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*Source / Izvornik:* Hrvatska i komparativna javna uprava : časopis za teoriju i praksu javne uprave, 2012, 12, 1117 - 1156

**Journal article, Published version**

**Rad u časopisu, Objavljena verzija rada (izdavačev PDF)**

*Permanent link / Trajna poveznica:* <https://um.nsk.hr/um:nbn:hr:213:732506>

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*Download date / Datum preuzimanja:* **2024-12-26**



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## *Identifying Key Obstacles for Performance Measurement at the Sub-National Level in Croatia*

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UDK 35.073.515(497.5)

Prethodno znanstveno priopćenje / preliminary scientific report

Primljeno / received: 7. 10. 2011.

Prihvaćeno / accepted: 15. 12. 2012.

The paper analyses the possibilities to set up performance measurement at the sub-national government level in Croatia and identifies the key obstacles that have to be solved in order to achieve faster local development. Some important prerequisites for successful performance measurement have been analysed. One is credibility of the sub-national budget. A significant divergence of budgetary outturns from the original approved budget, both on the revenue and expenditure sides of the budget, confirms the hypothesis about low credibility of local budgets. Second prerequisite are clear objectives and targets of local

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and regional policies in strategic documents. Therefore, the paper analyses the goals, priorities and measures set in Regional Operational Plans. The analysis has proven that they cannot be used for performance measurement and has shown that they do not incorporate any aspects of strategic planning, which is necessary to achieve local and regional development.

*Keywords:* local and regional development, local and regional policy, performance measurement – Croatia

## 1. Introduction

In 2001, the Croatian Government launched an initiative aimed at loosening the high degree of centralization by extending the mandates of local units and changing the sources of financing public functions.<sup>1</sup> Although these initial steps have not been followed by additional measures of fiscal decentralization, and consequently its level has remained broadly unchanged in recent years, the conducted process of fiscal decentralization has already increased the pressure on local government. The continuance of the process of fiscal decentralization will additionally increase the pressure on local government budgets. To manage more mandatory functions and responsibilities, local governments will have to redistribute their budgets and allocate scarce resources more carefully towards those goals and priorities that achieve the best results and to those that can boost local development. Performance measurement can help local government to deal with these problems.

According to Caiden (1998: 37), performance measures are »systematic quantitative or qualitative assessments over time of what an organization is doing, how well it is doing it, and what the effects of its activities are«. Performance measurement usually includes a set of measures to capture all these. Most commonly used measures include: inputs (money, person-

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<sup>1</sup> This paper is a result of the research projects 002-0022469-2468 Sustainable Development, Innovation, and Regional Policy of the Republic of Croatia (Održivi razvoj, inovacije i regionalna politika Republike Hrvatske) and 002-0022469-2465 Innovation, Human Capital Investment, and Growth of Competitiveness in Croatia (Inovacije, ulaganje u ljudski kapital i rast konkurentnosti Hrvatske) financed by the Ministry of Science, Education and Sports of the Republic of Croatia.

nel, equipment, etc.), activity levels (students in class, inventory levels, etc.), outputs (miles of road built, students graduated, etc.), outcomes (illnesses prevented, clean air levels achieved, etc.), productivity (emergency calls handled per dispatcher, etc.), costs (cost per child education, etc.), customer satisfaction (number of complaints received, etc.), service quality and timelines (police response times, etc.) (Caiden, 1998).

Performance measurement is one of the crucial factors that lead to the improvement of implementation of local and regional policies. The aim of the paper is to analyse the prerequisites for successful performance measurement and identify the key obstacles for performance measurement at the sub-national level in Croatia. Therefore, we analyse the level of credibility of the sub-national budget in 2010, which is necessary for the local government to ensure sound local financial management. Our analysis of performance at the sub-national government level in Croatia is based on the performance indicators (PIs) defined according to the Public Expenditure and Financial Accountability Public Financial Management (PEFA PFM) Performance Measurement Framework.<sup>2</sup> PEFA PFM is used to analyse whether the planning and executing of the sub-national government budget are in line with the defined priorities in regional operation plans. This means that we use several PIs for measuring the credibility of the budget at the sub-national government level. Thus, we measure:

- (i) the difference between aggregate expenditure outturn and the original approved budget at the sub-national government level in Croatia;
- (ii) the difference between the composition of expenditure outturn and the original approved budget at the sub-national government level in Croatia;
- (iii) the deviation of aggregate revenue outturn from the original approved budget at the sub-national government level in Croatia.

We also analyse the connection between budgetary items and local and regional policies in Croatia. The existence of clear connection is necessary

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<sup>2</sup> It is developed by the PEFA partners, in cooperation with OECD/DAC Joint Venture on PFM, and enables analyses of government performance at different levels (central government, sub-national government, etc.). It can be used as a tool to examine the extent to which different reforms are resulting in higher performance. Due to the fact that not all data for Croatia are publicly available, we use it as a tool to partially measure the credibility of the budget at the sub-national government level.

for making short- and medium-term plans and to establish performance indicators that reflect local development goals and priorities.

Our main hypothesis is that the credibility of the sub-national government budget in Croatia is too low to support certain long-term plans. In addition, the budget does not incorporate any aspects of strategic planning, which is necessary to achieve local and regional development.

In the second section, a literature review is presented to explain the importance of performance measurement at the sub-national level. In this section, we also explain the key features of the PEFA PFM Performance Measurement Framework and scoring methodology used to evaluate the credibility of sub-national budget. The credibility of the budget at the sub-national level in Croatia is measured in the third section.

## 2. Performance Measurement Framework

### 2.1. Purpose of Performance Measurement at the Sub-national Government Level

In the last few decades, governments in many countries have moved the focus of their reforms toward performance measurement and budgetary output and outcome evaluation. Administrative reforms in many European countries, Canada, Australia, New Zealand, and the United States go beyond reorganization. They are more focused on reorganizing public sector bodies to bring their management, reporting, and accounting approaches closer to business methods. In literature, this kind of reform is known as the New Public Management. The main objectives of NPM are: (i) to set explicit standards and measures of performance, which means that the goals and targets are clearly identified and measurable as indicators of success; and (ii) to focus more on output and results, which means that resource allocation is based on performance.<sup>3</sup> Underlying this reform is the main belief that these changes will lead to improved public services delivery. Thus, the performance budgeting is designed to improve the effectiveness and efficiency of public sector spending. These changes (which

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<sup>3</sup> More on the NPM: Barzelay (1997, 2001), Bislev and Salskov-Iversen (2001), Christensen and Laegreid (1999), Falconer (1997), Ferlie et al. (1996), Hood (1991, 1995a, 1995b), Liegl (1999), Naschold (1996), Pollitt and Bouckaert (2004), Rouban (1999), and others.

include greater focus on outputs and outcomes, performance measurement and benchmarking, increasing efficiency and effectiveness in the public sector, etc.) confirm that the increasing importance of financial management at the sub-national government level is widely recognized (Amnos, 2000).

Here we mention several articles that confirm the importance, application, and effects of performance measurement at the sub-national government level.

