

Mjerenje rezultata na lokalnoj razini u Hrvatskoj

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Performance Measurement at the Sub-national Government Level in Croatia

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Sub-national Government Level in Croatia

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Performance Measurement at the Sub-national Government Level in Croatia

Abstract:

This paper analyzes the role of performance measurement at the sub-national government level in Croatia as one of the crucial factors that lead to the improvement of implementation of local and regional policies. The analysis is based on the Public Expenditure and Financial Accountability Public Financial Management (PEFA PFM) Performance Measurement Framework. Three performance indicators are used for measuring the credibility of the sub-national budget. The first performance indicator measures the differences between aggregate expenditure outturns and the original approved budget at the sub-national government level in Croatia. The second performance indicator is used to examine the difference between the composition of expenditure outturn and the original approved budget at the sub-national government level in Croatia. The third indicator measures the deviation of aggregate revenue outturn from the original approved budget at the sub-national government level in Croatia. 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. The paper also analyzes the impact of expenditure structure on the performance of the sub-national government level in Croatia. The results presented in this paper identify the main policies which the sub-national government uses to encourage local and regional development in Croatia. However, the results show that the budget does not incorporate any aspects of strategic planning, which is necessary to achieve local and regional development. The substantial difference between planned and realized budgetary expenditures is a key obstacle to faster local and regional development.

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

JEL classification: R28, R51

Mjerenje rezultata na lokalnoj razini u Hrvatskoj

Sažetak:

U radu se analizira uloga mjerenja rezultata na lokalnoj razini u Hrvatskoj kao ključnog čimbenika za unapređenje provedbe lokalne i regionalne politike. Analiza se temelji na metodologiji Svjetske banke za mjerenje rezultata u javnom sektoru. U radu se koriste tri pokazatelja rezultata koji omogućuju mjerenje kredibiliteta proračuna lokalnih jedinica u Hrvatskoj. Prvi pokazatelj koristi se za mjerenje razlike između ukupno ostvarenih i planiranih rashoda lokalnih jedinica. Drugi pokazatelj rezultata mjeri razlike u strukturi ostvarenih i planiranih rashoda lokalnih jedinica. Treći pokazatelj rezultata se koristi za mjerenje odstupanja ostvarenih od planiranih prihoda lokalnih jedinica u Hrvatskoj. Značajna razlika između planiranih i ostvarenih proračunskih prihoda i rashoda potvrđuje hipotezu o malom kredibilitetu lokalnih proračuna u Hrvatskoj. U radu se također analiziraju učinci strukture rashoda na rezultate lokalnih jedinica u Hrvatskoj. Identificirane su glavne politike koje lokalne jedinice koriste za poticanje lokalnog i regionalnog razvoja u Hrvatskoj. Rezultati analize pokazuju da proračun ne odražava nikakve aspekte strateškog planiranja, a koji je neophodan za postizanje lokalnog i regionalnog razvoja. Značajna razlika između ostvarenih i planiranih rashoda predstavlja glavnu prepreku postizanju bržeg lokalnog i regionalnog razvoja.

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

JEL klasifikacija: R28, R51

1 Introduction*

The process of fiscal decentralization increases the pressure on local government. To manage more mandatory functions and responsibilities, local governments have to increase budgets, but also due to the lack of adequate financial resources they should allocate resources more carefully to those goals (priorities) which achieve the best results and to those which are important for local development. To deal with financial difficulties and increase performance, local governments have to improve financial management. The budget is the basis of financial management. Before the beginning of each year, it sets out the costs of providing the services to be delivered during the year. Therefore, it should summarize the total activity of the sub-national government unit, the service objectives to be achieved and the costs for fulfilling each activity (Council of Europe, 1999).

The budget at the sub-national government level is continuously increasing in Croatia. Revenues of local and regional self-government units increased 56.8 percent in the period between 2004 and 2008. This means that revenues are increasing more than 10 percent every year. Budgetary expenditures of local and regional self-government units increased 58.8 percent in the same period. At the same time, it seems that there is a lack of a clear connection between budgetary items and local and regional policies in Croatia. This topic is even more important having in mind that there is a mismatch between the original approved revenues and aggregate revenue outturn and between the original approved budget and expenditure outturn. Thus, the purpose of this paper is to discuss the role of performance measurement at the sub-national government level in Croatia as one of the crucial factors that lead to the improvement of implementation of local and regional policies.

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.” Usually performance measurement includes a set of measures to capture all these. Most commonly used measures include: inputs (money, personnel, 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.).¹ 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

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¹ Caiden (1998).

