANNEX II).

#### **6.2.3.1.1. Achievements**

The project's final report claims that six of the ten planned results have been achieved; the result of improved monitoring reports (7 above) has been largely achieved, while three results were not achieved. In particular, the planned results regarding the CFCU (4 and 5 above) were not achieved. Finally, a local mechanism of accredited trainers (10) was not established (East West Consulting 2008, p.10-13).<sup>23</sup>

As regards the CFCU, the final report recognises that achieving the desired result related to procurement was outside the impact of the project's activities. However, it argues that to the largest possible extent support has been provided in building the CFCU's administrative capacity and expertise, and it blames the lack of

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<sup>23</sup> Consultants were offered posts by the ministry, but they declined because of the low salaries (GOV12).

adequate human resources in the CFCA and required quality of performance in the case of procurement transactions for the failure (East West Consulting 2008, p. 11).

Although the project was not successful in bringing the planned outcome, some of its activities have revealed the extent of the human resources problems the CFCA was facing and paved the way for the subsequent reform. Namely, a 2006 job satisfaction survey conducted for the CARDS project identified several key problems faced by Croatian civil servants working in the field of EU assistance. The survey showed an overarching tendency to leave the organisations examined, i.e. 84% of the respondents would leave immediately if they found a more attractive job. The main reasons the civil servants stated comprised low salaries which did not take into account actual performance, an incomplete system of personnel development and training, and an unevenly high workload (East West Consulting 2006, p. 4).

Furthermore, the survey found that a good majority of the respondents proposed the separation of the Ministry of Finance and the CFCU as a solution, ensuring higher autonomy for better working conditions. While they declared to be satisfied with their jobs, its importance and their teams and supervisors, they were extremely concerned about their low salaries, citing this as a main reason for resignation (East West Consulting 2006, p. 72). Besides, more than half were prepared to leave because of the high and unevenly divided workload which overburdened more senior staff. This was also given as a main reason for not attending training sessions for the section of the staff that had a training plan. The situation regarding the attendance at meetings, satisfaction with top managers, and organisation of work was reported as problematic. Finally, there was some inconsistency of the findings from the CFCU with those of the National Fund, which at the time belonged to the same institution (Ministry of Finance).

Nevertheless, the programme faced major obstacles in implementation and was temporarily suspended on 22 December 2006. The final report does not provide the particular reasons behind this (East West Consulting 2008). The suspension was withdrawn on 26 February and was followed by a revision of activities and outputs as well as an extension of the project until the end of June 2008. An additional

extension was granted until 27 October 2008 at the request of the NAO and the contractor, with a view to supporting the beneficiary counterparts through the period of the IPA accreditation process (East West Consulting 2008).

The resumption of the CARDS project coincided with the establishment of the National Fund. An Estonian and a Polish consultant were appointed (the latter was head of the procurement division of the CFCU in Poland) (GOV12). Despite the assistance of the consultants, the CFCU received rejections in the ex-ante control of the EU Commission, because the PRAG templates were not followed correctly (GOV12). The rejection rate was high at the time, because capacity in the ex-ante control department within the CFCU was limited to three or four persons, and the staff that performed the control was not qualified or knowledgeable (GOV12). The assistance helped in establishing some of the rules and learning practice. However, despite having the TA and trying to send some of the staff to the ECD for practice, the rejection rate could not be reduced (GOV12).

The CFCA was the only agency dealing with CARDS projects in the decentralised management system (ECD2). When the CFCU was in the Ministry of Finance, it employed 20-25 persons; a month after the agency was established, it employed 58. It took only two to three weeks from the publication of the vacancies until the final selection of candidates (GOV12). Since 2008, when the CFCA became independent from the Ministry of Finance, the agency has been constantly increasing its capacities (ECD2). The CFCA has grown from 20 to 100 people (ECD3). However, a problem in the early period after the establishment of the CFCA was the lack of experience of the young staff (ECD2). One respondent also mentioned the increased burden of the CFCU staff to perform and implement PRAG rules and become acquainted with EU funds as one of the main reasons behind the decision to restructure (ECD2). However, a MFIN official noted that CFCU staff had received training in PRAG and other regulations (GOV12); the final report corroborates this assertion (East West Consulting 2008, pp. 48-49).

### 6.2.3.1.2. *Assessment*

The CFCU was a case where a CARDS project has not been able to fully deliver its planned results. Several impeding factors include the inherent staff turnover issue (attributable largely to low remuneration, lack of job satisfaction and poor management), which hampered the development of the CFCU's capacities. The shifting nature of the project's objectives also played a negative role in limiting its potential impact. However, to do justice to the project, as indicated above, towards the final year it tried to rise up to the challenge of preparing for the IPA accreditation process, procurement and contracting. It is unclear whether the introduction of the IPA took place in an orderly way that would allow on-going Technical Assistance projects to gear their focus towards strengthening capacities in view of the new instrument. The *de facto* simultaneous implementation of a multitude of overlapping pre-accession instruments (CARDS, ISPA, SAPARD, PHARE) was an inevitable impediment imposed by EU decisions. Whereas between these instruments (esp. CARDS and PHARE) the rule was similarity of a project-based approach, IPA was a complete novelty, as its multi-annual programming approach is geared towards the Structural Funds. As indicated, rapid adjustment to the new environment was out of the question for the weak Croatian MFIN.

The EU definitely supported the decision to separate the CFCU from the MFIN (GOV12). However, interviewees identified some potential pitfalls of the decision to grant independence to the CFCA (GOV1). Their main concern was that if such a process is not systemic, it could create competition within the system where people simply move between agencies or ministries. Furthermore, attractive remuneration is only one of the incentives to stay within the system, the other being good strategic management and clear overall guidance and direction, which would strengthen the sense of purpose (GOV1).

On the other hand, some interviewees from the ministry stressed the importance of consultant quality, which varies in practice, with some consultants seen as being largely theoretical (GOV12). Other interviewees, themselves consultants, argued that individual consultants may also be held responsible for not building sustainability (CON6). According to the MFIN official, what mattered most

during the early stages of the CFCU was not training seminars but rather learning by doing (GOV12).

Besides, another point emphasised by interviewees regarding technical assistance in general was that coordination of TA was sometimes weak and there was no institutional memory (CON6). Other respondents suggested that the EC should have been presented with stronger demands from the Croatian administration when they were receiving Technical Assistance and stronger monitoring procedures after the contract had finished (CON5). Moreover, one interviewee expressed the view that the CFCA was seen by other stakeholders as passive in the management of projects in comparison to the ECD and suggested that perhaps more pressure should be put on the CFCA to follow the implementation of different TAs (CON5).

Despite the shortcomings faced by the CFCU, the CFCA was widely perceived as a successful case of a Croatian organisation developing its required capacity. According to a respondent from the field of consultancy, the CFCA developed the institutional wit, knowledge and capacity to do EDIS (CON6). It was perceived as doing its work well although sometimes it was slow, strict or rigid because of the ex-ante controls of the ECD. The CFCA was viewed as the best among the Croatian institutions. The CFCA staff is young, and considered to be hard-working and motivated (CON6). There was a lot of in-house education and education in foreign countries to develop the capacities, and all 100 of the staff had undergone serious training. The CFCA also has a department for quality control unheard of in other Croatian public administration institutions, as well as a HRD department (CON6).

Finally, major pressure was exerted on the Croatian administration by the different role of the CFCA between the CARDS/PHARE and the IPA systems. Under CARDS and PHARE, the focus was on capacity-building efforts in the CFCA. The European Commission's efforts and the pre-accession projects were also directed towards this cause. There was also a period of uncertainty about the extent of the role of the CFCA in the new system. The result was that, in the IPA system,



the CFCA is just one of seven implementing agencies with their respective capacity-building needs (ECD1).

#### **6.2.4. Case study D: The influence of CARDS/IPA on human resources in the Ministry of Regional Development**

The MRDFWM was a relatively young ministry, formed in January 2008 (see Box 8 ANNEX II). The Ministry's competences previously belonged to the Development Directorate of the MSTTD. Prior to that, different ministries were responsible for regional development: 'titles were changing but the scope of the activities was always within one ministry at first the ministry for regional development and reconstruction, then the ministry of public works, then the MSTTD and latest the MRDFWM' (ECD2). Restructuring always occurred after elections (ECD2). The peculiar composition of the ministry's portfolio was connected to political issues.

##### **6.2.4.1. CARDS 2002 Strategy and Capacity Building for Regional Development**

The CARDS 2002 project 'Strategy and Capacity Building for Regional Development' had a budget of €2 million. The purpose of the project, according to the CARDS 2002 Financing proposal, was: 'to contribute to the development and implementation of Croatia's regional policy in line with EU principles and practice, through the development of a national strategy and strengthening institutions and relevant actors in regional policy formulation and implementation'. The main objectives of the project were: (i) the development of a National Strategy for Regional Development and corresponding Action Plan, (ii) the reinforcement of the institutional capacity of central and subnational institutions that are active in the field of regional development, and (iii) the establishment of a system for producing regional accounts including adequate staff training (European Commission 2002a, p. 11).

The project's TOR cite the provision of Technical Assistance to the Ministry in 'the development and implementation of Croatia's regional policy in line with EU principles and practices' as the overall objective of the project. The specific

objectives were to: '(i) Develop a National Strategy of Regional Development and corresponding Action Plan. (ii) Create an appropriate legal basis for Croatia which meets Structural Funds requirements.<sup>24</sup> (iii) Establish and strengthen appropriate institutional structures, coordination mechanisms, capacities and procedures for strategic regional planning at national, regional and local level, including for cross-border cooperation. (iv) Foster a culture of partnership among institutional and other stakeholders on and between national and regional levels. (v) Fully prepare relevant related projects' (CARDS 2002 2003b, p. 7).

#### **6.2.4.1.1. Achievements**

1. Reinforcement of institutional capacity of central and sub-national institutions.

Through the CARDS 2002 project, the directorate received Technical Assistance for the preparation of the first draft of the strategy (GOV7). An inter-ministerial coordination group was established as the central steering body for the preparation of the NSRD, comprising senior officials from all key government institutions chaired by the state secretary of the MSTTD (ECORYS 2005). Three working groups were formed: a strategy working group, a legal working group, and an institution-building working group. The last one met only twice, and much of relevant work was carried out by the senior management team in the MSTTD, which worked effectively to build management structures for regional development policy (ECORYS 2005). A National Partnership Group was also involved in the consultation process, bringing together local and county self-government, social partners, central government and civil society. However, attendance varied due to local elections in spring 2005 and the lack of a consultative structure within central government.

An analysis of regional development was conducted in which the institution-building team applied a tool developed by the Netherlands Economic Institute (later ECORYS) to assess capacity in the management of the SF based upon critical stages in the policy cycle: management, programming, implementation, monitoring and

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<sup>24</sup> The National Strategy for Regional Development and the legal basis for the Structural Funds' requirements are not discussed here because the main focus is on human resources.

evaluation and financial management and control (ECORYS 2004a). According to a project report, it helped to measure capacity in terms of existing structures, systems/tools and skills in a broadly objective and practical context (ECORYS 2005).

A project report mentions that, in autumn 2004, considerable effort ‘was directed at building skills across all of the key ministries and central institutions in developing policy tools – new measures and actions – particularly for use in the disadvantaged areas’. However, it was noted that this would require more resources available to the project and more time ‘to secure political commitment’ (ECORYS 2005). The last stage of the project in autumn 2005 is also of interest, when the concentration was on developing an action plan for the 2006-2007 period. The plan included a decision that a Directorate for Integrated Regional Development should be established in the MSTTD. While it generally followed the structure of the NSRD, it focused on particular steps including cost and human resource implications (ECORYS 2005).

The same project report claims that capacity-building at all levels for the effective management of the NSRD was promoted throughout the project, utilising a learning-based overall approach also including the project team (ECORYS 2005). It is argued that ‘learning took place through the active commitment to consultation, participation, appraisal and review – involving stakeholders [...] from central government, county and local self-government, social partners and civil society in the dialogue and debate leading to the preparation of the NSRD’. Namely, county and local self-government officials took part in a number of consultations, awareness-raising and information workshops. Also, those involved in programming across the ministries participated in a skills-building effort consisting of training workshops in measure-building, setting indicators, and evaluation for measuring effectiveness. Besides, the report notes that members of the ex-ante appraisal team took part in several workshops on the use of evaluation and appraisal techniques. The report maintains that the partnership group members were able to develop skills in effective consultation (ECORYS 2005).

Furthermore, according to the aforementioned report, senior managers from the MSTTD, other ministries and central government institutions participated in seminars and workshops on typical institutional arrangements and management requirements for the effective use of EU SF in the future. The report notes that these sessions contributed to the final decisions as regards managing national and regional development in Croatia. Finally, three study tours to Ireland, Northern Ireland and Finland are reported to have taken place with the participation of senior policy makers from the MSTTD, MFIN, MEI and some members of the project implementation unit (PIU) and project team. The tours are said to have focused on regional policy, institutional structures, roles for managing regional policy, and strategic and policy issues.

**(a) Staff turnover, Skills and competence of staff**

According to officials interviewed in the Directorate of Integrated Regional Development, the CARDS 2002 helped with the transfer of best European practice (GOV7). The same sources considered the implementation of the CARDS and PHARE projects as being of great benefit to the directorate, but also noted the key role of the decision-level for keeping people within the system. Another positive effect of the project was reported to be a strengthening of the coordination capacities of the ministry concerning regional development through following the best EU practice on partnership and coordination.

The officials interviewed stated that some of the staff in the directorate had a long history in the implementation of EU funds and also noted that there was experience in CBC (GOV7). The respondents identified the problem of staff turnover as one of the major problems for the sustainability of EU policy. The process of staffing the directorate started in the beginning of 2000 with two or three persons, until it reached its present large size. However, since 2008 the directorate faced a problem of staff turnover with people constantly leaving the ministry while new staff was recruited. An ex-ECD official added that the directorate reached a number of 15-20 very good staff at one point, but there was no support from the political level, the director was frustrated, and the staff left (ECD1). In this person's view, capacity improved until 2005 with 2006 as the peak, but since then it decreased; at the time of

the interview (2008), capacity was considered to be very poor (ECD1). However, the MRDFWM interviewees attributed the problem to the Croatian law on civil servants and the salary policy, not to a weakness of the CARDS project, admitting that the system of salaries for civil servants was very rigid. With regard to the skills of the people, while each Technical Assistance was seen as bringing its own results, one of the major overall results of the EU accession funds was considered by the same source to be not only the lessons learned but the whole process of learning by doing (GOV7), which, as mentioned before, was also stressed by interviewees at the MFIN (GOV12).

Another issue raised was that, on one hand, TA was a constant in the state administration, and on the other hand the turnover of people was very intense in the public administration, citing the very low salaries (ACA3). The respondent argued that especially those civil servants with postgraduate studies abroad and foreign language fluency were seriously underpaid – working for €500-600 per month while consultants earned €200-300 a day – which was considered demotivating and made employees unwilling to keep their positions for long (ACA3).

A senior official interviewed at the directorate referred to the existence of a consensus among the directorate's officials, that the process of establishing a strategy for regional development should be harmonised with best practice in the EU and take consideration of what lies ahead regarding capacity-strengthening and preparedness to implement pre-accession, Cohesion and Structural Funds (GOV7). This estimation was corroborated by an interviewee who was formerly at the European Commission Delegation, who praised the role of the Director in building the Department for Integrated Regional Development (ECD1). In addition, local consultants stated that the Ministry of Regional Development was heavily involved, and the staff knew a great deal about the procedures and preparation of projects, project fiches etc. (ACA3). This was in agreement with the views expressed by the senior level of the directorate.

### **(b) Lack of political support**

A major obstacle recognised by the Directorate for Integrated Regional Development was the marked difference in the understanding of the process of project implementation between the operational or lower level and the higher, decision-level. Project requirements were very well recognised at the operational level, but the higher level lacked understanding that clear procedures should be followed for the smooth implementation of EU projects (GOV7). The interviewee cited long experience in the state administration and implementation of EU funds to argue that there was not enough support from the political level for the activities undertaken at the operational level (GOV7).

This account is further corroborated by a former official at the EU Delegation at the time of the project implementation, whose outlook was that the NSRD was designed under the guidance of the Director for Integrated Regional Development and would have brought the national policy into line with EU requirements. The respondent gave two reasons for the non-approval of the strategy by the political level: (i) their lack of understanding, and (ii) the state secretaries' disagreement with a strategy which they see as reducing their control over the management, flow and allocation of funds. The interviewee saw the main reason behind the lack of political will for adopting the strategy in the consideration that it would bring Croatian regional policy in line with EU requirements of transparency and accountability through consultation with partners and stakeholders (partnership), and thus it would reduce the scope for arbitrary political interventions which are subject to cronyism (ECD1).

Perhaps this phenomenon may be detrimental to the success of capacity-building efforts as a whole. As the interviewee noted, the Commission works on a fairly low level in terms of counterparts, as ministers and the prime minister rarely meet to discuss what needs to be done either because they are not interested or they do not understand. The Commission wants the establishment of a system of managing funds in Croatia. Although the Croatian authorities provided a structure similar to the EU system, which was 'the one shown to the EU' and was tolerated by the system, another system ran in parallel. The latter was not transparent and was

subject to favouritism, and it was through this route that Croatian resources were channeled even in the case of investing in regional development (ECD1). In the interviewee's terms, the parallel running of the two systems was 'a disaster'.

### **(c) Managing TA and consultants**

Problems were reported with regard to the receptiveness of Croatian institutions to TA and consultancy. A respondent close to the Directorate for Integrated Regional Development expressed the view that the Directorate did not do its best to get the maximum from Technical Assistance because its knowledge of managing the consultants needed improvement (GOV7). It was argued that capacity is better in cases where there is experience with more than one Technical Assistance project, but in the first TA institutions are not well prepared to manage the consultants. The interviewee concluded that strengthening the capacity to manage the consultants should be a priority (GOV7). Another point made was that the sustainability of the results of the projects should be improved, especially by addressing the problem of the government retention policy (GOV7).

### **(d) Department for Cross-Border Cooperation**

In this particular sector, weaknesses were reported. An official familiar with the Ministry of Regional Development reported that the Department for CBC had very low capacities, it comprised of four-to-five people who '[did] not have a clue' and therefore everything was run at the political level (ECD1). The conditions of this department were again considered as an example of lack of interest in capacity-building at the political level (ECD1). Another source, from the consultancy sector, reported that on the Technical Assistance Project<sup>25</sup> CARDS 2004 'Institution and Capacity Building for CBC' – CBC Croatia, responsibility was shifted from one ministry to another. It was originally with the Ministry of European Integration, then it was moved to the MSTTD, and finally after elections the ministry was split and CBC went to a reorganised ministry with new competences (CON1).

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<sup>25</sup> Institution and Capacity Building for Cross-Border Cooperation in Croatia (MSTTD, project led by WMEB) which is providing technical assistance and training to national ministries, counties and other relevant actors for establishing a coherent system of management and project development capacity in all Croatian regions that are eligible for cross-border cooperation (CARDS 2004 2007).

#### **6.2.4.1.2. Assessment**

The personnel at the Directorate for Integrated Regional Development were competent and well qualified, but their initiative was suppressed by political inertia and considerations of the political cost. The very positive role of the MSTTD PIU, especially at senior management level, was also mentioned in the CARDS 2002 project reports (ECORYS 2005). Despite these eager efforts, policy-making was a very slow and often inconclusive process. As a result, the ministry still lacked both law and policy for regional development at the end of the fieldwork period (July 2009).

As the respondents commented in depth above, the issue of the NSRD and the relevant law was quite controversial in Croatia, as it could affect the allocation of funding to sub-national regions. In election periods (as in May 2009), progress stalled. It was also difficult for the civil servants to share policy documents. Their advice was to wait until the policy and the law would be uploaded onto the Ministry's website, which could take two weeks from mid-June. However, on July 6, 2009 the head of the government changed. The fate of the strategy was uncertain, although more weight was given to the implementation of the Action Plan for Chapter 22. The issues of decentralisation, regional development and the formulation of a relevant strategy were covered in Chapter 5. The civil servants also stated that recording an interview about issues of official policy requires a formal application; otherwise views expressed are only personal.

The Ministry of Regional Development was also affected by the change in the management and implementation structures for IPA. As an interviewee noted, initially DG Enlargement supported by the delegation recommended using the CFCU for the management of IPA II. This would follow the system of CARDS and PHARE which went in a different direction in the initial phases of IPA. In the beginning, the EU direction was to keep the CFCU for a while and then move to a more decentralised approach (ECD1). Later on, auditors from DG Regio or even DG Enlargement recommended an Implementing Body in the Ministry of Regional Development. In the new system, there is a series of new structures, each with its



own implementing body,<sup>26</sup> whereas the previous system focused on the strength of the CFCU. The respondent referred to the need to set up structures with sufficient capacities and provide the necessary resources to manage a large amount of funds in order to get accredited. On the other hand, in reality these institutions manage small amounts of funds through pre-accession assistance. In the respondent's opinion, this led to an obligation to build a system where many people would have very little work, and the Croatian institutions were seen as struggling because they had to deal with themes that they had not expected.

Another comment made as a general remark on Technical Assistance, not pertaining to the CARDS 2002 project, was that at the very beginning the Croatian administration was very much in need of Technical Assistance in order to reach a certain level of knowledge and expertise and capacities to be able to deal with twinning (ECD2). In the first years of EU assistance, TA was reportedly seen as the most appropriate instrument, but with the advance of the projects and the Croatian public administration it was used much more. The state administration did not favour twinning in the beginning, because it was using TA as a replacement for staff, but in the case of twinning the twinningers would not do the ordinary tasks but would advise on how it should be done. The interviewee's view was that the climate was changing, that awareness was increasing, and twinning was seen as quite a good instrument because the twinning country's administration would become accessible, revealing how they were operating and dealing with the European Commission (ECD2).

#### **6.2.4.2. CARDS 2002-2004 projects: Sustainable Development in Return Areas and Sustainable Development in Areas of Special State Concern**

There have been three CARDS projects supporting sustainable development in return areas, areas of special state concern and war-affected areas. Under CARDS 2002, a project on 'Sustainable development in return areas' amounted to €14 million. Similarly, a project on 'Sustainable development in the return areas' was funded from CARDS 2003 with €15 million. Finally, a CARDS 2004 project on

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<sup>26</sup> These include the CFCU, the Ministry of Regional Development, the Ministry of Transport, the National Employment Agency, and the National Agency for Vocational Education (ECD1).

sustainable development in areas of ‘Special State Concern’ received €14 million (Novota *et al.* 2009, p. 29).

Over the course of the years, the focus of these projects has shifted from initial reconstruction and restitution needs for refugee return to regional development programmes with emphasis on strengthening the capacities of the relevant counties.

The purpose of the CARDS 2002 project ‘Sustainable Development in Return Areas’, as stated in the CARDS 2002 Financing proposal for Croatia (2002,p. 5), was ‘to make a significant contribution to the sustainability of returns of refugees and displaced persons, especially of minority groups, through promotion of economic revitalisation, enterprise development, job creation and social inclusion’. The specific activities funded by the project consisted of the following: ‘ (i) Support to existing and potential entrepreneurs and cooperatives by adequate training and advice, (ii) Improvement of basic public and business infrastructures to support local entrepreneurs and cooperatives, and attract outside investments in an environmentally sound context, (iii) Mine clearance where necessary to enable rehabilitation of facilities, (iv) Strengthening local governments and enabling them to effectively manage local development, foster income generating activities and enhance equitable distribution of resources in cooperation with civil society groups, (v) Improving quantity and quality of community-based programmes and to promote new forms and initiatives in community-based activities, (vi) Promoting social inclusion, and (vii) Widening and deepening of partnerships for local economic development between the public, private and non-governmental sector’.

#### 6.2.4.2.1. *Achievements*

##### (a) **Influence on counties**<sup>27</sup>

A positive overall influence on the counties was acknowledged. A former ECD official named the refugee return programme as the starting point of EU assistance to the counties (ECD1). This served one of the SAA political criteria, but it was done on an *ad hoc* basis in the form of donations to individual refugees. Later, under the initiative of the ECD, there was a shift from a charity approach to a more mid-to-long-term regional development approach. In 8 of the 21 Croatian counties, the CARDS project supported county-based development programmes, capacity-building at county level, project management and the establishment of county partnerships (ECD1). The aforementioned official involved in the project noted that training was delivered in such a way that people understood how the EU works (ECD1). At the beginning of the project, the interviewee noted, local governments were unaware of what constitutes a project in EU terms. Until the implementation of the project, strategic programming and the identification of priorities and measures from which the project derives were reportedly unknown to them, as projects up to that point had an infrastructural nature such as road-building.

The project has also enhanced the collaboration between the MRDFWM and the counties. An official close to the Ministry of Regional Development confirmed that it was involved in the implementation of the coordination of the CARDS 2002, 2003 and 2004 projects for sustainable development in areas of special state concern (GOV7). As it was a centralised project, the beneficiary was not the ministry but the counties in areas of special state concern. The ministry was responsible for coordination and technical implementation of the project, not the financial implementation. The counties sent regular reports to the ministry on how the project was implemented and approved the narrative part of the implementation report.

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<sup>27</sup> Sustainable Development in War-Affected Regions, County Development Capacity and Management (MSTTD, project led by ECORYS) which was providing Technical Assistance and training in four counties (Požega, Slavonski Brod, Karlovac and Lika) in setting up PMUs for socio-economic development in the counties and helping these and other relevant stakeholders to prepare development projects for international and national funding CARDS 2004 2007. Regional Development Capacity Building Facility in Croatia: Abridged Inception Report Zagreb CARDS 2004 2007.

Positive learning effects were reported. Another interviewee's opinion was that the CARDS programme<sup>28</sup> made a large difference, especially in terms of learning and understanding how to move beyond the ad-hockery and 'agree on a county basis some strategic development objectives and identify projects, communicate with stakeholders etc'. The interviewee emphasised that although the CARDS programme worked with the eight poorest counties, which could be assumed to have the weakest capacities, their capacity became stronger than in some other counties because of the EU programmes. Subsequent experience with assistance to other richer or better counties in terms of capacity proved that those eight counties had learned a great deal (ECD1).

The project improved administrative capacities in target counties, but human resources problems were also encountered. The MRDFWM interviewee also shared the view that administrative capacity improved at the county level, especially in understanding the whole process, and particularly in counties that received Technical Assistance (GOV7). In the respondent's view, the same problem existed at the national and county levels as regards retention of the people involved in EU assistance. In addition, the interviewee mentioned that the importance of retaining these people was not understood, because through the project the counties received help or finance for concrete investment as well as TA for those counties lacking capacity and relying completely on TA and consultants' help for the preparation and implementation of the project (GOV7). The interviewee argued that the impact of the project differed from county to county, but in any case the situation had improved in comparison with the period before the implementation of the project. The level of improvement was considered to be dependent on the understanding of the importance of the project in the respective county (GOV7).

The counties involved were initiated into regional development approaches, project management and programming. Another source close to the Ministry of Regional Development and the ECD noted that in the counties that received CARDS

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<sup>28</sup> The interviewee's reference to the CARDS programme as a whole should be considered as a reference to the specific CARDS projects examined here, because it was the main instance of CARDS assistance to counties.

assistance, the county administration had the opportunity to learn about the SF and their management as well as the management of projects, project-cycle management and programming activities (ECD2). As the interviewee noted, apart from development projects, infrastructure projects were financed from CARDS, for example for supply systems, roads, buildings and housing. The counties in focus were part of the areas of special state concern (war-affected areas). According to the respondent, the projects were carried out in order to promote socio-economic development and help the counties overcome problems they were facing due to the consequences of war. The interviewee emphasised that, although these counties were not well developed and lagging behind, with CARDS assistance awareness was raised, knowledge was created, and county council partnerships were established. In general, the interviewee believed that there were positive developments in these counties, especially in view of their very low starting point and heavy war damage. In addition, capacity at the regional level was considered to be mixed. In the respondent's opinion, the capacity of the municipalities as future beneficiaries is problematic and should be improved. In the case of projects which should come from the bottom level, civil society and small municipalities, the interviewee concluded that if the capacities are still insufficient, Croatia may face absorption problems with the SF in the future.

**(b) Istria, Varaždin, Međimurje counties**

It is commonly recognised that there is not a uniform level of capacity in the Croatian counties. A respondent from a Croatian research institute and consultancy expressed the view that capacities at the local and regional levels differ considerably (ACA3). In addition, an interviewee close to CODEF confirmed that capacity and knowledge of EU funds differs from county to county, not only in general terms of knowing what it is, but also in working with EU funds in practice (GOV1). The respondent attributed this variability to whether a county has already had a close encounter with an EU project (GOV1). While there have been plenty of opportunities through different grant schemes funded through CARDS, PHARE and IPA to have new projects proposed and implemented, it was reported that there has been more interest in some counties and less in others in terms of even applying for projects (GOV1).

Some counties were portrayed as being very developed and involved and trying to draw as many funds as possible: Istria and Varaždin were considered to be quite good, because they managed to find the resources to establish new agencies, hire new staff and establish projects (ACA3). This view was shared by an interviewee close to the European Commission Delegation, who singled out the county of Istria as doing well in terms of the EU pre-accession funds, implementing many projects, most of which involved CBC and receiving bilateral assistance from Italy (ECD2). The interviewee also made positive references to the counties of Varaždin and Međimurje as regards their institutional capacity and socio-economic situation.

In Split-Dalmatia, the perceived results were poor. An interviewee in the Split-Dalmatia County, while mentioning the positive exception of Varaždin, expressed the view that transfer of knowledge to the local level was not so good and that work with local governments was particularly poor (ACA1). The respondent lamented that people at the local level knew nothing about the EU. Moreover, concerning the effects of CARDS/PHARE, it was noted that the networks established were neither effective nor functional, and that what should have been done was to train people and strengthen the capacities to ‘digest’ EU processes. The interviewee suggested that although this effort may have succeeded in Zagreb and neighbouring areas in Split-Dalmatia, there were not many effects. Finally, the respondent emphasised that the ministries recently hired people with broad faculty qualifications, and not those trained for the EU projects. On the other hand, the older generation of ministerial employees trained in project-cycle management is now offering its services to the ministries from positions in the private sector. The contact alleged that they are using the training they received while at the ministries and the network they developed to lobby for their application when there is a public call. Because of the limited competence of the ministries, a market has emerged especially with regard to applications and calls.<sup>29</sup>

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<sup>29</sup> Consultancies were charging €10,000 to €12,000 to fill in the forms. This put a financial strain on SMEs that wanted to benefit from projects, as they were of very small size with 1-2 employees (ACA1).

Smaller, rural and remote counties were also involved in the project. An interviewee close to the Ministry of Regional Development noted that in cases where there was not enough capacity the counties did not benefit so much from the CARDS projects, as for example in Lika, where there was only one person. But even in Lika there was some benefit (GOV8).

A tendency towards the establishment of RDAs was reported, but the main bulk of capacity-building efforts focused on the national level. A respondent noted that ‘in terms of what the counties are doing to enhance capacity, there has been a trend of setting up regional development agencies or such institutions’ (GOV1). At the time preceding the interview, a number of them were springing up, but according to the interviewee only some of them have a few years of experience and have really built a team. In some other counties, it was just a matter of ‘let’s establish one and see what happens’ (GOV1). In the interviewee’s view, a positive fact is that this was a starting point and, if combined with a political decision appointing them as the team in charge of EU funds in a respective county, there would at least be a pool of people with whom to work and educate. The respondent noted that there have been a number of such training initiatives funded from the national budget or EU projects, and the Ministry of Regional Development under its previous names was offering this kind of education and training at the regional level, because regions are its ‘natural clients’. The interviewee concluded that most attention in terms of capacity-building so far has been focused on the national level, and arguably not enough work has been going on with the regional and local levels in terms of their concrete preparation, project pipeline preparation or assistance in putting together project ideas.

Capacity-building at the local level also needed to encourage bottom-up institutional initiatives. A contact close to the ECD raised the question of the need for additional administrative capacity at the local and regional levels (ECD4). In the respondent’s view, there might not be a great need to establish capacities at the local level, but what was needed was the bottom-up institutional initiative that those RDAs were supposed to serve. For projects of local interest, specific needs should have been identified at the local level and channelled upwards. In Croatia, local and

regional self-government was sufficiently developed to say that initiative existed, but exactly how developed it was and how powerful it needed to be in order to reach the top level to ensure the funding is another issue, one that cannot be assessed. In terms of the EU funds, the interviewee added, there would be three NUTS II (statistical) regions, and the Commission was perceived as quite determined not to allow any implementation structures in NUTS III regions (ECD4).

#### **6.2.4.2.2. Assessment**

Increased awareness of EU funds became a reality under the pre-accession instruments, but those results were not equally distributed across the board. In the opinion of a former ECD official, the general know-how and debate about EU funds and EU procedures have increased dramatically over the years and continue to increase (ECD1). However, it is considered debatable whether sufficient capacity to manage EU funds and reach EU expected standards of governance is in place. The interviewee expressed the view that the understanding and know-how is mainly on either the NGO side or at a technical level in the administration, among the lower-ranking officials. Perhaps the higher-ranking officials are less aware, because they never undergo training, the interviewee added. In an effort to address this issue, the Delegation organised training on IPA for state secretary or high-level officials, which are not easy to reach according to the respondent (ECD1). In addition, the Commission's efforts to establish a standard of capacity are obstructed by evasive tactics by the Croatian officials, who are advised by their peers in the EU MS that after accession Croatia will have a say and non-compliance is an option ('you have to get in, then you have a say and can do whatever you want') (ECD1). This argument seems to put in question the EU's leverage on MS concerning administrative capacity issues.

#### **6.2.4.3. CARDS 2004 Capacity Building for Managing Funds for Regional Development**

The CARDS 2004 project 'Regional Development Capacity Building Facility' provided assistance to the MRDFWM and the regional/local levels in the field of regional development. The project's budget was €3 million, and its stated



purpose was to enhance Croatia's administrative capacity for absorption and management of funds for regional development (European Commission 2004a, pp. 24-25). The project began in September 2007 (CARDS 2004 2007, p. 10).

The project's wider objective was the effective management of national and regional development in line with EU practice (European Commission 2004a, p. 24). The main objectives of the project were: (i) to strengthen MRDFWM capacity in the coordination and management of development programmes at regional/local levels and prepare the ministry for its future role in managing the EU Structural Funds for regional development, (ii) to enhance the capacity to plan and implement development activity at county/wider-region level, and (iii) to increase the capacity of regional and local stakeholders for the effective absorption and use of funds for development (CARDS 2004).

#### **6.2.4.3.1. Achievements**

##### **(a) Programming delays**

Programming delays affected the project negatively. Respondents at the Directorate for Integrated Regional Development stressed what they considered a weakness of the pre-accession assistance projects: the time lag between programming and the implementation of projects (GOV7). This was the case with CARDS 2004, which was programmed two years before the implementation of the project, at a time when it was impossible to envisage in which way the political situation would evolve, so when the project started it was necessary to change the content of the project fiche or the TOR. In the respondent's opinion, this period should be much shorter (GOV7).

The CARDS 2004 project was initially envisaged to help in the implementation of the NSRD when its TOR were drafted, but since the strategy and the law were not adopted, it is also helping in the finalisation of the strategy and in strengthening partnership at the national and local levels, especially NUTS II and III (GOV7).

The main beneficiary of the project (the MSTTD, Directorate for Integrated Regional Development) provided the project team with office accommodation. Office equipment was ordered and installed as well as equipment and computer software (CARDS 2004 2007, p. 10). As the project's inception report made clear, there was implementation capacity for national purposes in the MSTTD, but it was not enough to comply with the demands of implementing EU-funded projects of IPA and Structural Funds.

**(b) County capacity**

A survey undertaken with the help of a CARDS project 'Technical Assistance for the Effective Implementation of Croatia's National Strategy and Action Plan for Regional Development' revealed that counties have adopted differentiated approaches for carrying out regional development work, with some retaining it within the county authority and others delegating it to a County Development Agency (CDA), perhaps with a wider ownership. According to the research results, both the CDAs and the counties feel they have a substantial level of expertise in project development. The majority of the local authorities had allegedly received training on project development, project-cycle management, public-private partnerships, economic development and project management provided by the World Bank, USAID and UNDP (CARDS 2004 2007, p. 17).

The concept of ROP was introduced under CARDS 2001. The first ROPs were prepared in the counties of Šibenik, Zadar, Vukovar and Sisak with the Technical Assistance of UNDP/UNOPS (CARDS 2004 2007, p. 24). However, they never had any legal basis and have not been able to function as a vehicle for domestic investments.

The ROPs were perceived as assisting in capacity-building through: awareness-raising, strategic planning methods and techniques, the full engagement of stakeholders in considering problems, the development of linkages between components of problems, the development of institutional frameworks for managing local development, developing the capacity for considering long-term-future issues, enabling counties and local government units to consider development potentials and

constraints, enabling counties and local government units to design and define development visions, strategic goals, priorities and measures, and team building. Lastly, the research identified major obstacles to improving the capacity of stakeholders and local actors to use foreign financial resources efficiently and effectively in the form of: inadequate staff numbers and low capacity for preparing and implementing project proposals, and inadequate understanding of the processes and methodology for preparing proposals and elaborating projects (CARDS 2004 2007, p. 18).