Jordan and Hackbart (1999) stress that a prerequisite for changing the budget process is the use of information on programme performance when deciding about the allocation of resources. They emphasize performance indicators that are grouped in three categories: the state's economic, organizational, and political characteristics<sup>4</sup> have an impact on the preparation of the budget document also in countries where there is no link between performance indicators and spending, but performance indicators are clearly identified and reported.<sup>5</sup>

Similarly, Melkers and Willoughby (2005) analyse the effects of performance measurement information on budgetary decision-making and communication in U.S. local governments. Their findings indicate very extensive use of performance measures in the majority of departments within cities and counties. Also, they confirm that the implementation of performance measurement at the local level supports improved communication within and across branches of government, advances discussion about the results of government activities and services, and adds value to budgeting and management decisions by providing relevant information about results, costs, and activities.

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<sup>4</sup> Economic capacity variables are: state per capita income and tax effort which measure the willingness of the state to tax its base. Organizational capacity variables are: pre-audit function (whether the budget office conducts a pre-audit) and budget analysts (whether there is an above average number of budget analysts on staff). These two variables are used as proxies for the executive budget offices' informational and staff capacities. The political variable is: a Republican governor that may reflect a political desire to show fiscal constraint. Because Republicans are generally considered more fiscally conservative than Democrats, the expectation was for states with Republican governors to have a higher propensity to use performance budgeting and funding.

<sup>5</sup> Jordan and Hackbart (1999) conducted the survey to evaluate the current status of performance budgeting, as a process of preparing the budget document with identified performance measures, and its linkage with performance funding in the U.S. states. Performance funding was defined as the allocation of funds according to an assessment of the performance measures identified in the budget.

Research by Stiefel, Rubenstein, and Schwartz (1999) indicates that, in addition to measuring current budgetary performance, adjusted performance measures can be used effectively to explain past resource allocation decisions.

Kluvers (2001) analyses the planning programming budgeting in local government in Australia. He proves that programme budgeting has only a limited role in the allocation of resources in local budgets and does not appear to have an impact on the strategic process. Yet, he finds that planning programming budgeting enables better sorting of expenditures into direct and allocated costs, as well as better cost control, but it has little overall impact on the municipalities due to the fact that only a small number of councils actually use performance indicators. Hence, there is a lack of using performance indicators to eliminate duplicate activities, change objectives, or select among alternative programmes.

Poister and Streib (1999) review the inconsistent use of performance measurement among local governments and conclude that larger local governments and those with council-manager governments are more likely to use measurement. These authors find that performance measurement has a larger impact on improved decision-making and budget allocation in centralized systems. Therefore, performance measurement in governments with centralized systems can be considered important for budgeting purposes.

Caiden (1998) states that in a situation when many transition countries are still in a state of disorganization, government accountability is not well established, government payments are late, and corruption exists, the introduction of performance measures may either be considered a contribution to building up a professional public service or an extra burden on already over-burdened staff. Therefore, these changes should not be introduced overnight. Quite the contrary, it is essential to educate and inform everyone affected about expected changes and new necessary activities and responsibilities.

Taking into account that the budgeting process has provided an opportunity to influence strategic objectives and priorities among various services, it is obvious that the budget is more than a financial document. It reflects programme planning and service priorities in financial terms and in terms of performance expectations. Moynihan (2006) discusses that rather than being disregarded, performance information has become part of decision makers' policy process. Maybe more important is the following Moynihan's dilemma: »If a program is consistently performing well,

does that indicate that it should receive greater resources or that it is already amply provided for? Is the poorer-performing program a candidate for elimination or just in need of additional resources?» (Moynihan, 2006: 159). Therefore, performance information excludes any automatic impact on budgetary decision-making.

Redburn, Shea and Buss (2008) strongly support performance budgeting as a professional tool at the local level to increase local government accountability to their citizens. The purpose to plan, budget and manage government programmes based on explicit performance goals and measures is to make government more accountable to its citizens for achieving guaranteed results.

However, despite the recognized increased importance of budget performance measurement, there is still a lack of literature dealing with performance measurement at the sub-national government level, especially for developing countries (Schick, 1998). There is a shortage of research covering performance measurement at the local level in Croatia, too.

The aim of this paper is to identify key obstacles for performance measurement at the sub-national level in Croatia. To find an appropriate answer, the following is needed: firstly, to explore to what extent the situation in Croatia looks like or differs from the presented theoretical views; and secondly, to test the hypothesis that the credibility of the sub-national government budget in Croatia is too low to support a long-term plan. In addition, the budget does not incorporate any aspects of strategic planning, which is necessary to achieve local and regional development.

The situation in Croatia is more or less the same as in many other transition countries. In practice, performance measurement does not exist, either at the central government level<sup>6</sup> or at the sub-national level. PIs still cannot be seen as integral parts of the planning process.

In principle, but not so much in practice, PIs can be seen as integral parts of the planning process.<sup>7</sup> Elaboration and evaluation of the implementation of planning programmes or strategic documents at the local and regional levels are strongly correlated with the introduction of a system of

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<sup>6</sup> WB report Overview on the Status on applications of PEFA Performance Measurement Framework updated by the PEFA Secretariat on March 31, 2011 stresses that Croatia is not included in individual PEFA assessments. More information on countries included in individual PEFA assessments: <http://siteresources.worldbank.org/PEFA/Resources/OverviewStatusOfApplicationsMar11.pdf>.

<sup>7</sup> This part of the paper is based on Jurlina Alibegović and Kordej-De Villa (2006).



PIs. PIs at the local and regional levels measure implementation success of strategic documents.

Indicators are complex information that cannot be directly measured. Based on Kuik and Gilbert (1999) and de Villa and Westfall (2001), a proper indicator should be comprehensive, clearly defined, reproducible, unambiguous, understandable, and practical, i.e., meaningful for decision makers, but based on theoretical insights. Formulating a good set of indicators is a difficult task.

PIs have a major role as management tools for policymakers, citizens, researchers, the private sector, and international agencies. Consequently, PIs should be explicitly related to policy, they should be helpful to the regional government, and should measure policy performance. Furthermore, they should deal with regional strategic goals, and in their development, a participation process should be applied.

PIs can be divided into two groups: quantitative indicators and qualitative data. Key quantitative indicators are the structure and level of local government revenues and expenditures. They indicate the level of resources counties are able to rise from different sources, as well as their ability to support different functions. Qualitative data refer to many special statements aiming to reach improvement in a particular area.

## 2.2. Main Characteristics of the Public Expenditure and Financial Accountability Public Financial Management Performance Measurement Framework

The authors wish to avoid comprehensive elaboration of fundamental links between »performance measurement«, »planning and monitoring« and »implementation of public policies«. The reason for that is simple. There is ample literature dealing with the establishment of an integrated performance measurement system in general.<sup>8</sup> Our goal is to use one of the most relevant guidelines, the PEFA PFM Performance Measurement Framework, to provide benchmarks for assessing part of public financial management.

The analysis of the approved budget and budgetary outturn is based on performance indicators which are part of the PEFA PFM Performance

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<sup>8</sup> For a more detailed explanation, see for example US Office of Strategic Planning and Program Evaluation, <http://www.orau.gov/pbm/pbmhandbook/volume%202.pdf>.