Framework.² PEFA PFM is used to analyze 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 performance indicators 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.

After that, we use these results to examine whether the sub-national government budget has adequate potential to support certain long-term development plans. Therefore, we evaluate the impact of expenditure structure on the performance of the sub-national government level in Croatia. 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 that section we also explain the key features of the PEFA PFM Performance Measurement Framework and scoring methodology. The credibility of the budget at the sub-national level in Croatia is measured in the third section. Section four explains the importance of performance measurement at the sub-national level in Croatia. Also, in that section we recommend how the performance indicators can be used to measure the relationship between the sub-national government budget and the main goals of the sub-national government in Croatia. The paper ends with final conclusions.

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

² PFM Performance Measurement Framework is developed by the PEFA partners, in cooperation with OECD/DAC Joint Venture on PFM. It enables analyses of government performance at different levels (central government, sub-national government, etc.). For example, 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 all data for Croatia are not publicly available for deeper analysis, we are using it as a tool to partially measure the credibility of the budget at the sub-national government level in Croatia.

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 New Public Management. The main objectives of New Public Management 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.³ Underlying this reform is the central belief that these changes will lead to improved public services delivery. These changes (which 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.

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 Croatia. Here we mention a few articles which 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 program performance when deciding about the allocation of resources. They emphasize that performance indicators, which are grouped in three categories: the state's economic, organizational, and political characteristics⁴, 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.⁵

Similarly, Melkers and Willoughby (2005) analyze the effects of performance measurement information on budgetary decision making and communication in US local governments. Their findings indicate very extensive use of performance measures in the majority of departments within the city and county. 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

³ For more about New Public Management, see 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.

⁴ 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.

⁵ Jordan and Hackbart (1999) conduct 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 US states. Performance funding was defined as the allocation of funds according to an assessment of the performance measures identified in the budget.

management decisions by providing relevant information about results, costs, and activities.

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) analyzes the planning programming budgeting in local government in Australia. He proves that program 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 programs.

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.

In principle, but not so much in practice, performance indicators can be seen as integral parts of the planning process.⁶ Elaboration and evaluation of the implementation of planning programs or strategic documents at the local and regional level are strongly correlated with the introduction of a system of performance indicators. Performance indicators at the local and regional level measure implementation success of strategic documents.

Indicators are representatives for 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,

⁶ This part of the paper is based on Jurlina Alibegović and Kordej-De Villa (2006).

and practical, i.e., meaningful for decision makers, but based on theoretical insights. Formulating a good set of indicators is a difficult task.

Performance indicators have a major role as management tools for policymakers, citizens, researchers, the private sector, and international agencies. Consequently, performance indicators 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.

Performance indicators can be divided into two groups of indicators: quantitative indicators and qualitative data.

Key quantitative indicators are structure and level of *local government revenues and expenditures*. They indicate the level of resources which counties are able to raise 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

As previously mentioned, this paper analyzes the role of performance measurement at the sub-national government level in Croatia. The analysis of the approved budget and budgetary outturn is based on performance indicators which are part of the Public Expenditure and Financial Accountability Public Financial Management Performance Measurement Framework. The performance indicators developed within PEFA PFM allow us to identify the strengths and weaknesses of the budgeting system in Croatia. Also, in countries which have strategic plans related to the budget, performance measurement enables analysts to measure progress in conducting 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 PFM Performance Measurement Framework⁷ “is an integrated monitoring framework that allows measurement of country 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

⁷ World Bank, IMF, and PEFA staff have developed the PEFA PFM Performance Measurement Framework as a contribution to the collective efforts of many stakeholders to assess and develop essential PFM systems, by providing a common pool of information for measurement and monitoring of PFM performance progress, and a common position for dialogue.

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 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 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.⁸

3 PFM System Outturns: Measuring the Credibility of the Budget at the Sub-national Level in Croatia

3.1 General Background

As the levels of responsibilities and power vary significantly between countries, in this part of the paper we will shortly describe the main characteristics of the sub-national government in Croatia.

The major characteristic of the Croatian system of local and regional self-government is fragmentation, with a multitude of small local and regional self-government units. The sub-national level of government has a *two-tier system of government*. Municipalities, towns, and cities represent the local level of government and counties represent the regional level of government. The City of Zagreb has the status of a local and regional level of government.