**(c) Capacity-building in MRDFWM**

The CARDS 2004 project included training and support to the MSTTD to enable it to be an active driver and coordinator of all aspects of IROP preparation and implementation. This assistance would take the form of awareness-training in all aspects of SF including EC policy, the principles underlying the SF, and the requirements of the regulations. It was also planned to assist the ministry in developing an appropriate organisational structure for the Managing Authority and Intermediate Body and to prepare a project plan for the preparation of IROP, assist in establishing a programme monitoring committee, and train MSTTD and MA staff in specific subject areas relating to formal responsibilities concerning programme management and project development. Finally, it was foreseen that the project would draft manuals of procedure for MA, IB and model service contracts for the relationship between the MA and the IB, and the IB and beneficiaries (CARDS 2004 2007, p. 38).

According to the CARDS 2004 Interim Report, the Directorate for Integrated Regional Development was facing challenges in meeting the tasks relating to the revision of NSRD/LRD, the implementation of IPA and PHARE, and the preparations for the SF. Given the already limited number of staff and the number of people that had recently left the Directorate, the report believed that there was substantial pressure on the remaining experienced staff to cope with all day-to-day activities, leaving too little time to manage and train younger colleagues and to prepare strategic issues at central and regional levels. The report warned that if the situation did not change in the following months, the Directorate would not be able

to adequately prepare itself and other stakeholders for the management and implementation of the NSRD, the IPA and the Structural Funds (CARDS 2004 2008b, p. 4).

While the objectives of the project remained unaltered, the following changes were introduced to the focus of the project in 2008: concentration of the support at central level in terms of TA and training on the implementation of IPA and some general training regarding the Structural Funds for new staff; strengthening the training programme for the county and local levels, especially in the fields of awareness-raising, strategic planning and partnership development; provision of significantly stronger assistance to the ministry in finalising the NSRD and LRD, and in elaborating the instruments that will be part of that; and initiation and support for the coordination mechanisms that the MRDFWM will establish in the context of both NSRD/LRD and SF at central and regional levels (CARDS 2004 2008a, pp. 27-28).

#### **6.2.4.4. Other assistance**

Before the CARDS 2002 project, there was one framework contract under the OBNOVA programme (GOV7). Then there was another small framework contract of assistance in developing the draft strategy and the law. The Directorate of Integrated Regional Development is involved in the preparation of one World Bank project on the social economic recovery of areas of special state concern. Other directorates in the ministry are said to have very good experience in the implementation of projects of the Council of Europe Bank and the European Investment Bank (GOV7). An IPA twinning programme will assist the MRDFWM as well as other institutions expected to play a MA role in the preparations for the SF (CARDS 2004 2008a, p. 5).

#### **6.2.5. Case study E: The influence of CARDS/IPA on human resources in the Ministry of Economy, Labour and Entrepreneurship**

The Ministry of Economy, Labour and Entrepreneurship has been involved in coordination and implementation of different pre-accession programmes for a number of years (GOV5). The core of activities related to EU programmes was carried out by several parts of the ministry, including the Directorate for International

Economic Relations, where PIUs for CARDS and PHARE programmes related to the area of economy have been established (GOV5).

Whereas the ministry was involved in pre-accession assistance from the very beginning, the Department for Preparation and Implementation of EU Programmes and Projects was created in May 2007, following the recommendation of the government (GOV5). The CARDS programme was viewed by ministerial officials as the first stage in a process of learning followed by PHARE and IPA. As regards capacity-building, the respondent paralleled CARDS to an elementary school, PHARE to a grammar school and IPA to a university (GOV5).

MELE interviewees also reconfirmed the widely-held view that salaries are lower in the public sector and they are considered unsatisfactory (GOV5, GOV6). The Head of the Department was portrayed as actively trying to motivate staff to work in a new and challenging field (although some of the staff has no previous experience) by a respondent who noted that organisational climate and culture are very important and considered the department to be a positive example (GOV6).

According to a MELE interviewee, the government's efforts to reduce the wage bill in the state budget and the reduction of civil service salaries in response to the financial crisis have affected staffing levels (GOV5). The respondent reported that in 2009 there was a six-month delay in the recruitment of three persons in the department, and another recruitment attempt was expected to take place in September 2009. Another contact in the department recognised that the number of people was insufficient and that the issue was constantly being raised by the EU. The interviewee added that a government decision existed, according to which people who were needed for IPA would be recruited as a priority (GOV6). The interviewee also stressed that changes in the recruiting process have taken place over the past three years, mentioned the Danish bilateral assistance, and suggested that all the ministries have improved the system of recruiting people.

On the structure of the ministry, the interviewee noted that it was adopted following a recommendation from the EU, although EU officials would state that it is

up to Croatia (GOV5). On the absorption rate, the interviewee stated that in PHARE it was 93%. However, needs are considered to be higher than resources, and there are more strategic goals than could be financed.

The approach of the administrative capacity-building assistance was criticised. A consultant at the Ministry of Economy noted that the focus of administrative capacity is often contracts to engage consultants, which leaves the country unprepared. The MELE was also presented as struggling to move to scheme development rather than project development. The capacity that the administration needs is to be successful in programme design, and this is not well supported by PHARE, which is centred on project design (in fact, CARDS is quite similar to PHARE in this respect). The result is the development of capacity that they do not need. CARDS certainly makes a difference, and there are many administrative-capacity projects. How successful they are is in question, the respondent concluded (CON3).

This represented a key ministry with well-organised structures by Croatian standards. It was considered an example of openness and successful involvement in the implementation of EU funds (ACA3). In particular, the Department for Preparation of EU Programmes and Projects was the body responsible for IPA Component III. Its staff was also knowledgeable and had a working knowledge of English. The Head of the Department also had a research interest in issues of regional development. The contacts offered their presentations and research articles at their own initiative. They introduced foreign consultants and suggested attending meetings on the preparation of an NSRF OP. However, outputs and results of projects could not be shared. The same applies to manuals of procedures. Respondents mentioned reasons of confidentiality. The officials suggested that data on absorption rates should be obtained from the CFCA. In 2011, the ministry split into the Ministry of Economy, the Ministry of Labour and Pensions and the Ministry of Business and Trade.

### **6.2.6. Case study F: The influence of CARDS/IPA on human resources in the Ministry of Science, Education and Sports**

The ministry took an active interest in getting involved with EU funding, and political leadership was viewed as providing the necessary steering. Relevant departments had been set up such as the Department for Managing EU Funds and Action Plans. Nevertheless, a pending government reshuffle in 2009 had paralysed the work of the ministry. The minister who was under resignation for a long period was finally replaced in June that year. As the relevant EU directorate was new, the staff were young and inexperienced although willing to learn. Salaries were low and the overall trend of high staff turnover was also present.

The CARDS 2003 project ‘Intellectual property infrastructure for the research and development sector’ had a budget of €600,000 (Novota *et al.* 2009, p. 30). According to an interviewee, the project’s duration was officially 18 months, but it was extended to 22-23 months (CON5).

The overall objective of the project was ‘to further the development and building-up of the intellectual property system in line with EU *acquis* and models. To contribute to this, the funds provided will assist in increasing the commercial exploitation of the R&D sector’ (European Commission 2003b, p. 13; 2003d, p. 5). Activities were planned to support the work of the IP facility and a training and awareness campaign, as well as focusing on recommendations in view of the sustainability of the initiative.

#### **6.2.6.1. Achievements**

This CARDS 2003 project was designed to improve and strengthen the intellectual property infrastructure of Croatia to facilitate its use by researchers. It took the form of a capacity-building project for the Ministry of Science, Education and Sports to set up an intellectual property unit. The project worked to build capacity with two named individuals across the course (CON5).

**(a) Human resources**

The overall staff turnover trend and limited job satisfaction have undermined the capacity-building effects of the project. The respondent mentioned that one of the difficulties with seeing improvement in capacity was that many of the people the project was working with were quite young and did not like the job (CON5). Of the two people at the intellectual property unit, with which the project should have been building capacity, one chose to leave. The respondent argued that in such cases a great deal of the capacity-building is lost unless the ministry has found a way to embed the learning, but in the respondent's opinion the ministry is finding it hard to embed the learning inside processes (CON5). Also, this interviewee identified the low level of salaries and the high workload as the reasons why the staff becomes disillusioned and leaves the administration.

**(b) TA and consultancy**

Despite the urgent need for capacity-building at the ministry, consultancy was always not considered to be an effective remedy. On one hand, the respondent acknowledged that capacities were being built at the ministry but considered them to be very low, partly because the ministry did not have enough people to deal with the workload. On the other hand, the ministry struggled because it did not have enough people and therefore it used external consultants, which sometimes created problems in the project. The respondent noted that working with an external consultant, who may gain a lot of useful knowledge and subsequently use it for commercial purposes, does not build capacity at the ministry (CON5).

Chronic dependence on TA was confirmed. The respondent agreed that there is a situation of dependence on TA, as 'people and perhaps some companies are aware that if you create a dependency, you create a long-term position for yourself'. The interviewee argued that there is probably fault on both sides from that point of view. The contact also noted that ministries not only in Croatia but also in other countries do not understand capacity-building and do not really know how to use consultants; 'they see them as people who come in and do the job for them, rather than people who are there to transfer knowledge, ability and skills'. The respondent has not experienced people working together in teams and learning by doing:



*The idea is that the consultant gets one [dossier] and the beneficiary checks that it was done correctly. And if I sort of use an analogy, the best projects I worked on are like having two cogwheels where both sides are putting information in and it melds together and comes out at the end and you use it. What I find very strongly is that the consultant side puts the information in and it is basically being checked by the beneficiary as it comes out at the other end. But it is not being used, so if I write a report what I want is for somebody to read it, think about it, comment on it so that we modify it and they use it. And very often they do not read until long after the project is officially completed, or they read it to make sure it meets the terms of reference and then I think it is going on a shelf. But in terms of that being actively used, I am struggling to see that happening in many cases. That does not mean it is not building capacity elsewhere, just not with the person that it was anticipated that it would be used by. It is very often used much more downstream (CON5).*

**(c) Structure of the project**

Restructuring of beneficiary organisations during the project cycle may influence the effectiveness of a project. The extent to which capacity is built depends on how the project is structured, according to the respondent. In that sense, the interviewee noted that CARDS 2003 was supposed to build capacity for the intellectual property unit so that the unit would then work with Croatian researchers. The respondent mentioned that the intellectual property unit was a sub-unit of the ministry for the entire duration of the project. The respondent reported that one of the staff left, and the unit became part of the Croatian Institute of Technology (HIT) which, the respondent added, seemed to be excluded from projects. The interviewee said that what the project seemed to have done was hugely build capacity for Croatian researchers, who were later doing things by themselves and setting up their own technology transfer offices, producing their own projects, and applying for their own funding. In the interviewee's opinion, the intellectual property unit no longer had a role, because it was set up to be a centralised resource, but in fact it has not acted like that because people downstream were later assuming this role themselves (CON5).

**(d) Time lag**

A generally identified problem of programming, planning and implementation delays was also evident in this case. The respondent noted that there was a major lag between what is planned and what is delivered. So CARDS 2003 was delivered in 2006. Although the inception period, when changes are allowed, is the time to resolve such issues, in the interviewee's opinion the beneficiary did not understand enough about the inception period.

A culture of individualism and lack of collective responsibility seemed to penetrate project thinking. The respondent expressed the view that Croatia is built on relationships and that, if a personal relationship is bad, a project will be used in a vindictive way. According to the interviewee's experience, 'all capacity-building projects are used for power, they are used to be vindictive, [and] they are used to confer favours so business is done based on how people feel personally' (CON5). The respondent also doubted the transparency and clarity of the criteria for the selection process.

**(e) Department for Managing EU Funds and Action Plans**

The Department for Managing EU Funds and Action Plans was founded in April 2008. The head of the department at the time of the fieldwork had only been there since April 2009 and was still going through training. In June 2009, there were six fully employed people in the department recruited gradually over the previous year. One respondent expressed the view that administrative capacities are quite sufficient for the normal workload of the ministry. On the other hand, the department definitely needs more people. At the time of the interview, the development strategy until the end of 2012 was under preparation, in order to have exact budget plans, training plans, new staff plans for people, and a plan to have 18 more people by the end of 2012. The plan was characterised as ambitious by the respondent, but necessary as the department is to be an Intermediate Body. Another interviewee in the department stated that there had been a lot of effort to raise the awareness of heads of ministries, and that more people are needed for these jobs. In June 2009, the department apparently received approval to employ more people. However, the interviewees raised the question of whether these people will be suitably trained to

start performing tasks on their own once the implementation of a project starts, especially the grant scheme under IPA. Finally, the respondents held the view that the ministry profits largely from TA and that the EU is the driving force for change (GOV9, GOV10).

#### **6.2.6.2. Assessment**

Overall, the project was partially effective. It was stressed that it was not the primary beneficiary but secondary beneficiaries who benefited from the project. The respondent added that ‘lots and lots of good came out of it, but not necessarily what was originally anticipated’, and that is true for all the projects the respondent worked on (CON5). The interviewee added that what the pre-accession assistance did was enforce harmonisation of the laws and made them realise that they needed an intellectual property policy; this has now been addressed.

On the CARDS 2003 project, ‘the company implementing the project struggled to engage for a lot of months and then finally a way was found into the faculties and researchers and at that time we had snowball effect and the project took off’ (CON5). On the short-and-long-term benefits, the respondent commented that the project has been more for people doing research in science or innovation and business. The ministries do not necessarily see that as a benefit, which the respondent considered strange for a project that made their life easier or their country and economy better. The interviewee’s experience with the two CARDS and PHARE projects was that people inside the ministries are not actually very interested in the content of the project. On the other hand, there is a constant preoccupation with bureaucratic formalities. Usually, these projects are structured to have a main beneficiary that will be the ministry and then a secondary beneficiary which would be more of a department like BICRO or HIT. One of the reasons that the PHARE project has faced problems was that the secondary beneficiary was excluded, and that has not been beneficial for the project (CON5).

## **Conclusion**

In the previous pages, the effects of EU financial assistance on the financial and human resources of state institutions in Croatia were examined. Particular emphasis was placed on the results of seven CARDS projects to support the case studies of six Croatian state institutions (CSOA/MPA, CODEF, CFCU/CFCA, MRDFWM, MELE, MSES).

As regards financial resources, data on the funds allocated to Croatia were presented per programme, component and project. Reference was made to the fiscal effects of assistance as well as the potential welfare effects of EU aid, although in the case of Croatia, due to the limited level of funding, it is debatable whether and to what extent these effects exist. The cost of fulfilling EU requirements in the case of Public Administration Reform was discussed, along with the effects of mobilising stakeholders on compliance with EU administrative-capacity requirements. In addition, it was noted that the partnership principle is considered to be facilitating absorption. Moreover, co-financing and suspension of the flow of resources were mentioned as tools employed by the EU for influencing the flow of domestic Croatian resources.

In studying human resources aspects of administrative capacity, selected CARDS projects with potential influence on human resources were presented (see Table 13 below). Based on their objectives and achievements, an assessment was made for each project. Public administration reform was established as a priority for CARDS assistance, and that included a focus on institutional and administrative capacities of state institutions involved in the implementation of the SAA and emphasised legislative, regulatory and human resources issues.

**Table 13: Synthesis overview of CARDS and IPA projects examined**

Case study organisation	Support project	Completion	Effectiveness
Ministry of Public Administration / CSOA	CARDS 2001 Project CARDS 2003 Project IPA 2008 Project	Completed Completed Mostly uncompleted	Partially effective Effective -
Central State Office for Development Strategy and Coordination of EU Funds (CODEF)	CARDS 2003 Project	Completed	Partially effective
Central Finance and Contracting Agency / CFCU	CARDS 2004 Project	Completed	Partially effective
Ministry of Finance	CARDS 2004 Project	Completed	Partially effective
Ministry of Regional Development, Forestry and Water Management (MRDFWM)	CARDS 2002 Project CARDS 2004 CARDS 2002-2004 Projects CARDS 2004 Project	Completed Completed Completed Completed	Partially effective Partially effective Effective Partially effective
Ministry of Science, Education and Sports (MSES)	CARDS 2003 Project	Completed	Partially effective

The CARDS 2001 project in the CSOA produced mixed results. A new civil service law was drafted but failed to trigger a radical reform of public administration. Furthermore, a civil service training centre established in the CSOA and human resources departments established in CSOA and four other ministries were understaffed and only became operational more than two years after the project ended. The CARDS 2003 project proved more successful by assisting in the completion of subordinate legislation of the new civil service law and more importantly by drafting a law on general administrative procedures. Significant influence of the project has been reported on capacity-building and human resources issues, as the departments established in the past became operational. CARDS had a strong learning influence on the institution offering training programmes, the sustainability of which has been ensured after the CARDS project. However, the overly legalistic and outdated managerial culture of this organisation has not changed, and the high staff turnover problem persists. An IPA 2008 project was expected to assist in the implementation of the GAPA through capacity-building and training activities in the Ministry of Public Administration.

Moreover, a CARDS 2003 project on Support to National Development Planning has offered manifold assistance not only to CODEF but also to MELE and other government institutions with a role in IPA and the Structural Funds systems. Apart from developing the legal and institutional framework for development

planning and programming, the project worked towards enhancing the relevant capacity of the Croatian state institutions for programming, management and implementation of pre-accession assistance and Structural Funds through training and transfer of skills. In particular, the project helped in the definition of the institutional structure of CODEF and proposed functions for each stage of the programming cycle. It conducted a survey of responsibilities, functions, knowledge, skills, training and development needs in CODEF, including suggestions for improving its effectiveness. As regards MELE, workshops on programme management were organised and the project offered advice on the allocation of functions in IPA departments against the backdrop of persistent staff turnover. In addition, the project implemented training projects in the form of workshops and seminars on specific foundation and technical skills for managing IPA and SF aimed at CODEF and four other institutions. More importantly, the project produced a report on the capacity of institutions to manage and implement IPA; it recognised the accreditation process and conferral of management as ‘the only test that counts’ with regard to administrative capacity, and it noted the overall very low staffing level.

Despite the project’s rich activities, concerns were raised about the effectiveness of the training provided, which in the absence of a stable staff-retention policy is a necessary although insufficient condition for building capacity. In addition, the number of workshops does not reveal whether actual skills have been gained and implemented in each individual’s work. Besides, CODEF’s mix of competences (macroeconomic matters, development planning and EU funds coordination) was criticised as incoherent, and ECD respondents considered the organisation to be exerting very weak influence on other government institutions, while it was seen as almost totally dependent on a record number of successive Technical Assistance projects with dubious sustainability, which substituted for non-existent capacities. However, this malaise was caused by the prevailing philosophy of assistance, which focuses on the weakest institutions, the delay in the adoption of the IPA implementing regulation which triggered three consecutive changes of the project’s focus, and a number of government decisions and chronic issues affecting staff levels. Overall, despite the earnest effort of the project, the results achieved in CODEF were mixed.

The case of the CFCU proved to be problematic. A CARDS 2004 project implemented in the Ministry of Finance achieved six of its ten planned results, but its support to the CFCU in procurement and finance failed to produce tangible results. The project attributed this to the lack of adequate human resources in CFCA and the poor quality of procurement performance. The project also funded a fact-revealing job satisfaction survey, which concluded that the main reasons for the constant and massive exodus of staff were low salaries, an incomplete system of personnel development and training, and unevenly high workloads. The project faced major shortcomings: it was briefly suspended, and the CFCU received rejections in the ex-ante control because the PRAG templates were not followed correctly; although the project assisted in establishing some of the rules, the staff was not yet qualified. This was the main reason behind the formation of CFCA, an agency outside the civil service law, offering attractive remuneration, which succeeded the CFCU. Beyond the staff turnover issue, other reasons cited for the poor performance of the project were the inchoate fashion in which the introduction of IPA took place, the varying quality of consultancy, and the inevitable errors in the process of learning. The CFCA is widely seen as a successful case, showing professionalism and rapidly developing its capacity. However, the role of CFCA is different under IPA than under the CARDS/PHARE system as one of seven implementing agencies. The agencification of the CFCA was also seen as creating an island of excellence by draining knowledge and expertise from the rest of the system.

Furthermore, a CARDS 2002 project focused on Strategy and Capacity Building in the MRDFWM under the ministry's previous configurations. Although on paper the project prepared a national strategy of regional development and an ensuing action plan, these initiatives never reached the legislative and implementation phase. Progress in this field was hampered by the lack of support and understanding at the political level and a predilection for selective and patchy compliance at best, with the aim of leaving the established system virtually untouched. The project's capacity-building activities were generally characterised as more successful, and the TA provided was viewed as promoting learning, transferring best EU practice and strengthening coordination. The Directorate of Integrated Regional Development was seen as playing a key role in the success of the

project through its high quality of managerial staff and experience in EU funds. However, this positive course of capacity-building in the directorate was reversed in 2008, largely because of the salary policy and the weaknesses of the civil service law. A negative aspect of the directorate was said to be its limited capacity in managing the consultants. In general, a major setback was the very slow legislative and policy-making process and the detrimental effects of the electoral cycle on the human resources of the ministry. The change in the management and implementation structures for IPA also caused uncertainty and increased the future workload of the ministry.

The CBC department of the ministry was also facing issues of very low capacities, and a CARDS 2004 project on institution-building and capacity-building for CBC has been undermined by the frequent shifting of competences between ministries.

The Ministry of Regional Development was also responsible for the coordination and technical implementation of three CARDS projects (2002, 2003 and 2004), which provided assistance to a number of counties defined as areas of special state concern. The focus of these projects shifted with the help of the ECD from an initial post-war reconstruction and return to a regional development approach. The projects were considered as having made a difference at the county level in terms of learning and understanding the need to agree on strategic development objectives, identify projects and involve stakeholders. Pilot ROPs were drafted for each county, and although they assisted in capacity-building, they never received formal approval nor did they become a vehicle for domestic investment. These less-favoured counties in terms of capacities and socio-economic conditions enhanced their administrative capacities through the project and to an extent outperformed other Croatian counties with a better starting position. Nevertheless, there is considerable variation in terms of administrative capacities at the local and county levels in Croatia. Some counties not covered by these specific CARDS projects, such as Istria, Varaždin and Međimurje, are actively involved in EU assistance funds, mostly through CBC, and possess the resources to attract staff, establish agencies, and run projects. In other counties, such as Split-Dalmatia, awareness of EU funding opportunities is poor and



the effects of pre-accession assistance have remained limited. In counties with poor human resources, such as Lika, the benefit from CARDS projects was more limited. In recent years, almost all Croatian counties have established RDAs in an attempt to boost their capacities, but only some of them are operational. In a nutshell, although there have been some positive changes induced by the CARDS projects in the war-affected areas, supplemented by the successful record of three other counties, the main focus of pre-accession assistance was on the national level, where again the capacity to manage EU funds and reach EU standards of governance is debatable.

In addition, a CARDS 2004 project provided assistance to the Ministry of Regional Development and the regional/local levels in the field of regional development. As the project was programmed two years before its implementation and the NSRD was not adopted, its content had to change to assist in the finalisation of the strategy, and in strengthening partnership at the national and local levels. The project's work was jeopardised by the deteriorating staffing situation at the Directorate for Integrated Regional Development, which also raised concerns about the directorate's preparedness for the management and implementation of the NSRD, IPA and Structural Funds.

The Ministry of Economy, Labour and Entrepreneurship has been a beneficiary of CARDS projects, which it regarded as a first stage in a learning process culminating with IPA and the Structural Funds. As regards human resources issues, the number of people was insufficient, and this problem was also faced by the department for preparation of EU programmes and projects. The structure of the ministry follows the recommendations of the EU. The organisational climate and culture in the department are reported to be positive. However, the focus of administrative capacity on consultancy contracts leaves the country unprepared. The project-centred instruments of CARDS and PHARE allegedly left MELE struggling with programme design and scheme development.

A CARDS 2003 project in the Ministry of Science, Education and Sports aimed at improving the intellectual property infrastructure in Croatia, and it took the form of a capacity-building project for the ministry to set up an intellectual property

unit. Although a relevant sub-unit was established at the ministry, one of the two persons who were trained resigned. After the end of the project, the unit was absorbed by the Croatian Institute of Technology (HIT), which is regarded as being excluded from projects. Staff turnover meant that capacity-building was lost, especially as the ministry was also unable to embed the learning into processes. The ministry was still facing substantial staff turnover problems also attributed to high workloads and low salaries. The capacity of the ministry was considered to be very low, and concerns were raised about the role of consultancies exploiting the situation of dependence on Technical Assistance for their own commercial purposes, which is aggravated by the lack of understanding in the ministry on using the consultants for the transfer of knowledge, ability and skills. Besides, there was a time lag of more than two years between planning and delivery of the project. Capacity-building projects were allegedly being used for conferring favours and developing a power base on a personal basis. In conclusion, it was not the primary but secondary beneficiaries that benefited more from the project. Capacity was built for Croatian researchers who were setting up technology transfer offices, while the centralised resource in the form of the intellectual property unit has been marginalised. Also, in the Ministry of Science, Education and Sports, a recently established (2008) Department for Managing EU Funds and Action Plans remains seriously understaffed.

In conclusion, the effects of the CARDS programme on human resources in the Croatian public administration are mixed. Most of the money was spent and activities were delivered, and most of the outcomes were produced. These activities had certain results, but difficulties associable with the long-term impact beyond staff turnover are the projects' legacies, especially the number of trained, qualified people. First, institutional inertia meant that in at least two cases legislative proposals supported from CARDS were not put into force within the scheduled time. Second, almost all institutions studied, with the exception of some counties and the positive change in the CFCA, faced an acute problem of staff turnover, which worsens in election years. Third, variable consultancy quality and dependence on Technical Assistance because of lack of understanding of the consultancy role have been reported. Fourth, the competences of a large number of institutions have been

shifting with increasing frequency, especially after elections, and inter-institutional coordination has been weak. Fifth, transparency and accountability on behalf of the Croatian administration could have been stronger. Finally, through the CARDS projects, awareness was raised significantly in the institutions examined, while training and transfer of skills have resulted in learning but the knowledge may not have been retained in the long run or embedded in the relevant institutions. In a number of cases, learning benefited secondary beneficiaries or individuals and institutions more than those initially envisaged.

This chapter examined how pre-accession assistance has influenced the human resources of the Croatian state institutions that benefited from it. The following chapter covers the systems and tools that public officials and civil servants are expected to operate, particularly those required in the environment of pre-accession assistance instruments and the Structural Funds.

## **7. Influence of CARDS and IPA on systems and tools in the Croatian Public Administration**

The purpose of this chapter is to discuss the influence of CARDS and IPA on systems in the Croatian public administration. Systems and tools constitute features of administrative absorption capacity, which are defined as follows: ‘functioning instruments, methods, guidelines, manuals, procedures, software, etc’ (Molle 2007, p. 196). It has been suggested that ‘key issues with regard to systems and tools are the use of ICT and its embeddedness in organisational processes, management information systems, finance, monitoring and evaluation and the state of play with regard to performance management and the management of workload’ (ECORYS 2011a). Molle notes that ‘they enable organisations to transform tacit and implicit knowledge into explicit knowledge that can be shared within and across organisations; they make organisations less vulnerable and reduce the risk of malfunctioning’ (2007, p. 196). While the notion of systems can have much wider connotations in the context of public management and public administration, this chapter is guided by the previous definition as it pertains to EU funding. It therefore defines systems as particular routines, series of standard tasks, manuals of procedures, administrative and computerised systems and instruments serving the successful implementation of EU funding.

Croatia is not the first candidate country to face the challenge of establishing systems to support the management and implementation of financial assistance. During the pre-accession period and the early post-accession years, the EU-10 focused on systems such as integrated monitoring systems and physical indicators, although the utility of systems and information was questionable. The external challenges consisted of the need to transfer a complex and highly differentiated set of processes and the coercion to undertake administrative reforms and preparations for Cohesion policy under great time pressure (EPRC 2009). The domestic context in these countries was in many respects similar to that of Croatia. Important contextual factors included the degree of centralisation of decision-making powers for domestic policies. Administrative traditions, the quality of public administration and the state of public administration reform defined the difficulties that capacity-building efforts

encountered. In the EU-10, other contextual factors were varied experience, the legacy of a politicised public administration and the risk of corruption. Other domestic conditions seen as significant included the lack of mobility and fragmented responsibilities in personnel policy, a poor image of the civil service, low salaries or low service orientation, leadership problems and a series of structural constraints (EPRC 2009).

Operational problems encountered with systems in the EU-10 may provide useful lessons for Croatia. In the EU-10, where numerous bodies were involved in operational aspects of programme implementation, systems became fragmented and complex (EPRC 2009). Other operational problems which influenced effectiveness were the degree of 'compliance orientation', or difficulties in establishing fully appropriate organisational structures. To these one may add problems with procedural constraints. Efforts to establish systems in the EU-10 resulted in a general trend of reforms from bureaucratic systems to management systems.

Systems were in their early stages when the fieldwork was carried out, therefore this chapter relies more on secondary sources. The analysis is based mostly on a desk research review of the grey literature including EU and IFI reports, as well as project and evaluation reports. The first source of available information comprises evaluation studies, of which four provide insights on systems: two evaluations of Twinning, a sectoral evaluation of pre-accession assistance, a mid-term evaluation of IPA and an evaluation of administrative capacity-building under ESF. These include: a relevance, effectiveness, sustainability and impact assessment of four Twinning projects led by Germany, which does not offer thorough evaluative statements about the particular strengths of Twinning vis-à-vis Technical Assistance projects (Bundesministerium für Wirtschaft und Technologie 2009); a sectoral evaluation of public administration reform, public finance and statistics (MWH Consortium 2008); the IPA mid-term meta-evaluation, which covers all the IPA countries and offers recommendations on programming (HTSPE 2011); and the evaluation of administrative capacity-building under ESF, which is used as a point of reference for the study of systems (ECORYS 2011a). The second source of available information comprises DG Enlargement and OECD/SIGMA documents and assessments and

audit reports. They include the DG Enlargement annual activity report (DG Enlargement 2010a), Croatia progress reports (European Commission 2010a, 2007b, 2008c, 2009a, 2011a), the Court of Auditors' report on pre-accession (European Court of Auditors 2011), and SIGMA governance assessments (SIGMA 2002a, b, 2006, 2008, 2009b; European Commission 2008a). The Commission reports provide an overall assessment of progress in the 35 chapters of the *acquis* without offering much detailed information on systems. Although the SIGMA reports provide a thorough assessment of governance developments, this is not specifically focused on preparations for pre-accession and Structural Funds, which are covered only marginally. The third source of information is programme and project documents and Croatian government data. These include pre-accession assistance financing proposals (European Commission 2002a, 2007d) and project data and final reports (Metis 2009; Delegation of the European Union to the Republic of Croatia 2011). Although these sources provide information on the content of the projects, the depth of information varies. For some projects, only government communications were available (ARPA 2010; Central Finance and Contracting Agency 2011; Portal of Public Procurement 2008a, b), whereas for others interim reports were available; final reports were not often included as data sources, either because projects were still in progress or because access to them was not possible. In addition to secondary data, 14 fieldwork interviews were conducted, mainly relevant to cultural aspects of systems usage, of which three were with ECD officials, four with government officials (from the MFIN, MSES, and CODEF), two with academics/researchers and five with consultants involved in pre-accession assistance projects.

In order to examine the influence of external assistance on systems, the research examined the following six systems that were put in place or reformed using CARDS/IPA assistance: financial management and control, monitoring information system, audit, project selection, procurement and contracting and evaluation. For a description of the functions of the systems studied in this chapter, see Table 14 below.

**Table 14: Main systems examined and a description of functions**

<b>Systems</b>	<b>Functions</b>
Financial management and control	System which enables efficient operation of an organisation or efficient management of a programme/project. The focus is on resource and risk management (Central State Office for Development Strategy and Co-ordination of EU funds, p. 199).
Monitoring information system	‘Measures taken so that operators can collect information on inputs, outputs and results, so that they can process and transmit this information regularly to the managers (e.g. progress reports). The monitoring information system also includes the monitors’ syntheses and aggregations, periodically presented to the authorities responsible for the implementation (reviews, operating reports, indicators, etc.)’. In EU socio-economic programmes, it is the key element in a system of indicators (MOU S.A. 2004a, p. 160).
Audit	‘An objective consulting activity designed to improve an organisation’s operations. Auditors give recommendations for improvements based on findings obtained from examining the management and control system. Audit is performed by the organisation itself (internal audit) or by an external body (external audit)’ (Central State Office for Development Strategy and Co-ordination of EU funds, p. 177).
Project selection	‘A project is approved following the submission of the Technical Bulletin, in which the project eligibility, feasibility, quantified output indicators, total budget and timetable for implementation as well as description of the sub-projects are presented and the project functionality following the implementation is ensured’ (MOU S.A. 2004b, p. 186) .
Procurement and contracting	Public procurement contracts cover supplies, services and works purchased by the public sector. The rules for applying the standard procurement procedures are summarised in the PRAG. Once approval for an activity has been granted by the European Commission with the adoption of a financing decision and where appropriate with a relevant financing agreement, the contracting authority can proceed with tendering and contracting following these standard procedures (European Commission 2008f, p. 20). The EU rules for the award of public contract are based on the principle of competitive tendering and are meant to ensure transparency and value for money.
Evaluation	‘A periodic assessment of the efficiency, effectiveness, impact, sustainability and relevance of a programme/project in a context of stated objectives. It is usually undertaken as an independent analysis of the environment, objectives, results, activities and means deployed, with a view to drawing lessons that may guide future decision-making. It can be carried out as ex-ante evaluation, before the implementation, interim evaluation during the implementation and ex-post evaluation after the implementation of a programme/project’ (Central State Office for Development Strategy and Co-ordination of EU funds, p. 53).

At the time of the fieldwork research (December 2008 – July 2009), the systems were only partly in place or were in the early stages of being established or operationalised. Also, the pace of development varied between systems. Thus, this assessment depends on a mix of fieldwork interview research and secondary sources that became available after the fieldwork research was conducted. Substantial information is available on the systems for procurement and contracting and financial management and control, partial information is available on evaluation and audit, but relatively little information is available on project selection. The chapter examines four dimensions of systems: formal compliance; the operation or functioning of systems; the use of system tools such as manuals or guidance (which is an indicator of the embeddedness or institutionalisation of systems); and cultural reactions to the usage of systems among staff.

### **7.1. Formal compliance requirements**

This section outlines the compliance requirements which the Croatian authorities had to meet for the management and implementation of pre-accession assistance. Initially, the conditions to be met by Croatia as a beneficiary were limited, but progressively the Croatian authorities had to move to systems of management that required higher responsibility from the national-level institutions.

The management of EU-funded programmes can be undertaken on a centralised, decentralised or shared, and on a joint basis with international organisations. Initially, the management of EU-funded assistance in Croatia was the responsibility of the European Commission Delegation in Zagreb (on a direct deconcentrated basis) (Council of the European Union 2002 Art 53). Progressively, as was the case with the CEE countries and candidate countries in general, Croatia had the obligation of preparing itself to undertake the management of EU funds on a decentralised basis, at first with ex-ante approval by the Commission (DIS) and then in an extended mode, based on ex-post control (EDIS). The process of decentralisation and the establishment of the relevant administrative capacity for DIS-EDIS are considered an essential part of the preparations for the future management of the Structural Funds.



The management of CARDS differed between the two components. The national component was managed according to the centralised/decentralised implementation system with the EC Delegation (deconcentrated) to Croatia, which was responsible for the financial management of the programme (see ANNEX II). The management of CARDS 2003 and 2004 and PHARE assistance was conferred on a decentralised basis to the Central Financing and Contracting Unit (Commission Decision 07/02/2006). The CFCU was set up within the Ministry of Finance.

IPA differs from CARDS and PHARE in that decentralisation is viewed under the IPA regulations as a process rather than an end-state. This process would lead to EDIS and the management of the Structural Funds with only ex-post controls by the Commission.

The EU has set a number of formal requirements that have to be met before the conferral of management for pre-accession instruments to the national authorities. In Decentralised Implementation Systems, according to the provisions of Article 164 of the Financial Regulation (EC 1605/2002), the Commission may entrust the management of certain actions to the authorities of the beneficiary country after having confirmed 'that the beneficiary country is in a position to apply in whole or in part the following criteria:

- a) effective segregation of the duties of authorising officer and accounting officer
  - b) existence of an effective system for the internal control of management operations
  - c) for project support, procedures for the presentation of separate accounts showing the use made of Community funds; and for other forms of support, an officially certified annual statement for the area of expenditure concerned to be made available to the Community
  - d) existence of a national institution for independent external auditing
- transparent, non-discriminatory procurement procedures ruling out all conflicts of interest' (Central Finance and Contracting Agency 2011).

According to the PIU Operational Guide for the Management of CARDS, PHARE and IPA I, the assessment of these criteria is based on the COSO approach (Committee of Sponsoring Organisations of the Treadway Commission) through the examination of the following areas:

- 1) control environment (staff/organisation matters: ethics, mission, role and legal basis, training, etc.)
- 2) performance and risk management (objectives setting: risk assessments, indicators etc.)
- 3) information and communications (reporting, filing systems etc.)
- 4) control activities (transaction control: documentation of procedures, segregation of duties, ex-ante and ex-post control activities, supervision, information systems and computer security)
- 5) audit and evaluation (monitoring and performance).

Under the IPA Regulation, the above criteria are listed in a different order, but effectively they are the same. Before the conferral of management for a component or measure, the Commission shall satisfy itself that the audit, accounting and procurement systems are equivalent to its own, particularly in relation to management and control systems, and that accreditations are in place (Article 11 EC 718/2007; Article 56 (2) EC 1605/2002).