Measurement Framework. The PIs developed within PEFA PFM allow the identification of the strengths and weaknesses of the budgeting system in Croatia. Furthermore, in countries that have strategic plans related to the budget, performance measurement enables analysts to measure progress in implementing measures and achieving strategic goals. Therefore, performance measurement can be considered to be one of the crucial factors that lead, through planning and monitoring, to the improvement of implementation of local and regional policies.

The PEFA PFM Performance Measurement Framework »is an integrated monitoring framework that allows measurement of the country's PFM performance over time« (World Bank, 2005: 1). The information provided by the framework can also contribute to the government reform process by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success. The Performance Measurement Framework includes a set of high-level indicators, which measures and monitors the performance of PFM systems, processes, and institutions, and a PFM Performance Report that provides a framework to report on PFM performance as measured by the indicators (World Bank, 2005).

The World Bank (2005) states that an open and regulated PFM system is one of the enabling elements for these three levels of budgetary outcomes:

- Effective control of the budget totals and management of fiscal risks contribute to maintaining aggregate fiscal discipline.
- Planning and executing the budget in line with government priorities contribute to the implementation of government objectives.
- Managing the use of budgeted resources contributes to efficient service delivery and value for money.

The World Bank (2005) framework is mainly focused on the public financial management at the central government level. Hence, operations of other levels of general government (such as sub-national governments) are included in the PFM performance indicator set only to the extent that they impact performance of the national PFM system. However, sub-national governments can have their own PFM system, and to that effect, we will use the PEFA PFM to measure performance at the sub-national level in Croatia, using the set of national PFM performance indicators.

The World Bank (2008a: 1) states that »a sound PFM system is essential for the effective implementation of policies and achievement of intended outcomes by supporting aggregate fiscal discipline, strategic allocation of

resources and efficient service delivery. Given the increasing importance of sub national government in resource allocation and service provision, the importance of an open and orderly PFM system is equally relevant at the sub national level«.

Similar to the PFM at the central government level, the Performance Measurement Framework at the sub-national level identifies six critical dimensions of performance:

- Credibility of the budget, which means that the approved budget can be fulfilled.
- Comprehensiveness and transparency, which means that fiscal and budget information are available to the public.
- Policy-based budgeting, which means that the budget is prepared with due regard to government policy.
- Predictability and control in budget execution, which means that the budget is implemented in a logical and predictable manner and there are arrangements for the exercise of control of the use of public funds.
- Adequate accounting, recording, and reporting, which means that the control, management, and reporting obligations are satisfied.
- Appropriate external scrutiny and audit arrangements, which means that arrangements for analysis of public finances and follow-up are operating.

The main goal of the PEFA assessment is to provide all relevant stakeholders with a high-level assessment of the status of PFM in an institution or a country. As the PEFA PFM involves scoring on each of the critical dimensions, it enables us to calculate a score, where initial scores can be used as a baseline and the framework can then be used to monitor the progress of reform initiatives over time. Our analysis will be based on the performance indicators for scoring the credibility of the budget at the sub-national level, explained in more detail in the next chapter of this paper.<sup>9</sup>

<sup>9</sup> The framework provides a set of 28 high-level PFM indicators to rate performance.

### 3. Analysing the Prerequisites for Performance Measurement in Croatia

#### 3.1. Measuring the Credibility of the Budget at the Sub-National Level in Croatia

In July 2001, the first phase of the decentralization process began, covering issues of administrative and financial decentralization. Based on the provisions of the Law on Local and Regional Self-Government, in their self-governing scope of authority, counties are responsible for the functions of regional character. Municipalities and towns perform tasks of local significance, which directly address the needs of citizens and which are not assigned to state bodies by the Constitution or by law (see Table 1). Towns with more than 30,000 inhabitants may also be responsible for functions that otherwise fall within the competence of counties, as long as they ensure the necessary conditions for the performance of these services (Jurlina Alibegović, 2005).

Table 1 Mandatory Functions of Local and Regional Self-Government Units

Municipalities, towns and cities	Counties
<ul style="list-style-type: none"> <li>– community and housing planning</li> <li>– physical planning and zoning</li> <li>– utility services</li> <li>– child-care</li> <li>– social welfare</li> <li>– primary health care</li> <li>– primary and secondary education</li> <li>– culture, physical culture, and sports</li> <li>– consumer protection</li> <li>– protection and improvement of the natural environment</li> <li>– fire protection and civil defence</li> </ul>	<ul style="list-style-type: none"> <li>– education</li> <li>– health care</li> <li>– physical planning and zoning</li> <li>– economic development</li> <li>– traffic and transport infrastructure</li> <li>– planning and development of the network of educational, medical, social, and cultural institutions</li> </ul>

Source: Jurlina Alibegović (2005)

Local government in Croatia is faced with increasing pressure to match the growing service delivery demand with limited financial resources. Fis-

cal decentralization means that local and regional governments are responsible for fulfilling the mandatory functions (Table 1), but also means that the expenditure responsibilities for the delivery of public services are decentralized to the lower levels of government. Therefore, in the next section we will analyse the level of accuracy in planning the sub-national government budget.

In this part of the analysis, we have used three PEFA PFM performance indicators to analyse the accuracy of expenditure estimates and precision of planned revenues. We have used three of four PIs<sup>10</sup> defined in PEFA Performance Framework at the Sub-national Government Level (World Bank, 2008a) for measuring the budget credibility. These three PIs<sup>11</sup> are:

- (i) Aggregate expenditure outturn compared to original approved budget (PI-1),
- (ii) Composition of expenditure outturn compared to original approved budget (PI-2), and
- (iii) Aggregate revenue outturn compared to original approved budget (PI-3).

Each of these performance indicators can be scored with a score between A (the best score) and D (the worst score) depending on the level of deviation between outturn and the approved budget for that specific item, but total scoring would require data about approved budget revenues and expenditures, as well as revenue and expenditure outturn for three years. We made calculations for the period 2008–2010. Each of these PIs (PI-1,

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<sup>10</sup> For a more detailed explanation, see Table A1 in the Appendix.

<sup>11</sup> The fourth indicator cannot be calculated because of data limitations on payment arrears in local budgets. Accepted accounting principles for Croatian local governments establish modified accrual-based accounting method. It combines accrual-basis accounting with cash-basis accounting. Modified accrual-based accounting recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred. This system divides available funds into separate entities within the organization to ensure that the money is spent where it was intended. The modified accrual-based accounting principle means that: (1) revenues are recognized in the reporting period in which they are received, provided that they are measurable; (2) expenditures are recognized when incurred in the reporting period to which they relate, regardless of whether actually paid; (3) depreciation of non-financial long-term assets is not an expense; it is recorded as the adjustment of the value of assets in the balance sheet; (4) changes in the value of non-financial assets are not considered expenditure or revenue; (5) donations of non-financial assets are not classified as revenues or expenditure.

PI-2, and PI-3) is measured for each Croatian county.<sup>12</sup> The results for PI-1 are presented in Table 2.