Several trends should be mentioned with respect to the territorial division in Croatia. The most important one is the constant increase in the number of local government units in the last decade.⁹

In 1992, Croatia was divided into 21 counties and 2 districts, comprising 70 towns and 419 municipalities. Now, there are 126 towns and cities, the City of Zagreb, 429 municipalities, and 20 counties in Croatia.

There have been many examples of settlements applying for the status of municipality, as well as a few examples of municipalities trying to obtain the status of town. Since the law allows, in exceptional cases, a municipality to obtain the status of a town if there are specific historical, economic, geographic, and other reasons, many municipalities that actually did not meet the defined population and urban development requirements have taken that legitimate opportunity to become towns.

⁸ The framework provides a set of 28 high-level PFM indicators to rate performance.

⁹ Refer to The Institute of Economics, Zagreb (2004).

However, most of the new local units have been created by splitting up existing units. The settlement, or town quarter, may apply for municipality status based on the decision of the local representative body or one third of local citizens to “become autonomous.” This often happens after the settlement’s infrastructure has been improved. For example, building a settlement’s water supply system is financed from the town budget. The price of land and construction sites increases because of improved infrastructure. That sparks speculations of managing autonomously the future revenues from public utility charges and other revenues. Although the value of the assets of the new (and existing) local unit is not known, a proposal of financial sources to finance the legal responsibilities of the local unit is submitted to the authorities. The Ministry of Administration collects opinions from the Ministry of Finance, county, other local communities, and competent institutions but there have been cases where a decision to found new local units was made in spite of the negative opinion of the competent bodies.¹⁰

We can conclude that there are several reasons for the creation of new local government units. First, Croatian legislation is not rigorous and exact, but gives certain guidelines for the formation of a new municipality, town, or city.¹¹ Second, the guaranteed right of all citizens to local self-government has resulted in the requests of many local communities for the creation of new municipalities and cities. Third, political reasons are always a strong incentive for the creation of a new political entity. Croatia is a small country in terms of population but it is characterized by relatively large differences in the achieved development level among local government units. For local politicians the most pragmatic solution to eliminate current differences in the level of local development is to create a new municipality. In this situation, they are in a position “to fight” for more revenues for their local budget from the state budget and other sources. The fourth reason is reserved especially for the creation of a new town or city. It can be considered a sociological or, even more so, a psychological reason. Because of existing differences in the terms “municipality,” “town,” and “city,” the majority of local mayors would prefer to be “city mayors” instead of “municipal or town mayors.” The new title provides more prestige, status, or reputation for its local municipality.

In July 2001, the first phase of the decentralization process began, covering issues of administrative and financial decentralization. Based on provisions of the Law on Local and Regional Self-Government, counties in their self-governing scope of authority are responsible for the functions of regional character. Municipalities and towns (cities) 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 be also responsible for functions which otherwise fall

¹⁰ See Ott and Bajo (2003).

¹¹ The Constitution of the Republic of Croatia provides a general framework for local government. The Constitution guarantees the right of all citizens to local self-government. The Law on the Territory of Counties, Towns and Municipalities defines counties, towns, and municipalities in Croatia, their name, territory, and borders, and other issues significant to the territorial constitution of regional and local self-government. Croatia has ratified the European Charter on Local Self-Government and adopted its provisions in Croatian legislation.

within the competence of counties, as long as they ensure the necessary conditions for the performance of these services (Jurlina Alibegović, 2005).

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

Source: *Jurlina Alibegović (2005)*.

Local government in Croatia is faced with increasing pressure to match the growing service delivery demand with limited financial resources. Fiscal decentralization means that local and regional governments are responsible for fulfilling the mandatory functions (Table 1), but also means that the expenditure responsibilities for delivery of public services are decentralized to the lower levels of government in Croatia. Therefore, in the next section we will analyze the level of accuracy in planning the sub-national government budget.

3.2 Scoring Results for Measuring the Credibility of the Budget at the Sub-national Level in Croatia

In this part of the analysis we use three PEFA PFM performance indicators to analyze the accuracy of expenditure estimates and precision of planned revenues. In addition, we try to identify whether the difference between plans and outturn at the sub-national government level in Croatia is a standard occurrence or just a rarity occurring occasionally in some counties.

In this analysis we use three of four performance indicators¹² defined in PEFA Performance Framework at Sub-national Government Level (World Bank, 2008a) for measuring the budget credibility. These three performance indicators 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)

¹² For a more detailed explanation, see Table A1 in the Appendix.

depending on the level of deviation between outturn and the approved budget for that specific item.

