

# EU Public Policies Seen from a National Perspective: Slovenia and Croatia in the European Union

Edited by  
Damjan Lajh  
Zdravko Petak

7



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To Kaja and Jan



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# Abbreviations

AIS	Agricultural Institute of Slovenia
ALMPs	Active Labour Market Policies
AP	Accession Partnership
AP	Agricultural Policy
AQR	Asset Quality Review
ARZ	Autocesta Rijeka-Zagreb d.d.
AWU	Annual working units
BAMC	Bank assets management company
CAP	Common Agricultural Policy
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBS	Croatian Bureau of Statistics
CEE	Central and Eastern Europe
CEECs	Central and Eastern European countries
CEF	Connecting Europe Facility
CES	Croatian Employment Service
CF	Cohesion Fund
CIP	Competitiveness and Innovation Framework Programme
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
COST	Co-operation in Science and Technology
DG ECFIN	Directorate General for Economic and Financial Affairs

DG MARE	Directorate General for Maritime Affairs and Fisheries
DG MOVE	Directorate General for Mobility and Transport
DR	Direct payments
E&T	Education and Training
EA	Environment Agency
EAA	Economic Accounts for Agriculture
EAGFF	European Agricultural Guidance and Guarantee Fund
EAP	Environmental Action Programme
EBRD	European Bank for Reconstruction and Development's
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
EDP	Excessive Deficit Procedure
EEA	European Environmental Agency
EEC	European Economic Community
EES	European Employment Strategy
EMU	European Monetary Union
EQF	European Qualifications Framework
ERDF	European Regional Development Fund
ERM II	Exchange Rate Mechanism II
ESF	European Social Fund
ESI	East West Institute and European Stability Initiative
ESS	Employment Service of Slovenia
EU	European Union
EURATOM	European Atomic Energy Community
FDI	Foreign Direct Investment
FFG	Financial Instrument for Fisheries Guidance
GDP	Gross domestic product

GHG	Greenhouse gass
HAC	Hrvatske autoceste d. o. o.
HAZU	Croatian Academy of Sciences and Arts; Hrvatska akademija znanosti i umjetnosti
HDZ	Croatian Democratic Union, Hrvatska demokratska zajednica
HŽ	HŽ putnički prijevoz d. o. o.
IACS	Integrated Administration and Control System
ICTY	International Criminal Tribunal for the Former Yugoslavia
IDILb	International Development Ireland Limited
IGC	Intergovernmental (Accession) Conference
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-accession Assistance – Rural Development
IPPC	Industrial Pollution Prevention and Control
IPPC	Integrated Pollution Prevention and Control
LEADER	Links between the rural economy and development action, Liaison Entre Actions de Développement de l'Économique Rurale
LFA	Less favoured areas
LFS	Labour Force Survey
LLP	Lifelong Learning Programme
LSU	Livestock units
MIP	Macroeconomic Imbalance Procedure
MS	Member states
MZOS	Ministarstvo znanosti, obrazovanja i športa Republike Hrvatske
NCC	National Curriculum Council
NDP	National Development Programme
NEAP	National Environmental Action Programme
NFC	Non-financial company

NGO	Nongovernmental organizations
NMS	New member states
NN	Narodne novine
NP	Negotiating Position
NPAAC	National Programme for the Adoption of the Acquis Communautaire
NPM	National Transport Model
NPRSZI	Nacionalni program razvoja Slovenske železniške infrastrukture
NQF	National Qualifications Framework
NUTS	Nomenclature of Territorial Units of Statistics
NVK	Nacionalno vijeće za konkurentnost
OECD	Organisation for Economic Cooperation and Development
OECD PISA	Organisation for Economic Cooperation and Development Programme for International Student Assessment
OJ	Official journal
PAR	Public administration reform
PBRDA	Promotion of Balanced Regional Development Act
PISA	Programme for International Student Assessment
PM	Prime minister
Q4	Fourth quarter of a year
QMV	Qualified Majority Voting
RD	Rural development
RDAs	Regional development agencies
REER	Real effective exchange rate
ReNPIA	Resolucija o Nacionalnem programu izgradnje avtocest v Republiki Sloveniji
ReNPRCL	Resolucija o Nacionalnem programu razvoja civilnega letalstva Republike Slovenije do leta 2020
ReNPRP	Resolucija o Nacionalnem programu razvoja pomorstva Republike Slovenije

ReNPVCP	Resolucija o nacionalnem programu varnosti cestnega prometa za obdobje 2007–2011 (skupaj za večjo varnost)
RePPRS	Resolucija o prometni politiki Republike Slovenije
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SAPARD	Special Accession Programme for Agriculture and Rural Development
SAPS	Simplified area payments scheme
SCE	State-controlled enterprises
SEE	South East Europe
SOE	State-owned enterprise
SORS	Statistical Office of the Republic of Slovenia
SPD	Single Programming Document
SURS	Statistični urad Republike Slovenije
SVLR	Služba Vlade Republike Slovenije za lokalno samoupravo in regionalno politiko
SVREZ	Služba Vlade Republike Slovenije za razvoj in evropske zadeve
SVRK	Služba Vlade Republike Slovenije za razvoj in evropsko kohezijsko politiko
SWOT	Strengths, weaknesses, opportunities, threats
TEN-T	Trans-European transport
TFEU	Treaty on the Functioning of the European Union
UAA	Utilised agricultural area
UK	United Kingdom
ULC	Unit labour cost
UMAR	Urad Republike Slovenije za makroekonomske analize in razvoj, Institute of Macroeconomic Analysis and Development
UN	United Nations
UNDP	United Nations Development Programme
UP	Uprava Republike Slovenije za pomorstvo
USA	United States of America

VAT	Value-added tax
WHO	World Health Organization
WTO	World Trade Organization
ZDU-1-NPB13	Zakon o državni upravi
ZERP	Zašticeni ribolovno-ekološki pojas
ZRSZ	Zavod Republike Slovenije za zaposlovanje
ZVRS-UPB1	Zakon o Vladi Republike Slovenije
ZZSIJŽI	Zakon o zagotavljanju sredstev za investicije v prometno infrastrukturo

# Preface

To our knowledge, this is the first book to analyse various EU public policies from the perspective of Slovenia and Croatia, two EU member states, and at the same time one of the rare books that compares two neighbouring countries in the same volume. This book concerns the characteristics, problems and prospects of EU public policies from the perspective of two countries that shared the common historical experience of the socialist system of former Yugoslavia; after independence, they both started seeking membership in the European integration. Over the last 25 years they have both experienced deep political, social and economic changes, while the European Union has played quite a significant role in these transformation processes – it has intervened in the operation of both countries' political systems and the regulation of individual policy domains. On the other hand, the European Union itself has also changed significantly, and today it is clearly not the same regional integration it used to be in the late 1980s and early 1990s. For these reasons, we hope and believe that this book will contribute to research, thinking and understanding in the field of European studies, in particular EU public policies and policymaking processes.

Preparing an edited book is always challenging and requires the great efforts of numerous people. First of all, we would like to thank all the contributors, the authors of individual chapters, for their hard work and patience during preparation of the volume. We are deeply indebted to Professor Danica Fink Hafner, the book series' editor, especially for her encouragement, and to both reviewers, Professor Hal Colebatch and Professor Pekka Kettunen, for their valuable comments. Finally, special gratitude is also due to Murray

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Damjan Lajh and Zdravko Petak  
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**PART ONE:  
ACTORS AND PROCESSES**



# 1 Problems and Prospects of New EU Member States in EU Policymaking Processes – A View from Slovenia and Croatia

Damjan Lajh and Zdravko Petak

## Introduction

The European Union<sup>1</sup> (“EU”) is the result of a voluntary process of economic and political integration and cooperation of European countries. It began in the fields of coal and steel and matured into a broad economic, social and political regional integration which has developed a common set of institutions at the supranational level and a common set of public policies covering virtually the entire policy spectrum (see Dinan, 1999; Hix, 2005; Cini, 2007; Lajh and Kajnič, 2009; Wallace et al., 2010, Richardson, 2012). Although the EU is frequently compared with other (‘classical’) international organisations, it varies from them significantly in both its form and the extent of participation (Jordan, 2001: 194). As a result, in recent years the EU has been characterised with quite a paradigmatic description as

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<sup>1</sup> Today’s European Union has evolved from three separate Communities based on three founding treaties: the Treaty of Paris, which in 1951/1952 established the European Coal and Steel Community (“ECSC”), and the Treaties of Rome, which in 1957/1958 established the European Economic Community (“EEC”) and the European Atomic Energy Community (“EURATOM”). The three Communities were merged to form a single European Community upon the signing of the Treaty on European Union in Maastricht in 1992. For consistency, in this article we will use the term European Union (“EU”) to describe the EEC, the EC and the EU.

a *sui generis* supranational structure since, in its nature, it does not correspond to any of the standard categories of political arrangements – either in terms of national political systems or international organisations (Sbragia, 1993: 24; Scharpf, 2000: 8). In this *unique* structure, some powers are transferred from the national level of EU member states to the supranational level, i.e. to institutions that are not subjected to the control of democratic mechanisms, such as what occurs within nation-states. Therefore, today the EU shows elements of intergovernmental decision-making as well as supranationalism. This means that in certain areas of public policies the EU acts like a quasi-federal state, while in other areas decisions are made through intergovernmental negotiations, based on the doctrine of consent, which is typical of decision-making within international organisations (Jordan, 2001: 194–195).