Table 2 Results Matrix for PI-1 for 2008–2010 (percentage)

County	Total expenditure deviation			Overall rating
	2008	2009	2010	
<b>North-Western Croatia</b>				
Zagrebačka County	15.6	26.2	24.8	D
Krapinsko-zagorska County	12.5	21.6	22.2	D
Varaždinska County	11.6	22.3	18.2	D
Koprivničko-križevačka County	18.3	31.8	28.7	D
Međimurska County	29.7	34.0	25.6	D
<b>Central and Eastern (Panonian) Croatia</b>				
Bjelovarsko-bilogorska County	22.3	29.2	20.6	D
Virovitičko-podravska County	8.5	18.1	0.2	C
Požeško-slavonska County	25.5	27.3	7.5	D
Brodsko-posavska County	24.8	24.0	28.6	D
Osiječko-baranjska County	9.3	20.1	14.5	C
Vukovarsko-srijemska County	17.2	23.5	18.7	D
Sisačko-moslavačka County	16.6	29.2	23.7	D
Karlovačka County	4.5	15.3	17.2	D
<b>Adriatic Croatia</b>				
Primorsko-goranska County	10.3	20.0	14.8	C
Ličko-senjska County	19.7	29.7	26.4	D
Zadarska County	15.5	20.1	29.7	D
Šibensko-kninska County	13.7	17.7	17.1	D
Splitsko-dalmatinska County	10.2	16.3	27.3	D
Istarska County	18.4	31.4	20.1	D
Dubrovačko-neretvanska County	18.4	28.1	21.3	D

Source: Authors' calculation based on the data of the Ministry of Finance

<sup>12</sup> The City of Zagreb has been excluded from the analysis because of its specific dual status of a local and regional government. Due to its specific position and functions it performs, the results for the City of Zagreb cannot be compared with those for other counties in Croatia.

Performance indicator PI-1 measures the extent to which actual primary expenditures<sup>13</sup> exceed original budgeted primary expenditures. It can be seen that there are huge differences at the sub-national government level in Croatia. For example, in 2010 the smallest deviation can be noticed in Virovitičko-podravska and in Požeško-slavonska County (less than 10 per cent). The sub-national government units that have the biggest problems with fiscal stance are those in which actual expenditures deviate from budgeted expenditures by an amount equivalent to more than 15 per cent of budgeted expenditures. It can be noticed that this was the situation in 80 per cent of Croatian counties in 2010. In 16 of the 20 counties this deviation in expenditures amounted to over 15 per cent, which means that these counties could not achieve a score higher than C for performance indicator PI-1. What is even more worrying, in some Croatian counties this deviation amounts to more than 25 per cent (Medimurska, Brodsko-posavska, Ličko-senjska and Splitsko-dalmatinska Counties). Counties had various difficulties with planning their expenditures, but they had serious difficulties with planning the amount of grants to other general government units.

In addition, quite large deviations in accuracy of the planning of expenditures compared to its final realization can be observed in the period 2008-2010. The result of total scoring for PI-1 shows the counties predict the level of their expenditures poorly. In all counties, the actual expenditures deviate from budgeted expenditures by more than 15 per cent of budgeted expenditures in at least one of the last three years. In all counties, except Virovitičko-podravska, Osiječko-baranjska and Primorsko-goranska, the deviation larger than 15 per cent of budgeted expenditures can be observed in two or in all three years, which results in the lowest possible scoring (D) in 90 per cent of the counties.

Performance indicator PI-2 measures the extent to which the variance in primary expenditure composition exceeds overall deviation in primary expenditure (Table 3). It measures the extent to which reallocations between budget lines have contributed to the variance in expenditure composition beyond the variance resulting from changes in the overall level

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<sup>13</sup> Data about the original approved budget should include the total budget approved, but they exclude two expenditure categories over which the government has little control (debt service payments and donor funded project expenditure). For a detailed explanation of methodology, see World Bank (2008a, 2008b).

of expenditure. Making an assessment requires the total variance<sup>14</sup> in the expenditure composition to be calculated and compared to the overall deviation in primary expenditure.

Table 3 Results Matrix for PI-2 for 2008–2010 (percentage)

County	Variance in excess of total deviation			Overall rating
	2008	2009	2010	
<b>North-Western Croatia</b>				
Zagrebačka County	1.3	1.4	1.9	A
Krapinsko-zagorska County	0.4	0.9	0.0	A
Varaždinska County	14.0	1.1	0.0	C
Koprivničko-križevačka County	5.3	0.0	0.4	B
Medimurska County	0.9	0.0	1.0	A
<b>Central and Eastern (Panonian) Croatia</b>				
Bjelovarsko-bilogorska County	0.7	0.8	0.0	A
Virovitičko-podravka County	4.9	5.0	35.5	C
Požeško-slavonska County	6.0	0.0	1.1	B
Brodsko-posavska County	1.8	0.0	1.8	A
Osiječko-baranjska County	4.8	0.0	9.7	B
Vukovarsko-srijemska County	4.5	0.9	6.8	B
Sisačko-moslavačka County	0.2	0.0	0.0	A
Karlovačka County	8.2	0.8	1.2	B
<b>Adriatic Croatia</b>				
Primorsko-goranska County	0.4	0.0	0.0	A
Ličko-senjska County	2.1	0.1	0.0	A
Zadarska County	2.0	2.3	0.0	A
Šibensko-kninska County	4.7	2.7	0.0	A
Splitsko-dalmatinska County	4.0	2.5	1.7	A
Istarska County	0.3	0.0	0.0	A
Dubrovačko-neretvanska County	2.8	0.5	0.9	A

Source: Authors' calculation based on the data of the Ministry of Finance

<sup>14</sup> The variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of administrative or functional classification, using the absolute value of deviation. For a detailed explanation, see World Bank (2008a, 2008b).



The results of the performance measurement show that only in Virovitičko-podravaska County PI-2 variance in expenditure composition exceeds overall deviation in primary expenditure by more than 10 per cent. In 17 counties, this variance amounted to less than 5 per cent in 2010. The results for overall period 2008-2010 show that Varaždinska and Virovitičko-podravaska Counties have obtained the lowest score C. Most of the counties (65 per cent) have the highest score A, which means that all counties in Adriatic Croatia, Zagrebačka, Krapinsko-zagorska and Međimurska Counties in North-Western Croatia and Bjelovarsko-bilogorska, Brodsko-posavska and Sisačko-moslavačka Counties in Central and Eastern Croatia have reached the highest score for the PI-2 in the observed three years.

Performance indicator PI-3 measures actual domestic revenue collection compared to domestic revenue estimates in the original approved budget.<sup>15</sup> Results of the calculation of PI-3 are presented in Table 4.