Total scoring for each performance indicator requires data about approved budget revenues and expenditures, as well as revenue and expenditure outturn for three years. However, data about the original approved budget for three years are not publicly available. Thus, we could not measure the scores (from A to D) for performance indicators. We made calculations only for one year – 2008.¹³ We measure each of these performance indicators (PI-1, PI-2, and PI-3) for each Croatian county. The results are presented in Table 2.

	PI-1		PI-2	PI-3
County	Total expenditures deviation	Total expenditures variance	Variance in excess of total deviation	Total revenues deviation
Northwestern Croatia				
Zagreb County	15.6	16.9	1.3	3.9
Krapina-Zagorje County	12.5	13.0	0.4	4.3
Varaždin County	11.6	25.6	14.0	0.3
Koprivnica-Križevci County	18.3	23.6	5.3	2.3
Međimurje County	29.7	30.5	0.9	18.8
City of Zagreb	0.5	3.8	3.3	2.2
Central and Eastern (Panonian) Croatia				
Bjelovar-Bilogorje County	22.3	22.9	0.7	8.8
Virovitica-Podravina County	8.5	13.4	4.9	15.3
Požega-Slavonija County	25.5	31.5	6.0	6.1
Brod-Posavina County	24.8	26.6	1.8	11.5
Osijek-Baranja County	9.3	14.1	4.8	4.0
Vukovar-Srijem County	17.2	21.7	4.5	0.4
Sisak-Moslavina County	16.6	16.8	0.2	8.5
Karlovac County	4.5	12.7	8.2	2.4
Adriatic Croatia				
Primorje-Gorski Kotar County	10.3	10.7	0.4	6.2
Lika-Senj County	19.7	21.8	2.1	11.6
Zadar County	15.5	17.5	2.0	7.0
Šibenik-Knin County	13.7	18.4	4.7	10.5
Split-Dalmatia County	10.2	14.2	4.0	0.9
Istria County	18.4	18.7	0.3	18.8
Dubrovnik-Neretva County	18.4	21.2	2.8	15.8

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

¹³ Data for original approved revenues and expenditures were available only for the years 2008 and 2009. In addition, data about the execution of budget for 2009 were still not available at the time of writing this paper.

Performance indicator PI-1 measures the extent to which actual primary expenditures¹⁴ exceed original budgeted primary expenditures. It can be seen that there are huge differences at the sub-national government level in Croatia. The smallest deviation can be noticed in the City of Zagreb and in Karlovac County (less than 5 percent). The sub-national government units which have the largest problems with fiscal stance are those in which actual expenditures deviate from budgeted expenditures by an amount equivalent to more than 15 percent of budgeted expenditures. It can be seen that in some Croatian counties this deviation amounts to more than 25 percent (Međimurje County¹⁵ and Požega-Slavonija County¹⁶). In 13 of the 21 counties this deviation in expenditures amounts to over 15 percent, which means that these counties could not achieve a score higher than C for performance indicator PI-1. Counties had the most difficulty with planning the amount of grants to other general government units. This means that the annual expenditures budget is credible in few counties.

Performance indicator PI-2 measures the extent to which variance in primary expenditure composition exceeds overall deviation in primary expenditure. It measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. Making an assessment requires that the total variance¹⁷ in the expenditure composition is calculated and compared to the overall deviation in primary expenditure. The results of the performance measurement show that only in Varaždin County PI-2 variance in expenditure composition exceeds overall deviation in primary expenditure by more than 10 percent. In 17 counties this variance amounts to less than 5 percent.

Performance indicator PI-3 measures actual domestic revenue collection compared to domestic revenue estimates in the original approved budget.¹⁸ Based on the available data it can be concluded that in 7 counties actual domestic revenue collection was below 90 percent of budgeted domestic revenues. The best situation is in Varaždin County, Vukovar-Srijem County, and Split-Dalmatia County where this deviation amounts to less than 1 percent. All these three counties had the most difficulty with estimating the precise level of other revenues and property income (revenues of nonproduced assets).

¹⁴ 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).

¹⁵ Međimurje County had significant differences between planned and achieved expenditures in nearly all expenditure items. A deviation larger than 15 percent was recorded in the following items: amount of subsidies, grants, other expenses, expenditures for nonproduced assets, expenditures for fixed assets, and expenditures for additional investment in nonfinancial assets.

¹⁶ Požega-Slavonija County had a difference between original approved expenditures and expenditure outturn larger than 15 percent in the following items: material expenditures, social benefits, other expenditures, and expenditures for nonproduced assets.