The management and control systems set up shall provide for effective controls in the areas set out in the Annex of the IPA implementing regulation (accreditation criteria). Additional conditions set out in the sectoral or financing agreements may also apply. In cases where specific persons have been given responsibility for an activity relating to the management, implementation and control of programmes, the beneficiary country should enable those persons to perform the duties associated with that responsibility even if no hierarchical link exists between them and the bodies participating in the activity (Article 11 (3), EC 718/2007). Through formal working arrangements between them and the bodies concerned, the beneficiary country shall provide those persons with the authority to establish: (i) an appropriate system for the exchange of information, including the power to require

information and a right of access to documents and staff on the spot if necessary; (ii) the standards to be met; and (iii) the procedures to be followed (Article 11(3) EC 718/2007).

The bodies subject to accreditation and Commission decision on the conferral of management powers include the National Authorising Officer and the National Fund and the operating structures.

The accreditation criteria listed in the Annex of EC 718/2007 are divided into five categories: (i) control environment (establishment and management of the organisation and the staff), (ii) planning/risk management (planning of interventions), (iii) control activities (implementation of interventions), (iv) monitoring activities (supervision of interventions), and (v) communication (ensuring all actors receive the information necessary to fulfil their role). These conditions in the case of IPA are presented in ANNEX V.

## **7.2. EU support for Systems**

Of the numerous projects of EU pre-accession assistance for systems, four are examined here. They comprise four CARDS/PHARE/IPA projects which sought either to establish the systems required to meet EU compliance requirements or to improve the operation of existing systems. Specifically, the projects were: a CARDS 2002 Twinning Project ‘Strengthening the Croatian Public Procurement System’, a CARDS 2002 project ‘Strengthening the capacity of the State Commission for supervision of public procurement’, a PHARE 2005 Twinning Light project ‘Strengthening the administrative capacity to implement the new legislative framework for public procurement’, and an IPA 2007 Twinning Light project ‘Strengthening of the Administrative Capacity of the Agency for the Public-Private Partnership in the Republic of Croatia in Relation to the Implementation of the New Public-Private Partnership Legislation’ (see Table 15 below for a summary).

**Table 15: Pre-accession projects examined and systems affected by them**

Project	Systems affected
CARDS 2002 Twinning Project ‘Strengthening the Croatian Public Procurement System’	Public procurement system: <ul style="list-style-type: none"> <li>• Control environment (methodological and legal framework, training and skills)</li> <li>• Information and communications (awareness-raising)</li> </ul>
CARDS 2002 project ‘Strengthening the capacity of the State Commission for supervision of public procurement’	Public procurement system: <ul style="list-style-type: none"> <li>• Control environment (legal framework, manuals, skills training)</li> <li>• Information and communications (awareness-raising, website)</li> </ul>
PHARE 2005 Twinning Light project ‘Strengthening the administrative capacity to implement the new legislative framework for public procurement’	Public procurement system: <ul style="list-style-type: none"> <li>• Control environment (legal framework, manuals, training)</li> </ul>
IPA 2007 Twinning Light project ‘Strengthening of the Administrative Capacity of the Agency for the Public-Private Partnership in the Republic of Croatia in Relation to the Implementation of the New Public-Private Partnership Legislation’	Procurement and contracting: <ul style="list-style-type: none"> <li>• Control environment (capacity-building)</li> <li>• Monitoring activities (evaluation)</li> </ul>

**7.2.1. CARDS 2002 Twinning Project ‘Strengthening the Croatian Public Procurement System’ Directorate of Public Procurement System, MELE**

The CARDS 2002 Twinning Project ‘Strengthening the Croatian Public Procurement System’ was the first significant manifestation of EU financial assistance for public procurement in Croatia. It started in July 2005, lasted for 20 months and was completed in February 2007 (Portal of Public Procurement 2008b). The project’s budget was €1 million. The Federal Ministry of Economics and Technology of Germany was senior Twinning partner and the Ministry of Finance of Slovenia a junior partner. The purpose of the project was to ‘contribute to the development and strengthening of a sound, transparent and competitive public procurement system, in accordance with EU standards, promoting efficiency and effectiveness in the use of public funds and reducing the potential for fraud and corruption’. The project comprised three main components: (i) strengthening the methodological and legal framework, (ii) skills and capacity-building among various

stakeholders including the Public Procurement Office (PPO), procuring entities, potential suppliers/service providers and contractors, and (iii) awareness-raising about the new Public Procurement System (European Commission 2002a).

The project's objectives according to the components were as follows:

1. Strengthening the legal, institutional and methodological framework of the Croatian public procurement system.

Support in this component focused on drafting the new Public Procurement Act to achieve full harmonisation with the *acquis* in public procurement. The project also assisted in drafting the bylaws as well as the organisational and administrative development plan of the Public Procurement Office, which included the setting-up of an IT system for a database of the office and the publication of a manual for procuring entities and a manual for suppliers.

Next, an analysis of the existing organisation of public procurement within the public procuring entities adhering to the Act was undertaken. The results of the analysis served as a basis for the proposal regarding internal organisation, which in turn aimed at achieving an efficient and effective application of the public procurement procedures.

2. Strengthening professional skills of the Public Procurement Office's staff, the personnel employed by other procuring entities, and potential suppliers.

This component pursued the objectives of establishing a national training programme for future certified experts in public procurement, drafting the certification system and training for up to 20 to 30 instructors, the first of which came from the PPO. These activities were complemented with study trips aimed at adopting best practices and seminars and workshops for people involved in the procurement system.

3. Promoting awareness of the new public procurement system.

The main objectives under this component were to develop the PPO's website ([www.javnabava.hr](http://www.javnabava.hr)), to publish newsletters, to raise public awareness of the project

and increase the transparency of the PPO with the aim of facilitating the operation of the public procurement system as a whole.

**7.2.2. CARDS 2002 project ‘Strengthening the capacity of the State Commission for Supervision of Public Procurement’**

This was an 18-month project which started in June 2005 and finished in December 2006. The State Commission for Supervision of Public Procurement of Slovenia was the twinning partner. The project supported the State Commission by suggesting proposals for a better legal framework in the area of legal protection. It also offered a skills training programme for State Commission staff and other experts in public procurement. In addition, it assisted the State Commission with regard to awareness-raising among businesses on examination and procurement. Project manuals were prepared on legal protection in public procurement procedure for bidders and on dealing with appeals on public procurement procedures. Lastly, the website of the State Commission was updated (State Commission for Supervision of Public Procurement Procedure 2010).

**7.2.3. PHARE 2005 TWL ‘Strengthening the Administrative Capacity to implement the new legislative framework of public procurement’**

The overall objective of the project was to strengthen the Croatian public procurement system in accordance with the requirements of the *acquis* and to promote efficiency and effectiveness by reducing the potential for fraud and corruption (Portal of Public Procurement 2008a).

The purpose of the project was to strengthen the administrative capacity of the PPO (and in the short term of public procurement in MELE) and other actors in implementing the new legal framework of public procurement in Croatia through a comprehensive programme of training and updating of the manual for clients and providers. In addition, the project aimed to contribute towards meeting the short-term priorities of the Accession Partnership, including strengthening the administrative capacity of the PPO in the implementation of functions assigned to the Law on Public Procurement (Portal of Public Procurement 2008a).

**7.2.4. IPA 2007 TWL ‘Strengthening of the Administrative Capacity of the Agency for the Public-Private Partnership in the Republic of Croatia in Relation to the Implementation of the New Public-Private Partnership Legislation’**

This Twinning Light project was launched in January 2010 with Greece as the twinning partner and the implementation bodies being the Special Secretariat for PPP in the (then) Ministry of Economy, Competitiveness and Shipping and the Centre of International and European Economic Law. The project had a budget of €250,000 and a duration of six months, and it was finalised in August 2010. The project’s activities were divided into two components: the evaluation of the existing PPP legal framework and a review of the current structure and strengthening of the administrative capacity of the agency.

The overall objective of the project was to develop a sound and transparent public procurement system in the area of public-private partnership in Croatia in relation to the implementation of the new public-private partnership legislation and the relevant EU standards (Delegation of the European Union to the Republic of Croatia 2011).

**7.3. Progress with system development and operation**

This section examines some of the measures taken with EU assistance in order to enhance system development and operation in Croatia in six particular areas. These are financial management and control, monitoring information system, procurement and contracting, project selection, audit and evaluation.

**7.3.1. Financial management and control**

The most important system for the European Commission funding is financial management and control. This is defined as a system which enables the efficient operation of an organisation or efficient management of a programme/project. The focus is on resource and risk management. In other accession countries, this has been one of the most challenging areas of system development. Most of the EU-10 countries centralised the paying authority functions in a single/national organisation. Major problems were encountered at the start of the period as a result of the creation of new authorities and the required administrative reorganisation within

implementing bodies in order to ensure the fulfilment of audit requirements. Furthermore, a lack of effective policy management was observed. To address this, it was suggested that the application of the decommitment rule and the increased administrative requirements of financial control and audit should be reassessed (EPRC 2008). In some EU-10 countries, the design of financial management and control systems was overly complex. The number of controls and the administrative inexperience in such cases slowed down the payment of funding and required rationalisation of administrative processes in order to speed up absorption (EPRC 2008).

In Croatia, the process involved both legal and administrative steps. Important changes in the area of financial management and control in Croatia may be linked to the country's candidate status and the process of conferral of management of EU pre-accession funds (SIGMA 2006). The first steps towards the establishment of an organised system for Public Internal Financial Control (PIFC) in Croatia were taken in 2004, when the Croatian Government drafted a development strategy for PIFC (SIGMA 2006). A second version of this strategy was drafted in cooperation with technical assistance, and after a positive opinion from the Commission was adopted by the Council of Ministers. The strategy covered both national and EU funds and made suggestions for the development and improvement of the system. Nevertheless, the resulting legislation was not passed in time, and a new overall plan for PIFC was only concluded in May 2006 (SIGMA 2006). The law covered financial management and control and internal audit, including central harmonisation functions. It contained Chapter 32 of the *acquis* (control functions) but tended to overregulate. Alignment of the law with the rulebooks was also required.

The framework for financial control in Croatia was based on the budget law. The law was reviewed by foreign consultants, which showed that bylaws were not needed. The CFCU was established in August 2001 and at the time included a director and 14 staff. The structure was complemented with the establishment of the National Fund and the National Authorising Officer. In the ensuing period, procedures started for the development of the management capacities of agencies responsible for EU pre-accession funds (PHARE, ISPA, CARDS), then within the



framework of DIS (SIGMA 2006). The systems and procedures required for the management and control of EU pre-accession funds and the process to set them up could serve as references for the domestic budget. Its occurrence could be seen as a measure of the effectiveness and added value of pre-accession assistance. As was reported, adequate linkage and cooperation was organised, with regular meetings of key actors in the management of pre-accession funds attended by the CHU (Central Harmonisation Unit for PIFC in the MFIN) (SIGMA 2006). Although this is an indication of linkages, it does not entail a horizontal administrative change in Croatian systems, because the bulk of national systems remained unaffected by EU pre-accession assistance (ECD1).

*A decentralisation with ex-ante control has been conferred to Croatia by the Commission in February 2006. A follow-up audit mission from ELARG E.5 audit unit took place in February 2007 to verify the fulfilment of conditions for the conferral of management as laid down in Commission Decision. Based on the final assessment of the audit report, a roadmap for the gradual lifting of the ex-ante control requirement may be envisaged. At the same time, Croatia has presented an action plan for the accreditation of the implementation bodies under the IPA programme for decentralised management of EU funds with ex-ante control (European Commission 2007d). In parallel, Croatia is expected to submit a request to the Commission for the accreditation of the implementation bodies under the IPA programme for decentralised management of EU funds with ex-ante control in the first semester of 2008 (European Commission 2008d, p. 12). As regards IPA, the European Commission and the Government of the Republic of Croatia signed on 27 August 2007 the framework agreement on the rules for cooperation concerning EC financial assistance to Croatia under IPA. The Commission decided on 14 November 2008 to confer on Croatia, while maintaining ex-ante controls by the European Commission Delegation, management powers under IPA Component II. The roadmap for the decentralisation of the management of IPA funds without ex-ante controls by the Commission will be established once all auditors' follow-up recommendations contained in the Commission Decision on conferral will have been addressed by the Croatian authorities within agreed deadlines (European Commission 2009c, p. 10)*

Mixed progress was reported on the establishment of national systems for the implementation of IPA funds. Systems and procedures for management and control were only partially in place in 2006. Progress was similar in EU funds management, where steps had partially been taken (SIGMA 2006). This refers to the development of the management capacities of agencies responsible for the management of EU funds. In addition, there was a gap between the development of FMC schemes and their implementation. It was stressed that the credibility of FMC schemes could have been enhanced through their pilot implementation in the Ministry of Finance through pilot exercises such as audit trails and control self-assessments that could pave the way for risk identification, assessment and management functions (SIGMA 2006, p. 4). In its annual report, DG Enlargement stated that the Croatian authorities had continued to strengthen the management and control systems for IPA funds, and the rejection rates for files prepared by these systems had fallen significantly (2010a, p. 7). In 2009, the systems and procedures for the management and control of the state budget and of EU funds were largely in place (SIGMA, 2009). An additional confirmation of the effective functioning of the management and control systems was provided with the Croatian NAO's Annual Statement of Assurance (SoA) for 2010 (DG Enlargement 2010a, p. 23). A DG Enlargement audit on the conferral of management for IPA Component I made one recommendation with regard to the issuance of the Statement of Assurance. Croatia prepared a new methodology for the Statement, which it incorporated in the manuals of procedures it presented to the Commission. Consequently, the EU auditors reduced the underlying risk level to low. The PIU Operational Guide for CARDS, PHARE and IPA Component I assistance was first created in 2005. The CFCA updated and extended the manual on several occasions in 2008, 2010 and 2011 (Central Finance and Contracting Agency 2011).

Progress reports from this period show some strengthening of administrative capacities of institutions responsible for the financial management of pre-accession assistance. For instance, from the initial 14 in 2008, the CFCA increased to 69 staff and the structure comprised the already existing NF and NAO. The procedures for the development of management capacities of the agencies continued throughout this period. In the framework of DIS, the process was completed for PHARE, ISPA,

SAPARD and CARDS (SIGMA 2008). The main findings of the systems audits conducted by the Audit Authority were related to management and control standards for effective controls of CODEF, CFCA and the National Fund (DG Enlargement 2010a, p. 23). Other specific findings included insufficient segregation of duties in the IPA management information system and inadequate controls in selected IPA 2007 projects.

### **7.3.2. Monitoring information system**

Monitoring refers to measures taken in order to provide operators with information on inputs, outputs and results which can be transmitted to the managers. The monitoring information system also includes the monitors' syntheses and aggregations, periodically presented to the authorities responsible for the implementation, and they form the key element in a system of indicators (MOU S.A. 2004a, p. 160). The monitoring information systems in the EU-10 were in some cases sub-optimal due to time pressures, staff turnover and insufficient resources. In cases where monitoring was new and EU resources constituted a large share of regional development resources, monitoring systems tended to be applied to both EU and domestic policies with an integrated approach. At the end of 2008, some major constraints were still outstanding across all processes of the management and implementation cycle in the EU-10. These included design or operational difficulties with electronic data processing systems and the need to organise support and training to improve monitoring expertise (EPRC 2008). In general, MIS improved over time. Adaptation took place especially in procedures and tools. Human resource development issues were largely addressed. In addition, strengthening of coordination and fine-tuning of procedures were achieved through learning-by-doing. The functioning of procedures was enhanced through targeted training. Finally, there was limited evidence of increases in productivity and wider benefits such as reduction in processing times for applications and claims. Remarkable levels of immediate spillovers were noted in managerial practices, staff expertise and institutional changes, especially with regard to strategic planning, the implementation of the partnership principle, systematic project monitoring and evaluation (EPRC 2008).

Although a monitoring information system is in place in Croatia, some aspects of it could be improved. As findings of the systems audits conducted by the Audit Authority showed, there is insufficient segregation of duties in the IPA Management Information System. An IPA meta-evaluation suggested that the function of programme/project monitoring is well practised, due to their experience of managing the process under both IPA and the pre-IPA EU assistance (HTSPE 2011, p. 32). Monitoring capacities were considered to have improved over the years. However, the main weaknesses observed related to the linkage between the monitoring templates and information systems that inform the various levels of monitoring (MIPD/programmes/sectors/projects/contracts). The report noted that, whereas the monitoring systems provide detailed Project Monitoring Reports, ‘the systems do not yet provide a means by which such project data is then sufficiently focused for reporting processes at the sector and programme levels’. In addition, the length of Sector Monitoring Reports was considered excessive, and they failed to provide overall information utility as they were not targeted to the needs of the audience. Consequently, the efficiency and effectiveness of monitoring functions in Croatia could be further enhanced by strengthening the linkage of information management at various levels of monitoring (contracts/projects/sectors/programmes) and by improving the quality of reports in order to better address the decision-making needs (HTSPE 2011, p. 32).

The beginning of the process of establishing a monitoring and evaluation system in Croatia coincides with the introduction of IPA in 2007. However, in 2007 and 2008, although Croatia was already in the process of establishing an electronic monitoring system, its most significant parts were not yet in place (European Commission 2007b, p. 47; 2008c, p. 51). The main issues were the need to define functionalities of the system, formulate technical specifications, and obtain technical assistance in setting up the system and making it operational (European Commission 2008c). In 2009, it was reported that Croatia’s needs for monitoring and evaluation of the Structural Funds had begun to be addressed (European Commission 2009a, p. 50). Actions taken comprised a plan and timetable for setting up a monitoring and evaluation system, including its electronic monitoring system (MIS), which was reportedly a key element for negotiations. At the time, the Croatian authorities

carried out tests of the functionality of the electronic monitoring system (MIS) for IPA III and IV (European Commission 2009a, p. 50). The government planned to build on the IPA MIS to meet the requirements for the SF MIS. However, there was a need to formulate technical specifications and use technical assistance for establishing the system and meeting SF requirements. In 2010 and 2011, preparations for the set-up and operations of the monitoring and evaluation system for the SF reached an advanced stage (European Commission 2010a, 2011a). This included the electronic management and implementation system which is operational under IPA. It was noted that Croatia uses an IT tool (LOTHAR) to monitor the absorption of funds (European Commission 2010a, p. 46). In 2011, the Commission considered a plan and timetable for setting up a monitoring and evaluation system for Structural and Cohesion Funds by Croatia, including the setting-up of an electronic management and information system, to be appropriate (European Commission 2011a, p. 44). The Croatian authorities upheld their decision to build the management and evaluation system for the SF based on the IPA system by upgrading aspects of existing structures and capacities (European Commission 2011a, p. 44).

### **7.3.3. Procurement and contracting**

EU rules for public procurement are a vital guarantee of transparency and value for money. Public procurement covers supplies, services and works purchased by the public sector. The standard procurement procedures are summarised by the PRAG. Once the European Commission grants approval for an activity with the adoption of a financing decision, and where appropriate with a relevant financing agreement, the contracting authority can proceed with tendering and contracting based on these standard procedures (European Commission 2008f, p. 20). For former centrally-planned economies, the EU procurement procedures constituted a major challenge. The objectives and outputs of pre-accession assistance for procurement in Croatia are examined below.

**7.3.3.1. CARDS 2002 Twinning Project ‘Strengthening the Croatian Public Procurement System’ Directorate of Public Procurement System, MELE (see description of objectives and components above, under Sub-section 7.2.1)**

In relation to component one, the project conducted an analysis of the public procurement system, and amendments to the Public Procurement act were proposed, adopted and entered into force. In addition, the amended Regulation on Public Records came into force, while an expert group was formed charged with drafting a new law on Public Procurement that would be fully aligned with the *acquis*.

Furthermore, three regulations were proposed: a regulation on general provisions for the procurement of goods and services, as well as works contracts; a regulation on the methodology of preparation, evaluation and implementation of investment projects; and the regulation on procurement of goods, services and works of small value (Portal of Public Procurement 2008b).

In addition, a manual for public procurement procedures was drafted by a working group comprising PPO experts, client representatives, USAID project experts, and CARDS project consultants. A handbook of public procurement for bidders was also prepared, as well as standard forms for public procurement procedures (Portal of Public Procurement 2008b).

The decree on amendments of the Public Procurement Office established three departments. CARDS consultants proposed two models for the further organisational development of the office. Questionnaires for the analysis of the existing public procurement system received a response rate of almost 70%.

As regards the second component, a model and a way of certification for the future national programme for education of public procurement professionals was developed. Moreover, professional travel by the programme staff of the PPO was anticipated. Under a ‘train the trainer’ programme, 30 sessions were held to train potential trainers. Five study tours were also conducted for staff working in public procurement.

With regard to component three, an electronic newsletter was launched and regularly updated, and a seminar for high-ranking officials took place in the Goethe Institut in Zagreb on the transposition of the *acquis* on public procurement to Croatia. Two more seminars on public procurement were organised in Zagreb and Split (Chamber of Commerce Zagreb and Split respectively).

**7.3.3.2. CARDS 2002 project ‘Strengthening the capacity of the State Commission for Supervision of Public Procurement’**

The project supported the State Commission by suggesting proposals for a better legal framework in the area of legal protection. It also offered a skills training programme for State Commission staff and other experts in public procurement. In addition, it assisted the State Commission with regard to the awareness-raising of business on examination and procurement. Manuals were prepared on legal protection in the public procurement procedure for bidders and on appeals on public procurement procedures. Lastly, the website of the State Commission was updated (State Commission for Supervision of Public Procurement Procedure 2010).

**7.3.3.3. IPA 2007 TWL ‘Strengthening of the Administrative Capacity of the Agency for the Public-Private Partnership in the Republic of Croatia in Relation to the Implementation of the New Public-Private Partnership Legislation’**

The goal of the project was the improvement of the Croatian PPP system and its alignment with best EU practice (Agency for Public Private Partnership 2009). In the first twinning mission, Greek legal and economic experts conducted an analysis of the legal system and procedures, on the basis of which a report and possible recommendations for improvement was prepared.

The Greek side confirmed that they encountered problems with the implementation of the project and that every scope for extension had been exhausted (April 2010) (GRGOV1). This situation can be attributed to internal capacity and workload problems that the Greek twinning institution was facing.

**7.3.3.1. Assessment**

The Public Procurement Act (PPA) entered into force in January 2008, bringing Croatian legislation further into line with the *acquis*, and a new concessions

act was adopted. However, more administrative alignment and capacity-building were needed, and the enforcement of the PPA had to be ensured (European Commission 2008a).

According to a Sectoral Interim Evaluation, effectiveness in all other sub-sectors of Public Administration Reform was reduced by the late contracting of the 2006 programme and insufficient stakeholder commitment, although the public procurement sub-sector was not affected. The evaluation found good progress had been made in 2005 with the interventions in the public procurement sub-sector. Overall performance in the public procurement subsector was rated as ‘satisfactory’, thus exceeding the total rating of the sector which was ‘moderately satisfactory’. In particular, pre-accession assistance in public procurement was rated satisfactory in each of the criteria (relevance, efficiency, effectiveness, impact, sustainability) (MWH Consortium 2008).

Initial conditions as regards public procurement system were characterised by lack of coherence in public procurement, due to weak coordination mechanisms and low administrative capacity for implementation. The 2006 progress report was used as a basis for designing the intervention in procurement. The 2007 progress report noted some improvement in procurement but little progress in the field of general principles and award of public contracts (European Commission 2007b, pp. 28-29). With the new Public Procurement Act adopted in October 2007 Croatia was seen as starting to establish a new legal base in line with the *acquis*, while engaging in parallel in complex activities to overhaul public procurement procedures and provide training for public procurement staff (MWH Consortium 2008, p. 3). The former Public Procurement Office was the government body responsible for the implementation of the relevant tasks until December 2007. In January 2008 the PPO was absorbed by MELE as a Directorate for Public Procurement Systems. The institutional architecture for public procurement in Croatia comprised the former PPO as the main coordination body, the State Commission for the Supervision of Public Procurement Procedures as the review body, and the decentralised procurement agencies, which implement the public procurement legislation.



An evaluation of pre-accession interventions in public procurement found generally positive results under the 2005 'strengthening the PPO project'. The evaluation considered that the update of procedures and qualifications of staff were reflecting a strategic approach, which was in line with EU and national requirements, but argued that the intervention logic should have been more precise (MWH Consortium 2008). The role of Hungarian twinning partner was also considered and advantage in light of its experience despite the differences in organisational structure between the twinner and the beneficiary. The transfer of responsibility between the PPO and the DPPS in MELE was reported as having no negative impact on the relevance of the project (MWH Consortium 2008, p. 9) .

Audits of procurement systems in Croatia have identified weaknesses even in the more recent years of EU pre-accession assistance. The Court of Auditors has called for more attention to be paid to building up procurement capacity (European Court of Auditors 2011, p. 6). Once the tenders were launched, delays occurred due to Croatia's limited capacity to manage procurement procedures. According to the Court of Auditors, this would not have happened if the documents had been prepared to the set standards. The Court also expressed its concern about the considerable delay in the conclusion of contracts. The Commission had extended the implementation deadlines by one year for PHARE 2005 and 2006 and SAPARD projects, and by one year for ISPA projects, and based on that extended the deadlines for IPA Component I. However, the Court was doubtful about Croatia's compliance with the 'n+3' rule for IPA III, IV and V (European Court of Auditors 2011, p. 19). It was noted that Croatia's limited capacity to utilise pre-accession funds for administrative capacity-building may pose a danger to the post-accession absorption of allocations within set timeframes. Relating to IPA 2008, the Court found significant delays in the preparation and procurement procedures for the project pipeline, which could result in loss of impetus (European Court of Auditors 2011, p. 24).

An appraisal of four Twinning projects led by Germany in Croatia, including one project on state aid and another one public procurement (the CARDS 2002 TW), concluded that there was variation in terms of achievement of project objectives.

Task design and overly ambitious targets for the timeframe was the explanation provided in the case of a partially successful project (Bundesministerium für Wirtschaft und Technologie 2009, p. 18). On the alignment with the EU *acquis*, the appraisal found that although the legislative framework sometimes complied with EU standards at the end of the projects, this was not consistent or nationwide. The support to the projects and the absorption capacity of the beneficiaries were considered adequate only in two cases. Reportedly, there was lack of awareness in the Croatian beneficiaries that EU standards had to be met before accession. The appraisal considered this to be an indication of inadequate support to the projects and one of the causes of insufficient staffing in the bodies involved (Bundesministerium für Wirtschaft und Technologie 2009, p. 18).

#### **7.3.4. Project selection**

In the EU-10, a factor that conditioned the overall context for project selection was ‘the extent to which EU funding was embedded into domestic resource allocation systems’ (EPRC 2008, p. 10). The path taken in most of Eastern Europe was to integrate or subsume EU funding in domestic administrative systems.

One of the findings of the fieldwork, which was also confirmed by the Auditors’ report, was the poor quality of some of the projects and the high rejection rate (see Table 16 below). The issue concerned a number of respondents who referred to the particularly alarming situation in 2007 (ECD1, ECD4, GOV12). The ECD had to reject submitted tender documents, because they did not fully comply with EU procedures. As problems from CARDS accumulated, the implementation of PHARE was also hindered. For instance, the dossiers submitted to the delegation for approval were of a low standard, which led to a suspension of the decentralisation and funding for almost a year (ECD1). This prompted a government decision to transform the CFCU into an agency, the CFCA, in August 2007 (Vlada Republike Hrvatske 2007; Central Finance and Contracting Agency 2008). In the case of the agency, the law on institutions would apply instead of civil service laws, thus allowing a different salary structure without adherence to the coefficients existing for the ministries, and therefore facilitating the recruitment of recent graduates.

Both the Auditors' report and the DG Enlargement annual activity report in 2010 found a reduction in rejection rates across the board, but they noted that they remained relatively high for more complex contracts such as public works, due to the inadequate quality of the technical control expertise (European Court of Auditors 2011, p. 15; DG Enlargement 2010a, p. 20) (See Table 16 below).

**Table 16: Rate of tender evaluation reports and contracts submitted by Croatian authorities which were rejected by EU Delegation in Croatia (%)**

		2007	2008	2009	2010
Evaluation reports	First submission	60	22	20	14
	Further submissions	34	35	67	20
Contracts	First submission	60	20	21	20
	Further submissions	34	37.5	33	10

Source: (European Court of Auditors 2011, p. 15).

A system for developing a pipeline of mature projects for the Structural and Cohesion Funds was initially envisaged by PHARE 2006. However, the Commission subsequently shifted its focus to developing a large number of major infrastructure projects. This will possibly boost absorption once Croatia becomes a member of the EU. On the other hand, the need to create a mature project pipeline for future OPs at the local and regional levels was largely not addressed. The capacity-building programme was scaled down, and training was offered to 90 personnel instead of the 1,000 initially foreseen. Of the nine major infrastructure projects prepared, only some had complete documentation. In addition, although guidelines were produced for about 50 grant schemes, there was not sufficient time to transfer this knowledge to the regional level. The Auditors' opinion was that EU-funded expertise contributed significantly to NSRF and OP programming under the SF and CF, but progress was not as noteworthy in developing a management information system for the funds (European Court of Auditors 2011, p. 23).

A strong and increasing preference for twinning projects over TA has been observed in Croatia. This applies also to Twinning Light projects, which are of a shorter duration and do not require the presence of a resident twinning adviser. Generally, twinning is considered to be a more appropriate instrument for alignment

with the *acquis* in established and mature organisations and countries closer to EU accession. This was considered to be the main determinant of the prevalence of twinning in Croatia, where 54% of all the pre-accession assistance projects in 2005-2007 were twinning projects, although in financial terms this translates into 36% of EU funding in the same period (ECORYS 2011b, p. 13). Additional advantages of twinning interventions were considered to be the role of intangible benefits, such as fostering ties with relevant institutions in the MS, or the influence twinning is supposed to exert on organisational culture through the transfer of knowledge (ECORYS 2011b, p. 19). TA is considered more suitable in situations that demand better flexibility and steering and faster delivery of results.

Croatia has also implemented interlinked projects combining twinning and TA. For instance, in the alignment of customs and tax administration with the European system, Croatia received both TA and Twinning. ECORYS considered the selection of project types by the Croatian government to have been judicious, because the most technical elements such as software adaptation were undertaken by specialised providers (such as IBM) and the management and capacity-building, including on-the-job training, was provided by the twinning partner (Austria) (ECORYS 2011b, pp. 27- 28 Annex 3). In the Structural Funds sector, the technical character of capacity needs, especially regarding systems, may call for a reliance on technical assistance; however, this has not been the case in Croatia. A TA project was included in the PHARE 2006 programme, aiming at the development of the institutional capacity for the post-accession management of the SF. A PHARE 2006 TWL project aimed at strengthening AC for the management and implementation of IPA/ESF. Another Twinning project, at the initial set-up stages of preparation, aimed at assisting with the transition to EDIS under IPA Component II and the territorial cooperation component under Cohesion policy. The lack of concrete information prohibits evaluative conclusions about the effectiveness of these projects.

A capacity-building and project preparation facility project was carried out between January 2008 and February 2009. According to the project's final report, the activities were delivered timely and effectively (Metis 2009). The project put a helpdesk into operation in programming IPA 2008 that worked on 22 projects and

logframes, and it was also functional for the development of project fiches in line with the Commission's requirements. In addition, meetings were held to improve the quality of fiches. Procurement helpdesk activities were also organised for IPA I, III and IV. In the project's own terms, capacity was improved in the course of helpdesk programming (Metis 2009, p. 9). Furthermore, the project provided training in PRAG, European project management, cost-benefit analysis, feasibility studies, SF, Community programmes, monitoring and evaluation. As an indication of the sustainability of results, the project claimed that training materials had been shared with CODEF and the CSOA. Overall, 1000 people were trained in 62 training sessions covering 12 areas (Metis 2009, p. 10). Lastly, the project engaged in the challenging task of preparing a handbook on 'European Funds for Croatian Projects', which proved to be much larger than the ToR had suggested. However, with additional effort from ECD and CODEF, the report was completed and presented in the closing ceremony of the project (Metis 2009, p. 10).

#### **7.3.5. Audit**

A State Audit Office (SAO) was established as an independent body in 1993 (SIGMA 2002a). Pre-accession assistance was provided through a specific project on 'Developing a public internal financial control and internal audit' under CARDS 2002 (SIGMA 2002b). Progress was supported by two other CARDS 2002 public finance projects. The revision of the legal framework was foreseen in these projects (SIGMA 2002b).

Initially, an independent service for audit was established in the Ministry of Finance for IPA and SAPARD. Subsequently, still in the area of EU funds management, an Agency for the Audit of the Implementation System for the European Union Programmes was established by Government Regulation 35/2008 (Regulation of the Establishment of the Agency for the Audit of European Union Programmes Implementation System) of 20 June 2008 (SIGMA 2009b, p. 2). The responsibilities of the independent service for Audit of IPA Programme Verification of SAPARD within the Ministry of Finance were transferred, and the financial rights and obligations as well as the documents and equipment were assumed by the new Agency (ARPA 2010). The Audit Authority for IPA was established and has been

fully operational since May 2009. The Audit Authority conducted several systems audits within the operational structure for IPA Component I (TAIB) and operational audits for selected projects of the IPA 2007 TAIB programme.

#### **7.3.6. Evaluation**

Evaluation consumed a significant part of the efforts on systems building in the EU-10. Prior to accession, evaluation was not a feature of policy-making. Although some experience was gained through the PHARE programme, it was only under the 2004-2006 Structural Funds programmes that the foundations for a coherent and systematic approach to evaluation were set. Work involved the setting-up of evaluation units, the drafting of evaluation strategies, and the formation of steering groups (EPRC 2008, 2009). However, the EU-10 still suffered throughout the 2004-2006 period from inexperience among implementing bodies, lack of evaluation suppliers, and variable quality of studies. Later on frequent changes to the system of structural funds also threatened the build up of evaluation expertise as for example in Poland (Ferry and Olejniczak 2008, p. 55). Major steps were taken to develop an evaluation culture in some countries (Estonia, Hungary, Latvia, Lithuania, Poland) through the development of guidance and advisory services, evaluation conferences and seminars and training activities for government authorities, as well as the launch of a series of evaluation studies (EPRC 2008, 2009).

Before pre-accession, Croatia lacked a strong evaluation culture. Involvement with pre-accession assistance and learning-by-doing has been slowly introducing evaluation practices into the Croatian public sector. Nevertheless, the Court of Auditors reported on the insufficient use of SMART objectives and relevant indicators, which made it difficult to assess project results, especially grant schemes (European Court of Auditors 2011, p. 21). The Court considered the Commission's monitoring system to be well designed and confirmed that it was being implemented by the Croatian authorities. However, it found that, on some occasions, project problems had been underestimated. The Court also noted that in some cases projects had not been subject to external assessment (particularly grant schemes), because the

Commission intended to combine IPA interim evaluation with ex-ante assessment of SF OPs. This was seen as delaying feedback on improving IPA assistance.

The state of play in more recent years has been one of established systems on one hand but enduring issues related to their operation and functionality on the other hand. Nevertheless, an incremental improvement of the quality of documents submitted has been evident in recent years (see Table 15 above). An IPA meta-evaluation suggested that the efficiency and effectiveness of monitoring functions in Croatia can be further improved by strengthening the linkage of information management at various levels of monitoring (contracts/projects/sectors/programmes) and by improving the quality of reports in order to address the decision-making needs better (HTSPE 2011).

In general, the European Commission has attempted to strengthen the connection between the planning and implementation of pre-accession assistance and the accession-negotiation process. The European Court of Auditors considered that this was achieved with the introduction of closing benchmarks in chapters of the *acquis* relating to financial assistance, namely Chapters 11 (Agriculture and Rural Development) and 22 (Regional Policy and Structural Instruments) (European Court of Auditors 2011, p. 14). However, the Court noted that there was no closing benchmark for the establishment of sufficient capacity in Croatian authorities to be authorised to manage pre-accession assistance without ex-ante control by the EU Delegation (European Court of Auditors 2011, p. 14).

#### **7.4. Cultural aspects of systems usage**

Culture is understood to be a system of common values and meanings (see also Chapter 2, p. 16). Organisational cultural change is required in order to safeguard the sustainability and embeddedness of capacity-building interventions. Moreover, an explicit part of the accreditation criteria for ethics and integrity policies relate to the control environment: the culture required by top management should be understood throughout the organisation. There are also aspects of the effects of the EU assistance that go beyond the formal requirements and specific systems in terms of changing administrative culture.

The issue of culture (administrative, organisational) was covered in nine recorded fieldwork interviews. Interviewees were not asked to comment on culture precisely in the context of the accreditation criteria, but rather to state whether administrative culture had been conducive to capacity-building and the efficient, effective and sustainable implementation of projects. There are three groupings of replies to that question: first, consultants and European Commission Delegation officials stressed the importance of administrative culture in relation to capacity-building issues; second, operating structure officials approached the question in a manner showing either disregard for cultural issues or exposing the low importance ascribed to cultural aspects by public managers in Croatia; and third, a number of line ministry employees gave a more generic response relating culture in the civil service with wider Croatian societal culture.