Table 4 Results Matrix for PI-3 for 2008–2010 (percentage)

County	Total revenues deviation			Overall rating
	2008	2009	2010	
<b>North-Western Croatia</b>				
Zagrebačka County	3.9	23.95	23.0	D
Krapinsko-zagorska County	4.3	15.90	28.3	D
Varaždinska County	0.3	23.80	31.1	D
Koprivničko-križevačka County	2.3	24.75	33.2	D
Međimurska County	18.8	33.06	29.2	D
<b>Central and Eastern (Panonian) Croatia</b>				
Bjelovarsko-bilogorska County	8.8	18.57	35.3	D
Virovitičko-podravaska County	15.3	22.40	32.9	D
Požeško-slavonska County	6.1	19.97	37.5	D
Brodsko-posavska County	11.5	19.11	40.7	D
Osiječko-baranjska County	4.0	15.51	26.0	D

<sup>15</sup> In applying the indicator, the World Bank (2008a, 2008b) gives a precise definition of domestic revenue at the sub-national government level. It suggests that shared revenues collected and retained by the sub-national government should be included in domestic revenue, but other shared revenues should be treated in the same way as higher level transfers and donor funding and not be included.

Vukovarsko-srijemska County	0.4	14.86	23.9	D
Sisačko-moslavačka County	8.5	20.27	27.9	D
Karlovačka County	2.4	12.99	21.5	D
<b>Adriatic Croatia</b>				
Primorsko-goranska County	6.2	15.34	19.0	D
Ličko-senjska County	11.6	20.18	19.4	D
Zadarska County	7.0	11.79	32.7	D
Šibensko-kninska County	10.5	23.67	23.5	D
Splitsko-dalmatinska County	0.9	17.74	35.4	D
Istarska County	18.8	28.38	19.4	D
Dubrovačko-neretvanska County	15.8	22.90	25.0	D

Source: Authors' calculation based on the data of the Ministry of Finance

Based on the available data, it can be concluded that in all counties actual domestic revenue collection was below 90 per cent of budgeted domestic revenues in 2009 and 2010. Most of the counties overestimated the expected revenues in 2010 between 20 and 40 per cent. Brodsko-posavska County had the worst results in planning revenues. This county has a rather large difference between the levels of almost all originally planned and achieved revenues. All revenue items were planned with an error larger than 14 per cent (2010). However, as the results for overall rating imply, all other counties did not have credible budgets, and should also seriously improve the planning of their budgets. Actual revenue collection was below 92 per cent of budgeted revenue estimates in two out of three or in all of the three observed years, which means that all counties have achieved the lowest overall rating D for PI-3. Data in Table 4 shows that counties planned their revenues poorly, especially in the years 2009 and 2010, while there were some good examples in the year 2008. This implies that low credibility of planning revenues could be partly explained with the effect of the economic crisis that seriously affected revenue side of the budget in the last two years.

It can be concluded that there are large differences at the sub-national government level in success in applying performance-based financial management. Almost all counties showed serious weakness in financial planning and very low credibility of their budgets, especially in the last two years. Pressures created by the financial crises seriously affected the predictability of revenues and expenditures in all counties and resulted

in their low overall rating. However, budget planning should incorporate all macro-economic projections and, although some minor deviations or even some larger one-year deviations could be considered expected, the level of these deviations on both the revenue and expenditures sides of the sub-national government budgets are too high to be considered acceptable. The large deviation between original approved budget and aggregate expenditures outturn also shows that sub-national government has rather ineffective budgetary control. Poorly credible revenue and expenditure forecasting at the sub-national government level can be seen as serious obstacle to medium-term budgetary planning and performance measurement in Croatia.

The recommendation is that it is necessary to further improve medium-term financial strategy in a way to allow for multi-year programme budgeting, carry-over of capital projects funds from one year to the next, and to introduce more flexibility in budget execution. In addition, an improvement of budget accounting and distinction between cash appropriations and appropriations for accrual-based expenses is needed. The development of certain aspects of public expenditure management has gone even further. For instance, local budgets contain the budgetary classification by sources of financing, which is a vital tool for establishing the links between sources of financing and expenditures.<sup>16</sup>

In the next chapter, we will analyse the goals, priorities and measures in Regional Operational Plans (ROPs) and their adjustment for performance measurement.

### 3.2. Adjustment of Local and Regional Policies for Performance Measurement

Performance budgeting is supposed to link the resources and outcomes and outputs that sub-national units achieve or would like to achieve. One of the basis of performance measurement is to have clearly defined outputs and outcomes. For effective performance measurement, a set of quantitative measures of inputs (capacities), processes, results, and outcomes to develop information about aspects of planned activities, including their effect on the public is necessary. This is usually linked with

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<sup>16</sup> Some of those recommendations are contained in the Government's Strategy for the Development and Modernization of the State Treasury 2007–2011 from August 2007.

the goals and priorities defined in strategic documents. Therefore, performance measurement at the sub-national level of government consists of two main areas: (i) establishment of the strategic goals, priorities, and measures and (ii) performance budgeting.

There are many reasons for applying performance measurement as a modern tool helping to measure the accomplishment of objectives at the sub-national level. Unfortunately, in Croatian literature there is a lack of research papers that present the advantages and weaknesses of performance measurement at the local and regional levels. Among very few research papers, several articles which confirm the importance, application, and effects of performance measurement at the sub-national government level should be mentioned.

Sumpor (2004) argues that strategic development planning will become an increasingly important tool for local governments to improve their performance. The paper is trying to suggest ways of linking strategic development planning at the local level with budgetary procedures, the results of which establish a methodological foundation for improved fiscal and developmental planning.

Jurlina Alibegović and Blažević (2010) discuss the experience of the Reconstruction and Development Fund of the Town of Vukovar in applying a modern approach to stimulate local development in the Town of Vukovar. This paper examines the establishment of the monitoring and evaluation system based on input, output and outcome indicators in relation to specific and main strategic goals for local development of the Town of Vukovar.

In the last ten years, laws and by-laws dealing with local and regional development management in Croatia have been gradually introducing development programming at all levels of government. This new legislation has called for programming in social and economic environments and development documents are labelled »strategic programs«, »strategies«, »long-term plans«, or »regional operational plans«.

Planning development at the regional level can be viewed as a cycle including phases of identification of the current situation, formulation of a future (vision), elaboration of financial framework for development priorities, implementation phase, monitoring phase, and evaluation of successful implementation.

Success of the implementation of all strategic documents depends on many different factors. One of the most important factors is availability of financial resources for financing sub-national strategic priorities (Jurlina Alibegović and Đokić, 2007).

This part of the paper will focus on the strategic goals, priorities, and measures defined in the ROPs as a second prerequisite for the development of performance indicators and performance measurement at the sub-national government level. We analyse if goals, priorities and measures set in ROPs can be used for performance measurement at the sub-national government level.<sup>17</sup>

For the purpose of this research, strategic goals, priorities, and measures for all 20 Croatian counties<sup>18</sup> are presented in Table A2 and Table A3 in the Appendix. Table A2 contains a review of strategic goals, strategic priorities, and measures defined in ROPs by counties. All goals, priorities, and measures are grouped in the first five groups of expenses by functional classification of government expenses (general public services, defence, public order and safety, economic affairs, and environmental protection). Table A3 also contains a review of strategic goals, strategic priorities, and measures defined in ROPs by counties. In this case, all goals, priorities, and measures are grouped in the second five groups of expenses by functional classification of government expenses (housing and community amenities; health; recreation, culture, and religion; education and social protection).