Over the last few decades, the EU has evolved to become a polity in its own right (Peterson and Bomberg, 1999: 8), while attempts to understand major constitutional decisions as landmarks in the integration process have been accompanied by growing literature that investigates the EU's functioning as a multi-layered system of governance (Cram, 2001: 65). In this respect, the focus of research on European integration has moved from grand-scale theories (mainly including *intergovernmentalism* and *neofunctionalism*) on the causes and directions of this phenomenon to more middle-range concepts for understanding the day-to-day functioning of the EU's policymaking process. That process is typically described as the product of decisions about what to do, how to do it, and how to decide what to do (Peterson and Bomberg, 1999: 4). However, the EU's policymaking process is commonly regarded as distinctive. What is distinct is its multi-layer system of governance, reflecting 'push-pull' dynamics between various decision-making arenas. To characterise these push-pull dynamics, Helen Wallace (2000) adopted the metaphor of a 'policy pendulum' to express the sense of movement in the EU's policy process and a kind of uncertainty about its outcomes. She argues that this policy pendulum swings between the supranational arena as well as the national and subnational (political) arenas of the EU member states. Each of these arenas has a kind of magnetic field that attracts or prevents policymakers, those applying policy, and would-be policy-influencers. The relative strength of these magnetic fields varies across policy domains and between countries, with some strong forces of attraction and some forces of resistance. In certain

cases, these forces of magnetism are so strong they create a tendency to settle policy at the supranational level, in some instances the national-level-based magnetic forces keep policymaking located at the national level, whereas at other times no magnetic field is strong enough to provide a definite resting point for policymaking and the pendulum then sways uncertainly (*ibid.*: 41–42). Thus, due to the EU's horizontal and vertical polycentric structure, the outcomes of most EU policies depend on compromises between many actors, including (political and administrative) institutions at (sub)national and supranational levels of decision-making, (trans)national interest groups, civil society organisations, social and economic partners etc.

The EU emerged as a result of the post-war settlement of Europe when a small group of politically influential personalities drew up a roadmap for joint cooperation. Less than four decades later, at the end of the 1980s, (post-)socialist countries of Central and Eastern Europe started applying for membership in the European integration. In the context of the democratisation pressures in these countries, the collapse of the military and political division of Europe, the disintegration of economic boundaries between formerly divided blocs of the continent (Lajh and Fink-Hafner, 2002: 976), and the economic pressures of 'old' member states to expand the common market to the East, the EC/EU opened up to new members. In the summer of 1993, the European Council in Copenhagen decided that post-socialist countries from Central and Eastern Europe could join the EU after meeting certain criteria. In particular, these criteria required: 1) institutional stability, which should ensure a democratic and constitutional order and the protection of human rights and minority rights (the political criterion); 2) the establishment and development of a functioning market economy capable of surviving the openness and competitiveness of the European common market and market forces (the economic criterion); and 3) an ability to take on the obligations arising from full EU membership, together with a commitment to achieving the aims of the political, economic and monetary union (i.e. all prospective members must enact legislation in order to bring their laws into line with the body of European law built up over the history of the EU) (Jacobsen, 1997). This led to the biggest enlargement in the EU's history when in May 2004 ten new countries joined the association, including Slovenia. Less than ten years later, Croatia joined the association as well.

## **Theoretical framework**

The process of democratic transition runs from the point at which the previous authoritarian system begins to be dismantled, through the constituent phase of the new democracy to its inauguration and early operation (Pridham, 1996: 17). The question of how much the EU has influenced democratisation processes in Central and Eastern European countries, including Slovenia and Croatia, remains unanswered. Some authors contend that the EU's efforts to influence domestic politics had relatively little effect in Croatia under Franjo Tuđman (likewise in Slovakia under Vladimir Mečiar or in Serbia under Slobodan Milošević), but at the same time it appears quite questionable that Slovenia would not have democratised without the EU (likewise Poland, Hungary or the Czech Republic) (see Sedelmeier, 2010: 519). Nonetheless, we cannot omit the fact that a distinctive feature of the democratic transition in Central and Eastern Europe after 1989 has been its close link to the Europeanisation processes and accession to the EU (*ibid.*).

During the 1990s, the accession of young democracies to the European integration was thus on one hand marked with great expectations, while on the other it required many adjustments with regard to both the functioning of institutions of the political and economic system as well as various public policies (Fink Hafner and Lajh, 2005). These adjustments have been related to the achievements of 'European' standards in various areas of the political, economic and social system, and to the urgency towards successful activity – especially in the sense of representing their interests – within the EU in terms of full membership (Lajh, 2012). Learning how to manage this extra dimension of national public policy has been one of the key challenges national governments have faced in the past 50 years (Wallace, 2010: 89). In this respect, especially the new member states from Central and Eastern Europe have encountered a number of particular domestic challenges that impede efficient coordination and effective participation in the policymaking process: a shortage of resources and expertise relating to EU affairs, financial constraints, a lack of specific skills among civil servants (i.e. insufficient knowledge of the formal and informal working mechanisms and rules of EU policymaking, a lack of language skills), politicisation of the bureaucracies, while governments and coalitions in those countries change more often (Gärtner et al. 2011, 80–82).

### ***Europeanisation processes***

The impact of European public policies on processes taking place on the level of EU member states' political systems can be observed in two ways: using the logic of hierarchical structures and EU institutions' increased capacities to make authoritative decisions on one hand, and as a sort of a horizontal complex of relationships in which protagonists negotiate and collaborate in the policymaking process on the other (Colebatch, 2009). The policymaking process in the EU and its impact on the national policy context can be seen as a sort of exercise in multilevel governance – which is something that was observed in European studies literature quite early on (Hooghe and Marks, 2001). We believe that understanding of the relationship between Europeanisation and public policies could be increased with a conceptual framework that highlights the four fundamental dimensions of the process. It is a type of explanation developed by Andrea Lenschow who points out that the said relationship actually comprises the four fundamental aspects because it indicates: 'The emergence and development at the European level of distinct structures of governance; the top-down impact of the EU on its member states; the horizontal transfer of concepts and policies between member states of the EU; and the circular interaction between the EU and its member states' (Lenschow, 2006: 58).

Summing up the importance of the above-mentioned analytical determinants, Lenschow (2006: 59) concludes that, in studies of the Europeanisation of public policies, they can actually function as dependent variables: in its essence, Europeanisation basically refers to a process, not a condition. Besides, we are not talking about just one type of impact – for example, the implementation of EU policies within national governance systems. Because the Europeanisation of public policies is hard to measure, when taken together the above-mentioned determinants constitute the fundamental list of possible relationships arising from the Europeanisation process itself. Europeanisation is thus some sort of an 'overstretched concept', comprising complex systems of relationships, discourses, rules and concepts in the process of adjusting national policymaking systems to the policies formulated by the EU.

Lippert et al. (2001), for example, talk about five stages of the Europeanisation process. In the pre-stage of Europeanisation, as they call it, first contacts between the EU and applicant countries are established. Then follows the first phase of Europeanisation, a

signature of a special agreement,<sup>2</sup> which consists of a ‘backbone’ of (future) institutional relations. The second phase of Europeanisation embraces the pre-accession period, which leads to the first basic (incremental) institutional adjustments, especially towards the effective coordination of European affairs at the national level (the Europeanisation of ‘macro’ political structures). The third phase of Europeanisation includes the negotiation process when the first, either gradual or radical, changes in various fields of public policies occur. The fourth and last phase of Europeanisation covers the period of full membership. In the case of the pre-stage and first stage of the Europeanisation of EU accession countries, as designated by Lippert et al., Ágh (2003: 117) speaks about ‘anticipatory Europeanization’, which in the case of Central and Eastern European post-socialist countries took place in the first half of the 1990s and was combined with the processes of democratisation and modernisation under the control of various international organisations (i.e. not only the EU but also, for example, the World Bank and the International Monetary Fund) as institutional mentors. From the second stage of Europeanisation on, as defined by Lippert et al., Ágh (*ibid.*) speaks about ‘adaptive Europeanization’, which in the case of Central and Eastern European post-socialist countries began after 1998 when negotiations with the EU on their full membership formally started. Given these facts, it is no surprise that the process of integration into the EU and adaptations to European standards in post-socialist Central and Eastern European countries was generally linked to the processes of democratisation, liberalisation and privatisation (Hix and Goetz, 2001: 21).

Europeanisation is a relatively recent phenomenon which began to gain considerable attention in the late 1980s and in the 1990s (Goetz and Hix, 2001; Featherstone and Radaelli, 2003; Olsen, 2003). Since the term Europeanisation has been defined in many ways, but without any clear boundaries, Radaelli (2003) observes the concept’s stretching. In fact, no matter which definition we take into account, Europeanisation is in general closely connected to terms like innovation, modernisation or formation, and is thus mostly used in different ways to describe a variety of phenomena and processes of change. Accordingly, Olsen (2003: 334) identifies five possible

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2 In the case of Central and Eastern European countries we speak about the European Agreement.



uses describing what is changing when we talk of Europeanisation: a) changes in external territorial boundaries; b) the development of institutions of governance at the European level; c) the exporting of European forms of political organisation and governance beyond Europe; d) a political project in support of the construction of a unified and politically strong Europe; and e) the penetration of European-level institutions into national and sub-national systems of governance.

Here it is important to discern the Europeanisation trends from similar processes which are sometimes misinterpreted as Europeanisation (Radaelli, 2003: 33–34). The first process refers to convergence issues. This is a term that can designate something arising from Europeanisation but should not be mixed with Europeanisation. Europeanisation can lead to a stronger or weaker policy convergence and the latter term should actually be compared with the terms like isomorphism, policy transfer and policy diffusion. In the opinion of the German political scientist Christopher Knill (2005), policy convergence is, by its analytical focus and by giving prominence to dependent variables, more similar to the concept of isomorphism because both concepts lay stress on the research of effects and underline the similarities of change as the key dependent variable. However, they differ in their fundamental empirical focus of research. Policy convergence focuses on policy change – which is what makes that concept similar to the policy transfer and policy diffusion concepts – while isomorphism focuses on the organisational structure.