A main aspect of the administrative culture in Croatia, which is also a characteristic of other CEE public administrations, is legalism. This can be seen as a mixed blessing for administrative change, as was discussed in the theory chapter. Consultants interviewed in Croatia were keen to draw parallels with other CEE and pre-accession countries on the matter. The administrative culture was considered to be similar to that in other SEE countries i.e. procedural, legalistic (CON1). Respondents close to the ECD emphasised the significance of administrative culture and the considerable length of time required if it is to change. In that respect, the respondent noted that change of government leads to appointments of new civil servants and new directors (ECD3). Another consultant underlined that Croatia is an old socialist type of administration, where real public administration reform never took place. Another issue raised was the low motivation of employees, in part because of the low salaries and the lack of other benefits: civil servants are required to work long hours for minimum pay (CON1). The lack of motivation was also attributed to poor personal education and development at work. With regard to the latter case, human resource management does not exist. An outdated term from the socialist era is still in use (*kadrovska služba* – resource administration), and there are no HRM courses even at universities. Finally, the management lacks knowledge and experience about the EU (CON6). The current composition of the public administration in Croatia may aggravate resistance to change. Respondents



corroborated this view of a civil service dominated by an old guard of employees who have been there for years, do not speak English and do not wish to work hard, and who oppose ‘this EU stuff’. A gap exists between them and the young people in the administration, who have language skills but are not experienced. In some cases, negotiation missions with the EU are manned with young but inexperienced people because of their fluency (ACA4).

Croatia, in common with other former centrally-planned economies, has a legacy of top-down managerialism. Interview responses emphasised the lack of a tradition of middle/junior officials being able (or feeling empowered) to take decisions for them. This top-down culture is clearly evident in Croatia. The administrative culture does not lend itself to procedures that Croatia as a MS, not the EU, would lead (CON3). Perhaps the arrangements in the field of systems have not been catalytic for cultural change. Arrangements in financial management and control resulted in improvements in control and legislative change, but they did not encourage improvements in the quality of public expenditure by obliging management to address value for money (SIGMA 2009b).

On some occasions, there seemed to be a lack of understanding of the importance of culture or its relevance to Croatian public administration. This was confirmed through responses of government officials involved in specific capacities with the management and coordination of EU funds that reacted somewhat dismissively to the question on administrative culture in Croatia. It was noted though that administrative culture had been changing over the previous couple of years, and that there were positive movements. Other interview responses expressed the view that Croatia is a young country with a young administration in terms of tradition. Respondents noted that some important changes were being introduced at the time, citing a number of acts in the area of state administration and local and regional self-government that – allegedly – reflect examples of good governance in the rest of Europe. The respondents acknowledged that the EU funds have been a good indication of how much work there was still ahead in terms of improving the system. Finally, it was anticipated that the more experienced one becomes with the EU funds, the more clearly visible the stumbling blocks are. Those stumbling blocks have to be

overcome at a horizontal level, and expectations rest on EU projects to bring more fundamental change (GOV1).

Furthermore, the role of the top management, which is also clearly emphasised by the EU interventions, in instigating cultural change was stressed. A government official commented that as all institutions and civil servants are covered by the same law, reforms and changes within institutions usually depend on the openness and open-mindedness of the head of the institution. Cultures among institutions were seen as very different, and this is considered to emanate from the top, the core manager. The interviewee elaborated these views with reference to cases of public service managers who are either open to changes or allow limited openness. Some heads of institutions were reported as willing to introduce new improved tools for people management. In the case of recruitment procedures, some institutions developed candidate-friendly procedures in a very professional manner within the existing legal framework (CON4).

Structural conditions of the public administration were also cited as an obstacle to administrative change. Fieldwork interview responses stressed that, due to the size of state administration, rigidities and inertia are developing, resulting in delays in implementation of even the most unimportant decisions. Flexible individuals can also be found in the civil service, but due to the nature of the system they are bound and cannot do much, despite their efforts (ACA3). Other sources argued that rigid hierarchy was slowing down decision-making (GOV9, GOV10). Observations by foreign consultants stressed the predominance of social and personal relations over professionalism, which is considered to be evident in business transactions as well as the management and running of EU projects (CON5).

## **Conclusion**

This chapter concludes the empirical part of the thesis by covering aspects of CARDS and IPA influence on systems. This includes instruments, methods, guidelines, manuals, procedures, software and tools used in relation to EU funding. Four dimensions of systems usage have been examined in this chapter: formal

compliance requirements, EU support for systems, systems development and operation, and cultural aspects of systems usage.

In terms of formal compliance, regardless of whether systems were put in place, important steps were made as a result of Croatia's pre-accession. In the area of financial management and control, and EU funds management, systems and procedures were partially in place in 2006. As regards audit, a previously existing State Audit Office was replaced by an agency for the audit of EU programmes in 2008. This agency assumed the role of Audit Authority for IPA. By 2009, the procedures for the management and control of the state budget and the EU funds were mostly in place. The objectives of EU support for systems were also studied.

Next, the development and operation of the systems including their relevance and effectiveness were examined. In the initial stages of the decentralisation of pre-accession assistance to Croatia, the poor quality of some projects led to high rejection rates because of lack of compliance with EU procedures. Over time, the situation has improved, but shortcomings are still observed in the case of more complex projects. Moreover, progress has been achieved in the effective functioning of management and control systems. Some linkages and cooperation of management and control systems of EU pre-accession funds and national budget system were reported to have taken place through the attendance of the Central Harmonisation Unit in the MFIN at key pre-accession funds meetings. However, fieldwork interviews argued that national systems have remained insulated from EU influence because of domestic political expediency. More recently, systems for IPA have been broadly established, but concerns have been expressed about insufficient segregation of duties and insufficient controls.

As regards public procurement, the results of four pre-accession assistance projects were examined. A CARDS 2002 twinning project in the Directorate of Public Procurement System at MELE aimed at helping towards the development of a sound public procurement system in line with EU standards. The project produced an analysis of the Public Procurement System, proposed amendments to the PPA and suggested regulations on several types of procurement. A manual for public

procurement procedures and a handbook for bidders were prepared. Furthermore, the project presented models for the organisational development of the office. Training including study tours was also offered to public procurement professionals, and a future educational programme was drafted. Lastly, three seminars were organised and a newsletter was published.

In addition, another CARDS 2002 twinning project supported the State Commission for Supervision of Public Procurement by suggesting legislative proposals in the field of legal protection in public procurement procedures. Moreover, the project prepared a manual on legal protection, a manual on appeals, conducted awareness-raising activities for businesses, and upgraded the Commission's website.

A PHARE 2005 Twinning Light project pursued a similar objective to the aforementioned CARDS projects by supporting administrative capacity-building in the Public Procurement Office. A satisfactory overall rating was given as regards the effects of twinning in public procurement. The project's performance was rated as satisfactory in terms of relevance, efficiency (noting a delay of more than two months), effectiveness (with DPPS and State Commission well prepared for implementation), impact (through increased work capability of staff) and sustainability (as Croatia will be committed to *acquis* harmonisation and pre-accession negotiations in public procurement).

Finally, an IPA 2007 Twinning Light project aimed at strengthening the administrative capacity of the agency for public-private partnership in relation to the new PPP legislation. An analysis of the legal system and procedures was conducted. As the twinning partners acknowledged, the project faced problems with its implementation and used any scope for extension. Appraisals of twinning projects led by Germany found that in some cases task targets were overly ambitious; and legislative compliance was neither consistent nor nationwide (Bundesministerium für Wirtschaft und Technologie 2009). There was also a lack of beneficiary awareness that standards had to be met before accession.

Audits have shown that, even in 2011, Croatia had limited capacity to manage procurement procedures mainly because it had not been possible to prepare projects to set standards. The Court of Auditors has expressed concerns about Croatia's ability to comply with the 'n+3' rule for IPA III, IV and V and the post-accession absorption of allocations. In addition, in the beginning of assistance provision to Croatia, the country lacked an evaluation culture. However, the country has been implementing the Commission's monitoring and evaluation systems. Some of the shortcomings in this area are related to the Commission's shifting priorities.

Capacity-building in this sector has been carried out mainly through twinning projects. The four projects studied here in the sector of public procurement and PPP provided legislative amendments, drafted manuals and guidance documents, offered training and organised helpdesk activities. The prevalence of twinning versus TA in Croatia is a phenomenon related with the country's approaching EU membership. Twinning is preferred by more mature organisations nearer EU accession that also can reap the intangible benefits of fostering ties with MS institutions and of bringing about positive change to organisational culture through knowledge transfer. Nevertheless, despite the Commission's interest in establishing a connection between planning and implementation of pre-accession assistance and the negotiation process, this has not been fully achieved. The Commission did not adhere to a strict application of closing benchmarks in the case of extensive decentralised assistance in Croatia. With regard to the Structural and Cohesion Funds, a system for developing a project pipeline of mature projects was suggested by PHARE 2006. However, the Commission decided to focus on major infrastructure projects that could give an early boost to post-accession absorption. Even so, documentation was not complete, and despite the guidelines produced, knowledge transfer to the local level was limited.

The fourth dimension of systems, organisational culture, is one of the stated preconditions that constitute the accreditation criteria. Taking this as a starting point, fieldwork information on administrative culture was presented, with the aim of confirming whether the existing culture has been conducive to administrative capacity-building. Divergent views were expressed, which probably reflected the

mixed picture in the Croatian public administration where the older and more self-conscious state bodies exhibited rigidities associated with the legacy of the past, while many younger institutions faced issues related to lack of experience, ineffective training and quality of management.

In a considerable part of the state sector, a procedural, legalistic model of public administration prevailed, unaffected by EU funding and its requirements. The fact that no radical reform in the field of public administration has been undertaken, as indicated in earlier chapters, has been conducive to the survival of cronyist practices, ignorance of human resource management, and institutional inertia. Some respondents associated such a system with Croatia's former socialist tradition and expected change in terms of culture to be slow-paced, especially as there was an intentional isolation from EU standards and practices. A top-down approach was widely perceived as being the most prevalent form of bureaucratic organisation in most if not all the state institutions with which this case study was concerned. Rigidities and inertia were said to be more evident in larger institutions within the government structure, with a strongly centralised and hierarchical system where initiative emanated solely from the core manager. This was characterised by interviewees as potentially negative in terms of moving towards national or regional ownership of EU policies. Respondents focusing on positive aspects listed legislative changes for *acquis* harmonisation and inferred a virtuous albeit timid influence on administrative culture.

Overall, project results differed from case to case, even though the objectives were largely similar. Much depended on the quality of the twinning partner from the MS and the competencies of its team. However, there has been good progress in the field of public procurement as the country progress reports attested, although there was still some need for capacity-building efforts in the relevant institutions (European Commission 2010a, p. 31). Obvious results of this form of financial assistance were to be found in the areas of awareness-raising and communication. Furthermore, in some cases twinning instruments raised the profile of candidate countries in the MS. Finally, Croatia's administrative culture was not considered as widely conducive to change and compliance with EU administrative standards,

although small and incremental change did occur according to more optimistic accounts. The following, final chapter develops key themes from the theoretical framework and discusses their application to Croatia based on the conclusions of the empirical part. Lastly, a set of policy recommendations is presented.

## 8. Conclusions

In recent years, administrative capacity has become an increasingly important concern for European policy-makers especially with regard to EU candidate countries and regional preparedness for the implementation of EU policies and the *acquis*. EU pre-accession financial instruments aim at improving administrative capacity in the candidate countries. The main purpose of this study was to establish whether and how EU pre-accession assistance in the form of CARDS and IPA acts as an instigator of institutional change (Europeanisation) via its influence on administrative capacity. The study's three major objectives were: to contribute to the growing literature on institution-building (Europeanisation) in the Western Balkans, to define and operationalise the term 'administrative capacity' in the context of Enlargement and pre-accession, and to conduct in-depth case study research on how CARDS and IPA affect administrative capacity in Croatia and how they interact with other factors influencing administrative capacity.

The initial conditions in Croatia were generally not conducive to administrative capacity-building efforts. First, unlike most of the EU-10, Croatia became independent relatively recently, and its administrative apparatus was partly in an embryonic form and partly laden with remnants of an East European version of the continental administrative model as adapted by half a century of socialist rule. This included strict adherence to legal formality and a predilection towards top-down managerialism. Second, the newly-founded Croatian state engaged in a number of armed conflicts. The military effort absorbed a vast share of scarce state resources and caused losses in employment (Stubbs and Zrnšćak 2009, p 129). Third, Croatia's early encounters with EU aid were also difficult for two main reasons: assistance was not provided continuously because of cooperation problems with the West on war crimes investigations; and aid focused predominantly on reconstruction, stabilisation and refugee return, reflecting a necessity of the time. Fourth, governance indicators presented in Chapter 3, p. 102 show that Croatia was leading the Western Balkan countries in terms of quality of governance. However, the distance from the EU MS was still large, as it was with most of the EU-10. Lastly, a number of structural characteristics hindered early reform efforts: political disaccord, lack of



political will and steering, and poor implementation results. Legislative initiatives lacked clarity and were not properly enforced. The prevailing conditions in the state sector were politicisation, lack of transparency, accountability and efficiency. Human resources management strategies and systems were non-existent. A similar situation characterised the budgetary process, public procurement, and government statistics; and the monitoring control and audit system for the EU funds was still in its infancy. These complicated initial conditions made the work of pre-accession instruments more challenging and doubtful of success.

The study's theoretical underpinnings were analysed in Chapter 2, p. 10. The standard model of Europeanisation as a process rather than an end state was applied. Following this logic, the basic assumption was that pressures to adjust mediated by 'goodness of fit' produced certain outcomes. As mediating factors were considered all domestic political institutions that affected the impact of European integration. These included two groups of factors: (i) formal and informal institutions and domestic cultural factors, i.e. cooperative/oppositional, facilitating/obstructive, federal/unitary cultures; and (ii) veto points or veto groups, i.e. trade unions, employers, parties and the capacity to obstruct, slow down or amend legislation (Caporaso 2008).

This study applied the model in the case of Croatia and financial assistance. A rich array of informal and direct actions was examined. In addition, Chapters 5 (p. 150), 6 (p. 190) and 7 (p. 262) provided something rare in the literature, namely an in-depth analysis of conditions and changes at the level of departments, agencies and sub-units and an exceptional focus on programme and project levels. The study has clarified the concept of administrative capacity, which it located among the outputs of the process of Europeanisation. Capacity in this study was viewed as a dependent rather than intervening variable. The main hypothesis was that EU/international stimuli or domestic institutional and power settings are the critical factors behind administrative change.

The combined attention paid to instruments of EU assistance, the debate on Europeanisation and their application to Croatia were some of the original elements

of this study. The use of institutionalist theory was stressed, as it explains different paths of compliance (historical institutionalism), cultural and learning aspects of institutional change (sociological institutionalism) and actor constellations. The approach followed in Chapter 2 was holistic, with the aim of covering all major strands of institutionalism.

The dissertation followed a mixed-methods approach that combined literature review, desk and field research. The review comprised an examination of the policy literature, the enlargement and policy-transfer literature, as well as Europeanisation and institutionalist accounts. The assessment of capacities in the empirical chapters was achieved through a study of policy documents, programme and project documents, statistical sources and evaluations, complemented by primary research and fieldwork. The fieldwork consisted of 31 semi-structured interviews of government, business and third-sector stakeholders in the pre-accession aid process. Analysis of the findings was carried out by means of process-tracing methodology. The empirical chapters on structures and resources relied more on case studies and interviews, while the chapter on systems drew more on desk research. The major difficulties in the availability and accuracy of qualitative and quantitative data were discussed in Chapter 4 (p.141) and also constitute the basis for the methodological reflections provided in a separate section in the present chapter.

The next section examines the empirical findings in terms of four types of influence on administrative changes: direct and indirect pre-accession assistance influence, EU domestic influence, and other influence. In addition, opportunities and constraints are discussed with emphasis on those stemming from pre-accession instruments and domestic factors. Furthermore, a final statement is provided on whether the empirical research findings have corroborated or refuted the main research hypotheses. Lastly, the chapter reflects on the methodological and theoretical course taken in the study.

## **8.1. Summary of findings**

The study has revealed that the CARDS and IPA influence on administrative capacity in Croatia has taken many forms and has differed in its extent in the various government organisations affected. That influence is examined below in the three components of administrative capacity, outlining the fields where the pre-accession instruments exerted a positive, negative or neutral (no real effect) influence.

### **8.1.1. Overview of empirical findings on structure, resources and systems/tools**

#### **8.1.1.1. Influence of CARDS and IPA on structures**

Firstly, in the area of structures, the study found a mainly positive CARDS and IPA influence on administrative capacities, but negative and neutral influences were also observed. Positive influence was centred on the creation of IPA management structures, the creation of pilot county partnerships under CARDS, and the establishment of inter-ministerial and inter-institutional coordination structures. The direct influence of EU pre-accession assistance on structures was clearly visible in the establishment of operating structures for IPA management. Of the eight managing authorities expected to be established for the management of the Structural Funds, five were already expected to evolve from similar institutions established for IPA. Likewise, the OS, the NAO, CAO, NIPAC, the Strategic Co-ordinator, the Audit Authority, the National Fund (Paying Authority) and many implementing agencies comprised examples of institutions which should show continuity with the Structural Funds system (Chapter 5, p. 150; Chapter 7, p. 262).

Moreover, CARDS assistance was instrumental in establishing some embryonic form of county partnerships in Croatia and introducing sub-national actors to regional development planning processes. As this was a pilot case, the effects did not spread to policy-making but made a difference in terms of awareness in the target areas. However, IPA partnership consultations were not as profound. Until 2009, the form that sub-national partnerships would take was still unclear (Chapter 5, p. 177). Lastly, Croatia's Strategy and Law on Regional Development were adopted after a long and excruciating process initiated by CARDS projects,

when the reform momentum on behalf of the Croatian Government was revived several years after the end of the projects. The recognition of the partnership principle by law was an important step, although deeper, systemic change was needed in order to build fully functional partnerships serving the interest of local and regional development.

As regards strengthening inter-ministerial coordination, pre-accession assistance projects achieved their planned results, for instance in the case of CODEF. The CARDS influence on inter-institutional coordination was a manifestation of the central role of pre-accession assistance in strengthening administrative structures, through support for the establishment of CODEF and the preparation of IPA OPs. At times, technical assistance proved to be substituting for a non-existent national coordination. CARDS projects had also sought to build the capacities of the Ministry of Regional Development to co-ordinate regions and national ministries as regards regional policy, with pre-accession assistance being the driving force in that direction (Chapters 5, p. 173 and 6, p. 242). However, the continuity and extent of coordination structures had still to be ensured (Chapter 5, p.165).

Furthermore, whereas pre-accession assistance has excelled at preparing strategies and action plans, whether or not they reached the implementation phase was determined by domestic constraints (CARDS 2002 MRDFWM) (Chapter 6, p. 227).

Instances of negative influence of CARDS and IPA on structures were the complex and for a long time unsettled IPA structures, as well as weaknesses in programme design. Important constraints associated directly with the pre-accession assistance instruments in Croatia were the complex and confusing characteristics of the IPA system. The structure was based on chaotic lines of responsibility, and a number of peculiarities particular to Components I and II were foreign to the Structural Funds experience in the MS. On one hand, the IPA regulations created a system similar but not identical to the Structural Funds, and on the other hand Croatian efforts to implement the regulation led to a parallel system (limited value-

added), which is nominally acceptable by the EU but of patchy and selective compliance.

Some of the weaknesses in programme design which had hampered capacity-building efforts under CARDS and PHARE were in part repeated in IPA. As not all components were committed to a programmatic, strategic approach, these capacity-building achievements were not fully conducive to the fulfilment of relevant provisions in the accession partnership and community *acquis* requirements. In particular the project-based, PHARE-like, non-strategic and non-programmatic nature of IPA I and II interventions was seen as a weakness of the IPA programme design (Chapter 5, pp. 152-153). In addition, the general delay in IPA programming and implementation inevitably hindered familiarisation with monitoring.

As usual in EU budgetary negotiations, the Commission had proposed a larger financial envelope for IPA, which was curtailed in the intergovernmental decision-making phase (Chapter 3, p. 112). However, the limited level of funding aggravated an already negative attitude to institutional change by the Croatian elites. Furthermore, the issue of mixed messages from the European Commission was an additional obstacle to the smooth implementation of EU assistance, for instance with different DGs taking different positions on the preferred institution(s) for contracting and implementation. Regarding regional development, this clash ended with the diffusion of responsibilities between the MRDFWM and the ARR, one of the eight implementing agencies in the IPA system in Croatia. The CFCU was considered operationally stronger, and although the greatest share of responsibility for making IPA structures operational should be borne by the candidate country, inconclusive Commission recommendations took their toll (Chapter 5, p.155). In addition, mutually-contradicting recommendations from the Commission directorates about the organisation that should be responsible for contracting and implementation led to a diffusion of responsibilities (Chapter 5, p. 153).

Finally, in a couple of cases CARDS and IPA instruments had no real effect on structures. Until 2009, IPA partnership structures remained unclear, preventing any influence. Even in ministries where structures changed to reflect CARDS and

IPA management and implementation needs, this was not conducted in a systematic way or combined with a transfer of resources and competences to produce any concrete results. These cases refer to EU and EU-funding-related units, departments and directorates, which have been established in existing government institutions. Other specialist units have been established under EU pre-accession assistance influence, for instance an intellectual property unit created under CARDS 2003 in MSES (later absorbed by HIT, not operational) (Chapter 6, p. 249). In MELE, the organisational structure of the ministry also followed EU recommendations (Chapter 6, p. 246). In conclusion, although a number of departments/directorates were established or renamed to reflect the needs of EU funds, these were neither combined with the development of adequate coordination structures other than those provided by the pre-accession instruments (or technical assistance) nor were they endowed, at least until that stage, with resources, systems and tools, as is summarised below.

#### **8.1.1.2. Influence of CARDS and IPA on Resources**

Secondly, in the area of resources, the research found positive influences in seven fields (financial resources, legislative and institutional framework affecting civil service human resources, drafting of regulations, training and transfer of skills, functional reviews, workshops on programme management, benefits for consultancies and secondary beneficiaries) with significant setbacks observed in six fields (absorption problems, the administrative burden, the limited funding, delay in programming and implementation, disputable sustainability of projects, and the limitations of the project-centred approach). Cases of neutral or no influence were limited to training activities.

The first of the fields examined was that of financial resources. Financial assistance as an exogenous change in income and spending has fiscal and welfare effects; regardless of whether this is an officially pursued goal (this was outside the interests of this study). Second, financial absorption capacity is another issue of salience, and administrative capacity is one of its determinants (Netherlands Economic Institute 2002; Hervé and Holzman 1998). Partnership is another facilitating factor in that respect. Co-financing and suspension of funding are tools

which give the EU direct leverage on the flow of domestic resources. In addition, businesses (many of which are based in EU MS) undertaking work contracts, selling their technology or supplying (supplies) machinery and equipment for EU-funded projects, benefit from pre-accession instruments even if they are not the primary beneficiaries of the projects. Other businesses provide services, mainly consultancy, either local or European, and benefit mostly from the TA and Twinning projects. In Croatia, a small consultancy market has emerged, consisting of small Croatian consultancies or local branches of European consultancies.

The second field examined was that of human resources. The direct results achieved by the pre-accession assistance projects were of a mixed nature (especially the CARDS 2001 project). First, there has been tangible change with regard to the adoption of the legislative and institutional framework affecting civil service human resources (including the Civil Service Law and subordinate legislation, Development Planning and Programming, General Administrative Procedures Act, Public Procurement Act, PPP legislation). Second, specific regulations were drafted by pre-accession projects (CARDS 2002 Directorate of Public Procurement Systems in MELE). Third, a positive influence of training programmes and transfer of skills was recorded (CSOA, CODEF, DPPS), the sustainability of which after CARDS has been ensured (CSOA) and has had a strong learning influence (CARDS 2003 CSOA). Study tours and seminars supplemented other training activities. The TA provided through the CARDS 2002 project in the MRDFWM was seen as promoting learning, transferring best EU practice and promoting coordination. Fourth, surveys of responsibilities, functions, skills training and development needs were undertaken (CARDS 2003 CODEF). An example in that respect was a job satisfaction survey conducted for a CARDS 2004 project, which revealed the reasons for the staff turnover: low salaries, an incomplete system of personnel development and training, and unevenly high workloads. In addition, workshops on programme management were held (CARDS 2003 MELE) (Chapter 6, p. 213). In many cases, Croatian consultants have gained experience on EU affairs from previous appointments in government posts in institutions which received EU or IFI assistance. Also, other secondary beneficiaries have profited from capacity-building projects. In the case of a CARDS 2003 project, capacity was built for Croatian researchers who established

technology-transfer offices, while the centralised resource in the form of the intellectual property unit envisaged and established with CARDS money has been marginalised (Chapter 6, p. 249).

Negative aspects of pre-accession assistance influence occurred in six areas. These comprised absorption problems, the administrative burden, the limited funding, delay in programming and implementation, disputable sustainability of projects, and the limitations of the project-centred approach. The first three are mostly related to financial resources aspects, while the next two are more related to human resources. First, compliance with IPA regulations, Structural Funds regulations and the *acquis* in Chapter 22 in general also entail a certain administrative burden for national authorities.

Second, absorption problems are present in every situation of financial transfers, and therefore they are also bound to be present in Croatia. Two categories of absorption problems have been suggested, one that negatively affects physical and human capital accumulation and therefore economic growth, and another that results from changes in relative prices induced by the transfers (Hervé and Holzman 1998, pp. 12-13). In the former, the lack of increase in production capacities is attributed to a number of reasons, the most important of which in the context of this section is technical administrative incapacity. They explain the term as 'higher than necessary costs to get things going' and state that the 'extra resources necessary for programming and monitoring cannot be used for capital formation' (Hervé and Holzman 1998, p. 13).

The third constraint is usually stressed by candidate country officials and experts (also in Croatia): the limited level of funding available, which discourages institutional change. Leaving aside the negotiating usefulness of this claim, the pre-accession process is one of voluntary compliance, and pre-accession assistance is by definition not redistributive in nature but is a mechanism that backs candidates all the way to the eventual accession, when compliance will be rewarded with membership. In the final stages of pre-accession, administrative capacities may reach a peak, as candidate countries allocate resources and bear the administrative burden of the



implementation of EU policies. This may also prove true in Croatia, where there is a marked difference between the results achieved through a succession of technical assistance and twinning instruments and the progress depicted in the latest DG Enlargement country reports, even though the level of funding has not changed significantly. However, administrative capacities have shown fluctuations in the past, and while domestic calculations of the political and economic cost of compliance do play a role, they are not the sole determinant of commitment to improve administrative capacity, nor do they remain unaltered by the changing configuration of domestic opposition forces and pressure groups (Chapter 5, p. 155).

Another hindrance partially related to the EU, which affected both structures and resources, was the general delay in IPA programming and implementation. The IPA implementing regulation was only adopted in mid-2007 after the nominal start of the new programming period (Chapter 5, p. 168). The management and implementation structures for IPA were unsettled for a long period, causing uncertainty, an increased workload for ministries (MRDWFM), and capacity-building demands on TA and twinning projects (Chapter 6, p. 243). Before IPA, programming delays also occurred in CARDS, which took one year until it became operational under its own regulation, as some of the early projects were continuing the backlog of actions from OBNOVA. A common occurrence was the gap between the programming and implementation of projects, which was usually two years with CARDS. In the case of a CARDS 2003 project in the MSES, there was a time lag of more than two years between planning and delivery of the project (Chapter 6, p. 249). In general programming delays have been reported in the SF since 1988 (Bachtler & Michie 1995). In Slovakia project implementation delays have been reported while CARDS assistance to Serbia was severely delayed in terms of project implementation (Knezevic 2010, pp. 9, 11). In the literature, clear project appraisal and selection criteria were considered as preventing delays (Ferry *et al.* 2007, p.96).

The fifth constraint stemming from the pre-accession instruments, which had repercussions on human resources, was found in the case of the record number of Technical Assistance projects of disputable sustainability as in CODEF. This was attributed to the prevailing philosophy of assistance which focused on the weakest

institutions, the delay in the adoption of the IPA implementing regulation which triggered consecutive changes in project focus, government decisions, and chronic issues that were affecting staffing levels (Chapter 6, p. 218).

The last constraint referring to both structures and human resources related to the project approach followed by CARDS and PHARE. The focus of administrative capacity on consultancy contracts leaves the country unprepared. The project-centred CARDS and PHARE instruments left MELE struggling with programme design and scheme development (Chapter 6, p. 246). Finally, the change in the management and implementation structures for IPA also caused uncertainty and increased the workload of ministries.

With regard to human resources, an area where the effects of pre-accession assistance have been neither positive nor neutral is that of the training programmes offered. The effectiveness of training programmes, for instance in CODEF, was contested. The number of workshops does not reveal where skills have been transferred and used in each participant's work (Chapter 6, p. 211). Staff turnover would undermine any sustainable effects of learning, workshops, and training.

#### **8.1.1.3. Influence of CARDS and IPA on systems and tools**

Thirdly, with regard to systems and tools, the study recognised positive effects in three areas. Negative effects on administrative capacity were not observed. However, in three cases pre-accession assistance instruments produced no effects on administrative capacity. Positive effects of CARDS and IPA assistance on tools were identified in three areas: the manuals and handbooks drafted; awareness-raising, communication and dissemination of information, and the regional development approach which was introduced through CARDS in selected regions.

The first positive result follows from the regulations that require instruments, methods, manuals, procedures and tools to be in place. Requirements in terms of audit, accounting and procurement systems have to be satisfied in the accreditation process which covers the National Authorising Officer, the National Fund and Operating Structures (Chapter 7, p. 266). In the area of financial management and

control, systems and procedures were partially in place in 2006, but by 2009 significant progress had been achieved. With regard to audit, a previously existing state audit office was replaced by an agency that assumed the role of the Audit Authority for IPA. Moreover, pre-accession assistance as regards systems has produced manuals and handbooks (e.g. CARDS 2002 DPPS, MELE: manual for public procurement system, handbook for bidders; CARDS 2002 State Commission: manual on legal protection, manual on appeals) (Chapter 7, pp. 280, 281 ).

The second positive effect was in the area of awareness-raising and communication. Many CARDS and IPA projects undertook awareness-raising activities for target audiences (e.g. businesses for CARDS 2002 in State Commission for Supervision of Public Procurement). Communication and dissemination of information was also promoted through public events, the publication of newsletters, and the upgrading of websites (CODEF, DPPS, State Commission) (Chapter 7, pp. 280, 281 and Chapter 6, p. 213).

In more general terms, engagement in business activities through EU projects assists in shaping positive opinion about the candidate country and enlargement in business and experts' circles especially, as it highlights business opportunities. In the case of twinning, results may be similar and EU institutions may have the chance of establishing long-term relations with partner institutions in candidate countries beyond the formal end of projects or of pursuing bilateral contacts. In the candidate country, pre-accession financial assistance helps shape a more positive public opinion than the more confrontational aspects of pre-accession negotiations and the prospects of membership as a whole.

Finally, the third positive effect examined was that of early regional development efforts in Croatia, which are linked with CARDS. The CARDS projects (CARDS 2002, CARDS 2003, and CARDS 2004) pioneered a regional development approach in war-affected areas. They generated county-learning and understanding about strategic development objectives, identification of projects and the participation of stakeholders. Pilot ROPs were the culmination of this process, although they neither received government backing nor were they used as a channel

for domestic investment. The counties covered by the projects enhanced their respective administrative capacities and in a sense surpassed other counties with more favourable positions.

In three areas, pre-accession assistance had no clear positive or negative effect. These cases comprised organisational culture, the achievement of linkages between EU management and control systems and the national budget, and the poor quality of some early projects. First, in the field of organisational culture, which is included in the accreditation criteria, progress was limited. Nevertheless, cultural change is a long-term exercise which may explain the lack of identifiable effects in the area. Second, some linkages between the management and control systems of EU pre-accession funds and the national budget system have taken place through the attendance of the Central Harmonisation Unit in the MFIN at key pre-accession fund meetings. However, these positive factors have been offset by the *ad hoc* manner in which they were conducted and the lack of any wider trend of establishing such relations. Lastly, the poor quality of some projects led to high rejection rates because of lack of compliance with EU procedures. Although the situation improved over time, problems were still observed until recently with more complex projects. In some of the twinning projects, the task targets were overly ambitious and legislative compliance was not consistent or nationwide. Finally, although establishing a connection between planning and implementation of pre-accession assistance and the negotiation process was a stated goal of the Commission, this has not been fully achieved. Furthermore, the Commission did not adhere to strict closing benchmarks in the case of extensive decentralised assistance in Croatia.

## **8.2. Summary of domestic and EU factors and constraints**

This section summarises whether and how different factors have shaped structures, resources and systems. They are categorised into two groups: EU factors and constraints, and domestic factors and constraints. Firstly, four EU-related factors are examined: the complexity of EU rules, the time taken for programming and implementation, the level of EU funding, and the role of the ECD. Secondly, eight domestic factors are discussed: administrative culture, the skills of public

administration staff, considerations of political cost, synergies with national policy, inter-institutional coordination, and allocation of responsibilities, regional variations in administrative capacities and fluctuations in consultancy quality. Those domestic factors are sorted by order of diminishing importance, from overarching and horizontal conditions to project-specific limitations.

The complexity of EU rules has caused constraints in structures, resources and systems. The structures established for IPA are similar but not identical to those of the Structural Funds. Public administration organisations which were assigned roles under IPA will not necessarily continue in this capacity after accession. There is a wide diffusion of responsibilities with regard to pre-accession assistance management and implementation, which is somewhat disproportionate to the level of interventions. In the area of resources, the complexity of the new structures has created an additional workload for the government ministries and agencies involved. Finally, the interpretation and application of EU rules on systems and tools in Croatia in the period examined differed from the spirit of the pre-accession instrument regulations. A parallel to the national system was established for IPA. This was nominally accepted by the EU, but it fell short of full compliance with EU rules. In conclusion, the complexity of rules of the pre-accession instruments has helped to shape a fragmented institutional environment and allowed attitudes of half-way compliance.

An additional factor studied was the time required for programming and implementation. Programming and implementation delays hampered the timely establishment of structures, made quick absorption more difficult to attain and delayed the allocation of staff to pre-accession assistance tasks. Familiarisation with EU procedures on systems and tools also suffered from a late start.

Furthermore, the level of EU funding was an important factor influencing capacity in terms of structure and resources. Poor funding discourages institutional change, because the financial incentives are too weak to trigger a change in the status quo. In a similar vein, this situation provided additional arguments for reluctant civil service managers to halt or delay the allocation of resources to pre-accession

assistance tasks. EU-related posts were unattractive to civil servants because of the extra workload associated with them at roughly the same salary level as ordinary tasks. A proposal to use EU funds to increase salaries in EU-related state organisations only met with limited success, as one of its side effects was a drain of staff and expertise from the rest of the state sector.

Last but not least, the role of the Commission Delegation was investigated. The diminishment of the role of the ECD in the management of pre-accession assistance projects was accompanied by a lower attainment of project objectives. Conversely, more active pressure by the ECD has led to more positive results in the case of the evolution from CFCU to CFCA.

The first of the eight domestic constraints identified in this study was Croatia's administrative culture. While there was no evidence of uniform culture across the Croatian public administration, a procedural and legalistic culture prevails in a considerable number of state institutions. Some analysts point to Croatia's formerly socialist administrative tradition and stress the survival of cronyist practices and the strictly hierarchical, top-down bureaucratic organisation (Chapter 7, p. 289). At least some public sector organisations perpetuate top-down managerialist and authoritarian traits inherited from the socialist era, but they remain largely outside the influence of EU funding and the relevant requirements and standards. There is evidence of intended isolation from external influences in some cases. Some managers are wary of cooperation and keen to defend their respective organisations' autonomy and freedom from external scrutiny. Such bureaucratic culture discourages learning among staff and suppresses initiative. It is difficult and time-consuming to replace cultural elements which are unreceptive to change. In addition, Croatia lacked an evaluation culture at the beginning of the pre-accession process, but it has recently been implementing the Commission's monitoring and implementation systems. These negative cultural elements affect the effectiveness and successful coordination of new structures, staff productivity and new skills acquisition, and the willingness to conform to EU systems and adopt new tools and procedures.

The second of the domestic constraints was the skills of the public administration staff. The role of managers was favourable to the development of structures only in those Croatian institutions that were open to cooperation. A positive attitude facilitated the implementation of projects. There were only limited cases of co-operative Croatian government institutions with high-quality management staff and experience in EU funds that facilitated the implementation of pre-accession assistance projects (Directorate of Integrated Regional Development, MRDFWM, p. 227).

In terms of resources, the conditions were adverse – a human resource development policy was absent. The effectiveness of training was limited. Staff turnover also reduced the results of workshops and training and ultimately inhibited learning. The key issue was the lack of civil service human resources development policy; this was absent through most of the pre-accession process. Only later were some efforts made towards relevant development (Chapter 6, p. 201).

Inadequate staffing and fluctuations of staff numbers were widespread in the organisations studied. Staffing levels varied across institutions and over time. In some instances, this had detrimental effects on the implementation of CARDS projects (e.g. CARDS 2004 MFIN/CFCU). In one case, in the Directorate of Integrated Regional Development in MRDFWM, a competent team was formed around 2005-2006 but in 2008 the staffing conditions had seriously deteriorated and capacity-building was reversed due to the salary policy and the weakness of the civil service law (Chapter 6, p. 227). MELE and the Department for Preparation of EU Programmes and Projects were also negatively affected by the staff turnover issue. Staff turnover in the MSES was also acute and was attributed to high workload and low salaries (Chapter 6, p. 249). This included the department for Managing EU funds and Action Plans. The capacity of the ministry was considered very low. According to a survey financed from a CARDS 2004 project, the low retention rate in state institutions involved with the management and implementation of EU funds was attributed to low salaries, the incomplete system of personnel development and training, and unevenly high workloads. The Commission was aware of the matter

and had repeatedly referred to limited progress in the area in a number of Enlargement Country reports.