¹⁷ 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 of methodology, see World Bank (2008a, 2008b).

¹⁸ 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. For a detailed explanation of methodology, see World Bank (2008a, 2008b).

Therefore, this is where all counties have possibilities to improve their planning. Medimurje County has the worst results in planning revenues. This county has a very large difference between the levels of almost all originally planned and achieved revenues. It plans quite precisely only tax revenues, with a deviation of only 4.3 percent. Other revenue items are planned with an error larger than 10 percent.

From such analysis it can be concluded that there are large differences at the sub-national government level in Croatia in successfulness in applying performance-based financial management. Some good examples of financial planning can be seen, such as the City of Zagreb, as well as some bad examples, such as Medimurje County and Lika-Senj County. In the next chapter we will focus on potentials and constraints of performance measurement in helping sub-national governments to plan and implement successful regional development strategies.

4 Performance Measurement at the Sub-national Government Level in Croatia

Results of performance measurement show the success of a sub-national government unit's efforts by comparing data on what actually happened to what was planned.¹⁹ For effective performance measurement we need 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. 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.

Performance measurement gives an opportunity to sub-national governments as well as to local citizens to get appropriate answers to many different questions, for example: "Is progress being made toward desired goals? Are appropriate activities being undertaken to promote achieving those goals? Are planned financial and other resources used to support the accomplishment of those goals?"

This part of the paper will focus on the strategic goals, priorities, and measures defined in the Regional Operational Plans (ROPs).²⁰ A thorough analysis of the Regional Operational Plans has shown that there are many similarities among Croatian counties in setting strategic goals and defining measures for the accomplishment of strategic priorities.

In most countries, local and regional development is one of the most important functions of sub-national governments. In the last several decades, local and regional development has been the result of a new planning process. This new planning process is

¹⁹ There is plenty of interesting literature covering performance management at the sub-national level of governments. Our argumentations are mainly based on Young (2005).

²⁰ Strategic documents of regional self-government units in Croatia.

characterized by preparation of strategic development programs using participative methodology for sub-national governments (Jurlina Alibegović et al., 2003).

In the last ten years, laws and by-laws dealing with local and regional development management have been gradually introducing development programming on all levels of government, including sub-national government levels. 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 a 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).

For the purpose of this research, strategic goals, priorities, and measures for all of the 20 Croatian counties²¹ 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 Regional Operational Plans 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, defense, public order and safety, economic affairs, and environmental protection). Table A3 also contains a review of strategic goals, strategic priorities, and measures defined in Regional Operational Plans 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).

Our idea was to link every measure for the achievement of defined strategic goals and priorities in each county Regional Operational Plan 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. We can group all regional strategic priorities into the following groups: (i) competitive local economy and the selected sector development, (ii) improvement of quality of life, (iii) environmental protection and infrastructure development, and (iv) education and human capital development including the improvement of public administration capacity on the county level.

²¹ The City of Zagreb has the status of a local and regional level of government. Here the City of Zagreb is not included because it has not adopted such a Regional Operational Plan.

There is a variety of measures for the accomplishment of strategic priorities defined in county Regional Operational Plans. 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 quality of life” counties have identified from 7 to 19 different measures. In analyzing 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. On the other hand, 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. This was the first step in our analysis.

The second step was originally reserved for determining how much of the planned expenditures in regional budgets was realized and allocated for each of the public functions. Unfortunately, it is not possible to conduct such an analysis. The reason is simple - a functional classification of government expenses is not planned in advance as in the case of the economic classification of government expenses. Counties do not make any plans for expenses by functional classification. Regional self-government units in Croatia only make note of the outturn of the functional classification of government expenses.

As an alternative, we have decided to make a comparison of the difference between the aggregate and composition of expenditure outturn and the original approved budget at the sub-national level. As a result, we are able to see the impact of expenditure structure on the performance of the sub-national government level.

During our research we have encountered substantial differences among Croatian counties. However, 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 not much explanation. Measures for the achievement of strategic priorities are general and they are assigned to a regional and local administration without measurement. Examples of measures are the following: “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 Regional Operational Plans.

In Tables A2 and A3 many measures for the accomplishment of strategic goals at the regional level can be found. These measures relate to different groups of expenditures by economic classification. Data in Table 3 show that there are huge differences among counties regarding the approved budget and budgetary outturn, especially in certain groups of expenditures.

According to the Council of Europe (1999), proper financial management at the sub-national government level requires the preparation and monitoring of the annual budget. Thus, it should enable measuring the financial implication of the proposed measures

over the year, set measures within the long-term strategic goals, and provide the framework of financial control.