Besides convergence, the term Europeanisation should also not be confused with harmonisation. Simply put, Europeanisation does not necessarily lead to a lowering of regulatory differences – the very thing that underlies harmonisation as an analytical concept. As member states do not necessarily opt for the same type of changes in sectoral policies, the Europeanisation process does not necessarily lead to a reduction of regulatory differences (Heritier et al., 2001). Finally, Europeanisation should not be mixed with the term political integration. The process of European political integration belongs to what could be defined as the ontological phase of research – the fact that countries yield some of their sovereignty to the supranational level, while Europeanisation refers to the effects caused by that process.

The impact of EU structures on the national context of policymaking, but also the inverse process – the impact of national policymaking contexts on policymaking processes on the EU level – has

reversed the dominant orientation of European studies in political science. The approaches studying EU processes by taking comparative policy and public policies as a starting point have gradually pushed back the orientation relying on international relations (Pollack, 2005: 357–58; Kustec-Lipicer, 2006: 26; Pollack, 2015: 15). By redirecting their attention to the EU's institutional framework as a separate political structure – or even directly, as a separate political system (Hix, 2005) – political scientists have started studying EU processes and institutions based on methodological approaches that had, until then, only been used in research of political systems and public policies on the national level. The federal and quasi-federal characteristics of EU institutions, the vertical and horizontal distribution of power, the impact of individual EU institutions on the decision-making process on the European level and similar issues developed within comparative policy, such as subjects like agenda-setting, policy formulation and policy implementation, have dwindled the role of international relations as a specific approach to EU research.

Implementing new requirements means changing actions, routines and even formal institutions and procedures (Lang, 2003: 159), as determined by the degree of adaptational pressure. The degree of adaptation pressure generated by Europeanisation depends on the 'goodness of fit'<sup>3</sup> between European institutions and domestic structures. For example, the lower the compatibility (fit) between the new requirements on one hand and (sub)national structures on the other, the higher the adaptation pressure (Risse et al., 2001: 6–7). As policy misfits produce adaptation costs at the domestic level, member states strive to 'upload' their policies to the EU level in order to reduce their compliance problems (Börzel and Risse, 2003: 62). Because the same member states do not always succeed in uploading their preferences to the EU level, the result is a very diverse pattern of policies, problem-solving approaches and organisational styles (Héritier, 1999). Logically, the absence of non-EU member

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3 Yet the 'goodness of fit' does not tell the full story of Europeanisation. For example, in some cases governments are under little adaptation pressure from EU regulations, whereas in other cases adaptation pressure might not be the best predictor of how a country responds to Europeanisation: a country can be under strong adaptation pressure but can implement EU policy without too many problems. For more doubts about the 'goodness of fit', see Radaelli (2003: 44–6).

states in the processes of uploading their preferences has resulted in particularly strong adaptation pressures and significant downloading efforts in the case of countries applying for EU membership and preparing them to successfully take part in EU policymaking processes.

### ***EU public policies and policymaking in the European Union***

EU policymaking never takes place in a vacuum, but in the context of multiple locations for addressing policy issues, ranging across levels from the local to the global and entailing both formal and informal processes (Wallace, 2010: 90). In its vertical and horizontal divisions of power, decision-making in the EU is affected by a combination of many access points and demanding decision-making rules (Princen, 2009: 40), and as such it has to overcome differences between the domestic and EU policymaking arenas by streamlining and adapting national action to the sectoral divisions and ‘rhythm’ of the EU policy process (Gärtner et al., 2011: 80).

The EU may be an attractive policymaking venue<sup>4</sup> for a wide range of actors and issues, but this all depends on what a given actor wants to achieve<sup>5</sup> and whether the EU can help achieve that objective<sup>6</sup> (Princen, 2009: 31). However, although an actor may want to place an issue (high) on the EU agenda, this does not mean that it will succeed in doing so. Deciding what to decide is the first and crucial part of the policymaking process (Young, 2010: 52) and usually involves two steps – policy initiation and policy formulation. Policy initiation<sup>7</sup> clearly indicates the ‘institutional setting’ responsible for

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4 Which actors or stakeholders (civil society organisations, interest groups, firms etc.) engage in the policy process varies according to the type of policy at stake. In the EU, the policy in question also influences at what level of governance authority lies and which decision rules apply at the EU level (Young, 2010: 50).

5 Political actors may have different motives for moving essentially domestic issues up to the EU decision-making level. Princen (2009: 28–29) discerns three such motives: circumventing domestic constraints, providing a ‘level playing field’, and missionary zeal.

6 Whether or not the EU is the most attractive venue for a political actor depends in particular on the instruments the EU has at its disposal (Princen, 2009: 30).

7 Policy initiation in the EU is frequently linked to agenda-setting in domestic politics and its three concepts: conflict expansion, issue framing, and institutional opportunities and constraints (see Princen, 2009: 31–35).

first thinking that new rules, regulations or directives need to be pursued (Chari and Kritzinger, 2006: 6). It includes a significant degree of policy entrepreneurs, be they politicians, bureaucrats, interest groups or others, identifying and exploiting opportunities to push a policy and framing it in a way that resounds politically. Although the Commission can be asked by the Council or the Parliament to advance a policy initiative, the Commission is the pre-eminent policy entrepreneur in the EU and it actively frames policy proposals in order to construct political support (Young, 2010: 52–53). Before policy decisions can be taken, the range of alternatives must be narrowed – whatever the sequencing, the policy formulation stage is seen as involving a different set of actors<sup>8</sup> from those who participate in the policy initiation stage. Like in the policy initiation stage, the Commission is the central actor in policy formulation. This gives the Commission a significant say in many EU policies even if its role in decision-making is limited (Hix, 2005; Wallace et al., 2010). Finally, when policy alternatives are decided, due to the EU’s specific institutional design (Wallace, 2010), policies are not simply ‘shaped’, but ‘bargained’ over between different (institutional) actors. Therefore, we follow Chari and Kritzinger (2006) and call this stage policy negotiation.<sup>9</sup>

Although European legislation is adopted by European institutions, it is not implemented at the EU level. Instead, national and sub-national governments, administrations and their agencies, whether alone or in cooperation with the European Commission, are responsible for this aspect of the EU policy process (Graver, 2000). Policy implementation refers to putting into effect the legislation, decisions or policies formulated and agreed by the EU’s policymaking institutions – the European Commission, the Council of the EU and the European Parliament, as well as the member states. Implementation of EU policies entails a two-step process. The first step is largely legal (and is often referred to as the legal or formal implementation stage),

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8 The policy formulation stage, marked by consultation procedures and the use of expertise, is most commonly depicted as the product of policy networks.

9 It must be taken into account that decision-making in the EU varies extensively across policy areas, from unanimous decision-making among the member states to decisions taken on the basis of Qualified Majority Voting (“QMV”) amongst the member states (Council of the EU) in conjunction with the European Parliament on a proposal from the European Commission, with many combinations in between.

whereas the second involves a more administrative or practical process. The first step necessitates the incorporation or transposition of EU legislation into national legislation (Cini, 2003: 352). Thus, if it is intended that a common EU policy be implemented in practice, it must first become a part of the 'rules of the game' within each member state. In this case, we arrive at a paradox when the key actor responsible for policy implementation becomes national legislative bodies – the parliaments of EU member states which are otherwise responsible for adapting the national legislation. 'Street-level' implementation is, by contrast, dealt with at the national level or below – that is, in domestic policy arenas. In most cases, national governments are not directly responsible for this type of implementation, but delegate this function to subnational authorities and other executive agencies. Good coordination between government departments and implementing authorities and agencies is essential in this stage. The implementation of EU policies therefore generally falls within the exclusive competence of member states' policy arenas, while the European Commission's role is largely confined to monitoring and controlling the implementation (Cini, 2003: 351).

While observing EU policymaking process we thus must take the multi-level setting of the EU into account. In many policy sectors, the EU is an important – if not the most important – policymaking or decision-making venue, and governments play for high stakes. Decisions taken in Brussels can have far-reaching consequences for the member states. It is therefore no surprise that at least in some policy areas pressure on governments to effectively coordinate their activities is particularly intense with respect to EU policymaking (Kassim, 2000: 9). As such, national political institutions represent vital components of the EU's institutional architecture. According to Wallace (2010: 89), national actors play important and influential roles in all stages of the EU policy process. Of course, the roles actors play in the EU policy process are slightly different from those they perform at the national level. National ministers, for example, sit together in the Council of the EU and play an important role in adopting legislation, albeit one in which they represent their own interests as well as those of their constituents (Young, 2010: 50). Here, special importance is thus held by the formation of national policy preferences and positions. Participation in the Council of the EU calls for coordination since meetings must be prepared and positions defended at various levels and across different sectors (Kassim, 2000:

10). However, the formation of national policy preferences does not take place in splendid domestic isolation, but is a process that is also subject to exogenous pressures (*ibid.*), especially various organised interests. Yet, opportunities for access and influence are not evenly distributed within member states (Wallace, 2010: 89) and organised therefore interests seek different channels beyond the state to influence the EU-level decision-making, either with direct access to EU institutions or through institutionalised bodies (i.e. the Economic and Social Committee and the Committee of the Regions).

### **From the socialist Yugoslav federation to the European Union: Slovenian and Croatian accession to the EU**

The processes of both Slovenia's and Croatia's independence in the late 1980s and early 1990s were heavily marked by the idea of accession to the European integration. In Slovenia, even before it formally declared independence, membership in the EU was recognised as an important step towards a democratic, economically successful and internationally recognised country (Fink Hafner and Lajh, 2005: 53–54). A slightly different observation can be made for Croatia whose accession to the EU did not have such an unequivocally positive reception as in Slovenia. An unequivocal consensus was achieved only among the elite, not among the citizens. Unlike the citizens, all relevant centre-right and centre-left parties strongly supported EU accession. This is clearly reflected in the fact that less than half of all registered voters participated in the referendum on EU accession. In order to avoid a negative referendum outcome, in 2010 Article 141 of the Constitution was amended. The earlier constitutional provision had prescribed a very strict majority for a positive referendum outcome – a majority of all registered voters in the country. The proposed amendments to the provisions stipulated that a majority of voters who cast their ballots in the territory of the Republic of Croatia should decide on the referendum, not a majority of all voters registered in Croatia *and* abroad.