Because of the constant alteration of crucial staff, institutional memory was virtually non-existent. A constraining aspect related to systems and tools was the difficulty the Croatian public administration was facing in embedding learning inside processes. The PIU staff in particular were not qualified in specialist fields such as public procurement. In the former CFCU, PRAG templates were not followed correctly, which led to rejections in the ex-ante control. This prompted the Croatian Government to establish the CFCA as an agency outside the civil service law, offering attractive remuneration with the aim of employing professional and skilled personnel. Furthermore, some of the newly established agencies drained knowledge and expertise from the rest of the civil service. In particular, the undoubtedly positive record of CFCA and the relevant trend of agencification in IPA implementation presented a risk of creating islands of excellence by draining knowledge and expertise from the rest of the system (Chapter 6, p. 220).

The third cluster of constraints originating from the national level relates to considerations of political cost and the electoral cycle. In terms of structures, domestic political expedience has negatively affected the legislative and policy-making process. Furthermore, the electoral cycle and the political business cycle were shown to have detrimental effects both on legislative and policy-making process and on human resources in the ministries (Chapter 6, pp. 227, 228). The legislative and policy-making process has been very slow. Domestic obstacles to critical legislative proposals prepared by CARDS projects have upset project pipelines of subsequent CARDS and IPA projects. A CARDS 2004 project to the MRDWFM was programmed two years before its implementation, based on the assumption that a law on regional development would be adopted. Therefore, the content of the project had to change to assist in the finalisation of the relevant strategy and law. In conclusion, stalled progress in some fields (the Regional Development Strategy first drafted by CARDS 2002, but adopted in June 2009) was due to lack of support and understanding at the political level and a preference for half-way compliance to leave the existing system untouched.



In addition, lack of support and understanding from the political level led to negative repercussions on resources. Some capacity-building projects were also manipulated. Capacity-building projects were used (by some Croatian officials) for conferring favours and developing a personal power base (Chapter 6, p. 249). Moreover, as regards systems and tools, compliance with requirements depended on political expediency. In some parts of the civil service, public managers maintained hostility to pre-accession assistance and the adoption of EU standards (CSOA) (Chapter 7, p. 289). Units, departments, directorates or agencies established did not automatically become operational. Capacity-building was also lost because of staff turnover, institutional memory was absent, and ministries found it difficult to embed learning inside processes (Chapter 6, p. 249).

Moreover, a crucial factor for the successful implementation of EU funding in Croatia is the ability to develop and facilitate synergies of EU funding strategies and programmes with national policy and enable the creation of added value. The results in the area of resources did not indicate any such trend. National funds for regional development were still channelled through different structures than those for EU funding throughout the study period. The situation was similar in the case of systems and tools, namely the transparency and accountability of national procedures remained dubious.

The fifth domestic constraint, which had negative consequences mainly for structures, was the weak inter-institutional coordination in the Croatian Government. In particular, CODEF had not been fully successful as the coordinating body. In the case of inter-ministerial coordination structures, the establishment of a co-ordinating body (in the form of CODEF) and the drafting of IPA OPs with the assistance of CARDS projects took place against a backdrop of weak inter-institutional coordination in the Croatian Government. The sustainability and strengthening of these structures, also in terms of coordination, is vital for the successful implementation of Cohesion policy (Chapter 5, p. 165).

A sixth condition which has been a constraint was the allocation of responsibilities among Croatian Government bodies. This produced shortcomings

specifically in terms of structures. A major example was the portfolio of CODEF, which was incoherent because it tried to combine tasks unrelated with its coordinating role. CODEF's portfolio caused a lack of focus, confusion and incoherence, overreliance on TA, and weak influence on the coordination of institutions (Chapter 6, p. 211). Much later reports speak of attempts to make NIPAC more proactive (European Commission 2012a, p. 6). Furthermore, reallocation of responsibilities was a frequent occurrence throughout the period examined. This had particularly negative ramifications in terms of resources. 'Travelling' competences between ministries have undermined institution-building and capacity-building projects (CARDS 2004 CBC), because of the frequent change of responsibilities that affected staff.

A seventh set of domestic constraints stemmed from the capacity situation of the Croatian counties. Unlike Istria, Varaždin and Međimurje, which developed capacities (to attract staff, establish agencies and run projects) through CBC with EU regions, most of the regions were in a weak position. Almost all counties established RDAs, but the extent to which they were operational was not confirmed by fieldwork (Chapter 6, p. 237). Overall, the role of the regional and county levels in IPA was marginal. In terms of adequacy and skills quality of staff, the situation was better in frontrunner counties which possessed the resources to attract staff. Lastly, there was poor awareness of EU procedures for funding in some counties, and the effects of pre-accession assistance have been limited (e.g. Split-Dalmatia). Moreover, a lack of beneficiary awareness that standards had to be met before accession has been noticed. In the case of IPA, the sub-national level was confined to a marginal role, and the partnership consultation in the drafting of IPA was considered inadequate (Chapter 5, p. 180). Therefore, as there were no implementation structures at the regional/county levels, regional administrative capacities were important only to the extent they affected partnership involving regional/county stakeholders of the IROP.

The last domestic constraint covered was fluctuation in consultancy quality. This was positively associated with the non-programmatic nature of CARDS and PHARE interventions, which involved a large number of small service contracts. Furthermore, initially all and later some Croatian Government directorates and

ministerial departments lacked the skills to manage consultancies. For instance, there was a lack of understanding in the MSES on how to use the consultants in relation to abilities, skills and knowledge transfer (Chapter 6, p. 249). Also, some consultancies' work prioritised the creation of a long-term relationship with the dependent institution at the expense of the effectiveness and sustainability of projects. Consultancies may exploit the situation of dependence on Technical Assistance and institutional weakness in a ministry for their own commercial purposes (moral hazard) (Chapter 6, p. 249). Some consultants were former government officials with insider information.

Finally, it should be noted that there have been a number of other influences and constraints not related to the EU or the domestic level. Croatia has been a long-term recipient of assistance from IFIs and bilateral aid from other countries.

### **8.3. Theoretical reflections**

Pre-accession assistance has been the main driver behind reforms and changes observed in Croatian Government structures involved in the management of EU funds. As discussed in the empirical chapters, the depth and embeddedness of these changes, the added value generated, and potential spillover effects are determined by a number of other influences, including external and domestic constraints. The latter may be cultural, political or operational, as well as resource-related. The research hypotheses outlined in the introduction directed attention towards certain aspects of EU, domestic or other factors that either constrained the effectiveness of pre-accession instruments or facilitated capacity-building. In this section, the validity of these hypotheses is assessed on the basis of the results of the empirical fieldwork.

The general trend has been towards a rather limited exposure of national government institutions and practices to the structures, systems and procedures of EU assistance. The management model for national resources has not been seriously altered as a result of pre-accession assistance. Based on the typology proposed by the literature on agencification of administrative and regulatory tasks in Europe (Egeberg

and Trondal 2009a), the management and implementation of pre-accession assistance is either indirect, by the national government, direct or networked. In the literature, the indirect, direct or networked model of management and implementation is determined by its position vis-à-vis the Commission. In the case of Croatia, this is first an indirect form of management and implementation, as it is stipulated by EDIS, but also indirect vis-à-vis the core Croatian executive inasmuch that agencies established at arm's length from the cabinet ministries constitute forms of indirect management and implementation.

Furthermore, the impact of pre-accession assistance management and implementation needs in the Croatian public administration is also captured by other typologies. Streeck and Thelen (in Ongaro 2009) provide a classification of different mechanisms through which gradual change takes place, namely layering, conversion, diffusion, displacement, drift and exhaustion (Streeck and Thelen 2005). Based on this, the main development was one of layering through the setting-up of new institutions for the management and implementation of pre-accession assistance without challenging the established national institutions and the existing model of managing the national budget. The remainder of this section contains a discussion on the hypotheses developed in Chapter 2 in terms of whether the case study research supported these hypotheses.

**Table 17: List of hypotheses and their content**

Hypothesis	Content
1a	Conflict between Structural Funds institutions and national management models leads to separate structures
1b	Limited resources may deter compliance
2a	Lack of consensus as an obstacle to reform
2b	Without clear EU information, candidates may aim to circumvent soft conditions
3	Technical Assistance can hinder performance
4a	Decentralisation versus deconcentration
4b	Commission pressure may accelerate reform
5	Top managers may not be promoted on merit

### **8.3.1. Discussion of the hypotheses and findings**

#### **8.3.1.1. *Hypothesis 1a: Conflict between Structural Funds institutions and national management models leads to separate structures***

Hypothesis 1a stated that, if the institutional functions related to the Structural Funds conflict with the management model for national resources, institutions outside the core executive will be established for this purpose. In addition, constant reshuffles and short-term strategic planning may constitute attempts by the national elites to thwart or delay reform.

This hypothesis expands on existing literature on MLG and the spread of agencies in the EU. It examines the likelihood that institutions established for the purpose of managing the Structural Funds in Croatia follow Type II MLG logic (Marks and Hooghe 2004, pp. 17-20) and a trend of establishing functional, overlapping and competing jurisdictions (Frey and Eichenberger 1999). It is the institutional compatibility between EU policies and national administrative arrangements that defines the domestic impact of EU policies (Knill 2001). Crucially, an examination of how ‘core’ the challenged institutional arrangements are constitutes a major element of the examination of the degree of adaptation pressure. Furthermore, other studies have explained the results of such pressure as a proliferation of double-hatted agencies serving both the MS and the Commission (Egeberg and Trondal 2009a). Similarly, institutional mechanisms of change have been given many labels, including layering, which is defined as ‘the creation of a new policy or institution without eliminating the old’ (Streeck and Thelen 2005). The case of PHARE/twinning influences in the EU-10 was characterised as bringing about ‘ideational cross-fertilisation processes’ and ‘institutional hybridization’ between old legacies and EU influence (Tulmets 2005).

The findings of the empirical chapters provide some evidence in favour of hypothesis 1a. Three domestic constraints are linked with the hypothesis: the limited synergies between EU and national policies and value-added, considerations of political cost, and allocation of responsibilities. Particular developments in structures, resources, systems and tools corroborate the hypothesis. Firstly, in the

area of structures, two of the most vital institutions for the coordination and financing of pre-accession assistance, CODEF and the CFCA, had a separate mandate from government ministries or institutions responsible for macro-economic policy and public finances. CODEF was answerable to the prime minister and was not represented in the cabinet on its own, as it lacked the status of a ministry. In a centralised system of governance, this entailed that the role of CODEF was one of limited institutional gravity and influence. The Croatian PM was effectively a gatekeeper in terms of the implementation of CODEF's policies or recommendations.

In addition to CODEF, the establishment of the CFCA had repercussions both on structures and systems. In the case of the CFCA, the underpinning argument that the separation of the agency from the ministry would lead to gains in efficiency seems to be corroborated by empirical evidence of improvement in financing and contracting rates in recent years. However, the distance of the CFCA from the core executive and in particular the fiscal and budgetary institutions of the central government may limit the range of application of EU systems and procedures in the Croatian public administration. In the Croatian system, much relies on the role of the prime minister's office to co-ordinate, liaise, and channel information to the institutions involved. Thus, administrative efficiency is enhanced in cases of activist prime ministers and undermined in cases of inertial or obstructionist roles by the PM. Consequently, such institutional arrangements do not directly facilitate added value and spillover effects of EU tools and standards to national institutions and practices.

The examination of the lessons learned from the EU-10 revealed that the Croatian arrangements differ, for instance, from those of pre-accession Poland (Zubek 2008). However, there are similarities between Croatia and other SEE countries as regards the preferred type of institutional structures to receive financial assistance. The approach most commonly followed was to establish EU-funds-related directorates in government ministries. Nonetheless, there have been several reorganisations and exchanges of competences between ministries, with the relevant departments soon placed under a different institutional roof. In the case of MEI, the responsibility for EU funds was not wanted. In the end, CODEF was separated from

MEI and established as an institution responsible for the coordination of assistance outside the cabinet system. This constant institutional change meant that results in terms of capacity-building within this institution remained limited, and that continuity of structures was always a concern for capacity-building efforts (see empirical chapter on structures). Based on other studies on foreign aid to SEE, legislative fervour and constant restructuring and bureaucratic expansion of ministries (Bartlett 2008) constitute attempts to thwart or limit the spread and influence of EU standards in the Croatian state institutions.

#### **8.3.1.2. Hypothesis 1b: Limited resources may deter compliance**

Hypothesis 1b states that a limited flow of resources under the pre-accession instruments may function as a disincentive for compliance with staffing and structures and procedural requirements.

Firstly, evidence supporting the hypothesis consists of complaints about the level of funding and subsequent lack of operational structures. Indeed, the volume of IPA funding and the scale of IPA financial assistance interventions have caused controversy. In the budgetary negotiations for the first phase of IPA, the Commission's proposal was for a larger overall budget. International civil society actors had also lobbied for greater financial support to candidate and potential candidate countries (European Stability Initiative 2005). Such arguments resurfaced in the implementation phase. As Chapter 6 showed, the development of IPA structures had slowed down because of the limited level of funding. Building institutions to manage and implement IPA was impractical, given the small amount of funding, and inefficient allocation of the civil service workforce. As Chapter 5 showed, some of the structures established for IPA have remained incomplete and non-operational, sometimes for lengthy periods. However, domestic constraints also constituted hurdles for the development of these structures. Therefore, there is validity in hypothesis 1b, but delay in the development of IPA structures in Croatia can also be explained by a number of other factors (political will, civil service culture, delays in programming, unattractive civil service).

Despite the legitimate critique on the level of funding provided by the Croatian authorities, some of the Croatian Government's handling of the pre-accession assistance weakens this position. The system established for IPA management and implementation is a monument of complexity (see Figure 8 in ANNEX II). Although the Croatian authorities complained about the level of IPA funding, they have opted for a system that duplicates many of the functions executed by national institutions, with separate entities being established for IPA and Cohesion policy. There is ground to believe that such a structure and the establishment of a parallel system for the financial assistance funds has been pursued by the Croatian authorities for reasons related to preserving the autonomy of the national budget, thus avoiding external scrutiny, checks and balances. This may explain the unnecessary bureaucratic complexity, even in cases where EU regulations do not stipulate autonomy of institutions. Similar situations have been observed in other neighbouring countries with regard to financial assistance (Bartlett 2003; Bartlett 2008). Difficulties of coordination are also a consequence of an overly complex system. All in all, although IPA funding is a miniscule fraction of the anticipated Cohesion policy allocations, arguments about the intended complexity of institutional structures further support hypotheses 1a and 1b.

#### **8.3.1.3. Hypothesis 2a: Lack of consensus as an obstacle to reform**

Hypothesis 2a examined the repercussions of the lack of political and government consensus on reform as a main obstacle to reform and a determinant of the range and speed of reform.

This hypothesis is derived from the heart of Europeanisation literature. The impact of the EU is defined by mediating factors such as formal and informal institutions and domestic cultural factors (federal/unitary, facilitating/obstructive, co-operative-oppositional) on one hand, and veto points or veto groups on the other hand (Caporaso 2008). The administrative culture is of particular importance. In the CEECs, slow PAR had been attributed to the prioritisation of economic reform and the anti-statism of the early post-communist era (Nunberg 1999). A very similar assumption to this hypothesis for SEE is that 'if the government is essentially an



anti-reform coalition, then the effectiveness of aid agency is compromised unless the donor sets clear and sufficient conditions on the use of aid' (Bartlett 2008). In the EU-10, even in cases where reforms have been initiated, reform reversals have been reported (Bachtler *et al.* forthcoming 2013, p. 4). A distinction made in the literature that finds application here is that between simple and compound polities, with power and influence concentrated in a single level and mode of governance or diffused across levels and modes respectively (Schmidt 2006 in Bache *et al.*). Greece is considered a prime example of a simple state dominated by disorganised interests (Featherstone and Papadimitriou 2008, p. 36). Research adds that unitary states with disorganised interests find it hard to adapt to EU policies and practices. Croatia is similarly defined as a simple polity, with a majoritarian system of representation and statist policy-making processes (Bache *et al.* 2010, p. 32).

There is evidence to support the hypothesis in all three areas of capacity covered. Firstly, in the areas of structures, cases of obstructionism on behalf of the Croatian authorities have been noted. A considerable delay was observed in the case of legislative proposals for regional policy which could build on the outputs of CARDS projects in the Ministry of Regional Development. Furthermore, the PAR strategy has been undermined from the very institution that was meant to carry it through.

Secondly, in the areas of resources, systems and tools, evidence is again supportive of the hypothesis. Shortcomings have mainly been attributed to the interest of the national government to prolong its direct control of the national budget, investment and procurement and secure the gatekeeping of the assistance funds. This is indicative of the absence of political consensus in the country about the necessity and desirability of reform. There are legitimate fears that intense scrutiny (monitoring committees), transparency and accountability would diminish influence over vital resources for the survival of the party system in its present form, such as the state budget, the distribution of state aid, public procurement and the conferral of political favours to party friends, and the expansion of the public administration to provide posts for party cadres and supporters. Evidence of such a stance on behalf of the Croatian authorities includes, for instance, the quasi-hostile attitude of the CSOA

towards TA projects, training and human resources management reforms. The implementation of IPA Component II has been affected as a result of shifting competences between ministries (empirical chapter on structures). Therefore, hypothesis 2a can be corroborated, although the superficial nature of adjustment may not always be a result of weak consensus but one of institutional inertia and the unintended consequences of an overall weak administrative structure.

Nevertheless, the fieldwork has not been able to collect substantial evidence that a concerted effort was made within the Croatian government and higher echelons of the state administration to limit compliance to the bare minimum for membership. In fact, most of Croatia's neighbouring countries (Hungary, Romania, Bulgaria) have experienced serious capacity issues post-accession, and transparency and accountability in the area of funds management has been put in doubt at times. The Croatian authorities have explored methods of circumventing the Commission's and EU's strict adherence and interpretation of membership criteria in terms of Chapter 22. However, it remains to be seen what will happen in post-2013 Croatia, although backsliding on compliance and absorption after accession has been observed in several of the EU-10. Nevertheless, attempts by the MS during implementation to regain the ground lost to EU regulation at the negotiation phase are not uncommon, and a future study may be necessary to confirm the course of compliance with the *acquis* that Croatia will take when it becomes an EU member.

#### **8.3.1.4. Hypothesis 2b: Without clear EU information, candidates may aim to circumvent soft conditions**

Hypothesis 2b focused on the role of clear and articulate communication of information about the EU pre-accession requirements. If this is absent, then attempts by the candidate country to circumvent such soft conditions may take place.

This hypothesis reflects the attention paid in literature to the role of EU institutions in providing clear and consistent conditionality to the candidate countries. In that respect, the Commission is considered a key EU agency in monitoring and reporting on candidates' progress, and a question posed is whether it functions as a unified actor with a clear and consistent approach (Hughes *et al.* 2005,

p. 3). There is also the question of how resilient domestic institutions were in resisting ‘conditionality, instrumentalising it and preferring endogenous policies and structures over EU models’ (Hughes *et al.* 2005, p. 3).

The study examined the role of the EU institutions in the achievement of the overall objective of increasing administrative capacity in Croatia. The CARDS orientation towards post-war reconstruction and stabilisation shows that, in the absence of a stated goal to serve, a particular EU model fit/misfit is unknown. Firstly, some of the Commission’s own weaknesses are affecting structures. There have been instances where the Commission was not able to provide guidance as regards the desirable steps of institution-building for the management and implementation of pre-accession assistance and the Structural Funds in Croatia. Reportedly internal differences in the Commission between the DGs at times hampered its ability to speak with a clear voice on particular issues of pre-accession preparations. For instance, the case of differences between DGs on the preferred structures for the management of the IPA II CBC component was presented in Chapter 6. The reported dispute within the Commission services was between those supporting existing CFCU structures and those promoting a greater role of the MRDFWM for CBC.

Furthermore, cases of negative Commission influence on systems and resources were noticed. Difficulties in following a coherent strategy on implementation throughout the pre-accession period caused some external experts to doubt whether the parties involved (the Commission central services and delegation, and the Croatian authorities) understood the bridge between pre-accession and the Structural Funds. A problematic issue comprised capacity-building efforts which initially focused on the strength of the CFCU but were abandoned in favour of a decentralised approach.

Moreover, other aspects of pre-accession create somewhat unfavourable conditions that may hinder or delay capacity-building efforts. First, the IPA programming delays perpetuate a situation which existed under CARDS and PHARE and inevitably may result in project outputs of limited relevance. Second, the transition from a decentralised system to an extensive decentralised system is

effectively setting a moving target for national authorities to meet. However, the EU has been criticised both for moving too fast towards EDIS and for not creating a single system for management and implementation from the start. However, the current approach has the merit of offering a framework for gradual adjustment which is reasonably fit for the purpose of long-term capacity-building. Despite that, it should be stressed that although IPA serves as a precursor to the SF, differences exist for instance between the IPA National Fund and the Certifying Authority under the Structural Funds. Therefore, although it constitutes a major step in the preparations for the Structural Funds, it is still short of establishing a structure to carry out SF management and implementation on the eve of accession (see Chapter 6).

The study assessed whether various elements of the pre-accession assistance instruments have been conducive to capacity-building. Structural issues of the pre-accession instruments explained the lack of clarity on requirements. A major point has been that Component I is project-based and lacks multi-year planning. This limits the potential influence of Structural Funds interventions *ab initio*. Chapter 7 contained a discussion of the preferred approach for institution-building in Croatia through TA or twinning. In Croatia, a tendency has been observed to rely more on twinning projects for institution-building. This is in line with the view that sees twinning as the institution-building instrument of choice, held by more mature public administrations and countries nearing accession. It is also considered to be more suitable for alignment with the *acquis*. Twinning also offers some intangible benefits, for instance the establishment of links with relevant institutions in the MS, which are supposed to have a positive influence on organisational culture through the transfer of knowledge. Situations where better flexibility and steering is required call for Technical Assistance projects. Nevertheless, a mixed approach was followed in some cases, where the more technical, systems aspects of institution-building are ascribed to TA and the more cultural elements are reserved for twinning, and this has worked reasonably well (Chapter 7). In any case, both the quality of the consultancy work and that of twinning institutions vary, and as this hypothesis shows the effectiveness of this type of assistance in Croatia cannot be considered to be determined solely by the Croatian domestic context.

#### **8.3.1.5. Hypothesis 3: Technical assistance can hinder performance**

Hypothesis 3 described a situation of addiction to TA, a form of aid dependence in institutions that are not capable of performing required tasks on their own, even if they have been chronic recipients of financial assistance.

This question relates to concerns about the effectiveness of aid raised in the literature. It has been noted that aid loses its effectiveness after a point, due to limited 'absorptive capacity by recipient countries and ineffective use by weak public administrations' (Dalgaard and Hansen 2001 in Bartlett 2008). These arguments are in line with other issues reported in the literature on aid to the WB, namely limited evidence of impact on growth (Kekic 2001) and the use of aid to support consumption rather than productive investment (Boone 1996 in Bartlett 2008). The situation labelled 'technical administrative incapacity' in some of the EU-15 (Hervé and Holzman 1998) is also present in the WB countries.

Similar situations have been experienced in Croatia. The main arguments supporting the hypothesis are drawn from the area of resources. The number of capacity-building projects implemented in CODEF was characteristic of an institution trapped in a vicious cycle of aid provision which saw a perpetuation of the capacity problems it was meant to cure. The lack of capacity was seen as the main argument in favour of further funding for similar capacity-building projects in the same institution. There is a clear resemblance of the CODEF case with cases of aid dependency, where the recipient institution has a perverse incentive to underachieve and rely on external aid to perform its tasks in order either to secure a flow of funding and to economise on its own resources or to divert them to activities of short-term political-electoral benefit. The risk arising from these situations is significant and could potentially undermine the success of future EU regional policy in Croatia. This shows that there is a real danger that the Croatian authorities may as a strategic choice opt to remain a recipient of the highest level of Cohesion policy funding instead of using the policy to tackle inequalities and promote convergence.

#### **8.3.1.6. Hypothesis 4a: Decentralisation versus deconcentration**

Hypothesis 4a asked the question of whether decentralisation is more effective than direct implementation by the ECD.

This hypothesis is concerned with the role of the Commission and its Delegation. Two main propositions can expand this question. First, decentralisation exposes the fit or misfit of domestic institutions and generates adaptation pressure. In the case of centralised management, adaptation pressure is more limited and anticipatory. The second proposition refers to the role of the Commission in furthering particular policy aims. The study noted evidence from the EU-10 that Commission officials, frustrated in their attempt to further the Commission's competences in regional policy, used enlargement conditionality to pursue this agenda in the candidate countries (Hughes *et al.* 2004, pp. 531-532, 537).

This hypothesis considers whether the decentralisation of assistance is more effective than the centralised or deconcentrated planning and management of interventions by the Commission. The main source of evidence supporting the hypothesis is drawn from the area of structures. The fieldwork has indicated that there is indeed a difference between projects undertaken directly by the ECD and decentralised projects implemented later in the accession process. In the former case, there was a higher fulfilment of objectives. The ECD was capable of implementing regional development programmes at a time when national authorities were unfamiliar with the processes and were faced with serious staff shortages and untrained staff.

#### **8.3.1.7. Hypothesis 4b: Commission pressure may accelerate reform**

Hypothesis 4b suggests that active leverage and strict pressures for compliance by the Commission may increase the speed of reform.

This hypothesis is related to the emphasis given in rational choice literature on positive and negative incentives to ensure non-violation of rules. Research on SEECs has employed an external incentives model (Trauner 2009). However, there are two contradictory points in the literature. On the one hand, there is a historical

institutionalist claim that conditionality encourages path dependence. On the other hand, it has been argued that ‘Europeanisation by decree’ may undermine administrative capacity in the long run, as administrative and cultural traditions may resurface (Knaus and Cox 2004). Research has shown that the *acquis* in Chapter 22 (regional policy and structural instruments) lacks formal conditionality (Bachtler *et al.* forthcoming 2013, p. 2) or that conditionality is differentiated, thin or soft in that area (Hughes *et al.* 2005). However, there are also proponents of the view that conditionality in terms of Chapter 22 is hard (Grabbe 2006).

The study has confirmed that the role of the Commission or its Delegation is important even in the case of DIS or EDIS, as a number of controls are still exercised by the Commission. There is circumstantial evidence that confirms this hypothesis, namely that more active leverage on behalf of the Commission or the Delegation may speed up compliance and domestic institutional change. For instance, additional pressure has produced positive results in structures, e.g. the case of the evolution of the CFCU to CFCA. However, monitoring can substitute for the loss of direct control in cases of decentralisation (see Chapter 5 Section 5.2.1.2). Another possible pressure mechanism is the application of a strict conditionality, for instance through a freeze on EU funding (see Chapter 5, Section 5.2.1.2).

This study concluded that three conditions can make pressure exerted by the Commission effective. The first is that pressure must be credible and backed by conditionality, including rewards or punishments, within a timeframe that conveys a sense of urgency. Second, pressure must be adequately communicated to rational and informed domestic actors. Third, it must exceed domestic opposition points, otherwise it will be neutralised (Chapter 2). Two of these conditions presuppose an active Commission that will enforce these requirements. This thesis has shown that there are hard aspects of conditionality in terms of Chapter 22 of the *acquis*, in particular the accreditation criteria. Besides, as shown above, soft rules may also allow a stricter interpretation by the Commission services.

#### **8.3.1.8. Hypothesis 5: Top managers may not be promoted on merit**

Hypothesis 5 refers to the question of public management quality and examines the possibility that top managers may be politically promoted or appointed for reasons other than professional merit. This is another question touching upon the nature of the challenges that the Croatian administration has faced in the pre-accession period.

The theoretical basis for this hypothesis is derived first from studies of the role of individuals in shaping institutional behaviour (Peters 1999, p. 38). However, these studies focus on cases where the appointment of managers has been deliberately obstructionist, as personal qualities of managers have implications for capacities (Mentz 1997; North 1992). Croatian scholars stress the politicisation of almost all directorates and sensitive posts in the public administration (Badjun 2004, p. 152).

The hypothesis is corroborated by the examination of Croatia's administrative culture. Although Croatia has made progress on the issue, it has not been able to establish a fully professional, performance-oriented civil service that will be able to deliver on EU and national policy objectives. In some parts of the public administration, the authoritarian and politicised managerialist culture inherited from the socialist era is still present in the Croatian state apparatus. There have been cases of such an attitude by the Croatian authorities in organisations related to the EU funds (e.g. MRDFWM). The Commission has regularly reported on the replacement of top managers following elections, for instance by a new HDZ government in 2003 (European Commission, p. 2). Remnants of the socialist era in the form of a politicised and managerialist civil service culture could still partially characterise human resources management in the Croatian public administration beyond the period examined, although this thesis should be seen as a snapshot of the situation in some of the Croatian institutions involved with the EU funds in Croatia in the period from the end of 2008 until mid-2009. In any case, aspects of civil service culture that are incompatible with EU assistance hamper compliance and effective implementation.



## **8.3.2. Discussion of the theory in the light of the empirical findings**

### **8.3.2.1. New issues raised in this study**

The study has questioned some views expressed in other similar studies. First, the assertion that CARDS and IPA are instruments of Cohesion policy (Bache and Tomšić 2010). This is a simplification, particularly for CARDS, as it was not fully an instrument for socio-economic cohesion but rather for post-war reconstruction and development. In addition, although IPA seeks to prepare the ground for the Structural Funds, it is not identical to them and it is managed differently, with a strong Enlargement element. Furthermore, although it has been argued that institutional arrangements in Croatia point to a trend of centralisation and control and central government gatekeeping (Bache and Tomšić 2010), this study argues that centralisation and control are as much the result of central government gatekeeping as they are the result of weak and diffused mandate of the pre-accession instruments that did not facilitate capacity-building at the regional level.

Of course, national convergence is an objective of Cohesion policy for the less and moderately developed MS, a path that could be chosen by Croatia, hence the emphasis on national-level structures (European Commission 2010b, pp. 145-146). But capacity-building effects at the national level were not seamless either. A thematic evaluation conducted immediately after the fieldwork period confirms some of the findings of this study: the IPA instrument and the European Commission were reported as not suitable for administrative capacity-building and as lacking expertise on public sector reform respectively (MWH Consortium 2009, p. 10). Reportedly, lessons learned with regard to this case were taken into account in subsequent IPA annual programming (European Commission 2012a, p. 6).

This study also sheds new light on the literature on external governance. In Chapter 2, the immediateness of the link between fit/misfit and adaptation pressure is challenged. The chapter put forward the argument that adaptation pressure is a necessary but not sufficient condition for change, and it stresses that even if there is misfit this does not cause automatic adaptation pressure. It also sets three prerequisites for effective adaptation pressure: credibility; adequate communication;

and power to overcome domestic opposition points. Lastly, one of the issues that the study throws into doubt is the view that conditionality in terms of Chapter 22 is soft (Hughes *et al.* 2005). This is shown in the thesis to be only partially valid, particularly in view of the accreditation criteria for pre-accession assistance. In addition, this thesis made a different contribution by presenting some of the actor constellations at the project level and identifying their role in the capacity-building process.

The existing literature has to be adapted in the case of Croatia, mainly because of the differences of pre-accession instruments that were active in the country. Unlike the EU-12, which only received PHARE assistance (and, only late in the pre-accession process, ISPA and SAPARD), Croatia has been benefiting from a number of instruments (OBNOVA, CARDS, PHARE, ISPA, SAPARD). The repercussions of the multitude of financial instruments on adaptation pressures were depicted in Chapter 2. Firstly, CARDS generated limited adaptation pressure. The main reason behind this was that, in the absence of a stated goal such as accession requirements to complement the instrument, fit/misfit is unknown. The decentralisation of assistance has increased misfit, but the project-based nature of CARDS has served to inevitably limit adaptation pressure. Secondly, PHARE showed similar goodness of fit with IPA, however the MFIN underperformed, decentralised management was threatened, and problems with the CFCU and conditionality arose, exposing misfit. Finally, IPA generates high adaptation pressure for three major reasons: it is following a stricter path with regard to the accreditation process; it is more co-ordinated in nature; and it has a strong horizontal and sectoral focus.

#### **8.3.2.2. Aspects of theory which could be challenged, revised or extended due to the study**

This study has mainly focused on a top-down approach to Europeanisation which in Croatia takes the form of politicisation and socialisation. The public administration in general, and in Croatia in particular, is far from being insulated from political influences and configurations. Politicisation is an important

concomitant of the Europeanisation process in Croatia. However, this is a matter that can be examined more thoroughly in further studies. Although impacts and discourse are also matters of political construction, developments that occurred under the influence of pre-accession assistance have not been examined in this light. Therefore, due to time and resource constraints and the political sensitivity of the issue, politicisation was not studied in detail despite clear references in the literature about a wider cleavage in Croatian politics between nationalists and Europeanists (Fisher 2006). Socialisation, which is of a less political nature, was covered to a larger extent, especially as an examination of learning and awareness-raising effects of pre-accession instruments.

A fundamental question in the literature is that of structure and agency, whether the actions of individuals can explain the behaviour of structures. Giddens argued for a dual relationship, and reciprocal causation of agency and structure (Giddens 1984). On the other hand, Putnam stressed that, for institutions to be effective, a cultural underpinning of trust among individuals and between individuals is required, and then the development of institutions can follow (Putnam *et al.* 1993). Thirdly, a structuralist approach such as the one put forward by Linz and Stepan suggests that if institutions are put in place, values will follow (Linz and Stepan 1996). The case of pre-accession assistance in Croatia provides confirmation of the dual and mutual relationship between agency and structure. As illustrated in the summary of the empirical findings above, part of the results and the values and behaviour of individuals involved can be explained through the lens of structures. However, cases of agency differentiation and deviant actions were also experienced in Croatia.

Some other points identified in the literature which find application in Croatia are views about the mixture of resources that enable organisations to survive. The findings from Croatia, which show that institutionalisation of EU funding institutions was at an early stage, are in line with the references to the gradual nature of processes of institutional thickness in the wider sociological institutionalist literature. In fact, pre-accession assistance supports a small population of institutions which could grow after accession with the influx of more resources from the Structural

Funds. In the long run, these institutions will come to influence the views of participating individuals, who will learn to accommodate institutional norms and values. There is also the possibility of some anticipatory socialisation of members of those institutions before they become part of those institutions. These endogenous and exogenous conditions, which are favourable to institutional change preference formation, are also conducive to a deeper cultural change. However, this form of change can only be achieved in the long run, as the prevailing culture of legalism in the Croatian public administration can be considered at best a mixed blessing. Similarly, the use of EU funding for the purposes of strengthening internal power and information advantage on behalf of the public administration elites facilitates early compliance with at least some EU norms. Aspects of bureaucratic-management culture that emanate from the top may be altered as a result in a top-down fashion, but the depth and the embeddedness of cultural changes will be defined by the engagement of wider groups of administrators.

#### **8.4. Methodological reflections**

The research project followed a conventional approach to methodology. This comprised a literature review, desk and field research. Thirty one semi-structured interviews were undertaken using snowball/chain referral sampling of key institutions. The analysis of data was conducted by means of process-tracing. The methods followed produced the intended research results. The main difficulties related to the reluctance of some key institutions to either allow interviews or share quantitative or evaluative information that was sensitive at the time. Some respondents also presented an overly optimistic account of developments due to a concern about the image of the institution or the country abroad. Such issues were overcome either through attempts to access relevant information through the Commission services, which were only partially successful, or through the increased availability of secondary sources over time.

Moreover, the difficult political and cultural context of the Croatian public administration, which to a certain extent lacks transparency and openness, is not a unique case, but one that finds many parallels in other studies. In a heavily

politicised environment, favourable recommendations from political elites may make potential respondents more willing to collaborate with researchers.

Besides, another important issue is the difficulty of attributing certain outcomes to particular influences due to a range of internal and external influences. Related to this factor is a tactful predilection by the ECD to downplay its role as being the main instigator behind particular reforms. This serves the interests of that institution, because outspoken language may attract criticism. On the other hand, national authorities have in some cases exaggerated the role of supranational institutions either as a means to thwart reform or as an attempt at supranational scapegoating.

A future study could increase the size of the sample, include quantitative indicators to a greater extent, and provide triangulation based on multiple methods. The methods used in this study were grounded in ontological and epistemological positions, which may explain how methods and data collection and analysis affect the final argument and conclusion. However, with the gradual availability of more information and as the lapse of time allows for additional clarity in the examination of particular phenomena in this study, the conclusions have been cross-examined at various stages of the research. Finally, the spread of conditionality regimes in many EU MS has made clearer some of the dynamics that appear in situations similar to those of pre-accession Croatia.

## **Epilogue**

The Croatian accession negotiations which started in 2005 were completed on the last day of the Hungarian presidency on 30 June 2011. The accession treaty of Croatia has to be ratified by all 27 EU MS before Croatia joins the EU in July 2013. Nearly 66% of the Croatian voters backed EU membership for Croatia in a referendum held on 22 January 2012. When Croatian membership becomes reality, both Croatia and the EU will be very different from the time the accession process started.