Table 3 Differences in Expenditure Structure Between Approved Budgetary Expenditures and Outturn (in percent)

County	Compensation of employees	Use of goods and services	Subsidies	Grants	Social benefits	Other expenses	Acquisition of non-produced assets	Acquisition of fixed assets
Zagreb County	5.2	4.5	20.2	14.5	8.7	22.9	20.5	30.9
Krapina-Zagorje County	0.0	0.6	25.5	4.4	4.9	12.4	20.2	26.5
Varaždin County	1.9	16.6	11.3	7.3	15.1	5.4	29.1	53.8
Koprivnica-Križevci County	2.5	2.1	8.0	26.2	9.9	10.5	26.8	52.1
Međimurje County	1.9	11.2	16.9	55.2	1.3	30.8	29.7	54.4
Bjelovar-Bilogorje County	2.6	8.5	17.1	26.0	1.7	20.0	57.1	43.2
Virovitica-Podravina County	1.1	6.0	3.4	23.5	21.6	18.7	61.7	18.4
Požega-Slavonija County	7.4	31.6	14.9	7.0	87.6	16.7	0.1	51.0
Brod-Posavina County	0.4	0.9	2.1	27.6	22.3	6.7	33.0	53.8
Osijek-Baranja County	5.4	2.5	9.7	21.0	30.6	4.7	35.5	32.7
Vukovar-Srijem County	0.3	1.1	10.6	104.3	21.8	4.0	69.4	40.8
Sisak-Moslavina County	1.4	6.8	3.7	19.9	9.7	2.6	57.1	43.4
Karlovac County	0.3	9.3	0.8	12.6	0.7	2.8	16.7	33.6
Primorje-Gorski Kotar County	2.6	1.3	7.7	7.0	2.4	8.7	43.3	24.5
Lika-Senj County	6.5	9.0	22.6	10.5	0.2	8.3	0.7	36.7
Zadar County	0.4	2.7	1.7	31.7	15.8	5.0	18.5	34.3
Šibenik-Knin County	1.5	2.8	1.8	17.2	27.3	8.3	35.7	36.0
Split-Dalmatia County	1.7	1.4	17.3	31.0	0.3	5.6	40.2	29.0
Istria County	2.0	8.3	2.6	0.9	4.3	28.5	17.6	34.1
Dubrovnik-Neretva County	2.2	3.6	0.5	0.3	4.8	15.6	71.9	54.2
City of Zagreb	1.0	0.6	1.2	24.3	3.5	1.5	65.7	7.2

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

Examples of large differences are subsidies and grants to SMEs which can be found in most ROPs as important strategic measures.

Such differences in planned and realized budget expenditures can be seen as one of the key obstacles to the accomplishment of regional strategic objectives and goals.

An additional feature of the strategic documents is that they do not have an appropriate base for monitoring and evaluation because performance indicators are not defined in a suitable way.

Counties are vital to promoting regional development and to encouraging the development process at the national level. Therefore, it is necessary to coordinate the implementation of local programs within a county as well as regional development plans with the Strategy for Regional Development²² and National Development Strategy.²³

Our investigation of regional development plans has suggested that there are numerous areas for improvement. One of the most important matters for improvement is introducing performance measurement. This is the preferred practice of planning at the sub-national level and includes coordination of budget planning and development management at the sub-national level. This way of planning implies a strong need for monitoring performance results at the sub-national level.

Budget performance information and *performance measurement* are key points for strategic planning at the local and regional level. Modernizing budgeting practices at the regional level entails a shift away from control orientation and budgeting inputs to focus on outputs and outcomes. Regional budgeting is such a complex process that the budgets are usually a combination of line-item, program, and performance budgets. The primary objective is to make the budget process more efficient and effective. One of the tools used to achieve this is the *management plan*.²⁴

Performance indicators at the regional level in Croatia should measure the successfulness of implementation of strategic documents. Evaluation of the implementation of such programs is still lacking. Table 4 shows an example of the establishment of performance indicators – input, output, and outcome indicators – for the accomplishment of strategic goals and priorities.

Outcome indicators	Output indicators	Input indicators
Strategic goal: Competitive regional economy	Strategic priority: Support of SMEs in tourist area of the county	Input indicator: Annual amount of expenditures from county budget for support of SMEs
Outcome indicator: Increase in regional GDP, %	Output indicator: Number of newly employed persons in SMEs in tourist area of the county	

Source: Authors' systematization based on de Villa and Westfall (2001).