Accession to the EU did not run smoothly in either Slovenia or Croatia. The young Slovenian state faced problems soon after establishing its first relationships with the EU – both in the process of negotiating the European Agreement as well as in its implementation phase. The most exposed problems were the question of the

purchase of Slovenian real estate by foreigners, which was initiated by Italy (Brinar and Svetličič, 1999; Fink Hafner and Lajh, 2005), and the problem of the closure/transformation of the country’s duty-free shops, which was raised under the pressures of the neighbouring countries Austria and Italy (Fink Hafner and Lajh, 2004). Despite such problems, the process of Slovenia’s integration into the EU was a consensually adopted national goal of the political elite. Naturally, in this period some differences appeared in the political parties’ views on specific ‘European’ issues but, with the exception of only one parliamentary party – the Slovenian National Party, all other parties clearly agreed and supported the country’s entry into the EU. Moreover, at the beginning of July 1997 the leaders of all parliamentary parties, except the already mentioned Slovenian National Party, even signed a special agreement on cooperation during the process of Slovenia’s integration into the EU (Fink Hafner and Lajh, 2005: 56). In addition, the entire period of Slovenia’s integration into the EU was also characterised by very strong public support for European integration. This was especially shown in the referendum on joining the EU where accession to the EU was confirmed by a ‘plebiscite majority’ (of almost 90%) of Slovenians (Krašovec and Lajh, 2004).

*Table 1.1:* Overview of the Slovenian and Croatian accession processes

	<b>Slovenia</b>	<b>Croatia</b>
<b>Independence</b>	25 June 1991	25 June 1991
<b>Recognition by the EC/EU</b>	15 January 1992	15 January 1992
<b>Cooperation agreement (signed)</b>	5 April 1993	29 October 2001
<b>Association agreement (signed)</b>	10 June 1996	29 October 2001
<b>Membership application</b>	10 June 1996	21 February 2003
<b>Accession negotiations (start)</b>	31 March 1998	3 October 2005
<b>Accession negotiations (end)</b>	13 December 2002	30 June 2011
<b>Referendum on accession to the EU</b>	23 March 2003 (89.6% in favour; 60.4% turnout)	22 January 2012 (66.2% in favour; 43.3% turnout)
<b>Accession</b>	1 May 2004	1 July 2013

Sources: Fink Hafner and Lajh (2005: 54–55); Sedelmeier (2010: 404–405); Čović (2012)

Following the formal entries of Slovenia and Croatia to the EU, European affairs in both countries became ‘internalised’, domestic affairs. Directly prior to the onset of Slovenia’s full EU membership, two important adaptations of its political system were made. First,

the amendments to the Slovenian Constitution in 2003<sup>10</sup> determined the relationships between the national political system and the EU's political system. Second, in late March 2004 a more detailed legislative definition of the relationships between the National Assembly and the Government as regards decision-making on EU affairs was adopted.<sup>11</sup> The latter arrangement defines the executive as the agent representing and arguing for the positions of the Republic of Slovenia in EU institutions, whereas the National Assembly cooperates in the formulation of Slovenian standpoints on EU matters which would fall within its jurisdiction according to their substance, the Slovenian Constitution and the law.<sup>12</sup>

The possible influence of EU public policies on policymaking in Croatia started to draw observers' attention in Croatia even before the beginning of the EU accession negotiations. Several studies were published in the first years of dealing with the subject. We should mention here the works of Croatian economics institutes which systematically tackle various aspects of EU policies (Samardžija et al., 2000; Ott, 2003, 2004, 2006, 2007; Švaljek, 2007). In addition, a series of individual studies on adjectival policies was published, ranging from regional policy to environmental policy to asylum policy. With time, disputes over particular EU policies became part of public discourse in the country, not just scientific discourse. For example, the public realised relatively quickly that the policy of generous subsidies to Croatian shipyards would no longer be possible once the EU competition policy was introduced because the latter insisted on a very limited and strictly defined policy of subsidies to economic actors. After all, this is why that part of industry was privatised.

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10 The constitutional amendment brought by Article 3.a allows for the delegation of the execution of a part of sovereign rights to international organisations, provided that: a) these international organisations are based on the observation of human rights and fundamental freedoms, democracy and the rule of law; and b) that the international treaty which sets down this delegation is ratified by the National Assembly of the Republic of Slovenia by a two-thirds majority vote (see Constitutional Act amending Chapter 1 and Articles 47 and 68 of the Constitution of the Republic of Slovenia, Official Gazette of the Republic of Slovenia, No. 24/2003).

11 See the Act on Cooperation between the National Assembly and the Government in EU Affairs (Official Gazette of the Republic of Slovenia, No. 34/2004, No. 43/2010, No. 107/2010).

12 For a more detailed analysis of the aforementioned political system adaptations, see Fink Hafner and Lajh (2005: 82–86).



Another example we can mention here is the better regulation policy as one of the policies the EU supports on the basis of the Lisbon Strategy (Petak, 2015). Immediately after starting negotiations with the EU, there were attempts to implement the policy by establishing a government office for regulatory impact assessment. However, the whole effort was temporarily stopped and the office was closed after media reactions claiming that such an institution was redundant. Only the most informed researchers and practitioners of European public policies managed to note in the discussions on the viability of such an institution that the Office for Regulatory Impact Assessment was part of the institutional arrangements connected with the EU's better regulation policy as one of the important tools for creating EU policies based on the open method of coordination ("OMC"). The said office was eventually re-established, this time as a department within the Government Legislation Office.

However, when the specific nature of Croatia's EU accession and – in particular, the substantial differences between Slovenia and Croatia – are discussed, we should underline that the features of the institutional development of a democracy and market economy in Croatia characterise both post-communist countries and South-east European (Western Balkans) countries.<sup>13</sup> Researchers concluded relatively early that the Europeanisation of South-east Europe required additional interpretations and that it could not be equivocally subsumed under the concept of conditionality policy (Grabbe, 2006), unlike the Central and Eastern European countries from the fifth wave of EU enlargement in 2004 (including Slovenia). It turned out that the frameworks of the impacts of particular European policies on South-east Europe were very hard to determine (Stubbs, 2005:

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13 For the whole period of time the research interest of European scholars was mostly directed to the specific features of the institutional development of Croatia and other EU accession countries in the Balkans. Researching the development in specific area policies in that part of Europe was not of interest to the leading European policy scholars. One of the first to change this kind of behaviour was Ian Bache, who started to demonstrate a specific research interest in the peculiarities of regional policy development and the potential of EU cohesion policy in the Balkans context (Bache, 2010; Bache and Tomšić, 2010). The issue of the effects of cohesion policy and the pre-accession instruments on the EU candidate countries in the Balkans region was, for the first time, included in the leading textbook on EU policymaking, edited by Helen Wallace. He indicated there that 'some nascent aspects of multilevel governance have been identified in Croatia' (Bache, 2015: 257).

81). Relatively early on, research studies showed that the conditionality strategy as the fundamental framework of Europeanisation had not been as strict as it had been for Central European countries (Demetropoulou, 2002: 92), so that, moreover, some kind of new institutional framework could be named the ‘Europeanisation, South East European style’ of public policy Europeanisation (Anastasakis, 2005) should be formed for the Europeanisation of Western Balkans countries. The issue here is not that South-east Europe consists of such different countries like Croatia on one hand and Kosovo and Moldova on the other, but the whole region’s importance for the EU. The EU had to intervene in it much more blatantly than in the Central European countries; generally, the agenda in countries of that part of Europe is much more complex and uncertain than was the case in Central Europe (Anastasakis, 2005: 84). The said type of imbalance is a result of the weaknesses of the countries of the region. It soon became an important research subject, drawing the attention of numerous researchers dealing with the Europeanisation of public policies in South-east Europe (Bechev and Andreev, 2005). The research by German political scientist Tanja Börzel has made a particular contribution to the subject. In a few of her studies on these countries she has developed the concept of weak states as a framework enabling the best possible understanding of the potential and limitations of the Europeanisation of public policies in South-east Europe (Börzel, 2011a; Börzel 2011b). In these works, she questions the Western Balkan countries’ capacity to even accept and implement the policies created on the EU level. True, Croatia fares relatively well in this rating, but the former Yugoslav countries (minus Slovenia, plus Albania) are rated as countries of limited statehood, or weak states. She uses this expression to designate the fundamental characteristics of the polities of these countries, none of which has sufficient potential for the implementation of public policies. She points to the following indicators of a weak state: secessionist pressures and ethnic strife, permeable and poorly controlled borders, the government’s inadequate policy capacity (ability to coordinate and monitor policies, collect taxes etc.) and strong clientelistic networks (Börzel, 2011b: 6).<sup>14</sup>

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14 Drawing on this, Stubbs and Zrinščak (2015) have developed an original explanation of clientelism as a fundamental limiting framework of public policy Europeanisation in Croatia. In their opinion, it is a complex structure that has an impact on social welfare in the transition period and is characterised by

According to Börzel, this all leads to the conclusion that there are key institutional differences between the Central and Eastern European countries and South-east European countries. The conditionality policy could have been a narrative in that part of the world because they were consolidated countries, not non-consolidated and weak countries with a low policy capacity and strong clientelism. Whether these countries will also undergo gradual changes that will enable a stronger impact of the Europeanisation process primarily depends on the role of the veto players, the existence of some kind of policy entrepreneurs advocating the institutional arrangements of policymaking comparable to those in the EU, and the impact of formal (such as public administration quality) and informal institutions (social capital, organisational culture) on the entire process. Other researchers have come to similar conclusions. Some have even tried to show that the role of the political conditionality criterion in the region should be fully challenged, pointing out that the nationality-related values often act against such a criterion.<sup>15</sup>

In both countries, the process of accession to the EU has impacted the majority of officials at the national level. Although a shortage of so-called European specialists in the relatively small administrations was particularly evident during the phase of accession to the EU, it has remained firmly present in the circumstances of full EU membership as well (Fink Hafner and Lajh, 2005; Krašovec and Lajh, 2010; Vidačak and Škrabalo, 2014). In the Slovenian case, the problem of the limited number of staff became especially acute during its Presidency of the Council of the EU (Fink Hafner and Lajh, 2008: 40–42). In addition, it is noteworthy that an important share of so-called EU staff/specialists has moved to either the EU institutions or the Slovenian/Croatian Permanent Representations to the EU in Brussels.