Croatia will have ended a major period in the nation's history which started with the breakup of Yugoslavia, its establishment as an independent state, and the involvement in an armed conflict that lasted until 1995, and the subsequent experience of nationalist authoritarianism under Tuđman. It is of critical importance for its successful membership of the EU to adhere to the principles and rules with which the country had to comply in the accession phase. Thus, a break with the past dominance of a politicised and weak public administration characterised by a culture of short-sighted bureaucratic managerialism will have become definite. The pre-accession assistance instruments have worked towards such an outcome by helping to create new structures, providing training and building skills, and establishing tools and procedures for the present and future management of EU funds. It will be mainly the responsibility of Croatia post-accession to secure the sustainability of what has been achieved during pre-accession and meet the challenges of implementing EU policies and complying with the *acquis*.

Furthermore, the EU could change dramatically in the next couple of years. Movements towards a fiscal union and closer integration in economic policy and perhaps social affairs or even a political union may materialise. The shape of future changes is not yet clear, and it is still very much a question to be answered whether the main burden of implementation will be undertaken in a national or a supranational context. Nevertheless, in the past couple of years the EU has been moving towards stricter enforcement of convergence rules and closer monitoring of national economies concerning the Europe 2020 strategy. Recent legislative changes have strengthened EU-level conditionalities with the aim of increasing discipline and exerting pressure on underperformers. The administrative capacities of national and regional entities involved in the management and implementation of EU policies will be one of the critical factors determining national performance. There are signs that the Structural Funds and the Cohesion Fund could be geared towards supporting the adjustment at the national and regional levels to the new policy requirements (Bachtler *et al.* forthcoming 2013).

This study has examined the influence of pre-accession instruments in administrative capacity in Croatia. It has covered mainly institutions involved in co-

ordinating, managing and implementing EU funding at the national level. Further research could be undertaken on regional administrative capacities in Croatia. More attention could also be paid to how successful EU institutions and EU MS have been in negotiating and instrumentalising pre-accession instruments. Lastly, a similar study could be carried out in other SEE countries and *mutatis mutandis* in less-developed MS receiving EU financial assistance.

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# ANNEX I

## INTERVIEW CHECKLIST – 05.06.2009

### Ethics statement

The research will comply with the ethics policy of the European Policies Research Centre, which aims to maintain the integrity and quality of research, for example by ensuring that information is used only for the purposes stated by the researcher, that the interviewees' confidentiality and anonymity is fully respected, and that the research is free from conflicts of interest and partiality. See also: <http://www.eprc.strath.ac.uk/eprc/sustainability.cfm>

### 1. STRATEGIC APPROACH

- What is the partner's opinion on the role of CODEF in the pre-accession process and the programming of EU funds?
- Was the decision to create CODEF as a separate entity influenced by EU accession pressures/pre-accession assistance, international actors donors or was it purely a domestic decision? Could you name any other influences?
- What should a method of appraisal of administrative capacity take into account?
- What does the partner consider as main changes with regard to administrative capacity in the period 2000-2006?
- What does the partner consider as main challenges with regard to administrative capacity in the period 2007-2013?
- How would the partner comment on CODEF's own administrative capacities?
- Is there sufficient administrative capacity in the fields of Public administration reform, local government and regional policy and capacity to manage EU funds?
- What has been the impact of Phare and how has the record of Phare affected Cards and Ipa, particularly with regard to administrative capacity related objectives?
- Is Cards or Ipa a strong driver of administrative capacity building or a concomitant of EU accession pressures?

- Can certain influences in the case of Croatia be named?
- Which measures have been taken to tackle the issue of addiction to technical assistance and twinning instruments and ensure sustainability of pre-accession assistance interventions?

## 2. CARDS INTERVENTIONS

- What has been the contribution of Cards/Ipa as regards the following criteria?

Resources: Human resources and skills, personnel salaries, financial resources.

Structures: agencies, institutions, IT, e-government.

Systems: personnel selection criteria, sufficient policy coordination, legal framework, policy processes and procedures.

OECD DAC criteria: relevance, effectiveness, efficiency, impact, sustainability (Cards Evaluation) and coherence, complementarity, coordination according to EC guidelines.

- Which other critical factors can be identified?
- How do you compare the Cards contribution to Ipa contribution?
- Can you identify key strengths and weaknesses of each instrument?
- Has Ipa benefited from lessons learned from Cards?
- What has been the progress in the above criteria before the start date of Cards assistance?

## 3. CODEF

1. How does CARDS influence the human resources of the Ministry of Foreign Affairs and European Integration and in particular of the Department in charge of CODEF (Central State Office for Development Strategy and Coordination of EU funds)?

a. How does CARDS influence the number of people working at the Ministry of Foreign Affairs and European Integration and in particular of the Department in charge of CODEF?

b. How does CARDS influence the skills of people working at the Ministry of Foreign Affairs and European Integration and in particular at the Department in charge of CODEF?

2. How does CARDS influence the financial resources of the Ministry of Foreign Affairs and European Integration and in particular of the Department in charge for CODEF?
  - a. How does CARDS provide more funds for the Ministry of Foreign Affairs and European Integration and in particular CODEF?
  - b. How does CARDS influence the flow of domestic resources through the Ministry of Foreign Affairs and European Integration and in particular CODEF?
  - c. How has the financial absorption capacity improved?
3. How does CARDS influence the structures of the Ministry of Foreign Affairs and European Integration and in particular of the Department in charge of CODEF?
  - a. How has CARDS influenced the setting up of CODEF?
  - b. How has CARDS influenced the internal structure of the Ministry of Foreign Affairs and European Integration?
  - c. How has CARDS influenced the equipment of the Ministry of Foreign Affairs and European Integration and the CODEF? e.g in terms of IT.
4. How does CARDS influence the systems of the Ministry of Foreign Affairs and European Integration and in particular of the Department in charge for CODEF?
  - a. How does CARDS influence financial control and audit in the Ministry of Foreign Affairs and European Integration and in particular, the Department in charge for CODEF?
  - b. How does CARDS influence monitoring and evaluation in the Ministry of Foreign Affairs and European Integration and in particular, the Department in charge for CODEF?
  - c. How does CARDS influence personnel selection criteria in the Ministry of Foreign Affairs and European Integration and in particular, the Department in charge for CODEF?
  - d. How does CARDS influence procedures in the Ministry of Foreign Affairs and European Integration and in particular, the Department in charge for CODEF?
5. How does CARDS influence institutional coordination within the Ministry of Foreign Affairs and European Integration and in particular, the Department in charge of CODEF?
6. How does CARDS influence policy coordination between the Ministry of Foreign Affairs and European Integration and the CODEF and the other line ministries?
7. How does CARDS influence institutional coordination of the actions of the Ministry of Foreign Affairs and European Integration and those of CODEF with those of other actors and donors?

8. How does IPA influence the human resources of the Ministry of Foreign Affairs and European Integration?
  - a. How does IPA influence the number of people working at the Ministry of Foreign Affairs and European Integration?
  - b. How does IPA influence the skills of people working at the Ministry of Foreign Affairs and European Integration?
9. How does IPA influence the human resources of the CODEF?
  - a. How does IPA influence the number of people working at the CODEF?
  - b. How does IPA influence the skills of people working at the CODEF?
10. How does IPA influence the financial resources of the Ministry of Foreign Affairs and European Integration?
  - a. How does IPA provide more funds for the Ministry of Foreign Affairs and European Integration?
  - b. How does IPA influence the flow of domestic resources through the Ministry of Foreign Affairs and European Integration?
  - c. How has the financial absorption capacity improved?
11. How does IPA influence the financial resources of CODEF?
  - a. How does IPA provide more funds for CODEF?
  - b. How does IPA influence the flow of domestic resources through CODEF?
12. How does IPA influence the structures of the Ministry of Foreign Affairs and European Integration?
  - a. How has IPA influenced the internal structure of the Ministry of Foreign Affairs and European Integration?
13. How has IPA influenced the equipment of the Ministry of Foreign Affairs and European Integration? E.g. IT equipment
14. How does IPA influence the structures of CODEF?
  - a. How has IPA influenced the setting up of CODEF?
  - b. How has IPA influenced the equipment of the CODEF?

15. How does IPA influence the systems of the Ministry of Foreign Affairs and European Integration?
  - a. How does IPA influence financial control and audit in the Ministry of Foreign Affairs and European Integration?
  - b. How does IPA influence monitoring and evaluation in the Ministry of Foreign Affairs and European Integration?
  - c. How does IPA influence personnel selection criteria in the Ministry of Foreign Affairs and European Integration?
  - d. How does IPA influence procedures in the Foreign Affairs and European Integration?
16. How does IPA influence the systems of CODEF?
  - a. How does IPA influence financial control and audit in the CODEF?
  - b. How does IPA influence monitoring and evaluation in the CODEF?
  - c. How does IPA influence personnel selection criteria in the CODEF?
  - d. How does IPA influence procedures in the CODEF?
17. How does IPA influence institutional coordination within the Ministry of Foreign Affairs and European Integration?
18. How does IPA influence policy coordination between the Ministry of Foreign Affairs and European Integration and CODEF and other line ministries?
19. How does IPA influence institutional coordination of the actions of the Ministry of Foreign Affairs and European Integration and CODEF with these of other actors and donors?
20. Why has CARDS had this influence on the Ministry of Foreign Affairs and European Integration -CODEF? (E.g. is their influence due solely to EU pressure and Croatia's wish to join the EU, or have domestic actors taken advantage of CARDS and IPA to push for changes which are non fully mandated by EU rules?)
21. Why has IPA had this influence on the Ministry of Foreign Affairs and European Integration? (E.g. is their influence due solely to EU pressure and Croatia's wish to join the EU, or have domestic actors taken advantage of CARDS and IPA to push for changes which are non fully mandated by EU rules?)
22. Why has IPA had this influence on CODEF? (E.g. is their influence due solely to EU pressure and Croatia's wish to join the EU, or have domestic actors taken advantage of CARDS and IPA to push for changes which are non fully mandated by EU rules?)

23. Which changes have been influenced by other factors?

**Table 18: List of interviews**

1	ECD 1
2	CON1
3	CON2
4	ECD2
5	GOV1
6	ACA1
7	ECD3
8	ECD4
9	GOV2
10	GOV3
11	GOV4
12	ACA2
13	GOV5
14	GOV6
15	CON3
16	GOV7
17	GOV8
18	CON4
19	ACA3
20	CON5
21	GOV9
22	GOV10
23	CON6
24	GOV11
25	GOV12
26	GOV13
27	GOV14
28	LGOV1
29	RDA1
30	ACA4
31	GRGOV1

1. Professional status: Consultant for Planet S.A., Former Task manager for Cross-border co-operation at ECD Zagreb.  
Background: Regional development  
Nationality: German  
Location: Belgrade  
Date: 2 December 2008
2. Professional status: Consultant IPA II.  
Background: -  
Nationality: Belgian  
Location: Zagreb  
Date: 4 December 2008

3. Professional status: Freelance consultant, GDSI Limited, CARDS 2003 Support to National Development Planning project team leader.  
Background: Economics and Regional Planning  
Nationality: British  
Location: Zagreb  
Date: 4 December 2008
4. Professional status: Regional Development/Project Planning Expert, Interim Task Manager for Regional Policy, EU Delegation  
Background: Geography  
Nationality: Croatian  
Location: Zagreb  
Date: 8 December 2008.
5. Professional status: Head of Department, Department for European Union Programmes for Promoting Economic and Social Cohesion, CODEF  
Background: International Relations and European Studies  
Nationality: Croatian  
Location: Zagreb  
Date: 9 December 2008
6. Professional status: Associate Professor, Faculty of Economics, University of Split  
Background: Economics  
Nationality: Croatian  
Location: Split  
Date: 11 December 2008
7. Professional status: Counsellor, Head of Section, Operations Section 1: Social cohesion, regional development and infrastructure, Delegation of the European Commission to the Republic of Croatia,  
Background: Business Administration, European Integration  
Nationality: Austrian  
Location: Zagreb  
Date: 26 May 2009
8. Professional status: Task Manager Horizontal Coordination, Delegation of the European Commission to the Republic of Croatia  
Background: -  
Nationality: Croatian  
Location: Zagreb  
Date: 26 May 2009
9. Professional status: State secretary at CODEF, National Aid Coordinator (NAC) for CARDS assistance, National IPA Coordinator (NIPAC)  
Background: Economics, International Trade



Nationality: Croatian  
Location: Zagreb  
Date: 5 June 2009

10. Professional status: Head of Department, Department for EU Programmes in the Field of Capacity Building for EU Accession, CODEF  
Background: European Studies  
Nationality: Croatian  
Location: Zagreb  
Date: 5 June 2009
11. Professional status: Head of Department, Department for European Union Programmes for Promoting Economic and Social Cohesion, CODEF  
Background: International Relations and European Studies  
Nationality: Croatian  
Location: Zagreb  
Date: 5 June 2009
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## ANNEX II

### Box 1: CARDS Management and implementation structures

The management of CARDS differed between the two components. The national component was managed according to the centralised/decentralised implementation system with the ECD (deconcentrated) to Croatia, which was responsible for the financial management of the programme.

The management of CARDS 2003 and 2004 and PHARE assistance was conferred on a decentralised basis to the Central Financing and Contracting Unit (Commission Decision 07/02/2006). The CFCU was set up within the Ministry of Finance.

The competent bodies for the implementation of the CARDS national component in Croatia were:

- The National Aid Coordinator (for EU assistance) (NAC), which is the state secretary in charge of CODEF.
- The National Authorising Officer (NAO), a state secretary in the Ministry of Finance heading the National Fund (NF).
- Senior Programme Officer (SPO), an official in a line ministry/agency in charge of technical implementation. Project Implementation Units (PIU) are answerable to him.

Implementing agencies:

- The Central Financing and Contracting Unit (CFCU), headed by the Programme Authorising Officer (PAO).
- Others within ministries.

Final beneficiaries:

- Bodies of central administration, regional and local self-government, public institutions, civil society.

European Commission:

- European Commission central services
- European Commission Delegation

Other:

- International Financial Institutions (IFIs).
- Donors.

The competent bodies for the management of the CARDS regional component until the decentralisation decision were:

- The National Aid Coordinator (NAC)
- EC Central Services
- EC Delegation (ECD) to Croatia

Source: (Central Finance and Contracting Agency 2011).

### Box 2: IPA Monitoring Committee rules

Article 58 of the IPA implementing regulation (EC 718/2007) specifies the requirements for the establishment of the IPA Monitoring Committee and lists its functions. The IPA Monitoring Committee should be established six months after the entry into force of the regulation in agreement with the NIPAC and the Commission 'to ensure coherence and coordination in the implementation of IPA components'. The committee oversees the overall effectiveness, quality and coherence of implementation of all programmes and operations towards meeting the objectives specified in the financing agreements and the MIPD, using data provided by the sectoral monitoring committees. In addition, the committee may make proposals to the NIPAC, NAO and the Commission for actions improving the coherence and coordination between programmes and operations implemented under the IPA components, for any cross-component corrective measures to improve the overall efficiency. It may also make proposals to the SMCs for corrections aimed at improving the efficiency of assistance at programme-component level. The mandate of the IPA Monitoring Committee is set out by the Commission. Members of the monitoring committee comprise: representatives of the Commission, the NIPAC, the NAO, representatives of the operating structures and the strategic coordinator. The meetings are co-chaired by a representative of the Commission and the NIPAC. The Regulation sets the frequency of the meetings at one per year while allowing the possibility of

intermediate meetings especially on a thematic basis (Article 58, EC 718/2007).

One novelty regarding the Sectoral Monitoring Committees attached to programmes or components and assisting the IPA Monitoring Committee is the possibility to include members of civil society (Article 59 EC 718/2007). The role of the SMC is to check the effectiveness and quality of programme and operational implementation in accordance with the regulatory provisions for each component in the sectoral and/or financing agreements. The committee may make proposals to the Commission and the NIPAC copied to the NAO for decisions on corrective measures ensuring the achievement of programme objectives and the efficiency of assistance. In particular, the SMCs provide the IPA MC with information regarding project implementation per priority axis, and where appropriate measure or operation including the results achieved, financial implementation indicators and other factors. The aim is to improve programme implementation. They shall also provide information with regard to aspects of the functioning of management and control systems raised by the Audit Authority, the NAO or the CAO (Article 59 EC 718/2007).

As regards IPA Component I, in cases of decentralised management of assistance the Implementing Regulation stipulates that the IPA TAIB (sectoral) committee shall meet twice a year at the initiative of the beneficiary country or the Commission. According to the regulation, the committee is chaired by the NIPAC and comprises the NAO, the PAOs, other representatives of the operating structure as appropriate, representatives of the Commission, as well as representatives of the IFIs where appropriate and civil society designated by the beneficiary country in agreement with the Commission (Article 93 EC 718/2007). The function of the committee, specified in the regulation, is to confirm the effectiveness and quality of the programmes and operation concerned. In doing so, the TAIB committee reviews implementation status reports detailing financial and operational progress of the programmes; reviews the achievement of objectives and results of the programmes; reviews procurement plans and evaluation recommendations; discusses problematic issues and operations; proposes corrective actions as appropriate; reviews cases of fraud and irregularities and presents the measures taken to recover the funds and to avoid the recurrence of similar cases; and reviews the annual audit work plan prepared by the Audit Authority and the findings and recommendations of the audits carried out (Article 83 EC 718/2007). As indicated, Sectoral Monitoring Sub-Committees may assist the IPA TAIB committee in its work.

The rules for the Sectoral Monitoring Committees established for the CBC component are referred to in Articles 110, 111, 142 and 143 of the IPA Implementing Regulation (EC 781/2007).

Article 167 contains the provisions of the regulation for the Sectoral Monitoring Committees for IPA Components III and IV. A single monitoring committee may be established for several programmes under the same component. The committee is required to meet at least twice annually at the initiative of the beneficiary state or the Commission. As is the case with the monitoring committees established for the other components, each sectoral monitoring committee shall draw up its rules of procedure in compliance with a sectoral monitoring committee mandate set out by the Commission and within the institutional, legal and financial framework of the country where it is established. These rules of procedure are adopted in agreement with the operating structure and the IPA Monitoring Committee. The SMC is co-chaired by the HOS and the Commission and its composition is decided by the operating structure in agreement with the Commission. Members of the committee comprise the Commission, the NIPAC, the Strategic Coordinator for Components III and IV, the operating structure of the programme. Where appropriate, the committee shall include representatives of civil society and socio-economic partners. Also, a representative of the EIB may be present in an advisory role for those OPs where the EIB makes a contribution. The role of the Sectoral Monitoring Committee as defined by the regulation is as follows: the committee considers and approves the general criteria for selecting operations and approves revisions of those criteria in accordance with programming needs; at each meeting, it reviews progress made towards achieving the specific targets of the operational programme based on the documents submitted by the operating structure; examines the results of implementation, particularly the achievement of targets set for each priority axis and measures and interim evaluations; examines the sectoral annual and final reports on implementation; is informed of the annual audit activity report; and examines any proposal to amend

the financing agreement of the programme. Finally, the Sectoral Monitoring Committee may propose to the operating structure any revision or examination of the programme likely to make possible the attainment of the programme's objectives, highlighting the SWOT, or to improve its management including financial management (Article 167 EC 718/2007).

Finally another Sectoral Monitoring Committee is established for Component V according to the provisions of Article 192 (EC 718/2007).

### **Box 3: CODEF: NAC/NIPAC and Strategic Coordinator for IPA Components III and IV**

CODEF was responsible for preparing the development strategy of the Republic of Croatia and monitoring the implementation of its objectives. It also performed the overall coordination of EU funds available to Croatia. CODEF coordinated the development of the Strategic Coherence Framework, a basic IPA strategic document and precursor of the NSRF, in the part of the document which covered economic and social development. CODEF was headed by a state secretary who was appointed or relieved of his duties by the government at the request of the prime minister, to which he was accountable. Two deputy secretaries were appointed or relieved of their duties by the government at the request of the state secretary. The three heads of departments managed the works of their respective departments and were accountable to the deputy secretary and the state secretary (see Figure 10 ANNEX II) (Government of the Republic of Croatia 2006a; CODEF 2009e). The state secretary of CODEF was the National Aid Co-ordinator under CARDS and PHARE and the National IPA Co-ordinator. CODEF was expected to assume the role of the Coordinating Authority as soon as the Structural and Cohesion Funds became available to Croatia.

The IPA implementing regulation (Article 22) states that 'a national IPA coordinator shall be appointed by the beneficiary country. He shall be a high-ranking official in the government or the state administration in the beneficiary country, who shall ensure the overall coordination of assistance under the IPA Regulation'. The regulation adds that the NIPAC shall in particular:

ensure partnership between the Commission and the beneficiary country, and a close link between the general accession process and the use of assistance under the IPA Regulation;

bear overall responsibility for:

the coherence and coordination of the programmes provided under this Regulation,

the annual programming for the transition assistance and institution building component at national level,

the coordination of the participation of the beneficiary country in the relevant cross-border programmes, both with MS and with other beneficiary countries, as well as in the transnational, interregional or sea basins programmes under other Community Instruments. The national IPA coordinator may delegate the tasks relating to this coordination to a cross-border cooperation coordinator;

draw up and after examination by the IPA Monitoring Committee, submit the IPA annual and final reports on implementation as defined in Article 61(3) to the Commission with a copy to the national authorising officer.

The Framework agreement between the Commission and Croatia of 27 August 2007 incorporates the provisions of the IPA implementing regulation which are relevant to NIPAC (European Commission

and Government of the Republic of Croatia 2007).

The NAC/NIPAC appointed by the government is responsible for the programming, monitoring and assessment of CARDS/PHARE/IPA I programmes and more particularly for:

ensuring a close link between the general accession process and the use of Community assistance including CARDS/PHARE IPA I funds through the programming of CARDS/PHARE IPA I, which will affect the priorities identified in the accession process. The NAC/NIPAC must guarantee the use of transparent project selection procedures;

preparation and coordination of the annual Financing Agreements in liaison with the NAO and the relevant ministries and in agreement with the EC;

assistance to the NAO for the nomination of Programme Authorising Officer (PAO) in the Implementing Agency (CFCA);

monitoring of programme implementation in all components (tendering, co-financing, adaptation of project fiches, etc) in liaison with the NAO and EC;

coordinating monitoring and evaluation; and

participating with the EC and NAO in the Joint Monitoring Committee and requesting changes in programmes/projects as relevant (Government of the Republic of Croatia 2009).

The role of Strategic Co-ordinator for IPA Components III and IV was undertaken in Croatia by a Deputy State Secretary in CODEF. According to the IPA implementing regulation (European Commission 2007a) (Article 23): 'a strategic coordinator shall be appointed by the beneficiary country to ensure the coordination of the regional development component under the responsibility of the national IPA coordinator. The strategic coordinator shall be an entity within the state administration of the beneficiary country, with no direct involvement in the implementation of components concerned'. The regulation also lists the particular functions and responsibilities of the Strategic Coordinator, who shall: (i) coordinate assistance granted under the regional development component and the human resources development component, (ii) draft the strategic coherence framework as defined in Article 154, and (iii) ensure coordination between sectoral strategies and programmes.

The Framework Agreement of 27 August 2007 between the Commission and Croatia incorporated those provisions of the IPA implementing regulation which are relevant to the Strategic Coordinator. Finally, CODEF was responsible for preparing the NSRF. In so doing, it was expected to build on experience gained in preparing the Strategic Coherence Framework of IPA Components III and IV, both in terms of processes and content (Government of the Republic of Croatia 2008a, p. 11).

#### **Box 4: The Ministry of Public Administration/ Central State Office for Public Administration**

The Ministry was founded in July 2009, assuming the competences of the Central State Office for Administration. The CSOA, previously a department within the then Ministry of Justice, Administration and Local Self-Government, was created in December 2003/January 2004 along with the Central State Office for Development Strategy and two other central state offices. These institutions were outside the cabinet hierarchy, directly answerable to the prime minister and were headed by state secretaries who acted as the premier's chief advisors on their matters of competence. Thus the underlying argument behind the creation of CSOA was that political responsibility for PAR was undertaken at the highest level (SIGMA 2004). However, given the wide range of the PM's competences, the new institutions struggled to assert their position in the government hierarchy and to achieve operational capability in the early years.



The CSOA consisted of eleven sub-units including the Training Centre for civil servants,<sup>30</sup> which was also transferred from the Ministry of Justice where it had been founded in 2003 (European Commission 2004b; SIGMA 2003). Nevertheless, the process of organising the State Office proved lengthy. One year after its creation, the Opinion on Croatia's application found that the CSOA had not become fully operational (European Commission 2004b, p. 14). In 2005, the CSOA became operational (European Commission 2005a, p. 13).

**Box 5: Central Office for Development Strategy and Coordination of EU funds (CODEF/SDURF)**

CODEF was the government office for strategic planning and was responsible for the programming of the EU funds. In addition, CODEF's state secretary was one of the Prime Minister's chief economic advisors in the field of macroeconomic matters. However, the consistency of these tasks with the Office's programming role was considered a matter for concern (ECD3). It was previously a directorate within the Ministry of Foreign Affairs and European Integration; however, lack of interest in financial assistance matters on behalf of the Ministry led to CODEF's separation. A CODEF interviewee cited the aim of increasing flexibility as the underpinning argument behind depriving MFAEI of its EU funds responsibilities (GOV2).

The department for EU programmes in the field of Economic and Social Cohesion was responsible for IPA Components III and IV, with four sections for the respective OPs (CARDS 2003 2007). In 2012, CODEF was absorbed by the Ministry of Regional Development, forming the Ministry of Regional Development and EU Funds.

**Box 6: Planned results of the CARDS 2004 project**

1. That the NAO would maintain the on-going operations and integrity of the DIS system, that the NAO would have effective control over PAOs/SPOs/SAOs/SCOs and implementing agencies and would exercise the role effectively in the DIS environment especially as regards financial controls and irregularities. It was also projected that the NAO would have all the relevant information at his disposal to develop the strategic vision of the DIS system.
2. That the NAO would make sure that the preconditions, structures and procedures for accreditation and conferral of the management of IPA on Croatia would be fulfilled. He was also expected to have all the relevant information to issue the national accreditation and submit to the EC the request for accreditation of IPA components.
3. That funds (EU and co-financing) would be channeled smoothly from the European Commission and National sources through the National Fund and implementing agencies in full conformity with the needs and budgetary principles, and under close scrutiny of effective financial control instruments and mechanisms.
4. That the number and frequency of rejections of procurement transactions submitted by the CFCU (and possibly other IAs) to the EC Delegation would steadily decrease both in total, per finding and per person in charge, and as such would prepare the ground for a total waiver of ex-ante control by the EC Delegation in the long run.
5. That the CFCU as an Implementing Agency would maintain very high contracting and disbursement rates without accumulation of a disproportional amount of workload before the contracting deadlines. In particular, for CARDS 2004, PHARE 2005 and ISPA 2005, the minimum-achieved contracting rate would be 90%. It was also planned that the procurement plan monitoring system operated by the CFCU would work timely and effectively with early warnings of the delays and timely dissemination of information to the management of the DIS system and that it would be able to attract the attention of the political structures, and that remedial actions would be taken as a result.
6. That payment transactions on a project level would be effected in a timely, reliable and efficient manner. Moreover, that they would be based on clear and reliable criteria of eligibility of expenditure and supported by solid and up-to-date accounting.
7. That very good quality monitoring reports, from individual project to synthesis level, would be

<sup>30</sup> At the time, EU training for civil servants was also offered by the MEI, which continued in 2005 EUROPEAN COMMISSION 2004b. Opinion on Croatia's Application for Membership of the European Union. EUROPEAN COMMISSION 2004b. Opinion on Croatia's Application for Membership of the European Union. (European Commission, 2004b, p. 16).

- presented to the Sectoral Monitoring Subcommittees, Joint Monitoring Committee and the IPA Monitoring Committee whose meetings would be organised on a regular basis. Furthermore, that the NAC/NIPAC administration would timeously circulate the minutes of the IPAMC and JMC, and that SMSC meetings would assure follow up and would account for it.
8. That the DG Enlargement evaluation scheme would be successfully introduced into the Croatian system of decentralised implementation, with sufficient staffing and training on the Croatian side. It was also foreseen that the DG Enlargement's interim evaluation system would be introduced in Croatia in the course of 2007. In addition, it was expected that at the latest by the fifth quarter of the project duration the local interim evaluation capability would have been established. Moreover, that it would have been integrated in the work of the contractor which would operate DG Enlargement's interim evaluation scheme by the end of Q6 of the project duration. It was also envisaged that no less than two project evaluations would have been conducted in the final six months of the project, specifically one project evaluation and one sectoral, and that annual and multi-annual evaluation plans would have been elaborated.
  9. That organisational and management reviews would be regularly conducted in all DIS entities at reasonable intervals.
  10. Finally, that a local mechanism of accredited trainers, established with support of the CARDS 2003 project, would be operational and delivering training sessions and courses as determined by the needs of the whole system.

Source: (East West Consulting 2008).

#### **Box 7: Activities under components 4 and 5 of the project**

4. Support to the CFCU in Procurement
  - 4.1. Assist CFCU in organisational activities
  - 4.2. Assist CFCU in operational activities
  - 4.3. Support institutional arrangements and internal procedures development
  - 4.4. Support the mechanisms to monitor the procurement plan
  - 4.5. Elaboration of the plan on establishment and strengthening of the new IAs
  - 4.6. Deliver training sessions/workshops for the CFCU procurement staff
5. Support to the CFCU in Finance
  - 5.1. and 5.2. Assist CFCU in financial operations and management in development of quarterly disbursement forecasting templates and if necessary with the development of accounting package
  - 5.3. Assist CFCU in the treatment and processing of difficult invoices
  - 5.4. Assist in the analysis of invoices and other supporting documents
  - 5.5. Support the PAO in overseeing the operational agreements
  - 5.6. Assist CFCU in implementing procedures arising from the FA
  - 5.7. Organisation and delivery of workshops to the CFCU financial staff

Source: Project final report (East West Consulting 2008).

#### **Box 8: Ministry of Regional Development, Forestry and Water Management**

The decision to form this ministry did not necessary follow from recommendations by projects in the regional development sector, but was based on the recognition of the problems, namely that no institution had concrete responsibility for regional development (GOV1). This was attributed to the fact that some ideas have matured with time, which resulted in a political decision that regional development is important for Croatia and that there will be an institution in charge of it. Therefore, this initiative emanated from the public administration and TA was subsequently engaged to help with reorganisation (GOV7).

A state secretary of the MRDFWM is the Head of Operating Structure for IPA Component II CBC with the Directorate for Integrated Regional Development being the Body Responsible for the OP. The ministry is also part of the operating structure for the RCOP under the IPA IIIc Component – Regional Development – Regional Competitiveness PA 1 (M1.1).<sup>31</sup> The ministry is a part of the

<sup>31</sup> PA 1: Improving the development of lagging-behind regions, M1.1: Business-related infrastructure.

Operating Structure for IPA Component IIIb – Regional Development – Environment with the Department for Water Management acting as body responsible for Priority Axis/Measures of the relevant OP.

#### **Directorate for Integrated Regional Development**

This directorate existed under the previous configuration as a part of the MSTTD and was transferred in January 2008 to the MRDFWM. It is responsible for defining regional development policy, its implementation and coordination of all other ministries with respect to the regions. One of the directorate's main tasks was to launch the strategy of regional development. Another task is to strengthen capacities in the regions for regional project preparation and implementation and support the whole project cycle management for future EU projects (GOV7).

#### **Box 9: The IPA Operating Structure**

The IPA implementing regulation (EC 718/2007) requests that among other institutions or bodies<sup>32</sup> designated by the beneficiary country an operating structure shall be established by IPA component or programme. According to article 28 of the regulation the operating structure is a body or a collection of bodies within the administration of the recipient country responsible for the management and implementation of IPA. The operating structure is an equivalent to the SF management authority although it is not exactly identical.

**Main similarities:** Both the IPA operating structures and the structural funds managing authorities are responsible for management and implementation according to the principle of sound financial management (Article 28.2 EC 718/2007 and Article 60 EC/1083/2006 respectively).

Both are guiding the work of the monitoring committee (for IPA: sectoral monitoring committee) and provide it with documents (Article 28.2.b and article 60.h respectively). Besides, monitoring is mentioned explicitly as a function of the IPA operating structure.

They are both drawing up the (sectoral) annual and final implementation reports and after approval by the Sectoral Monitoring Committee/Monitoring Committee submit it to the Commission plus in the case of IPA to NAO and NIPAC ( Articles 28.2.c EC 718/2007 and 60.i EC/1083/2006).

Both institutions are ensuring that operations are selected for funding and approved in accordance with criteria and mechanisms applicable to the programmes and they comply with the relevant community and national rules (Articles 28.2.d and 60.a respectively). The SF Regulation adds: “for the whole of the implementation period”.

Both regulations designate the operating structures and the managing authorities as responsible for setting up procedures to ensure the retention of all documents required to ensure an adequate audit trail (Article 28.2.e and 60.f respectively).

In addition, the operating structure and the managing authority are required to ensure that all bodies (and beneficiaries) involved in the implementation of operations maintain a separate accounting system or a separate accounting codification (in the case of SF the latter requirement refers to an adequate accounting code for all transactions relating to the operation without prejudice to national

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<sup>32</sup> The other institutions according to article 21 are: a) a national IPA coordinator, b) a strategic coordinator for RCOP and HROP c) a competent accrediting officer, d) a national authorising officer e) national fund f) an audit authority.

accounting rules, Articles 28.2.g and 60.d).

The IPA operating structure ensures that the NF and the NAO receive all necessary information on the procedures and verifications carried out in relation to expenditure (Article 28.2.h). Similarly under article 60.g. of 1083/2006 the managing authority makes sure that this information is received by the certifying authority.

Finally the operating structure is responsible for carrying out verifications to ensure that “the expenditure declared has been incurred in accordance with the applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct”. Verifications cover administrative, financial, technical and physical aspects of operations. Similarly the SF regulation refers to on the spot verification of individual operations on a sample basis. In addition the managing authority is responsible for verifying that co-financed products and services are delivered, which is not mentioned as a role of the operating structure in article 28 of EC 718/2007.

Last both IPA OS and SF MAs are responsible for ensuring compliance with information and publicity requirements (Art. 28.2.m EC 718/2007 and Art 60.j EC 1083/2006 respectively).

**Main differences:** under IPA the operating structure is responsible for drafting the OPs, under the SF the OPs are drafted by the MS or by authorities designated by the MS. Under the SF the MS is responsible for preventing detecting and correcting irregularities as well as notifying the Commission. Under IPA irregularity reporting is a responsibility of the OS. Moreover the IPA operating structure is responsible for arranging tendering procedures, grant award procedures and the ensuing contracting and making payments to and recovery from the final beneficiary (Article 28.2.f EC 718/2007). The operating structure is also responsible for setting up, maintaining and updating the reporting and information system. Finally the OS is ensuring internal audit of its different constituting bodies and irregularity reporting (Art. 28.2.k and 28.2.l EC 718/2007). Finally article 28.3 of EC 718/2007 stipulates for the clear designation of the heads of operating structures.

On the other hand the Structural Funds managing authorities perform some other functions such as ensuring that a computerised system for recording and storing accounting records exists and that the implementation data necessary for financial management, monitoring, verifications audits, evaluation are collected. Under the SF regulation the managing authority ensures that evaluations are carried out according to the principles specified in the regulation (Art. 60. e). Also –although not mentioned in article 28- in the case of IPA components III and IV ex ante evaluations are under the responsibility of the operating structure and are annexed to the relevant OP (Article 166 EC 718/2007). Finally in the case in the case of the structural funds the managing authorities are additionally required to provide the Commission with information for the appraisal of major projects (Art. 60.k EC 1083/2006).