A thorough analysis of the ROPs has shown that there are many similarities among the counties in setting strategic goals and defining measures for the accomplishment of strategic priorities. The common characteristic of strategic documents at the regional level is that strategic goals and priorities in all of these documents are taken as self-evident and are stated with little explanation. Measures for the achievement of strategic priorities are general and they are assigned to the regional and local administrations without measurement. The examples of measures are the following: »competitive local economy«, »supportive infrastructure should be improved«, »conditions for faster growth of small and medium-sized enterprises (SMEs) should be secured«, etc. Such kind of measures can be found in almost all ROPs.

However, goals, priorities and measures are very general. For example, many counties have identified the goal of achieving competitive

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<sup>17</sup> This paper analyses ROPs, not county development strategies, since the ROPs as strategic documents were accepted for the period 2006–2011. County development strategies as strategic documents are based on the Regional Development Act (Official Gazette 153/09). County development strategies were adopted in early 2011, and it is not possible to monitor achieved outputs and outcomes at the moment.

<sup>18</sup> The City of Zagreb is not included because it has not adopted its ROP.

local economy (Varaždinska, Koprivničko-križevačka, Međimurska, Brodsko-posavska, etc.). The example of goals, priorities and measures showed in the following table shows that the corresponding priorities are also very generally defined. In addition, measures are not concrete and cannot not be easily measured with available data, from the budget and/or available statistical data.

Table 5: Example of one strategic goal and corresponding priorities and measures defined in the ROP Varaždinska County

Goal	Priorities	Measures
Competitive local economy	Development of economy	Increasing investments in modern technologies
		Stimulating knowledge application and scientific research
		Establishing technological infrastructure
		Improving entrepreneurial infrastructure
	Networking	Networking of industry, entrepreneurs and organizations
		Networking of institutions in tourism sector
		Networking of farmers
	Development of agriculture	Concentration of agricultural land
		Development of family farms
		Fostering ecological and traditional agriculture

Source: ROP of Varaždinska County

Such goals, priorities and measures do not render possible linking each measure for the achievement of defined strategic goals and priorities in each county ROP with a concrete group of expenses by functional classification of government expenses to see how many of the priority measures have been applied for the accomplishment of basic public functions.

Furthermore, there is a variety of measures for the accomplishment of strategic priorities defined in county ROPs. There are also substantial differences among counties in identifying the number of measures for the achievement of the same strategic priority. For example, for the achievement of the strategic priority »improvement of the quality of life« counties

have identified from 7 to 19 different measures. By analysing all the defined measures, we have noticed that some of the measures could be easily classified into one of the ten groups of government expenses classified by functional classification. Nevertheless, some of the measures are too general, and it was not possible to decide on the appropriate functional classification. Such measures are omitted from the analysis and are not shown in Table in Annex A2 and A3.

From the analysis of different ROPs, it can be concluded that strategic documents do not have an appropriate base for monitoring and evaluation because performance indicators are not defined in a suitable way. The analysis has proven that defined goals, priorities and measures in ROPs cannot be used for performance measurement at the sub-national government level. The results have shown that the budget does not incorporate any aspects of strategic planning, which is necessary to achieve local and regional development and that further improvements in budgeting and strategic planning at the sub-national government level are necessary. There are several constraints to the establishment of the performance indicator system in Croatia at the sub-national level. The most important ones are related to inappropriate data availability at the local and regional levels. We are primarily referring to data on urban economy and urban environment, while financial data are usually available and they are of good quality.

## 4. Conclusion

Performance measurement is one of the key elements that lead to the improvement of implementation of public policies. Performance budgeting is beginning to be a professional standard in the public sector aiming to make government more accountable to its citizens and to achieve strategic objectives.

A methodology for assessing the credibility of the budget was used in this paper to analyse the compliance of the budgetary plan and its execution with the development planning process at the regional level in Croatia.

The sub-national government in Croatia uses different policies to encourage local and regional development. Almost all counties have adopted strategic documents. However, strategic planning has some serious weaknesses. The strategic plan was initially not very well synchronized with the regional government budget. The accomplishment of all strategic plans

in Croatia largely depends on the availability of financial resources and allocation of budgetary resources.

One of the reasons for the analysis of the financing of sub-national strategic priorities can also be found in inadequacies of the Croatian budgeting system. The results of the measurement of different performance indicators confirm the low credibility of the budget in most counties in Croatia. The significant difference between planned budgetary expenditures and budgetary outturn is a key obstacle to faster local and regional development. The current practice in Croatia shows that development priorities at the regional level are not included in regional budgets. This especially refers to various investment projects, many incentives aiming to increase the existing level of education, as well as various incentives related to increasing the level of administrative capacities at the county level. This means that the budget is not sufficiently coordinated to secure the achievement of local, regional, and national development goals.

Performance measurement at the sub-national level is one of the key factors for the achievement of transparent, rational, and efficient allocation of public resources at the sub-national level. It involves introducing a framework for result-based accountability to citizens. To be effective, performance measures should be tied to the strategic planning process. Serious strategic planning at the regional level should include long-term financial plans consistent with resource allocation objectives and specified within the approved budget. This means that the expected revenue collection has to be consistent with expenditures allocated for each strategic priority and for fulfilling specific measures from the ROP.

The current budgeting system does not serve integrated management in the local area either. A lack of coordination between local strategic planning and budgeting has led to the lack of vertical and horizontal integration and participation in financing. Because of the fact that performance measurement is based on realistic resource allocations with measurable outcomes to achieve regional priorities, it will promote integrated strategic planning, budgeting, and reporting as a new way of planning at the sub-national level. This integrated planning is based on a vision of good governance and sound financial management that uses strategic and participatory planning and performance budgeting to facilitate citizen input into decisions on the sub-national government resource allocation.

In Croatia, it is not possible to monitor and evaluate the execution of strategic goals and priorities due to the fact that performance indicators are not defined in an appropriate manner to measure budgetary performance



and development priorities and goals. Budgetary performance measurement at the sub-national government level would lead to more successful strategic planning and consequently enhance local and regional development. Thus, the Croatian sub-national government units should improve their development practices, especially increase the capacity of counties as regional self-government units. They should improve the correlation of regional strategic priorities and regional budgets in order to advance performance budget management and coordination of strategic planning and programme budgeting.

Recommendations for future strategic documents at the local and regional levels refer to the need for their greater mutual compatibility and to the identification of the goals/priorities, instruments/measures and performance indicators.