Like other states, Slovenia and Croatia are ‘Europeanisation hybrids’ (Knill, 2001: 213) because Europeanisation has varying degrees of influence on individual public policies. Clearly, the extent

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strong distributional effects and the dominance of nationality over territorial-based citizenship criteria. As such, it is exceptionally resistant to the impact of Europeanisation, limiting to a large extent the EU accession process’ capacity to counter such structures.

15 Using Croatia as an example, Freyburg and Richter (2010: 264) point out that the values connected with the national identity forged in the Homeland War counter the requirements related to the conditionality policy.

of this influence chiefly depends on the characteristics of the policy field in question: its arrangement at the supranational level in terms of the extent of nation-states' ceding of sovereignty to the supranational level<sup>16</sup> and the resulting existence of legally (non-)binding legislation in a certain field ('hard' *versus* 'soft' law). The following chapters focus precisely on this aspect – the various degrees of influence the EU exerts on individual public policies.

## Structure of the book

In line with the above theoretical starting points, the main aim of this book is to analyse the characteristics, problems and prospects of EU policymaking processes from the national perspective of two new member states: Slovenia and Croatia. The book is divided into two parts. The first deals with actors and processes, while the second focuses on an analysis of various policy sectors. The first set of policy sectors covers regulatory, distributive and redistributive policies (the economy, agriculture, cohesion, transport and the environment) regarding which a great proportion of sovereignty has been transferred to the EU level. The second set of policy sectors covers policies that are mostly 'only' coordinated at the EU level, while an important proportion of sovereignty has remained at the level of member states (employment and education). In this way, individual chapters analyse policy sectors in the respective country in three steps: a) main characteristics before accession to the EU (to identify any 'mismatch' between national and EU levels, whether the sector was non/problematic from the viewpoint of accession); the Europeanisation process (the EU's role in reform processes/changes); and the biggest problems/weaknesses and prospects/opportunities in the period of full membership.

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<sup>16</sup> The Treaty of Lisbon has individual policy domains divided into several categories, namely: a) within the exclusive competence of the EU; b) within the exclusive competence of member states; and c) a matter of shared competence between the EU level and the member states (see Articles 3–6 of the consolidated version of the Treaty on the Functioning of the European Union).

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## 2 The EU's 'Transformative' Power Reassessed – the Case of the Croatian Accession Negotiations

Elizabeta Mađarević

### Introduction<sup>1</sup>

The Commission's Enlargement Package 2011–2012 (Commission, 2011a) from October 2011 praised the transformative power of the EU enlargement process in the case of Croatia. Having closed the negotiations with the European Union in June 2011, Croatia was promoted as an example for the whole region and a success story for the Union as a whole. Croatia seemed to be the best pupil in the class of the so-called Western Balkans<sup>2</sup> countries. We should therefore more closely assess the whole process of negotiations and its lauded impact on the reforms that have taken place in Croatia. We should ask how the 'transformative' power of the EU was enforced during the process, and what its effects were for the overall makeover of Croatia.

I argue that, because of its biased policy and lack of legitimacy for some actions, the EU's 'transformative' power has lost its charm and potential to deeply transform Croatia. Instead, like in most Central and Eastern ("CEE") countries, only formal compliance with the imposed rules happened. The case of Croatia is nevertheless more complex and illustrates the EU's questionable attempt at

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1 The views set out in this article are those of the author and do not necessarily reflect the official opinion of any institution.

2 This term was coined by EU bureaucrats in the late 1990s, although it was historically, politically and culturally problematic. The perception of this region has now changed and it is often cited as South East Europe. I will thus use this term as being more correct.

state-building rather than state-reforming policy. First, I present the negotiating framework, stressing the importance of benchmarks whose application was often worrisome and doubtful. I highlight three negotiating chapters that prove the case of the highly political and biased process of the EU negotiations. Second, I draw a conclusion on the real nature of the EU's enlargement policy based on Croatia's example. The positive meaning of its 'soft power' attribute could change if all layers of its leverage are peeled off, especially if we employ the theoretical approach of 'post-liberal governance' to strengthen the case. The behaviour of the political elite in Croatia adds to this and demonstrates more strongly the EU's intention to enforce state-building, one of the key elements of the post-liberal pattern of governance in the 'Western Balkans'. Despite having been a state torn by foreign aggression and war at some point, Croatia had all the prerequisites of a state and fulfilled fundamental democratic standards, but the EU still regarded Croatia as an incomplete and incapable state to deal with the integration process. This is final proof that the EU has lost sight of its actions and gone too far in 'bringing closer' the candidate countries, subsequently destroying its transformative leverage by eroding the legitimacy of its acts.

### **Setting up new strict and (un)fair criteria**

At the time of the fifth enlargement in 2004 and 2007, the EU membership criteria were clearly known as the Copenhagen Criteria, which were divided into economic, legal and political ones. The economic criteria demanded that a candidate country develop a market economy without state interventions and/or subsidies. The political criteria meant that the countries had to establish a democratic framework of a multi-party system and free elections with the institutions guaranteeing democracy, the rule of law and human rights. The legal criteria required candidates to have the capacity to adopt and align with the EU *acquis* so that the legislation would be effectively transposed into their national legislation. The 'administrative' criteria adopted by the Madrid European Council were added later in 1995 and underlined that the legislation must not only be transposed but also implemented through appropriate administrative and judicial structures.

For the South East European ("SEE") countries, the membership criteria were extended in 1999 when the Stabilisation and Association

Process (hereinafter: “SAP”) was initiated. These included stabilisation measures for the region with a post-conflict syndrome: full cooperation with the International Criminal Tribunal for the Former Yugoslavia (“ICTY”), the return of refugees, respect for the rights of minorities, and regional cooperation. At the Zagreb Summit in November 2000, the SAP was launched for five SEE countries. Croatia was the second country after Macedonia<sup>3</sup> to sign the Stabilisation and Association Agreement (hereinafter: “SAA”) with the EU in 2001. This Agreement entered into force 4 years later and on 3 October 2005 the Council of European Union decided to open accession negotiations with Croatia. However, in December 2004 the European Council had already set 17 March 2005 as a starting date for the negotiations, provided that full cooperation with the ICTY was achieved. The starting date for opening negotiations had been postponed the first time round – and they were opened only after the then ICTY Chief Prosecutor Carla del Ponte gave a positive report to the EU Council given that Croatia had extradited a general to the Hague Tribunal.

Full cooperation with the Hague Tribunal was always critical for maintaining momentum in the EU accession negotiations with Croatia. Indeed, I argue that this issue harmfully affected the negotiations many times, irrespective of its grounds and relevance to the accession process itself or the work done by Croatia.<sup>4</sup> The ICTY issue was among the benchmarks that represented the ‘third generation criteria’ and were set just before the accession of Bulgaria and Romania. As elaborated in the Commission’s 2006 Enlargement Strategy, they envisaged new elements in the EU enlargement policy

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3 Croatia had recognised Macedonia under its constitutional name (Republic of Macedonia) but in the process of the EU negotiations it adopted the use of “FYROM” in all its negotiating documents.

4 For instance, the issue of missing artillery documents was stalling the negotiation process for months because of a ‘Croatian lack of cooperation’ with regard to full cooperation with the ICTY. Nevertheless, these documents have never been fully proven to even exist by the same Tribunal. The Tribunal Council doubted the very existence of these documents but at a later stage of the negotiations the new ICTY Chief Prosecutor Serge Brammertz based his assessment on these magic non-existing papers and the EU followed his recommendations until the very end. This contestable assessment by the Chief Prosecutor’s Office even sparked diplomatic disagreements between the USA and some EU member states in the course of the negotiations. See e.g. The Guardian (2010).

complemented by a new methodology to ensure ‘rigorous but fair conditionality’ for all newcomers (Commission, 2006: 5).

These criteria represent individual benchmarks for opening and closing negotiating chapters and mostly stand for new laws, strategies, action plans, SAA obligations etc. that need to be adopted or implemented in order to open or close a chapter. Here the European Commission (EC) plays almost a crucial role in helping a candidate country survive the negotiations conundrum: it is often claimed to be ‘the biggest friend’ but also ‘the worst enemy’ of a candidate country. The EC assesses the fulfilment of the benchmarks and sends its verdict to the Council which confirms that the country has fulfilled the opening/closing benchmarks. With the opening of negotiations on individual chapters, the main phase of the negotiations begins. During this phase, the conditions are negotiated under which the candidate country will adopt and implement the *acquis* in the respective chapter, including any transitional periods. These negotiating conditions for the given chapter are summed up in the Negotiating Position of the country, which is then presented to the EU member states (“MS”) and the European Council. Nevertheless, the EC often helps the candidate country draft it, sometimes even doing all of the work. The opening and closing of chapters take place at an Intergovernmental (Accession) Conference (hereinafter: “IGC”), which is generally held twice in each 6-month term of the EU Council Presidency, either at ministerial or deputy level. Compared to the CEE countries which had 31 chapters to negotiate, Croatia opened and closed 35 chapters at 26 IGCs and met 127 benchmarks (of these, 23 were opening benchmarks and 104 were closing benchmarks). If all other additional requirements are counted, Croatia has fulfilled more than 400 benchmarks. In addition, from the date of opening the negotiations in 2005 until closing them in 2011 Croatia had adopted 384 laws and 1,172 by-laws; this process should normally continue up until the accession date of an acceding country.