²² For reference see Ministry of Regional Development, Forestry and Water Management (2008).

²³ For reference see Dalić (2005).

²⁴ Management planning includes the formulation of long-term objectives and short-term goals, priority settings, elaboration of plans, and control and supervision of budget execution from a qualitative as well as quantitative perspective. The local or regional management plan should include a mission statement, description, accomplishments and achievements, goals, objectives, and performance indicators.

There are several constraints on the sub-national level to the establishment of a performance indicator system in Croatia. The most important ones are related to inappropriate data availability at the local and regional level. We are primarily referring to data on urban economy and urban environment, while financial data are usually available and they are of good quality.

5 Conclusion

A methodology for assessing the credibility of the budget was used in this paper to analyze 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 any strategic plans in Croatia largely depends on the availability of financial resources and allocation of budgetary resources.

A good reason for an analysis of the financing of sub-national strategic priorities can also be found in the inadequacies of the Croatian budgeting system. The results of the measurement of different performance indicators confirm the low credibility of the budget in most of the 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 coordinated well enough 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 a transparent, rational, and efficient allocation of public resources at the sub-national level. It involves introducing a framework for results-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 that are consistent with resource allocation objectives and are clearly specified within the approved budget. This means that the expected revenues collection has to be consistent with expenditures allocated for each strategic priority and for fulfilling specific measures from the Regional Operational Plan.

The current budgeting system does not serve integrated management in the local area either. Lack of coordination between local strategic planning and budgeting has led to a

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 sub-national government resource allocation decisions.

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 in Croatia. 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 program budgeting.

Appendix

Table A1 Scoring Methodology for Assessing the Credibility of the Budget	
Score	Minimum requirements (scoring method M1)
P1: Aggregate expenditure outturn compared to original approved budget	
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 percent 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 percent 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 percent 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 percent of budgeted expenditure.
P2: Composition of expenditure outturn compared to original approved budget	
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.
P3: Aggregate revenue outturn compared to original approved budget	
A	Actual domestic revenue collection was below 97 percent of budgeted domestic revenue estimates in no more than one of the last three years.
B	Actual domestic revenue collection was below 94 percent of budgeted domestic revenue estimates in no more than one of the last three years.
C	Actual domestic revenue collection was below 92 percent of budgeted domestic revenue estimates in no more than one of the last three years.
D	Actual domestic revenue collection was below 92 percent 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 percent 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 percent of total expenditure and there is evidence that it has been reduced significantly (i.e., more than 25 percent) 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 percent 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 percent 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)**

Public functions Counties Priorities	M	General public services	Defense	Public order and safety		Economic affairs			Environmental protection		
				Fire protection services	Agriculture, forestry, fishing, and hunting	Fuel and energy	Transport	Tourism	Waste management	Waste water management	Protection of biodiversity and landscape
Northwestern Croatia											
Zagreb 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
Krapina-Zagorje County											
P1 Competitive entrepreneurship	M13						M2	M3			
P2 Rural development	M12				M8			M1			
P3 Human development and improvement of quality of life	M19	M2									
P4 Preservation of cultural and natural heritage	M16						M2		M1	M1	M7
Varaždin County											
P1 Competitive local economy	M10				M4			M1			
P2 Improvement of quality of life and human resources development	M11	M3									
P3 Environmental protection and infrastructure development	M9							M1	M1	M1	M2
Koprivnica-Križevci 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
Međimurje 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											
Bjelovar-Bilogorje County											
P1 Development of agriculture, processing industry, and continental tourism with sustainable exploitation of natural resources	M12				M4		M2	M2			
P2 Creation of stimulative economic framework	M5										
P3 Social infrastructure development	M5	M5									

Virovitica-Podravina 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
Požega-Slavonija County										
P1 Improvement of competitiveness of firms on domestic and foreign markets	M19				M4			M2		
P2 Reduction of unemployment by 30 percent through 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								
Brod-Posavina County										
P1 Improvement of local economy aiming to reduce unemployment	M15	M14			M1					
P2 Infrastructure development	M15				M1		M2	M1	M1	M1
P3 Improvement of educational system	M4									
P4 Social infrastructure development	M13						M1			
Osijek-Baranja 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
Vukovar-Srijem 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 quality of life through preservation of cultural and natural heritage, health and social inclusion	M11									M3
P4 Active role of county in integration processes	M5	M5								
Sisak-Moslavina 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 quality of life and standard of living	M7	M1								
Karlovac 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 quality of life	M13	M4					M1			