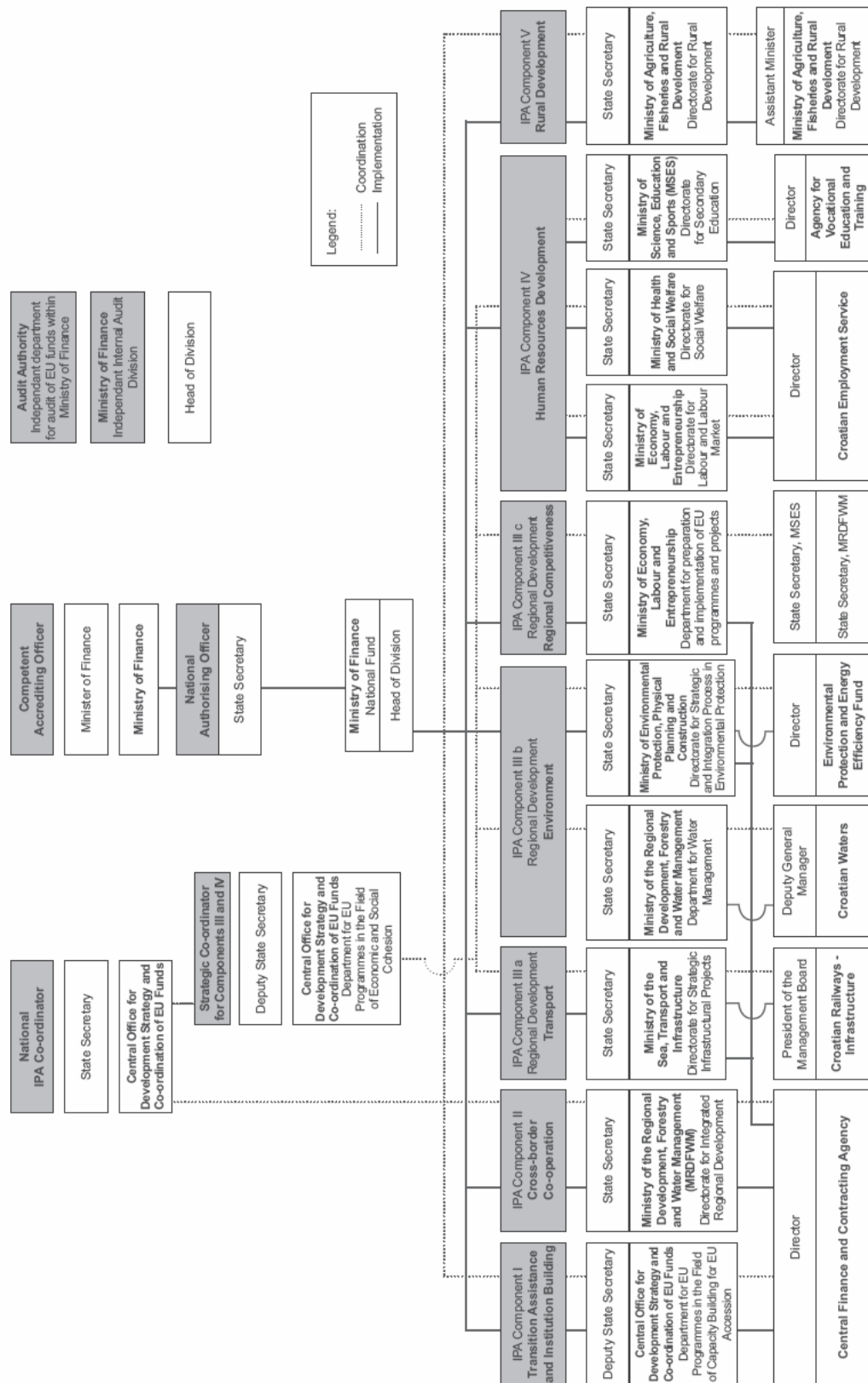
**Box 10: Comparative table of IPA operating structure and SF managing authority**

IPA Operating structure (EC 718/2007)	SF Managing authority (EC 1083/2006)
<p>Article 28</p> <p>Functions and responsibilities of the operating structure</p> <p>1. For each IPA component or programme, an operating structure shall be established to deal with the management and implementation of assistance under the IPA Regulation. The operating structure shall be a body or a collection of bodies within the administration of the beneficiary country.</p> <p>2. The operating structure shall be responsible for managing and implementing the programme or programmes concerned in accordance with the principle of sound financial management.</p> <p>For those purposes, it shall carry out a number of functions that include:</p> <p>(a) drafting the annual or multi-annual programmes;</p> <p>(b) monitoring programme implementation and guiding the work of the sectoral monitoring committee as defined in Article 59, notably by providing the documents necessary for monitoring the quality of implementation of the programmes;</p> <p>(c) drawing up the sectoral annual and final implementation reports defined in Article 61(1) and, after their examination by the sectoral monitoring committee, submitting them to the Commission, to the national IPA coordinator and to the national authorising officer;</p> <p>(d) ensuring that operations are selected for funding and approved in accordance with the criteria and mechanisms applicable to the programmes, and that they comply with the relevant Community and national rules;</p> <p>(e) setting up procedures to ensure the retention of all documents required to ensure an adequate audit trail, in accordance with Article 20;</p> <p>(f) arranging for tendering procedures, grant</p>	<p>Article 60</p> <p>Functions of the managing authority</p> <p>The managing authority shall be responsible for managing and implementing the operational programme in accordance with the principle of sound financial management and in particular for:</p> <p>(a) ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and national rules for the whole of their implementation period;</p> <p>(b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);</p> <p>(c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the operational programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;</p> <p>(d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;</p> <p>(e) ensuring that the evaluations of operational programmes referred to in Article 48(3) are carried out in accordance with Article 47;</p> <p>(f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article</p>

<p>award procedures, the ensuing contracting, and making payments to, and recovery from, the final beneficiary;</p> <p>(g) ensuring that all bodies involved in the implementation of operations maintain a separate accounting system or a separate accounting codification;</p> <p>(h) ensuring that the national fund and the national authorising officer receive all necessary information on the procedures and verifications carried out in relation to expenditure;</p> <p>(i) setting up, maintaining and updating the reporting and information system;</p> <p>(j) carrying out verifications to ensure that the expenditure declared has actually been incurred in accordance with applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct. These verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate;</p> <p>(k) ensuring internal audit of its different constituting bodies;</p> <p>(l) ensuring irregularity reporting;</p> <p>(m) ensuring compliance with the information and publicity requirements.</p> <p>3. The heads of the bodies constituting the operating structure shall be clearly designated and shall be responsible for the tasks assigned to their respective bodies, in accordance with Article 11 (3).</p>	<p>90;</p> <p>(g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;</p> <p>(h) guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;</p> <p>(i) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;</p> <p>(j) ensuring compliance with the information and publicity requirements laid down in Article 69;</p> <p>(k) providing the Commission with information to allow it to appraise major projects.</p>
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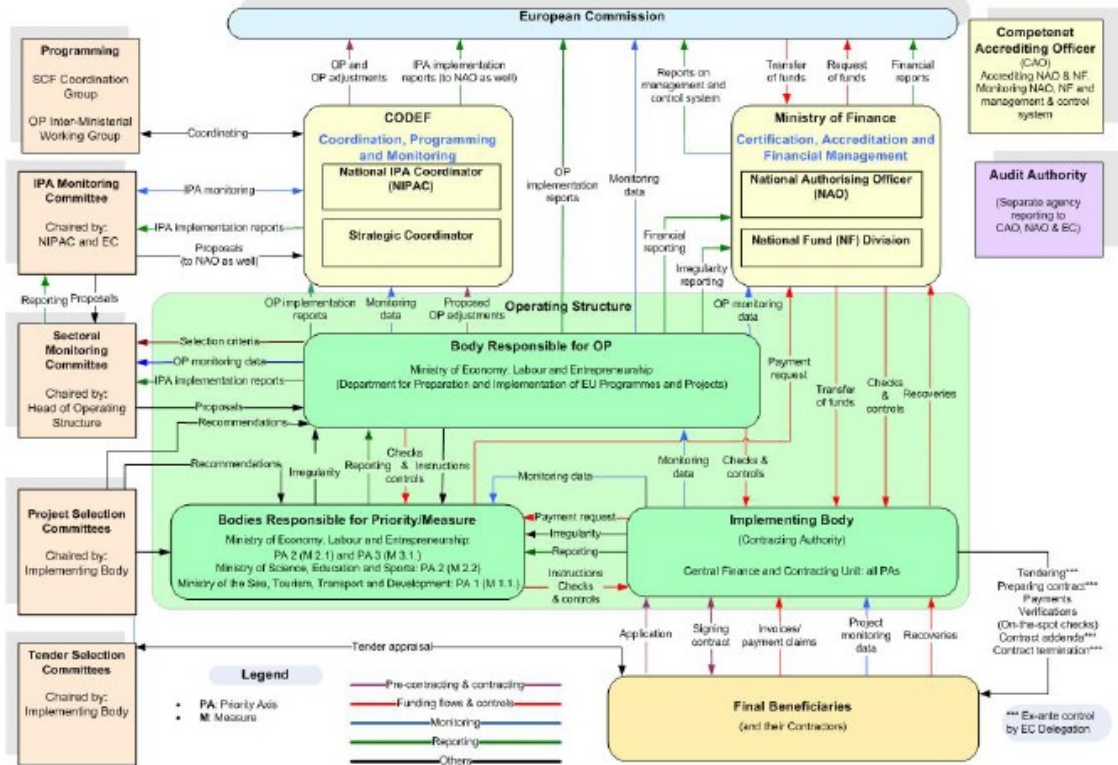
Figure 8: Institutional structures for IPA in Croatia.

Figure 3. Institutional structure for management of IPA in Croatia



Source: CODEF

Figure 9: Organigramme of the Regional Competitiveness OP Management Structure.



Source: Regional Competitiveness OP, 2007.



**Table 19: Assessment of Administrative Capacity under Chapter 22.**

<b>Section</b>	<b>Reference <i>acquis</i></b>	<b>Requirement</b>
Determination of eligible areas	Title I	Availability of data Determination of NUTS
Objective 1	Article 3	PIB/cap/PPS for three recent years NUTS 2 division
Objective 2	Article 4	Unemployment rates at NUTS 3 level or below
INTERREG	Guidelines	NUTS 3 division
Planning and programming capacity		Legal framework Interministerial co-ordination (organisation and procedures), allocation of responsibilities between ministries Partnership with local and regional authorities
Preparation of plans	Article 13-14-15	Geographical coverage Mode of selection of priorities Consistency with National development plans
CSF	Article 17	Procedures for preparation, Priorities for Community funding Innovative financing plan Possible sources of funding
Operational programmes	Article 18	Selection of managing authority (RDA, representative of the State, elected body)
Community initiatives	Article 20-21	Allocation of responsibilities corresponding to the area of intervention of INTERREG (Ministries, regional/local authorities)
Management	Title III And article 34	Budgetary procedures in force
Budget commitments	Article 31	Existence of multiannual commitments of similar procedure Cofinancing procedure
Payments	Article 32	Paying authority Payment procedures
Use of the €	Article 33	Compliance with Commission's rules
Monitoring, control, evaluation	Title IV	
Monitoring	Article 35	Monitoring committee Monitoring of projects Availability of monitoring indicators
Financial control	Articles 38,39	Separation of functions Compliance with other community policies: competition state aids public procurements equal opportunities procedures of certification of expenses procedures of correcting irregularities
Evaluation	Article 40	Independent evaluation Availability of data (in particular for ex-ante evaluation)

Source: (European Commission 2005b).

**Table 20: NSRF institutional framework in Croatia as of May 2008**

		Institution	Current Staff (May 2008)	Planned staff <sup>33</sup>
Horizontal functions	Coordinating body	Central Office for Development Strategy and Coordination of EU Funds (CODEF)	45	30 <sup>34</sup>
	Certifying Authority	National Fund of the Ministry of Finance		
	Audit Authority	Independent Service for IPA programme and Verification of SAPARD within the Ministry of Finance will assume the role of the audit authority.		
Nr	Operational programmes			
1	Transport	Managing authority	Ministry of Sea, Transport and Infrastructure	16
		Intermediate bodies	<i>Transport Agency</i> <sup>35</sup>	None 31
2	Environment and Energy	Managing authority	Ministry of Environmental Protection, Physical Planning and Construction	16
		Intermediate bodies	Ministry of Regional Development, Forestry and Water Management;	5
			<i>(MELE?)</i>	None
			<i>(Ministry of Culture?)</i>	None
			Croatian Waters;	31
Environmental Protection and Energy Efficiency Fund	31			
3	Economic Competitiveness	Managing authority	Ministry of Economy Labour and Entrepreneurship	16
		Intermediate bodies	Ministry of Science, Education and Sport	5
			<i>BICRO Agency</i>	31
			<i>Agency for Small Entrepreneurship (HAMAG)</i>	None 31
4	Human Resources Development	Managing authority	Ministry of Economy Labour and Entrepreneurship	16
		Intermediate bodies	Ministry of Science, Education and Sport;	5
			Ministry of Health and Social Welfare;	5
			Croatian Employment Service;	31
			Agency for Vocational Education and Training	31
5	Cross-border cooperation (6 programmes)	Managing authority	Ministry of Regional Development, Forestry and Water Management	16
		Intermediate bodies	<i>Ministry of Regional Development, Forestry and Water Management</i>	None 31

<sup>33</sup> According to the document numbers are indicative and should be confirmed through a functional analysis of each institution

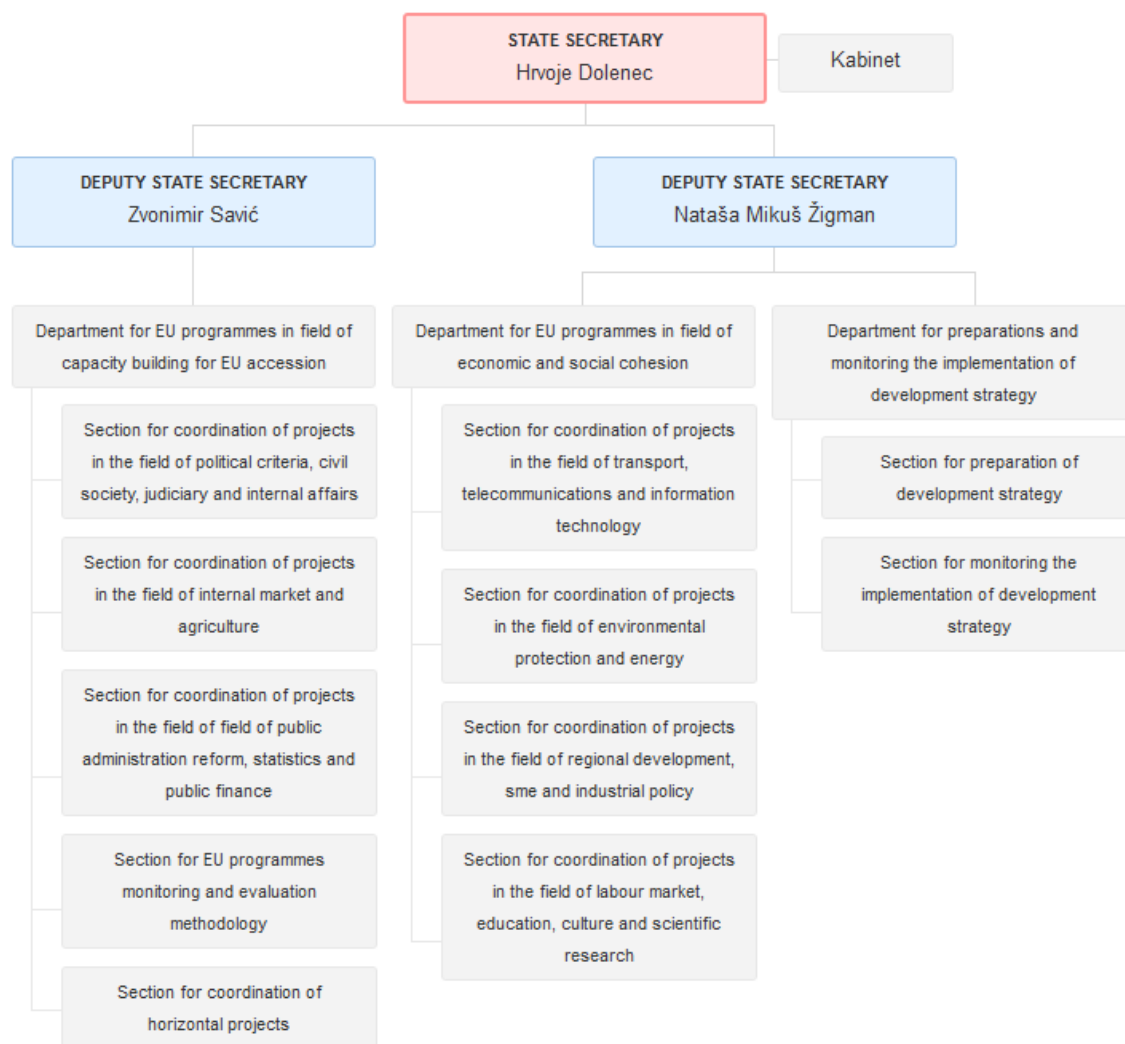
<sup>34</sup> The remaining personnel will be responsible for the management of the Public Administration Reform and Technical Assistance OPs (15 staff).

<sup>35</sup> Italics denote institutions which do not occupy the same position under IPA.

6	Integrated regional development	Managing authority	<i>Ministry of Regional Development, Forestry and Water Management</i>		
		Intermediate bodies	<i>Ministry of Regional Development, Forestry and Water Management</i> (possibility of deconcentrating to branch offices in each NUTS II region will be examined). Establishment of separate implementation structures at NUTS II level not envisaged in the current financial perspective but will be considered in the next 2014-2020, provided that each NUTS II region has its own ROP.		
7	Public administration	Managing authority	<i>Central Office for Development Strategy and Coordination of EU funds</i>		15
		Intermediate bodies	Central Finance and Contracting Agency		20
8	Technical assistance	Managing authority	<i>Central Office for Development Strategy and Coordination of EU funds</i>	Same as Public Administration OP	
		Intermediate bodies	Central Finance and Contracting Agency	Same as Public Administration OP	

Source: (Government of the Republic of Croatia 2008b).

**Figure 10: Organisation chart of the Central Office for Development Strategy and Coordination of EU Funds (CODEF) in 2011.**



Source: CODEF website <http://www.strategija.hr/en/about-us/organisation/schematic-representation>

Figure 11: NUTS II statistical regions in Croatia in the period 2007-2012.



Source: Central Bureau of Statistics.

### ANNEX III

**Table 21: CARDS Programme Allocation for 2000-2006 (million €)**

	2000	2001	2002	2003	2004	2005	2006	TOTAL
Albania	33.4	37.5	44.9	46.5	63.5	44.2	45.5	315.5
Bosnia and Herzegovina	90.3	105.2	71.9	63.0	72.0	49.4	51.0	502.8
Croatia (transfer to pre-accession from '05)	16.8	60.0	59.0	62.0	81.0	-	-	278.8
The former Yugoslav Republic of Macedonia	13.0	56.2	41.5	43.5	59.0	45.0	40.0	298.2
Serbia and Montenegro <sup>a</sup>	650.5	385.5	351.6	324.3	307.9	282.5	257.5	2559.8
Interim Civilian Administrations	10.0	24.5	33.0	32.0	35.0	36.0	35.0	205.5
Regional	20.2	20.0	43.5	31.5	23.0	47.9	43.5	229.6
Other <sup>b</sup>	141.5	118.0	11.0	17.0	22.5	19.7	16.1	345.8
Macro-Financial Assistance (grants) <sup>c</sup>	70.0	120.0	100.0	15.0	16.0	33.0	50.0	404.0
<b>TOTAL</b>	<b>1045.7</b>	<b>926.9</b>	<b>756.4</b>	<b>634.8</b>	<b>679.9</b>	<b>557.7</b>	<b>538.6</b>	<b>5130.2</b>
Croatia, pre-accession 2005-6						105	140	245
<b>TOTAL including Croatia, 2005-6</b>						<b>662.7</b>	<b>678.6</b>	<b>5385</b>

Source: (DG Enlargement 2008)

**Note1:** Figures include assistance from PHARE and OBNOVA where relevant in 2000, and from CARDS 2001 and onwards.

**Note2:** 2005 budget implementation: Re-use of recoveries from 2004/5, i.e. above budget allocation 2005: 6m for the former Yugoslav Republic of Macedonia, 7,5m for regional programme

a) Includes the Republic of Serbia, the Republic of Montenegro and the province Kosovo, which is currently under UN administration. Amounts for Serbia in 2002-03 include assistance from Regional Programme for Integrated Border Management destined for the whole of FRY/Serbia and Montenegro. In 2004, 8 Mio. € for that purpose is shown under the regional programme.

b) Until 2001 (incl.): Humanitarian aid, Specific Measures, Rapid Intervention Operations, EIDHR and CFSP  
From 2001 (incl.): Administrative costs and the Western Balkans' contribution to the European Training Foundation.

c) for 2000-2002: disbursements and not commitments

**Table 22: CARDS Financial allocation in Croatia 2001-2004 (million Euros)**

Sector <sup>36</sup>	2001	2002	2003	2004	TOTAL
JUSTICE & HOME AFFAIRS	14.1	10.0	12.0	26.85	57.95
ADMINISTRATIVE CAPACITY BUILDING	2.5	12.0	11.8	15.1	41.4
ECONOMIC & SOCIAL DEVELOPMENT	15.4	18.0	17.5	17.75	68.65
ENVIRONMENT, NATURAL RESOURCES	3.8	3.0	3.7	3.8	14.3
DEMOCRATIC STABILISATION	24.2	16.0	17.0	17.5	74.7
<b>TOTAL ALLOCATION</b>	<b>60</b>	<b>59.0</b>	<b>62.0</b>	<b>81</b>	<b>257.0</b>

Source: (DG Enlargement 2008); Figures for 2001 are from CARDS 2003 Financing proposal for Croatia.

<sup>36</sup> The table is available online at [http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006\\_en.htm#1](http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006_en.htm#1)

**Table 23: CARDS Regional Programme Allocation for 2002-2003 (million €)**

Sector	2002	2003	TOTAL
INTEGRATED BORDER MANAGEMENT	1.0	1.0	2.0
INSTITUTION BUILDING	19.9	21.8	41.7
DEMOCRATIC STABILISATION	7.6	5.0	12.6
REGIONAL INFRASTRUCTURE	14.0	3.7	17.7
RESERVE	1.0	-	1.0
TOTAL	43.5	31.5	75.0

Source: (DG Enlargement 2008)

An additional amount of €105.15 million from the regional funds has been allocated to the country programmes for integrated border management for the period 2002-2004

**Table 24: CARDS absorption figures for Croatia**

Programme and programming year	Percentage contracted	Implementing body
CARDS 2001	96,4%	EC Delegation in Croatia
CARDS 2002	96,1%	EC Delegation in Croatia
CARDS 2003	98,4%	EC Delegation in Croatia / Central Finance and Contracting Unit
CARDS 2004	96,7%	Central Finance and Contracting Unit

Source: (Dvorny and Frkić 2008).

**Table 25: Croatian accession assistance envelope for 2009-2011 into allocations by component (Source: MIFF 2009-11)**

Component	2007	2008	2009	2010	2011
Transition Assistance and Institution Building	49,611,775	45,374,274	45,601,430	39,483,458	39,959,128
Cross-border cooperation	9,688,225	14,725,726	15,898,570	16,216,542	16,540,872
Regional Development	45,050,000	47,600,000	49,700,000	56,800,000	58,200,000
Human Resources Development	11,377,000	12,700,000	14,200,000	15,700,000	16,000,000
Rural Development	25,500,000	25,600,000	25,800,000	26,000,000	26,500,000
Total	141,227,000	146,000,000	151,200,000	154,200,000	157,200,000

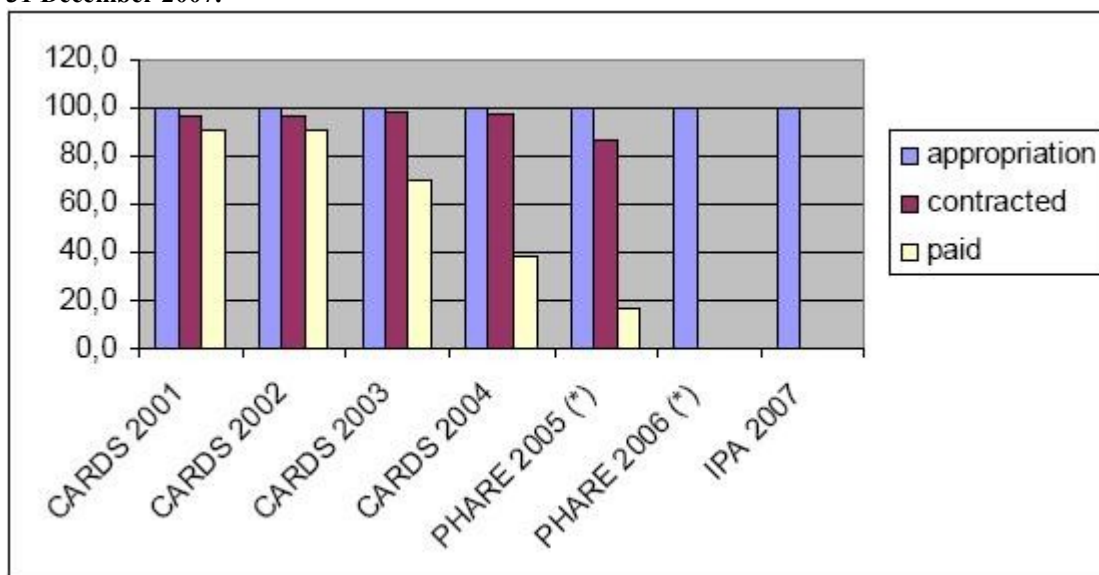
Source: DG Enlargement

**Table 26: Past CARDS assistance and contracting rates.**

Programme/Year	Committed (million €)	Contracted (million €)	% Contracted
CARDS 2001	58	37.6	64.8%
CARDS 2002	59	19.9	33.7%
CARDS 2003	59	-	-

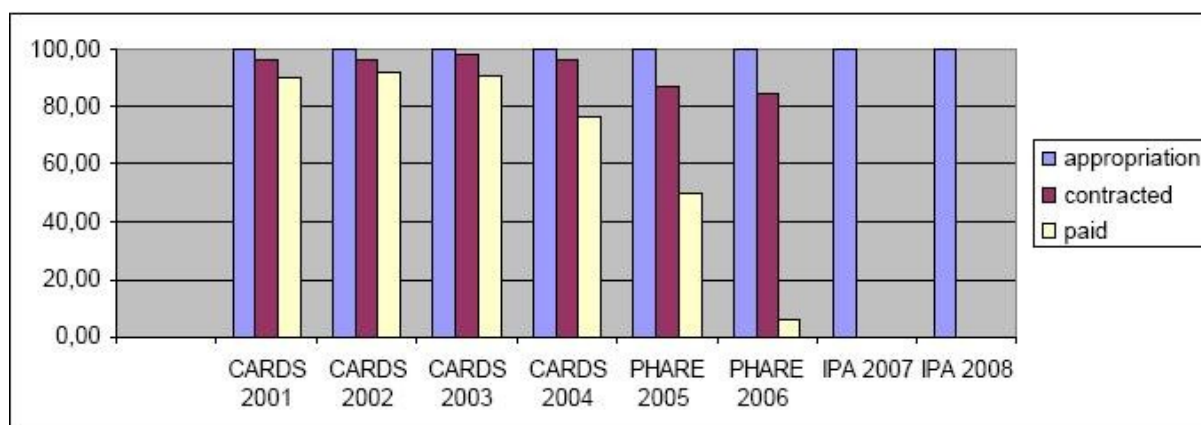
Source: Amended CARDS national action programme for Croatia 2004 (DG Enlargement 2008)

**Table 27: Contracting and disbursement rates under ongoing programmes. State of play as of 31 December 2007.**



Source: Instrument for Pre-accession Assistance (IPA) 2008b, p. 45.

**Table 28: Contracting and disbursement rates under ongoing programmes. State of play as of 31 December 2008.**



Source: Instrument for Pre-Accession Assistance (IPA) 2008a, p. 56



**Table 29: Implementation of EU assistance to Croatia (Million euros, March 2011)**

<b>Programmes in Croatia</b>	<b>Budget</b>	<b>% of budget contracted</b>	<b>% of budget paid<sup>1</sup></b>
<b>CARDS</b>	260	97 %	92 %
<b>PHARE</b>	147	86 %	78 %
<b>ISPA</b>	59	96 %	63 %
<b>Sapard</b>	25	62 %	48 %
<b>IPA I 2007</b>	45	90 %	57 %
<b>IPA I 2008</b>	42	27 %	20 %
<b>IPA I 2009</b>	42	11 %	11 %
<b>IPA II 2007–09</b>	8	64 %	36 %
<b>IPA III 2007–09 (of which)</b>	143	29 %	7 %
– <b>Operational programme (OP) transport</b>	54	20 %	4 %
– <b>OP environment</b>	54	25 %	2 %
– <b>OP regional competitiveness</b>	35	48 %	20 %
<b>IPA IV 2007–09 — OP human resources development</b>	38	71 %	9 %
<b>IPA V 2007–09 (IPARD) — Measures 101 and 103</b>	51	12 %	0 %
<b>Total</b>	860	68 %	55 %
1 Excluding advance payments of 30 % for Components III, IV, V.			
<i>Source: EU delegation to Croatia.</i>			

*See also Court of auditors report on absorption and IPA implementation delays, n+3 etc (European Court of Auditors 2011).*

## ANNEX IV

### CARDS

#### Legal basis

##### a) Treaty basis

The Treaty basis for CARDS assistance is found according to the Cards regulation (Council of the European Union 2000)EC 2666/2000 in article 308 of the Treaty establishing the European Community. Article 308 foresees how necessary Community action in the course of the operation of the Common Market could be taken in case the Treaty does not provide the necessary powers.

Subsequent regulations amending EC 2666/2000 refer to Article 181a of the Treaty which was inserted by the Treaty of Nice and is a part of Title XXI on Economic Financial and Technical Cooperation with third countries.

After the entry of the Lisbon Treaty into force, Treaty basis for relevant assistance is found in Title 3 of the Treaty of the Functioning of the European Union: Cooperation with Third Countries and Humanitarian Aid. In particular Articles 212-213 under Chapter 2 on Economic Financial and Technical Cooperation with Third Countries provide the treaty basis for financial assistance to third countries other than developing countries.

##### b) Regulations

The preamble<sup>37</sup> of Regulation 2666/2000 states that the actions covered in it are a part of the Community's Western Balkans policy and are needed to implement one of the Community objectives. Since the Treaty did not provide at the time powers for the adoption of the regulation, article 308 was used.

The preamble also provides the rationale for the establishment of a single legal framework. This is done in the interests of efficiency as requested by the European Council in Helsinki on 10 and 11 December 2009. Thus Regulation 2666/2000 repeals Regulation 1628/96 under which aid to Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav

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<sup>37</sup> Preambles do not produce legal effects. However reference to them in the case of Cards and Ipa is made because they provide an authoritative account of the rationale of the assistance.

Republic of Macedonia was provided (OBNOVA), and amends the PHARE Regulation 3906/89. A new regulation is replaced the provisions of 1628/96 with regard to the European Agency for Reconstruction. This was Regulation 2667/2000.

Moreover, the preamble expresses the aim that Community assistance should be expanded and redirected to address the needs of the stabilisation and association process. The main focus of this assistance will be on building up an institutional, legislative, economic and social framework directed at the values and models subscribed to by the European Union and on promoting the market economy.

#### **Recipient countries**

Community assistance under CARDS is provided to Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the Former Yugoslav Republic of Macedonia (Art. 1 par 1).

#### **Eligible bodies**

The following bodies are directly eligible for assistance: the State, entities under UN jurisdiction and administration, federal, regional and local bodies, public and semi-public bodies, the social partners, organisations providing support to businesses, cooperatives, mutual societies, associations, foundations and non-governmental organisations (Art. 1 par. 2)

#### **Amount of assistance**

The financial reference amount for the period 2000-2006 was set to be €4650 million. The European Council at Thessaloniki in 2003 increased the CARDS budget by €210 million.

#### **Purpose of assistance**

The purpose of the CARDS assistance is to support participation by the recipient countries in the stabilisation and association process (Art. 2).

#### **Areas of Intervention**

The CARDS regulation mentions six main areas of intervention (Article 2.2):

- a) reconstruction, aid for the return of refugees and displaced persons, and stabilisation of the region;
- b) the creation of an institutional and legislative framework to underpin democracy, the rule of law and human and minority rights, reconciliation and the consolidation of civil society, the independence of the media and the strengthening of legality and of measures to combat organised crime;
- c) sustainable economic development and market-economy-orientated reform;
- d) social development with particular reference to poverty reduction, gender equality, education, teaching and training, and environmental rehabilitation;
- e) the development of closer relations among recipient countries, between them and the European Union and between them and countries which are candidates for accession to the European Union, in coordination with other instruments for cross-border, transnational and regional trans-boundary cooperation with non-member countries;

- f) fostering regional, transnational, cross border and interregional cooperation among the recipient countries, between them and the European Union and between the recipient countries and other countries of the region.

The assistance is implemented by means of financing investment and institution-building programmes.

### **Programming**

CARDS assistance is provided on the basis of a strategic framework, multi-annual indicative programmes and annual action programmes.

- a) The **strategic framework (country strategic paper)** sets long-term objectives for assistance and priority fields of action.
- b) **Multiannual indicative programmes** are drawn up for three year periods for each recipient country based on the strategic framework. They reflect priorities under the SAP and priorities identified and agreed with partners. They describe reforms to be carried out in priority sectors and include an assessment of progress made in doing so. They also give indicative amounts (overall and for each priority sector) and set out criteria for funding the programme concerned. They are updated each year and may be amended in the light of experience and progress in implementing SAAs, particularly as regards regional cooperation.
- c) **Annual action programmes** are drawn for each country receiving Community assistance, based on the multiannual indicative programmes. They set out for a given operational year the aims being pursued, the fields of action and the budget provided. They contain a detailed list of projects to be financed and specify the relevant amounts (Art. 3)

### **CARDS conditionality**

The CARDS regulation lists certain preconditions of eligibility for Community assistance:

- a) Respect for the principles of democracy and the rule of law and for human and minority rights and fundamental freedoms.
- b) The undertaking of the recipient to carry out democratic, economic and institutional reforms (Art. 5).

### **Form of assistance**

Community assistance is in the form of grants. Community financing may be used for co-financing which should be sought whenever feasible (Article 6).

Other articles refer to financial implementation by the Commission and monitoring of the assistance. The Commission is also assisted by a 'CARDS Committee' (Art. 10). The Commission shall ensure effective coordination of Community assistance and coordination with international donors and IFIs.

Every year a progress report on the Community assistance was to be submitted to the European Parliament and Council. The report would contain information on the action financed each year and provide an assessment of the implementation of the strategic framework, the multiannual indicative programmes and the annual action programmes (Art 12).

The regulations also foresaw that an Evaluation report would be submitted by the Commission to the Council as regards the future of assistance (Art 13).

## **IPA**

### **Legal basis**

#### a) Treaty basis

The IPA regulation is based on article 181a of the Treaty establishing the European Community. There it is foreseen that the Community will carry out within its competences, economic, financial and technical cooperation measures with third countries. It is also mentioned that Community policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law and to the objective of respecting human rights and fundamental freedoms. The decision making rule in the Council for such measures is qualified majority and unanimity in the case of association agreements and for agreements with candidate countries.

After the entry of the Lisbon Treaty into force, Treaty basis for relevant assistance is found in Title 3 of the Treaty of the Functioning of the European Union: Cooperation with Third Countries and Humanitarian Aid. In particular Articles 212-213 under Chapter 2 on Economic Financial and Technical Cooperation with Third Countries provide the treaty basis for financial assistance to third countries other than developing countries.

#### b) Regulation

IPA was established by regulation 1085/2006(Council of the European Union 2006). The preamble notes that IPA constitutes one of the general instruments directly supporting European External Aid Policies. In addition it refers to article 49 TEU which sets the requirements for becoming a member of the Union. It also reports on the opening of accession negotiations with Turkey in 2004 and the availability of pre-accession assistance to this country since 2004. On the other hand the preamble refers to the Western Balkan policy of the EU, citing the European Council conclusions of Feira in 2000, which recognised the Western Balkan countries as potential candidates, Thessaloniki in 2003, which offered the perspective of becoming an integral part of the Union once the Western

Balkan Countries met the established criteria and indicated that the SAP would constitute the overall framework for the European course of the Balkan countries all the way to accession. After mentioning the EP resolution on the Thessaloniki conclusions which recognised that each country was moving towards accession but called for each one to be judged according to its own merits, the preamble introduces the distinction between candidate and potential candidate countries.

Furthermore the preamble acknowledges the opening of accession negotiations with Croatia in 2004 and the former Yugoslav Republic of Macedonia in 2005. The preamble also indicates that pre-accession assistance should take advantage of lessons learned from previous assistance such as CARDS and be based on a coherent framework.

Detailed implementing rules are laid out in Implementing Regulation 718/2007 which was amended by Commission Regulation 80/2010.

### **Objective**

The objective of IPA is to assist candidate (Annex I) and potential candidate countries (Annex II) in their progressive alignment with the standards and policies of the European Union, including where appropriate the *acquis communautaire* with a view to membership (Art 1).

### **Scope of assistance and components**

Ipa assistance for both candidate and potential candidate countries will be used to support the following eight areas:

- a) Strengthening of democratic institutions as well as the rule of law including its enforcement.
- b) The promotion and the protection of human rights and fundamental freedoms and enhanced respect for minority rights, the promotion of gender equality and non-discrimination.
- c) Public administration reform, including the establishment of a system enabling decentralisation of assistance management to the beneficiary country in accordance with the rules laid down in Regulation (EC, Euratom) No 1605/2002.
- d) Economic reform.
- e) The development of civil society.
- f) Social inclusion
- g) Reconciliation, confidence building measures and reconstruction
- h) Regional and cross-border cooperation.

In the case of candidate countries additional support will be provided for:

- a) The adoption and implementation of the *acquis communautaire*.

- b) Support for the policy development as well as preparation for the implementation and management of the Community's common agricultural and cohesion policies.

While for potential candidate countries assistance will be used to support:

- a) Progressive alignment with the *acquis communautaire*.
- b) Social, economic and territorial development including, inter alia infrastructure and investment related activities, in particular in the areas of regional, human resources and rural development.

(Article 2)

The IPA programme consists of five components

1. Transition Assistance and Institution Building
2. Cross-border Cooperation
3. Regional Development
4. Human Resources Development
5. Rural Development

(Article 3)

The first two components will be available to both candidate and potential candidate countries, while the rest three will only support candidate countries (Art 8-12).

The **Transition Assistance and Institution Building** component assists in the attainment of objectives listed in Article 2. Among others it may be used to finance capacity and institution building if that is not covered by the other components. It can also be used to support the participation in Community programmes and agencies and assist regional and horizontal programmes (Art. 8).