Croatia also encountered many monitoring mechanisms that were in place during the whole process. These consisted of numerous technical meetings, sudden peer reviews, tables and comprehensive monitoring reports aiming at establishing reliable implementation results that are popularly called ‘track records’. So Croatia was constantly monitored and had to be ready to fulfil all possible requests. As stated in the EU Negotiating Framework with Croatia in 2005, ‘depending on the chapter, precise benchmarks will refer in particular to



legislative alignment with the *acquis* and to a satisfactory track record in implementation of key elements of the *acquis* demonstrating the existence of an adequate administrative and judicial capacity’ (Commission, 2005: 6). Chapter 23 on Judiciary and Fundamental Rights was the principal chapter where these records were demanded and carefully examined. In order to explain the conundrum of the Croatian negotiations itself, let us concentrate in detail on the benchmarking method in Chapters 23, 13 and 31. These chapters present a case of arbitrary and highly dubious political conditionality, which often referred not to implementing rules or track records, but to European ‘values’ and ‘governance’. All of this suggests that the EU accession process has become very complex and tailored for ‘troublemaking’ countries in order to make them ‘fully prepared’ for the EU.

### **Troublemaking chapters – Croatia or the EU’s fault?**

In the ‘new chapter’ 23 Judiciary and Fundamental Rights<sup>5</sup> 13 benchmarks were set for its opening and closing. Negotiations on Chapter 23 opened on 30 June 2010 and exactly 1 year later they were closed. Although this chapter consisted of three opening benchmarks, which were fulfilled and submitted to the Commission for verification in June 2008, it took almost 2 years to open this chapter in 2010 due to political issues. Therefore, Chapter 23 gives us an opportunity to determine the nature of the EU negotiation pattern with Croatia.

The complexity of this chapter was not attributed to the number of benchmarks but this chapter presented a case *par excellence* of arbitrary (political) conditionality that should have been avoided by all means. Namely, the EU negotiation process is claimed to be objective and based on the individual achievements of a candidate country. The mentioned assessment by the ICTY Chief Prosecutor on full cooperation with the Hague Tribunal is perhaps the most evident example of ambiguous methods of benchmarking. Benchmark 10 in this chapter covered full cooperation with the ICTY with only a single sentence explaining this requirement: ‘Full cooperation with the ICTY remains a requirement for Croatia’s progress throughout the accession process, including for the provisional closure of

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5 This chapter was introduced in the negotiations with Croatia and opened almost at the end of the accession process, which is somewhat of a weird chain of events, considering the emphasised importance of the given chapter.

this chapter, in line with the negotiating framework adopted by the Council on 3 October 2005' (Commission, 2011b: 6). In the 2005 negotiating framework, there was nothing more than a similar one-sentence explanation of this cooperation benchmark, which states that the progress of Croatia would be measured against the requirements within the SAP conditionality i.e. 'Croatia's full cooperation with the ICTY' (Commission, 2005: 2). The benchmark reference to this cooperation was evidently very vague and it was not at all clear what exactly was expected from Croatia in order to fulfil the obligations under this benchmark.

Nevertheless, it was expected that Croatia would fulfil all the requirements stemming from The Hague, even controversial ones. This required huge efforts by Croatia; in just the half-year period from October 2010 until May 2011 Croatia fulfilled 885 requests for assistance (i.e. requirements) coming from the ICTY Prosecutor's Office (Vlada Republike Hrvatske, 2011). However, countries like the Netherlands, the United Kingdom and the Nordic countries<sup>6</sup> blocked the negotiations several times, forcing 'full cooperation' with the Hague Tribunal, especially regarding certain never-proven-to-exist artillery documents before opening and then again before closing the chapter in June 2011. We rightly ask how legitimate and legal it was for the EU to link Croatia's accession negotiations with court proceedings before one of the independent international courts, actively supporting the Prosecutor's Office in winning the legal case against Croatia. Any court process should be independent of external pressures and interferences. By doing this, the EU (un)intentionally took on the role of ICTY prosecutor itself, thus symbolically sending a message to the Croatian people that the Homeland War was politically and historically wrong and obsolete. In a way, Croatia had to defend its case before an international court but also in order to proceed with the accession negotiations it had to deliver its defence strategy and all the evidence to the EU, i.e. to the Prosecutor's office. Nobody asked if that could weaken its case before the court. This was clear blackmail from the EU side that directly interfered with the sovereignty of Croatia, normally an issue that would never happen among EU sovereign nations. As some authors have

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6 It is interesting to note that most people in charge of the Croatian negotiations in DG Enlargement were British and Swedish, such as Lawrence Meredith as Head of Unit in charge of Chapter 23, and Christian Danielsson as Director General.

noticed, the EU has used ‘legal coercion’ in order to induce compliance beyond the conditionality norms in some semi-sovereign states of Western Balkan countries, such as Bosnia and Herzegovina, and Kosovo (Noutcheva, 2012). Although a fully sovereign state,<sup>7</sup> Croatia could have been a perfect role model in exercising this EU practice during the accession negotiations. Such questionable behaviour of one international entity that endorses the rule-of-law principle as the fundamental value *vis-à-vis* candidate countries has led to a dramatic reduction of its legitimacy in Croatia. For instance, the Gallup Europe poll revealed that in July 2010 only 38% of Croatians would have voted in favour of the EU in a referendum on accession, compared to a high 43% against. This was almost a historically low result of public support for an EU bid and it was directly influenced by the EU’s biased political moves.

Another striking example of the biased conditionality was the behaviour of Slovenia, a ‘new’ EU member state and Croatia’s neighbouring country. For instance, Slovenia blocked the adoption of the Commission’s benchmarks in Chapter 23, using its border dispute with Croatia as an excuse for such behaviour (although the border issue was not even related to this chapter in any given way). Similarly, Chapter 31 on Foreign, Security and Defence Policy could not be opened until June 2010 for the same reason. The argument was hidden under the notion of ‘good neighbourly relations’, which was one of the most important requests in this chapter even though good relations between states are rarely determined by a well-defined borderline. Slovenia blocked the whole negotiation process starting from October 2008 on. Overall, because of this issue Slovenia blocked negotiations in 14 chapters in which Croatia had fulfilled all of its obligations as requested by the EU. Three IGCs were postponed due to the ‘border issue’ and, during the Czech Presidency in the first half of 2009, no chapter was either opened or closed. Negotiations in 16 chapters were thus opened only when the issue was solved by signing the Arbitration Agreement between Slovenia and Croatia during the Swedish Presidency in late 2009. The EC had already in its 2008 enlargement strategy paper presented a ‘conditional and indicative roadmap’ for Croatia with 2009 as the target

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<sup>7</sup> For a further explanation of the differences between sovereign and semi-sovereign states, see Noutcheva (2012). Following the classification of this author, both Bulgaria and Croatia are regarded as sovereign states, although the author does not refer to Croatia to defend her case study.

date for closing the negotiations (Commission, 2008), but the negotiations were not completed because of Slovenia.

Before the ‘border issue’ though, Croatia was the victim of another ‘quarrel’ with Italy and Slovenia, this time over fish. Namely, Croatia had proclaimed its fisheries and ecological protection zone in the Adriatic Sea in October 2003 (Croatian: Zaštićeni ribolovno-ekološki pojas – ZERP) in order to preserve its fish stock in the Adriatic Sea. Pressures from the EU to abolish the ZERP provision that forbade fishermen from all countries and EU MS to operate in its protected zone reached their peak in 2007. The ZERP was aligned with the UN Convention on the Law of the Sea but nevertheless raised concerns among EU members since Italian and Slovenian fishermen would be left out from the Croatian piece of the Adriatic Sea rich in fish.<sup>8</sup> Commenting on this, former Enlargement Commissioner Olli Rehn said that Croatia was risking a delay in the EU negotiations as its fishery zone would be ‘a major obstacle to Croatia’s accession to the EU’ (EUobserver.com, 2008). Under such pressures, in March 2008 the Croatian Parliament withdrew its decision. Nevertheless, this chapter was opened nearly 2 years after the suspension of ZERP on 19 February 2010. Slovenia used its veto to block this chapter too, taking the ‘border issue’ on board again. The Commission warned about this problematic tendency of misusing bilateral issues in the negotiation process in its 2009 Enlargement Strategy (Commission, 2009a), but nothing has changed so far. Take the issue of Macedonia, where Greece is blocking any move forward in its EU negotiations because of the ‘name dispute’. Although the border issue between Croatia and Slovenia was resolved by both countries signing an Arbitration Agreement in November 2009, there were concerns that the accession process would still not end up smoothly.<sup>9</sup>

These examples can illustrate how the benchmark method is sometimes abused in order to achieve (historical) national interests and foreign policy goals of some member states (Madžarević, 2009)

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8 Luigi Giannini, leader of the Italian fishermen’s organisation Federcoopesca, declared in 2008 that one-third of all Italian fishing activity was coming from ZERP. See Lider 2008.