Adriatic Croatia										
Primorje-Gorski Kotar County										
P1 Development of competitive local economy	M15	M15								
P2 Preconditions for balanced development	M19	M7				M2				
P3 Human resources development	M13									
P4 Improvement of quality of life	M12	M2				M1		M1	M1	M2
Lika-Senj County										
P1 Agricultural products development	M9			M9						
P2 Tourism development	M4					M2				M1
P3 SMEs development	M10	M7								
P4 Development of social and physical infrastructure	M14	M4		M1						M1
Zadar County										
P1 Environmental protection on county level	M5							M1	M1	M1
P2 Improvement of capacity of public administration on county level	M4	M3								
P3 Infrastructure development in hinterland	M9			M2		M1				
P4 Competitiveness of tourism in the coastal area	M3					M3				
P5 Improvement of tourism on the islands	M3					M1				M1
Šibenik-Knin County										
P1 Development of the coastal area	M7	M1				M2	M1	M1	M1	
P2 Development of the islands	M13			M2		M1	M2	M1	M1	
P3 Development of hinterland	M7					M1	M2	M1	M2	
Split-Dalmatia County										
P1 Development of local economy	M9			M2		M1	M3			
P2 Improvement of physical infrastructure	M14					M4		M2	M1	M1
P3 Human resources development	M9									
P4 Institutional infrastructure development	M8	M8								
Istria County										
P1 Competitive local economy	M19	M10		M4		M6				
P2 Human resources development	M18	M6								
P3 Balanced sustainable development	M13					M1				M4
P4 Recognizable Istrian identity	M6									M5
Dubrovnik-Neretva County										
P1 Balanced sustainable development of coast, islands, and hinterland	M12	M5		M3		M2				
P2 Preservation of cultural and natural heritage, with improvement of 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.

Table A3 Review of Strategic Goals, Strategic Priorities, and Measures Defined in Regional Operational Plans by Counties, by Functional Classification of Government Expenses (second five groups of expenses)										
Public functions	M	Housing and community amenities		Health		Recreation, culture, and religion	Education			Social protection
		Water supply	Public health services	Outpatient services	Post-secondary education		Tertiary education	Subsidiary services to education		
Counties	Priorities									
Northwestern Croatia										
Zagreb County										
P1 Effective regional and local public administration and strengthening of cooperation with civil society, the City of Zagreb, and other regions	M17									
P2 Competitive and socially responsible local economy	M19								M19	
P3 Preservation of cultural and natural heritage	M9					M6				
P4 High quality of life	M15		M1	M2					M4	
Krapina-Zagorje County										
P1 Competitive entrepreneurship	M13									
P2 Rural development	M12									
P3 Human development and improvement of quality of life	M19		M1	M2	M1		M1	M8	M1	
P4 Preservation of cultural and natural heritage	M16	M1								
Varaždin County										
P1 Competitive local economy	M10									
P2 Improvement of quality of life and human resources development	M11		M2				M1	M1	M3	M1
P3 Environmental protection and infrastructure development	M9									
Koprivnica-Križevci 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									
Međimurje 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										
Bjelovar-Bilogorje 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									

Virovitica-Podravina 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							
Požega-Slavonija County								
P1 Improvement of competitiveness of firms on domestic and foreign markets	M19							
P2 Reduction of unemployment by 30 percent 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							
Brod-Posavina 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			
Osijek-Baranja 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	
Vukovar-Srijem County								
P1 Creation of preconditions for competitive local economy with environmental protection	M18	M1						
P2 Human resources development	M4					M1	M3	
P3 Improvement of 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							
Sisak-Moslavina 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 quality of life and standard of living	M7		M1					M2
Karlovac County								
P1 Preconditions for economic development	M12							
P2 Sustainable management of natural resources and environmental protection	M11							
P3 Improvement of quality of life	M13		M1		M1		M4	
Adriatic Croatia								
Primorje-Gorski Kotar 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			

Lika-Senj 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	
Zadar County									
P1 Environmental protection on county level	M5								
P2 Improvement of capacity of public administration on 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								
Šibenik-Knin County									
P1 Development of the coastal area	M7	M1							
P2 Development of the islands	M13								
P3 Development of hinterland	M7	M1							
Split-Dalmatia 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								
Istria 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	
Dubrovnik-Neretva County									
P1 Balanced sustainable development of coast, islands, and hinterland	M12								
P2 Preservation of cultural and natural heritage, with improvement of 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.

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