The **Cross-Border Cooperation Component** may support candidate and potential candidate countries and, where appropriate, transnational and interregional cooperation among themselves and between them and the MS. It pursues the following objectives:

- i. Promoting good neighbourly relations
- ii. Fostering stability
- iii. Security and prosperity in the mutual interest of all countries concerned
- iv. Encouraging their harmonious, balanced and sustainable development.

In the case of cross-border cooperation with MS the rules governing the financial contributions are those of Article 21 of 1084/2006. As with component I it may inter alia be used to finance capacity and institution building as well as investment (Art. 9)

The **Regional Development Component** supports only candidate countries in policy development as well as preparation for the implementation and management of the cohesion policy, in particular in their preparation for the ERDF and the Cohesion Fund. It may contribute towards the financing of the type of actions identified in the structural funds and Cohesion Fund regulations (1080/2006 and 1084/2006) (Art 10).

The **Human Resources Development Component** provides support to candidate countries in policy development as well as preparation for the implementation and management of the cohesion policy, in particular in their preparation for the ESF. It may contribute towards the financing of ESF type of actions (1081/2006) (Art 11).

The **Rural Development Component** supports candidate countries in policy development and preparation for the implementation and management of the CAP (Art 12).

Article 4 states that IPA assistance will be provided according to the general policy framework for pre-accession, defined by the **European and Accession Partnerships** and taking due account of the **Enlargement Reports and Strategy Paper**.

#### **Financial allocations, Planning and Programming**

5. The Commission presents annually its intentions for the allocation of funds in a **multi-annual indicative financial framework**. In doing so it takes into account the financial framework and the **European and Accession Partnerships**. The allocation of funds is broken down by component, country and multi-country action. This is done on the basis of a set of criteria such as needs assessment, absorption capacity, and respect of conditionalities and capacity of management. [*Assistance for capacity building is conditional on absorption and management capacity*].
6. Assistance is provided on the basis of **multi-annual indicative planning documents**, which have a three year time span and can be reviewed annually, present indicative allocations for the main priorities within each component, taking into account the indicative breakdown per country and per component proposed in the multi-annual indicative financial framework. They shall also set out any funding provided for multi-country programmes and horizontal initiatives. These documents are established by country in close consultation with national authorities, and with the association of civil society and other stakeholders where appropriate. For candidate countries assistance shall be based on the Accession Partnerships and cover the priorities and overall strategy resulting from a regular analysis of the situation in each country and on which preparation for accession integration must concentrate. Assistance shall be planned in view of a) the Copenhagen criteria, b) the progress made in the adoption of the *acquis communautaire* and c) regional cooperation. In the case of the potential candidate countries assistance shall be based



on the European Partnerships, also taking into account the priorities and overall strategy resulting from a regular analysis of the situation and on which preparation for further integration must concentrate. Assistance shall be planned according to a) the Copenhagen criteria b) the progress made in the implementation of the SAAs and c) regional cooperation (Article 6).

7. Assistance shall be provided through **multi-annual or annual programmes** established by country and by component or by group of countries or by them in accordance with the priorities defined in the multi-annual indicative planning documents. Programmes specify: objectives, fields of intervention, expected results, management procedures and total amount of financing planned. They contain a summary description of the type of operations to be financed, an indication of the amounts allocated for each type of operation and an indicative implementation timetable. Where relevant the results of lessons learned from previous assistance should be included. Objectives shall be specific, relevant, and measurable and have time-bound benchmarks.

### **Management of assistance**

This is a responsibility of the European Commission. For cross-border programmes implementation tasks may be delegated to MS. The Regulation also foresees that in duly justified cases the Commission may in accordance with Article 54 of 1605/2002 entrust tasks of public authority and budget implementation to bodies listed in Art 54 (2) of the regulation.

The Commission **reports** on the implementation of IPA assistance each year providing information on the actions financed during the year, findings of monitoring work and shall give an assessment of the results achieved in the implementation of the assistance (Art 13).

An IPA Committee is also established to assist the Commission in its task to ensure the coordination and coherence between assistance granted under the different components (Art 14).

### **Types of assistance**

Assistance under the IPA Regulation may finance: investments, procurement contracts, grants including interest rate subsidies, special loans, loan guarantees and financial assistance, budgetary support, and other specific forms of budgetary aid, and the contribution to the capital of international financial institutions or the regional development banks.

Assistance may be provided by means of administrative cooperation measures involving public-sector experts from MS. Article 15 refers to other potential uses of EU assistance as well as cases where assistance cannot be used.

Article 16 refers to assistance channelled in order to cover administrative costs of the programme.

The Commission and the beneficiary countries conclude **framework agreements** on the implementation of the assistance, as well as subsidiary agreements as required (Art 17).

Article 18 refers to the protection of the Community's financial interests.

Article 19 elaborates rules of participation and origin and eligibility for grants.

Article 20 stipulates that IPA programmes and projects should be consistent with EU policies, show coherence with assistance provided by the Commission and the MS through other instruments and by the EIB. Also coordination of assistance programmes of the Commission and MS will aim at increasing effectiveness and efficiency in the delivery of assistance. Finally the Commission will ensure proper coordination, harmonisation and cooperation with multilateral and regional organisations and entities such as IFIs, UN agencies, funds and non-EU donors.

### **IPA conditionality**

Central preconditions for the granting of assistance are:

- i. Respect for the principles of democracy, the rule of law and for human rights and minority rights and fundamental freedoms.
- ii. For the countries of the Western Balkans assistance is also conditional on the recipients' undertaking to carry out democratic, economic and institutional reforms. (Council Conclusions of 29 April 1997, SAP).
- iii. Furthermore according to the conditionality clause of IPA in cases of failure to respect a) the above principles b) the commitments contained in the relevant partnership with the EU or c) where progress toward fulfilment of the accession criteria is insufficient the Council deciding by QMV on a Commission proposal may take appropriate steps. The EP is immediately informed of any decisions (Art 21).
- iv. Article 22 stipulates that the Commission will regularly evaluate the results and efficiency of policies and programmes and the effectiveness of programming in order to ascertain whether the objectives have been met with a view to improving future operations.
- v. In case a country gains candidate status it will become eligible for assistance under all the five components by Council decision on proposal of the Commission to transfer it from Annex II to Annex I (Article 23).
- vi. Article 24 allows the expansion of the assistance to third countries, territories and regions and defines the relevant rules.
- vii. Amount of assistance, review and entry into force**

- viii. The financial reference amount for the implementation of IPA from 2007 to 2013 is €11,468 million (Art 26).
- ix. The Commission will submit to the EP and Council by 31 December 2010 a **report evaluating** the implementation of the first three years of IPA (Art 27).
- x. IPA will apply from 1 January 2007 to 31 December 2013.

**What are the explicit channels of influence (e.g. funding explicitly allocated to build administrative capacity)?**

## **CARDS**

### **1. Introduction**

When identifying explicit channels of CARDS influence one should take into account: a) the CARDS regulation 2666/2000<sup>38</sup>, b) the strategic framework (Country Strategy Paper) for Croatia, c) the Multiannual Indicative Programmes and d) the annual action programmes (financing proposal).

### **2. Core documents**

The **Regulation 2666/2000** (Article 2) refers to the purpose of assistance in broad terms and identifies six areas of assistance. Since the aim of CARDS is to support the SAP financially, explicit channels of influence are defined according to the needs of the SAP. Administrative capacity is not mentioned explicitly in the regulation. Aim b) and c) of paragraph 2 article 2 refer to goals of democratisation, creation of institutional and legislative framework, rule of law, combating organised crime etc. Reference is made instead to institution building programmes as a means of implementation of assistance. The Regulation reflects the focus of CARDS and at the time it was passed and does not reflect the shift in the programme's focus from democratic stabilisation and reconstruction to institutional and administrative capacity building. As a text of legal nature it is generic and not prescriptive of specific action since it is meant to be for an integrated instrument for the whole area of the Western Balkans, the countries of which faced similar but not identical challenges.

The European Commission **Country Strategy Paper for Croatia** (2002-2006) (2002c) or Strategic Framework provides an overview of Croatia's political agenda, the political, economic and social situation in the country as well as main challenges. It also assesses past and ongoing cooperation and

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<sup>38</sup> There are a number of related regulations, for instance 2667/2000 as regards the European Agency for Reconstruction and amendments to these however at this moment elaborating on vaguely related regulations would be at the cost of identifying and assessing the channels of influence of Cards assistance, which cannot rely merely on a study of the regulations.

covers assistance by other actors. Based on this analysis, the paper identifies objectives and priority areas and deals with administrative capacity as a key issue for Croatia. The three objectives are:

- i. to embed political and democratic stability, enhance good governance and consolidate the rule of law;
- ii. to contribute to a sustainable growth in economic activity and a reduction in unemployment, particularly in war affected areas;
- iii. to assist Croatia in fulfilling the obligations, and taking advantage of the opportunities of the SAA.

In addition the Paper identifies five priorities for the CARDS programme:

8. democratic stabilisation
9. economic and social development
10. justice and home affairs
- 11. administrative capacity building**
12. environment and natural resources

For a financial allocation along these priorities in Croatia from 2002 to 2004 in million Euros see below:

**Table 30: CARDS Programme Allocation for 2000-2006 (million €)**

	2000	2001	2002	2003	2004	2005	2006	TOTAL
Albania	33.4	37.5	44.9	46.5	63.5	44.2	45.5	315.5
Bosnia and Herzegovina	90.3	105.2	71.9	63.0	72.0	49.4	51.0	502.8
Croatia (transfer to pre-accession from '05)	16.8	60.0	59.0	62.0	81.0	-	-	278.8
The former Yugoslav Republic of Macedonia	13.0	56.2	41.5	43.5	59.0	45.0	40.0	298.2
Serbia and Montenegro <sup>a</sup>	650.5	385.5	351.6	324.3	307.9	282.5	257.5	2559.8
Interim Civilian Administrations	10.0	24.5	33.0	32.0	35.0	36.0	35.0	205.5
Regional	20.2	20.0	43.5	31.5	23.0	47.9	43.5	229.6
Other <sup>b</sup>	141.5	118.0	11.0	17.0	22.5	19.7	16.1	345.8
Macro-Financial Assistance (grants) <sup>c</sup>	70.0	120.0	100.0	15.0	16.0	33.0	50.0	404.0
<b>TOTAL</b>	1045.7	926.9	756.4	634.8	679.9	557.7	538.6	5130.2
Croatia, pre-accession 2005-6						105	140	245
<b>TOTAL including Croatia, 2005-6</b>						662.7	678.6	5385

**Source:** [http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006\\_en.htm#1](http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006_en.htm#1) Accessed May 4, 2009

**Note1:** Figures include assistance from PHARE and OBNOVA where relevant in 2000, and from CARDS 2001 and onwards.

**Note2:** 2005 budget implementation: Re-use of recoveries from 2004/5, i.e. above budget allocation 2005: 6m for the former Yugoslav Republic of Macedonia, 7,5m for regional programme

- a) Includes the Republic of Serbia, the Republic of Montenegro and the province Kosovo, which is currently under UN administration. Amounts for Serbia in 2002-03 include assistance from Regional Programme for Integrated Border Management destined for the whole of FRY/Serbia and Montenegro. In 2004, 8 Mio. € for that purpose is shown under the regional programme.
- b) Until 2001 (incl.): Humanitarian aid, Specific Measures, Rapid Intervention Operations, EIDHR and CFSP  
 From 2001 (incl.): Administrative costs and the Western Balkans' contribution to the European Training Foundation.
- c) for 2000-2002: disbursements and not commitments

**Table 31: CARDS Financial allocation in Croatia 2001-2004 (million Euros)**

Sector <sup>39</sup>	2001	2002	2003	2004	TOTAL
JUSTICE & HOME AFFAIRS	14.1	10.0	12.0	26.85	57.95
<b>ADMINISTRATIVE CAPACITY BUILDING</b>	<b>2.5</b>	<b>12.0</b>	<b>11.8</b>	<b>15.1</b>	<b>41.4</b>
ECONOMIC & SOCIAL DEVELOPMENT	15.4	18.0	17.5	17.75	68.65
ENVIRONMENT, NATURAL RESOURCES	3.8	3.0	3.7	3.8	14.3
DEMOCRATIC STABILISATION	24.2	16.0	17.0	17.5	74.7
<b>TOTAL ALLOCATION</b>	<b>60</b>	<b>59.0</b>	<b>62.0</b>	<b>81</b>	<b>257.0</b>

**Source:** DG Enlargement website [http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006\\_en.htm#1](http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006_en.htm#1) Accessed May 4, 2009; Figures for 2001 are from CARDS 2003 Financing proposal for Croatia.

**Table 32: CARDS Regional Programme Allocation for 2002-2003 (million €)**

Sector	2002	2003	TOTAL
INTEGRATED BORDER MANAGEMENT	1.0	1.0	2.0
INSTITUTION BUILDING	19.9	21.8	41.7
DEMOCRATIC STABILISATION	7.6	5.0	12.6
REGIONAL INFRASTRUCTURE	14.0	3.7	17.7
RESERVE	1.0	-	1.0
<b>TOTAL</b>	<b>43.5</b>	<b>31.5</b>	<b>75.0</b>

**Source:** DG Enlargement website [http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006\\_en.htm#1](http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006_en.htm#1) Accessed May 4, 2009

An additional amount of €105.15 million from the regional funds has been allocated to the country programmes for integrated border management for the period 2002-2004

**Table 33: CARDS absorption figures for Croatia**

Programme programming year	and	Percentage contracted	Implementing body
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<sup>39</sup> The table is available online at [http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006\\_en.htm#1](http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/cards/statistics2000-2006_en.htm#1)

CARDS 2001	96,4%	EC Delegation in Croatia
CARDS 2002	96,1%	EC Delegation in Croatia
CARDS 2003	98,4%	EC Delegation in Croatia / Central Finance and Contracting Unit
CARDS 2004	96,7%	Central Finance and Contracting Unit

Source: (Dvorny and Frkić 2008).

### 3. Administrative capacity building

Administrative capacity building is an explicit priority which comprises:

- i. public administration reform,
- ii. National, Regional and Local Development and
- iii. Public Finance.

The CARDS **Multi-annual Indicative Programme for Croatia 2002-2004** (European Commission 2002b) analyses the objectives of each element of the administrative capacity building priority, defines expected results and indicators of achievement as well as cross-cutting and conditionality issues. The MIP notes that although administrative capacity constitutes a separate priority, each CARDS programme targeting public institutions will include an administrative capacity building component. See table 2 in Annex I for a list of administrative capacity related objectives, expected results and indicators of achievement contained in the MIP 2002-2004.

The CARDS **Annual Action Programmes** (Financial Proposals) identify projects relevant to Public administration reform and administration capacity building as shown in the tables in Annex II.

### 4. How CARDS contributes to broader cooperation in the Western Balkans

When Croatia gained the candidate status in June 2004 it was transferred to pre-accession assistance (PHARE and ISPA 2005-2006, SAPARD 2006, IPA 2007-13) but it remained eligible for funding under the CARDS regional component. In this case the “regional” is different than the subnational definition. It is related to the goal and EU requirement of regional cooperation in the Western Balkans which is mainly cross-border and interstate cooperation. As regards CARDS administrative capacity building its focus is on cooperation between state institutions. Some 10% of CARDS funds were allocated to a regional component. This was done in order to contribute to regional cooperation and to address problems which are best dealt with at regional level. The programming approach followed is

similar to that of the national components. There is a Regional Strategy Paper, Multi-annual Indicative Programme and Annual Action Plans.

The **Regional Strategy Paper 2002-2006**(European Commission 2002b) provides an overview of the key EU and SAP objectives in the region. It outlines the political and economic situation of the region and identifies problems and challenges at the regional and cross-border level. Of interest is the emphasis on weak state institutions and regional cooperation. The Strategy Paper addresses the issue of coherence and coordination of the CARDS regional component with other donors and the national components with the aim of achieving complementarity. Four areas for support at regional level are identified:

- i. Integrated border management
- ii. Democratic stabilisation
- iii. Institutional capacity building (building the capacities of state institutions)
- iv. Regional infrastructure development (reinforcing regional infrastructure and environmental development)

One of the medium term challenges as regards regional cooperation is: *Build the capacities of and cooperation between state institutions*. The challenge is to strengthen the capacities of state administrations in order to meet national and SAP goals, familiarise themselves with the core elements of *acquis communautaire* as set out in the SAAs and also address accountability, anti-corruption and civil service remuneration. The Strategy Paper recognises that these strategies are largely national but regional cooperation is needed in order to meet the SAP regional agenda.

The **Multi-Annual Indicative Programme 2002-2004**(European Commission 2002b) develops the Strategy Paper priorities in more detail. As mentioned above one of the four priorities is building the capacities of state institutions (Institution Building). The MIP provides an overview of past support and refers to **priority areas** of institution building for overall CARDS support which are briefly as follows:

- ii. Familiarisation with the *acquis communautaire* as countries start to move their legislation – especially on SAA areas- into line with EU approaches. Focus on core *acquis* issues relating to the internal market.
- iii. Civil service reform, assisting in the basic reform programmes underway in each country including support to civil service law, professionalization and development of administrative procedures in conformity with EU standards.

- iv. Fiscal and financial management including internal financial control, procurement and external audit.
- v. Trade and customs involving institution building to help administrations meet their responsibilities in concluding trade agreements (including WTO issues and bilateral conventions of SAA) and developing a trade-related regulatory and policy framework compatible with international rules which will encourage trade and investment.
- vi. JHA including strengthening of legislative frameworks and institutional capacities for police, justice, prosecution and penitentiary agencies.

The MIP acknowledges that the national programmes will be the main instruments of institution building and that the regional component will exercise a complementary role in areas where a regional intervention is considered to be most efficient and effective. According to the Programme these areas are:

- i. Support in the targeted areas above through an Institution Building Facility for the SAP
- ii. Specific institution building and policy support in three areas whose unique characteristics require separate approaches:
  - a. Regional cooperation in the area of JHA
  - b. Development of government statistics and their integration into European statistical systems
  - c. Participation of SAP countries in the wider EU networks for environmental protection.

***Note:** The institution building priority of the CARDS regional component is relevant as an explicit influence of administrative capacity, although not all aspects of it will be covered as part of this study. One should also take into account the limited level of funding for the regional component. However it is useful to look at least at the Institution Building Facility for the SAP. As a whole the CARDS Regional Component suffered from the lack of willingness of the Western Balkan countries to cooperate because they viewed the relevant SAP priority as a 'return to the Balkans' as opposed to the approach with the EU. The CARDS regional component is also a precursor of the IPA cross-border cooperation component.*

Table 3 in Annex I summarises the institution building objectives of the CARDS regional component expected results, programmes and indicators of achievement under the MIP.

## **5. Evaluations**



In the field of administrative capacity the **CARDS evaluation** in 2004 found that there was insufficient support to enhance internal coordination, management and absorption capacity of the recipient institutions. On the other hand support to customs and taxation and local governments was considered effective. The Evaluation stressed the problem of weak absorption capacity. Local capacities for institution building and public administration reform were seen as weak. There was also a need of strengthening the specific institutions in charge of EU integration at the government level and line ministries to better coordinate and monitor the reform process. Particular reference is made to the case of Croatia, where low expenditure capacity (below the SAP countries average) featured as a main problem. Out of €58m earmarked in 2001, by the end of 2003 69.7% had been contracted and 51.5% disbursed. The report considered the fact that the bureaucracy was untrained and that there were often not enough staff to work on CARDS projects in the Ministries, a major problem in Croatia.

Moreover, the lack of strategic guidance and support to public administration, understaffed and untrained bureaucracy that hindered the implementation of the programme, a prevailing pattern of centralization, lack of ownership and top-down approach quickly worked to undermine many of CARDS'S innovative elements. The regional component, not only was meagrely funded but suffered from the low level of institutionalisation and motivation for regional initiatives(CARDS Evaluation 2004). Furthermore the CARDS institution building programme was seen as broad and horizontal and thus not pursuing any specific goals in a pre-accession context, failing to reconfirm EU's commitments (European Stability Initiative 2005; Bushati 2007).

## **6. Conclusions**

In conclusion, with regard to explicit channels of influence, the assessment will focus on administrative capacities for Public administration reform, local government and regional development and capacity to manage EU funds. This applies to both CARDS and IPA.

The main CARDS projects in this respect will be presented along with the National Aid Coordinator, National Authorising Officer, CFCU, implementing agencies and final beneficiaries. The assessment of the administrative capacities of these actors will be based on certain criteria which will be discussed in section 2.3.

## IPA

In the case of explicit IPA influence on administrative capacity it is important to examine the following documents: a) the IPA regulation 1085/2006, and implementing regulation 718/2007 and 80/2010 b) the Multi-annual Indicative Financial framework c) the Multi-Annual Indicative Planning documents d) the European and Accession Partnerships (in the case of Croatia the accession partnership) f) the IPA ex ante evaluation g) the multi-annual or annual programmes (OPs). Issues related to the SAP are already discussed under CARDS. Also relevant are the Commission annual reports on the implementation of the assistance and the framework agreements. The Enlargement package and the Enlargement country reports, National strategies, the National Plan for the Adoption of the *acquis* and national legislation should also be taken into account. Familiarity with the Structural Funds and Cohesion Fund is also necessary.

The **Multi-annual Indicative Financial Framework** (MIFF) for 2008-10 (European Commission 2008e) among others when referring specifically to components III-V of IPA notes: ‘this requires that the country has the administrative capacities and structures to take responsibility for the management of assistance’. In the case of potential candidates such measures will be implemented through the Transition Assistance and Institution Building Component. Therefore administrative capacity building is a central aim for both groups of countries, but pursued by different objectives. The MIFF also notes that the EU has set ‘political and economic criteria for membership, as well as criteria related to obligations for membership and the administrative capacity to implement and enforce the EU’s laws and policies’.

As the Multi-annual Financial Frameworks for 2008-2010 and 2009-2011 show (there was no MIFF for 2007-2009 due to delays in the approval of the budget for 2007-13 and in the adoption of the IPA regulation) the per capita average of 2004-2006 of €23 under CARDS will be reached for all Western Balkan countries by 2010 at the latest. The Commission argued that no country would receive less in 2007 than in 2006, and that BiH and Albania would receive no less than the annual average of the funding each received in 2004-2006. In order to justify this anomaly, the Commission stressed the fact that 2004 was a “frontloaded” year of increased funding. For Croatia and FYROM a level of over €30 per capita is envisaged by 2008. Finally, a new financing facility to promote the development of civil society through capacity building and exchange projects will be established under IPA (European Commission 2007c). Furthermore, through the abolishment of the EAR beneficiary countries will have more ownership of the pre-accession assistance while measures have been taken to increase donor coordination.

The MIFF also includes a regional and multi-country programme which will include actions similar to the regional programme under CARDS.

It is obvious from the above that the delay in the adoption of the first MIFF under IPA makes an assessment of administrative capacity building a complicated task. There is ground to stress the continuity of the components I, II with CARDS. However, the components III, IV, invite for a different approach because they particularly prepare for the implementation and management of ERDF and ESF respectively. Finally it seems doubtful that the assistance for economic and social development through component I would have an impact on capacity in the potential candidate countries comparable to that of components III, IV on candidate countries.

**Table 34 Croatian accession assistance envelope for 2009-2011 into allocations by component**

Component	2007	2008	2009	2010	2011
Transition Assistance and Institution Building	49,611,775	45,374,274	45,601,430	39,483,458	39,959,128
Cross-border cooperation	9,688,225	14,725,726	15,898,570	16,216,542	16,540,872
Regional Development	45,050,000	47,600,000	49,700,000	56,800,000	58,200,000
Human Resources Development	11,377,000	12,700,000	14,200,000	15,700,000	16,000,000
Rural Development	25,500,000	25,600,000	25,800,000	26,000,000	26,500,000
Total	141,227,000	146,000,000	151,200,000	154,200,000	157,200,000

Source: MIFF 2009-11, DG Enlargement

## **ANNEX V**

### **1. Control environment**

The control environment refers to the establishment and management of the organisation and staff. First, it includes ethics and integrity policies, which should ensure that the culture required by the top management is understood throughout the organisation. Second, irregularity management and reporting is required. This should guarantee that irregularities noted at the lower levels of the organisation are reported appropriately and followed up, including the protection of 'whistleblowers'. Third, control environment comprises planning for staff and recruitment, training and appraisal, including the management of sensitive posts. Thus, adequate numbers and quality of staff should be achieved at all levels. Fourth, attention is paid to sensitive functions and conflicts of interest. Staff in sensitive posts should be identified, including those in positions which may become subject to undue influence due to the nature of their contacts with third parties or holders of sensitive information. Furthermore, appropriate controls, which may include rotation policies, are applied to sensitive posts and procedures to prevent conflicts of interest. Fifth, the establishment of a legal basis for bodies and individuals is a criterion that is meant to ensure that bodies and individuals have full legal authority to fulfil their functions. Sixth is the requirement that accountability, responsibility, delegated responsibility, and any necessary related authority are formally established for all tasks and positions throughout the organisation. In accordance with this criterion, all members of staff should be fully aware of the extent of their responsibilities, and a single manager should be accountable for all aspects of transactions involving commitments or payments to third parties. In addition, mission statements and job descriptions of the personnel should be up-to-date and known (see accreditation criteria listed in Annex of EC 718/2007).

### **2. Planning/risk management**

The second category of criteria relates to planning and risk management, with particular relevance for the planning of interventions. First, this entails risk identification, assessment and management. Risks should be identified and managed, and adequate control resources shall be applied in all areas, corresponding to the significance of the different risks they mitigate. Second, this category includes the setting of objectives, as well as the allocation of resources against objectives. Appropriate and measurable objectives for output and impact have to be established at all levels and understood throughout the organisation. Furthermore, resources must be appropriately allocated against the above objectives,

respecting transparent sound financial management principles. The responsibility for those objectives should be clear. Third, this criterion is concerned with the planning of the implementation process: a clear planning of steps needed to deliver objectives should take place. Where necessary, this should include timing and responsibility for each step, as well as critical path analyses (see accreditation criteria listed in Annex of EC 718/2007).

### **3. Control activities**

The third group of criteria consists of control activities which are related to the implementation of interventions. First, verification procedures are required to be in place. These should ensure that all steps in a transaction are double-checked at least through ex-ante and where appropriate ex-post checks. Second, procedures should be established for supervision by accountable management of the tasks delegated to subordinates, including the submission of annual statements of assurance by subordinate actors. Responsibility should be supported by active supervision, not by passive or theoretical supervision. Third, rules should be in place for each type of procurement and grant, i.e. an appropriate legal framework for all such processes should exist. Fourth, procedures (including checklists) should be established for each step in procurement and grant calls, for instance technical specifications, evaluation committees, reporting of exceptions etc. In addition, each member of staff should have a clear understanding of their task responsibilities in these areas. Fifth, publicity rules and procedures should be met in accordance with Commission requirements. Sixth, payment procedures should be adhered to, including procedures for confirmation of output delivery and/or eligibility, incorporating on-the-spot checks where necessary. In line with the requirements, payments shall be made only for justified payment applications that meet *all* contractual conditions. Seventh, procedures for monitoring the delivery of co-financing should meet the relevant Commission requirements. Eighth, budgetary procedures shall be established to guarantee the availability of funding, especially in situations where Commission funding is delayed or refused. In particular, the National Authority should safeguard its local contractual commitments against interruptions or delays in funding from the Commission. Ninth, procedures for the continuity of operations need to be met. These comprise the identification of significant risks to continuity, including the loss of data and the absence of individuals, and the adoption of contingency plans where possible. Tenth, accounting procedures should be established to ensure full and transparent accounting that follows accepted accounting principles. Eleventh, reconciliation procedures should be in place to ensure that, where possible, accounting balances are reconciled against third-party evidence. Twelfth, the reporting of exceptions is required, including exceptions to normal

procedures approved at an appropriate level, unapproved exceptions and control failures, whenever identified. This should make sure that variations to normal practices are always recorded and logged and reviewed at appropriate levels. Thirteenth, security procedures are required (for IT and otherwise) to ensure that assets and data are protected from interference and physical damage. Fourteenth, archiving procedures must be followed to make sure that documents will be available – at least for Commission review – throughout the required periods for which they must be kept. The fifteenth criterion is the segregation of duties, according to which, where different tasks within the same transaction are allocated to different staff, some automatic cross-checking controls will take place. Finally, internal control weaknesses will have to be reported: internal control weaknesses identified from any source should be registered, and management responses should be registered and followed up (see accreditation criteria listed in Annex of EC 718/2007).

#### **4. Monitoring activities**

The next set of conditions is the monitoring activities that refer to the supervision of interventions. These are further disaggregated into: first, internal audit including the handling of audit reports and recommendations, which is distinct from control activities and management supervision, and, second, evaluation. In the first case, it should be ensured that top managers are provided with independent reviews of the functioning of their systems at subordinate levels. This may involve some ex-post transaction checking, but it should be more focused on the effectiveness and efficiency of the system and organisational design. In the latter, it should be ensured that top managers are provided with information concerning the assessment of impacts of interventions in addition to the other information they receive about legality, regularity and operational procedures (see accreditation criteria listed in Annex of EC 718/2007).

#### **5. Communication**

The last category of criteria is that of communication, which presupposes that all actors receive the information necessary to fulfil their role. The first subset of conditions here comprises regular reporting on the planning status of programmes and projects. The second one relates to regular reporting on project implementation compared to the implementation plan. This involves three further subsets of conditions: (i) on the contracting process, among others, including the progress of each tendering process against the plan, and the systematic analysis of errors reported at any level, for instance by verifiers, ex-ante controllers, auditors etc.; (ii) on the implementation of contracts; and (iii) on the costs of

controls against benefits. Second, regular reporting is required on the efficiency and effectiveness of internal control at all appropriate levels. In view of this, all staff at all levels should receive adequate regular information in order to fulfil their accountabilities (see accreditation criteria listed in Annex of EC 718/2007).



## ANNEX VI

**Table 35: How have CARDS and IPA influenced AC in Croatia?**

	<b>CARDS/IPA have helped to build AC</b>	<b>CARDS/IPA have had a negative effect on AC</b>	<b>CARDS/IPA have had no real effect on AC</b>
<b>Structures</b>	<ol style="list-style-type: none"> <li>1. Creation of IPA management structures</li> <li>2. Creation of pilot county partnerships under CARDS [awareness not systemic]</li> <li>3. Inter-ministerial and inter-institutional co-ordination</li> </ol>	<ol style="list-style-type: none"> <li>1. Complex and unsettled IPA structures</li> <li>2. Weaknesses in programme design</li> </ol>	<ol style="list-style-type: none"> <li>1. Unclear IPA partnership structures until 2009</li> <li>2. Affected organisational structures in some ministries</li> </ol>
<b>Resources</b>	<ol style="list-style-type: none"> <li>1. Fiscal and welfare effects</li> <li>2. Financial absorption capacity</li> <li>3. Legislative and institutional framework for public administration</li> <li>4. Training and learning</li> <li>5. Strategic planning</li> </ol>	<ol style="list-style-type: none"> <li>1. Administrative burden</li> <li>2. Limited funding</li> <li>3. Disputable sustainability</li> <li>4. Project centred approach does not prepare for programme design and scheme development.</li> </ol>	<ol style="list-style-type: none"> <li>1. Effectiveness of training programmes contested</li> </ol>
<b>Systems/tools</b>	<ol style="list-style-type: none"> <li>1. Manuals and handbooks drafted</li> <li>2. Awareness raising, communication and dissemination of information</li> <li>3. Regional development approach introduced through CARDS in selected regions.</li> </ol>		<ol style="list-style-type: none"> <li>1. Organisational culture</li> <li>2. Some linkages between EU management and control systems and the national budget system have taken place.</li> <li>3. Poor quality of some early projects</li> </ol>

**Table 36: How/ whether different factors have shaped structures, resources and systems.**

	<b>Structures</b>	<b>Resources</b>	<b>Systems/Tools</b>
<b>Complex EU rules</b>	The structures established for IPA are similar but not identical to those of the Structural funds. Diffusion of responsibilities	Unclear rules created additional workload for ministries	A parallel to the national system is established for IPA. Nominally accepted by the EU but no full compliance
<b>Programming &amp; implementation delays</b>	Programming and implementation delays		Familiarisation with monitoring hindered
<b>Level of EU funding</b>	Poor funding discourages institutional change		
<b>PA staff skills</b>	Croatian government institutions open to cooperation with the EU facilitated implementation of projects	Human resources development policy is absent. Effectiveness of training is disputed. Staff turnover reduces the effects of learning, workshops, training. Other detrimental factors were the low salaries, incomplete system of personnel development, unevenly high workload. PIU staff not qualified in specialist fields. Agencies established drain knowledge and expertise from the rest of the civil service. Lack of institutional memory.	Difficulties in embedding learning inside processes.
<b>Regional variations</b>	Istria, Varaždin and Međimurje developed capacities through CBC with EU regions. Almost all counties have established RDAs. Overall the role of the regional level in IPA is marginal	Frontrunner counties possess resources to attract staff.	Poor awareness of EU funding opportunities in some counties (e.g. Split-Dalmatia_
<b>Considerations of political cost (political business cycle – electoral cycle)</b>	Delays in the legislative and policy making process.	Lack of support and understanding at the political level. Capacity building projects manipulated to favour cronies.	Compliance with systems requirements depends also on political expediency. Hostility of some public managers to EU standards.
<b>Fluctuations in consultancy quality</b>	CARDS and Phare did not prepare for programme design and scheme development.	Some directorates and departments face difficulties in the management of consultancy. Some consultancies have an incentive to establish a long-term relation with	

		dependent government institutions.	
<b>Inter-institutional co-ordination</b>	Weak. CODEF as the co-ordinating body has not been fully successful.		
<b>Synergies with national policy and value added</b>		National funds for regional development are channelled through different structures	Transparency and accountability of national procedures is dubious.
<b>Allocation of responsibilities</b>	Incoherent CODEF portfolio. Frequent reallocation of competences.	Institution and capacity building hampered because of frequent change of responsibilities.	
<b>Role of the Commission Delegation</b>	Weaker COM delegation pressure resulted in slower establishment of structures.	The assumption of tasks previously performed by the delegation exposed capacity deficits.	Reduction of COM delegation's role reduced effectiveness.
<b>Administrative (organisational, managerial culture)</b>		Top-down bureaucratic civil service model suppresses staff initiative and job satisfaction.	Non-transparent management hampers compliance with EU systems

**Table 37: Whether these factors help to explain whether/how CARDS/IPA have had an impact on structures/resources/systems**

<b>CARDS/IPA are more likely to have a systemic effect on AC if:</b>	<b>Structures</b>	<b>Resources</b>	<b>Systems/Tools</b>
<p>The EU and national approaches to managing funds are similar [H1a],</p> <ul style="list-style-type: none"> <li>• Synergies with national policy and value added</li> <li>• Considerations of political cost</li> <li>• Allocation of responsibilities</li> </ul>	<p>Institutions outside the core executive were assigned pre-accession assistance tasks (e.g. CODEF and CFCA). Limited influence of CODEF. Attempts to overlegislate and frequent restructuring. Overly complex parallel structure for IPA.</p>	<p>The management model for national resources has not been seriously altered as a result of pre-accession assistance. Lack of continuity of structures undermined capacity building efforts. Fear that intense scrutiny may restrict control over national resources.</p>	<p>The distance of the CFCA from the central government limits the range of application of EU systems and procedures in the Croatian public administration</p>
<p>EU funding flows are significant [H1b],</p> <ul style="list-style-type: none"> <li>• Level of EU funding</li> </ul>	<p>Development of structures slowed down because of limited funding</p>	<p>Staff needs for pre-accession assistance tasks were considered not proportional to the level of funding</p>	
<p>There is domestic consensus on the need for reform [H2a],</p> <ul style="list-style-type: none"> <li>• Delays in programming and implementation</li> </ul>	<p>Legislative proposals for regional policy issues have been neglected.</p>		<p>Reluctance to accept EU budget, Procurement and investment rules because they limit gatekeeping of assistance</p>
<p>EU requirements for changes are clear [H2b],</p> <ul style="list-style-type: none"> <li>• Complex EU rules</li> </ul>	<p>Dispute between Commission DGs on the preferred structures for the management of IPA II.</p>	<p>Capacity building efforts which focused on the strength of the CFCU were later abandoned in favour of a decentralised approach.</p>	<p>Difficulty to follow a coherent strategy throughout the pre-accession period on the implementation system.</p>
<p>Government agencies have experienced and skilled staff [H3],</p> <ul style="list-style-type: none"> <li>• PA staff skills</li> </ul>		<p>CODEF is a case of a government organisation chronically dependent on EU aid.</p>	
<p>The COM delegation takes the initiative for AC building [H4a],</p> <ul style="list-style-type: none"> <li>• Role of COM Delegation</li> </ul>	<p>There is higher fulfilment of objectives in projects undertaken directly by the Commission Delegation</p>		
<p>The COM delegation exerts pressure for compliance [H4b],</p> <ul style="list-style-type: none"> <li>• Role of COM Delegation</li> </ul>	<p>Commission pressure has produced positive results in the case of the evolution from CFCU to CFCA.</p>		
<p>There is no real conflict over compliance [H5]</p> <ul style="list-style-type: none"> <li>• Cultural aspects</li> </ul>		<p>Remnants of the socialist era in the form of a politicised and managerialist culture is still present in Croatia and it hampers compliance</p>	