9 Indeed, after closing the negotiations in June 2011 Slovenia threatened not to ratify the Croatian Accession Agreement if the issue of *Ljubljanska banka* (Bank of Ljubljana) was not solved. This issue has existed since the break-up of Yugoslavia, and the two countries were already in the course of resolving it when Slovenia used it as a negotiating tool again.

or leverage in bilateral disputes (Hillion, 2010). Although we would expect an objective approach to the accession process through the use of benchmarks, the rules of the game seem to be blurred and politically misused by EU countries, as well as the Commission. The consequence of this for the EU's enlargement policy is quite clear, as 'it creates an unpredictable process, which undermines the credibility of the policy and thus its effectiveness' (Hillion, 2010: 22). Many authors have already noticed that the EU plays a contradictory role in the negotiations and uses its negotiating power to undermine the interests of EU candidate countries (Sedelmeier, 2005). This is compatible with the theoretical approach of liberal intergovernmentalists on interstate bargaining. Robert Keohane and Joseph Nye first introduced the theory of 'asymmetrical interdependence', which could explain why some countries sacrifice a lot during the negotiations only to become the biggest beneficiaries of the resulting agreement (Keohane and Nye, 1977). In the same way, the EU has developed superior bargaining power that becomes a prerequisite for the EU's ability to withhold rewards if the conditions are not met (Moravcsik and Vachudova, 2003). The EU has long employed conditionality as the main resource of its influence in the previous rounds of enlargement, following the same logic of so-called rationalist institutionalism (Sedelmeier, 2011). But the catch in this is the credible use of 'carrots and sticks' conditionality, which failed in the case of Croatia. The EU has namely consistently employed biased conditionality and downgraded all other resources of its influence, which has harshly affected its transformation capacity.

The credibility depends on a consistent and merit-based application on conditionality (Sedelmeier, 2011; Vachudova, 2005) and here this was certainly not the case. Moreover, the EU had little experience or expertise to enforce the rule of law or the fight against corruption and even less so to assess the quality of democracy during the negotiations since these criteria are only indirectly addressed by the existing *acquis* (Kochenov, 2008). Further, since the EU MS exercise veto rights in the field of enlargement policy the candidates find it impossible to ignore their political requests. This puts a candidate country in a submissive negotiating position where the true meaning of 'negotiations' is lost – the EU accession negotiations were indeed never truly negotiations, but a 'take it or leave it' offer. To say that Croatia subscribed to all absurd requests by merely signing the SAA is a twisting of the argument. Moreover, in the case of CEE countries, the benefits of

entering the EU were clear and substantial in terms of economic and political gains (see Sweeney, 2010; European Commission, 2009b), but in the case of Croatia they were not. For instance, the Croatian economy was already largely advanced and Europeanised with the majority of trade being done with the EU, and the political benefits were questioned once the EU played with the Croatian state's existence and identity, as in the ICTY matter. Croats saw joining the EU perhaps more from its political angle – 'coming back to Europe', to where Croatia really belonged.<sup>10</sup> So the clear benefits of EU membership for Croatia were slowly disappearing, even more so after The Hague Tribunal reached its verdict against Croatian generals and convicted them to long prison sentences in spring 2011. This verdict raised concerns in many EU countries as well since it gave rise to public discontent and massive protests on the streets of Zagreb, putting the role of the UN Tribunal but also the EU into question. The polls then showed that this verdict had further undermined support for the EU, marking an all-time low in public support for EU accession (some 23% of support, as reported by one daily newspaper). Croats felt that the EU was constantly judging their country as not good enough only for the wrong reasons and felt resentment over this kind of policy. Although this verdict was later dropped and the Tribunal freed the generals in 2012 for having no evidence against them, this has left deep scars in the memory of Croats.

The political issues put on the table during the negotiations were mostly neither part of the *acquis* nor part of the obligations under a particular chapter. Yet they had an immense influence on the whole accession process. As Noutcheva comments, the pre-accession conditionality in this region is more contested on issues related to national sovereignty and identity (Noutcheva, 2012). The EU has never been good at inducing democracy or building states, and its primary goal should be promoting stability more than change, especially when it comes to troubled regions in the world (Börzel, 2011). Promoting the 'rights-based' approach, good governance or democracy around the world can well serve the EU's public image within its civil society groups and sometimes ordinary citizens, but it mitigates its

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10 This element of bringing Croatia back to its European family of nations has been repeatedly used since the time of the first Croatian President Franjo Tuđman. He reiterated the notion that Catholic Croatia with its Mediterranean and Middle European roots has historically and politically always been part of Europe.

‘normative’ (Manners, 2002) and ‘transformative’ power by imposing a hypocritical set of rules and conditions to subjects of its policy. This policy damages its international credibility (Hill, 1993; Holland, 2003) by sometimes pushing for a change in a country’s values and a worldview associated with the national identity and culture.

## **Post-liberal discourse in the accession negotiations**

The EU certainly exercises remarkable leverage during the negotiations with candidate countries (Ganev, 2013) since the candidates are put in a delicate and submissive position, although ironically they are ‘partners’ in the process. Some authors have stressed the crucial role of the political elite in the EU accession process by pushing for reforms and the EU agenda (Vachudova, 2008; Börzel, 2011). Nevertheless, I argue that none of the political parties in Croatia could have willingly chosen the EU agenda before it was ‘offered’ to them at a certain moment. The EU agenda was indeed always there in the hearts and minds of many; even in the time of President Tudjman there was a clear intention by the Croatian Democratic Union (Hrvatska demokratska zajednica – HDZ) to bring Croatia closer to the EU and the international community. Yet international actors disliked the ‘nationalistic’ politics of this leader. However, the EU strongly supported the ex-communist and liberal opposition, ultimately opening the doors to EU membership in 2000. The external pressure imposed by the EU at a specific moment in history coupled with the changed circumstances in Croatian politics were much more important for ‘Europeanisation’ than any internal changes in the parties. After the Tudjman era came to a close, the parties were easily navigated by the EU in order to reach the desired goal of membership and returning Croatia ‘home’. They actually did not have much choice or any opportunity to publicly debate the policy alternatives.

For instance, by signing the SAA agreement in 2001 Zagreb had started the reform process even before the formal accession negotiations had commenced. This included alignment with the EU *acquis* when adopting new laws and following the ‘directives’ from Brussels, direct and indirect political inputs on how to behave in certain policy areas.<sup>11</sup> The acceptance of EU proposals by Croatian politi-

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11 On ‘lessons coming from second- and third-class euro-bureaucrats from the EU or its Member States’ reads a newspaper analysis by Prof. Kasapović who

cians became a daily routine after the opening of accession negotiations in 2005 and with the arrival on stage of Prime Minister Ivo Sanader, who was regarded as a proclaimed European and a 'dear friend' of many European politicians (Kasapović, 2011). When Ivo Sanader was arrested on multiple corruption charges after his mysterious resignation in July 2009,<sup>12</sup> and his first aide Jadranka Kosor became Prime Minister, nothing changed. The EU agenda was the priority of her government as well, and all other policies seemed to lose any importance. The consequences of the Croatian political elite's full conformity with the EU's 'instructions' were twofold. First, the political elite was too weak to say 'no' to sometimes ridiculous requests, which often hampered the pursuit of national interests and damaged the future prospects of Croatia in many ways (for instance, billions were lost by withdrawing the ZERP). Not to mention the fact that the Croatian 'negotiators' in respective chapters were only able to 'negotiate' a few of those transitional periods that the CEE countries had managed. This was merely a 'copy and paste' process. An elitist class of artificial EU experts was created and they have eventually obtained top positions in the ministries, but were incapable of creating and implementing independent policies that would benefit Croatia. The EU agenda has decreased the level of the political process by producing wishy-washy politicians who cannot stand up for the national interest nor have any clue about strategic goals, and sometimes do not care. The EU has created a place for a minority of the elite to get well-paid jobs. The lack of real leadership has created an incapable and inefficient state system, which does not know how to translate the policy into reality or how to defend Croatian interests in Brussels. Second, this prolonged period of half-sovereignty during the accession negotiations undermined the very process of

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claims that some policies, such as the policy on minorities' rights, have even been better implemented in Croatia than in many EU countries. However, European politicians and EU bureaucrats have often prudishly criticised Croatia, as seen with the constitutional changes to the electoral rights of minorities in 2011, where the minorities obtained privileged access to seats in the Croatian Parliament, although they represent less than 10% of the people in Croatia, out of which there are only 4.5% of Serbs, a practice rarely seen in the EU MS (Kasapović, 2011).

12 Some analysts doubt he was forced to leave by the same 'European friends'. Ivo Sanader argued that he resigned because he had not wanted to betray Croatian national interests in the case of the border dispute with Slovenia and its imposed blackmail. See e.g. Dnevnik.hr (2009a).



democracy by creating the detachment of Croatian people from their elected governments. The political conditionality hidden by the 'fair but strict' benchmarks not only turned Croatians against the EU but also against their own government, deepening a feeling among citizens that all politicians are corrupt and that people cannot trust the political process anymore since the government is not protecting the national interests. The technocratic and administrative legitimisation of the EU's external pressures is not beyond criticism, even more so because it subsequently damages the state's capability to cope on its own with national challenges and remain accountable to its own people. Hence, 'rather than clarifying what EU membership will involve, the pressure is for elites to evade open or public discussion and instead to attempt to buy social acquiescence. The strategic use of conditionality also means that the EU openly seeks to turn political issues into technical ones in order to massage and facilitate the reform process' (Chandler, 2010: 79). Moreover, the whole 'negotiating' process is done behind closed doors between the international administrator and the elites so that it diminishes the democratic power of people to question the choices taken. It takes away the very meaning of politics from a society and replaces it with an economic discourse of 'managing and administrating' highly important and political issues. The comparison with the European consolidation state, when the EU administrates whole countries like in Greece or Italy, can illustrate the process of the EU's harnessing of the democratic principle. Streeck (2014: 116) sees the existence of 'a supra-state regime that regulates its participating nation-states, without a democratically accountable government but with a set of binding rules: through 'governance' rather than government, so that democracy is tamed by markets instead of markets by democracy'. Chandler (2010) thus argues that the projection of the EU's 'soft power' is not only an 'externally driven political process' but also 'openly manipulative' in its nature. Only the 'soft power' that the EU uses is often positively portrayed in the public, unlike the 'neo-colonial' or 'hard power' approach employed by the USA.