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## Appendix

Table A1 Scoring Methodology for Assessing the Credibility of the Budget

Score	Minimum requirements (scoring method M1)
<b>P1: Aggregate expenditure outturn compared to original approved budget</b>	
A	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5 per cent of budgeted expenditure.
B	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 per cent of budgeted expenditure.
C	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15 per cent of budgeted expenditure.
D	In two or all of the last three years the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 15 per cent of budgeted expenditure.
<b>P2: Composition of expenditure outturn compared to original approved budget</b>	
A	Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
B	Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
C	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
D	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.
<b>P3: Aggregate revenue outturn compared to original approved budget</b>	
A	Actual domestic revenue collection was below 97 per cent of budgeted domestic revenue estimates in no more than one of the last three years.
B	Actual domestic revenue collection was below 94 per cent of budgeted domestic revenue estimates in no more than one of the last three years.
C	Actual domestic revenue collection was below 92 per cent of budgeted domestic revenue estimates in no more than one of the last three years.
D	Actual domestic revenue collection was below 92 per cent of budgeted domestic revenue estimates in two or all of the last three years.

P4: Stock and monitoring of expenditure payment arrears	
A	(i) The stock of arrears is low (i.e., is below 2 per cent of total expenditure). (ii) Reliable and complete data on the stock of arrears are generated through routine procedures at least at the end of each fiscal year (and include an age profile).
B	(i) The stock of arrears constitutes 2-10 per cent of total expenditure and there is evidence that it has been reduced significantly (i.e., more than 25 per cent) in the last two years. (ii) Data on the stock of arrears are generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.
C	(i) The stock of arrears constitutes 2-10 per cent of total expenditure and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears have been generated by at least one comprehensive ad hoc exercise within the last two years.
D	(i) The stock of arrears exceeds 10 per cent of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years.

Source: World Bank (2008b)

Table A2 Review of Strategic Goals, Strategic Priorities, and Measures Defined in Regional Operational Plans by Counties, by Functional Classification of Government Expenses (first five groups of expenses)

Counties Priorities	Public functions	M	General public services	Defence	Public order and safety		Economic affairs			Environmental protection		
					Fire protection services	Agriculture, forestry, fishing, and hunting	Fuel and energy	Transport	Tourism	Waste management	Wastewater management	Protection of biodiversity and landscape
North-western Croatia												
Zagrebačka County												
P1 Effective regional and local public administration and strengthening of cooperation with civil society, the City of Zagreb, and other regions	M17	M17										
P2 Competitive and socially responsible local economy	M19											
P3 Preservation of cultural and natural heritage	M9											M3
P4 High quality of life	M15	M1					M2	M1		M1	M2	M2
Krapinsko-zagorska County												
P1 Competitive entrepreneurship	M13							M2	M3			
P2 Rural development	M12					M8			M1			
P3 Human development and improvement of the quality of life	M19	M2										
P4 Preservation of cultural and natural heritage	M16							M2		M1	M1	M7
Varaždinska County												
P1 Competitive local economy	M10					M4			M1			
P2 Improvement of the quality of life and human resources development	M11	M3										
P3 Environmental protection and infrastructure development	M9								M1	M1	M1	M2
Koprivničko-križevačka County												
P1 Competitive local economy	M22	M13				M4	M3		M2			
P2 Transport and communal infrastructure development	M11							M2		M1	M1	
P3 Human capital development	M18											

P4 Preservation of cultural and natural heritage and environmental protection	M6										M4
Međimurska County											
P1 Competitive local economy	M17	M5			M5						
P2 Human capital development	M18	M7									
P3 Preservation of cultural and natural heritage and environmental protection	M9						M1		M1	M1	M2
Central and Eastern (Panonian) Croatia											
Bjelovarsko-Bilogorska County											
P1 Development of agriculture, processing industry, and continental tourism with sustainable exploitation of natural resources	M12				M4		M2	M2			
P2 Creation of encouraging economic framework	M5										
P3 Social infrastructure development	M5	M5									
Virovitičko-podravaska County											
P1 Formulation of conditions for economy development based on agriculture, handicraft, entrepreneurship, industry, and tourism	M16				M4			M3			
P2 Human capital development	M10										
P3 Preservation of cultural and natural heritage and environmental protection	M12						M1	M2	M1		M1
Požeško-slavonska County											
P1 Improvement of competitiveness of firms on domestic and foreign markets	M19				M4			M2			
P2 Reduction of unemployment by 30 per cent through the improvement of human resources	M6										
P3 Improvement of physical, economic, and social infrastructure	M22						M1		M4	M1	M3
P4 Improvement of institutional capacities for development management	M7	M7									
Brodsko-posavska County											
P1 Improvement of local economy aiming to reduce unemployment	M15	M14			M1						

P2 Infrastructure development	M15				M1		M2	M1	M1	M1	M1
P3 Improvement of educational system	M4										
P4 Social infrastructure development	M13						M1				
Osiječko-baranjska County											
P1 Development of local economy based on agriculture, industry, tourism, and services	M23	M10			M3		M4				
P2 Human resources development	M6										
P3 Balanced development of social and communal infrastructure	M25	M5						M2	M3	M1	M2
Vukovarsko-srijemska County											
P1 Creation of preconditions for competitive local economy with environmental protection	M18				M2		M1	M3	M1	M1	
P2 Human resources development	M4										
P3 Improvement of the quality of life through preservation of cultural and natural heritage, health and social inclusion	M11										M3
P4 Active role of the county in integration processes	M5	M5									
Sisačko-moslavačka County											
P1 Steady regional development	M6	M6									
P2 Integrated development of sectoral priorities	M15	M6			M5			M5			
P3 Human resources development	M15										
P4 Sustainable management of cultural and natural resources	M7								M1		M2
P5 Improvement of the quality of life and standard of living	M7	M1									
Karlovačka County											
P1 Preconditions for economic development	M12	M4			M4			M4			
P2 Sustainable management of natural resources and environmental protection	M11								M1	M1	M3
P3 Improvement of the quality of life	M13	M4					M1				
Adriatic Croatia											
Primorsko-goranska County											
P1 Development of competitive local economy	M15	M15									





Dubrovačko-neretvanska County											
P1 Balanced sustainable development of the coast, islands, and hinterland	M12	M5			M3			M2			
P2 Preservation of cultural and natural heritage, with improvement of the quality of life	M7										M3
P3 Improvement of education quality	M6										

Notes: Strategic goals, strategic priorities, and measures for the accomplishment of strategic priorities are grouped in ten groups that follow Classification of expense by function of government (IMF, 2001). Some of the measures are too general and it was not possible to make a decision on the appropriate functional classification. In such cases, these measures were omitted from further analysis.

P – strategic priorities; P1...N – number of priorities; M – measures; M1...N – number of measures

Source: Authors' systematization based on Regional Operational Plans by counties



Koprivničko-križevačka County									
P1 Competitive local economy	M22								
P2 Transport and communal infrastructure development	M11	M2							
P3 Human capital development	M18		M4						M3
P4 Preservation of cultural and natural heritage and environmental protection	M6								
Međimurska County									
P1 Competitive local economy	M17								
P2 Human capital development	M18		M3				M1		
P3 Preservation of cultural and natural heritage and environmental protection	M9								
Central and Eastern (Panonian) Croatia									
Bjelovarsko-bilogorska County									
P1 Development of agriculture, processing industry, and continental tourism with sustainable exploitation of natural resources	M12	M1							
P2 Creation of stimulative economic framework	M5							M3	
P3 Social infrastructure development	M5								
Virovitičko-podravska County									
P1 Formulation of conditions for economy development based on agriculture, handicraft, entrepreneurship, industry, and tourism	M16								
P2 Human capital development	M 10							M9	
P3 Preservation of cultural and natural heritage and environmental protection	M12								
Požeško-slavonska County									
P1 Improvement of competitiveness of firms on domestic and foreign markets	M19								
P2 Reduction of unemployment by 30 per cent through improvement of human resources	M6							M3	
P3 Improvement of physical, economic, and social infrastructure	M22								

P4 Improvement of institutional capacities for development management	M7							
Brodsko-posavska County								
P1 Improvement of local economy aiming to reduce unemployment	M15							
P2 Infrastructure development	M15	M1						
P3 Improvement of educational system	M4						M4	
P4 Social infrastructure development	M13		M2		M1			
Osiječko-baranjska County								
P1 Development of local economy based on agriculture, industry, tourism, and services	M23						M1	
P2 Human resources development	M6						M3	
P3 Balanced development of social and communal infrastructure	M25				M1		M1	
Vukovarsko-srijemska County								
P1 Creation of preconditions for competitive local economy with environmental protection	M18	M1						
P2 Human resources development	M4					M1	M3	
P3 Improvement of the quality of life through preservation of cultural and natural heritage, health and social inclusion	M11		M2		M1			M3
P4 Active role of county in integration processes	M5							
Sisačko-moslavačka County								
P1 Steady regional development	M6							
P2 Integrated development of sectoral priorities	M15							
P3 Human resources development	M15					M1	M4	
P4 Sustainable management of cultural and natural resources	M7							
P5 Improvement of the quality of life and standard of living	M7		M1					M2

Karlovačka County									
P1 Preconditions for economic development	M12								
P2 Sustainable management of natural resources and environmental protection	M11								
P3 Improvement of the quality of life	M13		M1		M1			M4	
Adriatic Croatia									
Primorsko-goranska County									
P1 Development of competitive local economy	M15								
P2 Preconditions for balanced development	M19								
P3 Human resources development	M13		M3				M1	M3	M2
P4 Improvement of quality of life	M12	M1			M3				
Ličko-senjska County									
P1 Agricultural products development	M9								
P2 Tourism development	M4							M1	
P3 SMEs development	M10								
P4 Development of social and physical infrastructure	M14		M1		M3			M2	
Zadarska County									
P1 Environmental protection at the county level	M5								
P2 Improvement of capacity of public administration at the county level	M4								
P3 Infrastructure development in hinterland	M9								
P4 Competitiveness of tourism in the coastal area	M3								
P5 Improvement of tourism on the islands	M3								
Šibensko-kninska County									
P1 Development of the coastal area	M7	M1							
P2 Development of the islands	M13								
P3 Development of hinterland	M7	M1							
Splitsko-dalmatinska County									
P1 Development of local economy	M9								

P2 Improvement of physical infrastructure	M14	M1							
P3 Human resources development	M9		M1					M3	M1
P4 Institutional infrastructure development	M8								
Istarska County									
P1 Competitive local economy	M19								
P2 Human resources development	M18						M1	M2	
P3 Balanced sustainable development	M13							M1	
P4 Recognizable Istrian identity	M6							M1	
Dubrovačko-neretvanska County									
P1 Balanced sustainable development of the coast, islands, and hinterland	M12								
P2 Preservation of cultural and natural heritage, with improvement of the quality of life	M7								M2
P3 Improvement of education quality	M6							M5	

Notes: Strategic goals, strategic priorities, and measures for the accomplishment of strategic priorities are grouped in ten groups that follow Classification of expense by function of government (IMF, 2001). Some of the measures are too general and it was not possible to make a decision on the appropriate functional classification. In such cases, these measures were omitted from further analysis.

P – strategic priorities; P1...N – number of priorities; M – measures; M1...N – number of measures

Source: Authors' systematization based on Regional Operational Plans by counties

IDENTIFYING KEY OBSTACLES FOR PERFORMANCE  
MEASUREMENT AT THE SUB-NATIONAL LEVEL  
IN CROATIA

*Summary*

*Performance measurement is one of the crucial factors that lead to the improvement of implementation of local and regional policies. This paper analyses the possibilities to set up performance measurement at the sub-national government level in Croatia and identifies the key obstacles that have to be solved in order to achieve faster local development. Some important prerequisites for successful performance measurement have been analysed in the paper. One is the credibility of the sub-national budget. This part of the analysis is based on the analysis of several indicators developed in the Public Expenditure and Financial Accountability Public Financial Management (PEFA PFM) Performance Measurement Framework. A significant divergence of budgetary outturns from the original approved budget, both on the revenue and expenditure side of the budget, confirms the hypothesis about low credibility of the budget at the sub-national level in Croatia. Second prerequisite for the development of performance indicators and performance measurement at sub-national government level are clear objectives and targets of local and regional policies in strategic documents. Therefore, the paper analyses the goals, priorities and measures set in Regional Operational Plans. The analysis proves that defined goals, priorities and measures in Regional Operational Plans cannot be used for performance measurement at the sub-national government level. The results show that the budget does not incorporate any aspects of strategic planning, which is necessary to achieve local and regional development.*

*Keywords: local and regional development, local and regional policy, performance measurement – Croatia*



## UTVRĐIVANJE GLAVNIH ZAPREKA MJERENJU UČINKA NA SUBNACIONALNOJ RAZINI U HRVATSKOJ

### Sažetak

U radu se analizira mjerenje rezultata na lokalnoj razini u Hrvatskoj kao ključnog čimbenika za unapređenje provedbe lokalne i regionalne politike i mogućnosti za uspostavu pokazatelja uspješnosti s ciljem postizanja bržeg lokalnog razvoja. Analiza se temelji na metodologiji Svjetske banke za mjerenje rezultata u javnom sektoru. U radu se analiziraju osnovni preduvjeti koji trebaju biti zadovoljeni za uspješno mjerenje rezultata na lokalnoj razini. Jedan je kredibilitet proračuna lokalnih jedinica. Ovaj se dio analize temelji na analizi nekoliko pokazatelja. Značajna razlika između planiranih i ostvarenih proračunskih prihoda i rashoda potvrđuje hipotezu o malom kredibilitetu lokalnih proračuna u Hrvatskoj. Drugi preduvjet za razvoj pokazatelja uspješnosti na lokalnoj razini i mjerenje rezultata su jasno prepoznati i postavljeni ciljevi lokalne i regionalne politike u strateškim dokumentima. Stoga se u radu analiziraju ciljevi, prioriteta i mjere postavljeni u regionalnim operativnim programima. Rezultati provedene analize pokazuju da se postavljeni ciljevi, prioriteta i mjere u regionalnim operativnim programima ne mogu koristiti za mjerenje rezultata na lokalnoj razini. Rezultati analize pokazuju da proračun ne odražava nikakve aspekte strateškog planiranja, koje je neophodno za postizanje lokalnog i regionalnog razvoja.

Ključne riječi: lokalni i regionalni razvoj, lokalne i regionalne politike, mjerenje rezultata – Hrvatska