Thus, 'while government presupposes a liberal rights-based framing of political legitimacy in terms of autonomy and self-determining state authority, the discourse of governance focuses on technical and administrative capacity, or the way of rule, rather than the representative legitimacy of policy making or its derivational authority' (Chandler, 2010: 70). The EU has claimed that countries throughout South

East Europe do not have any state or administrative capacities to deal with certain challenges of EU integration. This was certainly not true for Croatia which inherited a strong state apparatus and all the prerequisites of a state.<sup>13</sup> Still, the institutionalist approach to governance is legitimised on the basis that the autonomous state-level decisions and political processes are destabilising and damaging. Therefore, the countries included in the SAP needed complete state-building and a new institutional framework since even the witnessed ‘free and fair elections’ were not enough to prove a sufficient level of democratic achievement and stability, even though democracy and stability of the region were said to be the very aim of the whole exercise. A clear shift was thus made from the traditional liberal agenda, which focused on political processes and free and fair elections, towards post-liberal governance that favours institution-building as the key to democratic development. As the ESI portrayed this: ‘the most fundamental obstacle to the advance of democracy and security in South Eastern Europe is the lack of effective and accountable state institutions’ (ESI, 2001). Yet the crucial partners in this endeavour were not the governments but civil society,<sup>14</sup> which is playing a huge role in a renewed state-building process and democratic advancement. The EU strongly promotes that the representatives of civil society truly represent the interests of citizens, and not the elected government. By generously funding specific NGOs, the EU has often sent the message that, by listening to the NGOs it hears the people, whereas the political elite or government do not. Instead of creating greater stability and trust in the state’s capacities, the EU has often pushed for the disintegration of society by breaking the link between the government and its people. Or, as Bickerton (2005: 10–11) poetically notes, the international agent ends up ‘stripping states of their soul’ in this process.

It seems that the EU has overseen what the very source of instability in these countries is. The national question cannot be solved with post-liberal ‘managerial’ tools but through a genuine political process. The national question cannot be swept under the carpet, pretending

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13 See, for instance, on the legacy of the inherited judiciary apparatus of Croatia (Dallara, 2014).

14 In Croatia, for instance, civil society organisations unified by GONG, whose main occupation is to monitor elections, advocated in their reports from February 2011 and later in May 2011 that the negotiations should not be completed since Croatia did not show enough evidence of sincere political will that the reforms are irreversible (Gong, 2011).

it has never existed and that people are only ‘citizens’ without their national identity. At a time when the national rationale still prevails in the majority of EU countries and where ‘national interests’ play a crucial role in state-to-state negotiations, it is a shallow argument to take. Moreover, nation-building has not been allowed to end in Croatia because of interferences from the outside. In Croatia, reiteration of the pursuit of the ‘Croatian national interest’ raises the eyebrows of international and EU bureaucrats, directly undermining the efforts of building the national unity and stronger statehood so greatly needed a few years after the devastating war and aggression experienced by Croatia. It is therefore worrying that ‘the EU is reproducing itself in South-eastern Europe. EU member-state building in the region is a clear example of the limitations of the post-liberal governance discourse. Where states have a tenuous relationship to their societies, the relationship management of the EU sucks the political life from societies, institutionalising existing political divisions between ethnic or national groups by undermining the need for public negotiation and compromise between domestic elites’ (Chandler, 2010).

The elitist discourse of post-liberalism has gained some roots in Croatia as well. The political elite has often employed the notion of ‘uninformed’ citizens because support for the EU has sharply dropped. The managerial discourse of preaching to ‘poor’ and ‘uneducated’ people has only reduced people’s trust in democracy. It could be that the Croatian political elite learned the same discourse from the pale EU bureaucrats who behave as the primary authority in the countries they ‘conquer’, even though most of them are just low-ranking policy officers. Indeed, only 66% of voters backed EU membership in a 2012 referendum. About 33% were against. With only 44% of Croats casting a ballot, this was one of the lowest turnouts in an EU referendum ever (in Hungary it was 46%). Translated into the number of registered voters in Croatia, the referendum result points to the fact that only 28.64% of all Croatian voters said Yes to EU membership. Croats were obviously not too convinced that the EU offers something better for them.

## **Conclusion**

Once the most successful (foreign) policy of the EU, enlargement has become politically biased and at times a highly illegitimate process. This diminishes the EU’s transformative potential. The biased policy

is easily illustrated in the case of the accession negotiations with Croatia. The new benchmarking method proved to be both unreliable and politically problematic. This mechanism exposed the non-resilience of member states to using the accession negotiations to promote their national interests. Because of this policy-hijacking and politically motivated use of benchmarks, especially in Chapters 23, 13 and 31, the negotiation process with Croatia suffered numerous and irrational delays. This has in turn undermined the legitimacy of the EU's demands and of the whole process. Throughout the negotiation process, the EU used an institutionalist agenda and post-liberal governance discourse that led to shrinking the sovereignty of Croatia to its very limits, justifying this by 'reforming' the state with an 'objective' set of rules that Croatia accepted to obey. The end result is formal compliance with the rules, but a more disunited state with alienated Croatian people who despise the hypocritical stand of the EU and its bureaucrats. The accession negotiations are indeed a chance for the EU to practise its unprecedented levels of leverage and take advantage of submissive partners. This 'external pressure' or mildly called 'soft' and 'normative' power has seen the EU lose its real power of transformation. The magic of the EU disappeared by embracing the post-liberal governance model that detaches political processes from people and therefore democracy. The case of Croatia perhaps shows that the 'transformative' supremacy of the EU has been discreetly defeated forever.

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# 3 Reform of the Public Administration in Slovenia and Croatia in the Context of Accession to the European Union

Petra Goran

## Introduction

The public administrations of European post-socialist countries have been facing exceptional challenges since their transition to a democracy and market economy. Apart from the demanding processes of change toward democratic and capitalist societies, they had to respond to the global trends of cutting public expenditure and increasing efficiency on one hand, and adjusting to the EU's accession requirements on the other. Administrative reforms are a continuous process in most countries around the world, but in 'Western democracies' they typically refer to alterations and improvements of functioning systems, whilst in post-socialist countries they usually imply an entire new framework for restructuring public administration systems (Kustec-Lipicer and Kovač, 2008). While 'Western' administrations had the advantage of learning from their own experience in building their institutions *ex nihilo*, most Central and Eastern European countries went through slow modernisation processes – first peripheral, and then totalitarian – which has resulted in “catatonic, or irrational bureaucratisation” (Poljanec-Borić and Švarc, 2008: 137). Post-socialist countries are thus expected to merge two phases of administrative development: establishing the legality of the administration and increasing its flexibility and adaptability (Pusić,

2005: 14). Indeed, administrative reforms in post-socialist countries prove to be a very complex and demanding endeavour.

This chapter will briefly discuss the Europeanisation of post-socialist administrations, give an overview of administrative reforms in Slovenia and Croatia before, during and after their accession to the EU, and compare the results of these reforms through some global indicators. In comparing the Slovenian and Croatian administrative reforms, we shall refer to the well-known definition of Pollitt and Bouckaert (2004: 8): 'Public management reforms consist of deliberate changes to the structures and processes of public sector organisations with the objective of getting them (in some sense) to run better'. Bearing in mind that all public administrations stem from different models and move forward in various ways (Peters, 2000; Pollitt and Bouckaert, 2004), we must stress that post-socialist countries have systems of values and attitudes which are also in transition. Such circumstances call for strong political leadership in introducing change in the administration, as well as clear directions and good management by the top civil servants (OECD, 1997; United Nations, 2005; Pollitt and Bouckaert, 2004). Our analysis will therefore focus on civil servant systems and the leadership of administrative reforms in order to compare the actors, the content and speed of change in the administrations of the two countries.

## **The Europeanisation of post-socialist public administrations**

Even though they stem from different historical and social contexts, post-socialist administrations share some specific problems which hinder their effective implementation of reform:

1. the mentioned **comprehensiveness** of reforms, simultaneously combining the two otherwise separate processes of establishing legality and professionalism, as well as increasing the flexibility of the administration, risks leading to chaotic patchworks of traditional elements of the administration and new public management initiatives;
2. **short deadlines** for implementing reforms, often set by external actors such as international organisations or the EU, which condition membership in them upon the implementation of certain reforms, imply great speed and a lack of piloting, evaluation and adaptation of reform measures. Reforms are often copied from

- other countries or institutions without the necessary adaptation to local needs;
3. one of the key inherited features of post-socialist administrations is **politicisation**, which impedes the continuity, effective implementation and irreversibility of administrative reforms. Numerous authors agree that de-politicisation and professionalisation must be the main objectives of reforms in post-socialist administrations (Verheijen and Rabrenović, 1999; Meyer-Sahling, 2006; Coombes, 2007; Neshkova and Kostadinova, 2012 etc.); and
  4. **a lack of qualified staff** that is due partly to the politicisation, but also to the quickly changing conditions and new competencies which are difficult to acquire in post-socialist countries or are better rewarded in the private sector.

These obstacles have been considered by several authors who mostly agree that 15–20 years down the road the results of the administrative reforms made in all post-socialist countries have proven to be quite disappointing, at least when taking the invested financial and human resources of various actors into account (Verheijen, 2003; Agh, 2003; Verheijen, 2007; Meyer-Sahling, 2009 etc.).

Within this context, the EU's influence on the countries preparing for membership in it is indisputable: analyses of institutional democratisation in Central and Eastern Europe show that the mere prospect of EU accession positively impacts the speed and depth of democratic reforms (Pop-Eleches, 2007). Public administration reform (PAR) is not formally part of the EU membership negotiation process as there is no common EU legislation (*acquis communautaire*) in this field, but there is ample research confirming that the EU exerts pressure on the candidate countries to take over the principles of the 'European Administrative Space'.<sup>1</sup> The role of EU institutions in developing public management is much stronger in the accession

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1 EU candidate countries should embrace the principles of 'European Governance': openness, participation, accountability, effectiveness and coherence (European Commission, 2001). SIGMA has also defined the 'European Administrative Space' principles, which remain general and broad due to the great variety of administrative systems among the EU member states (OECD, 1998; OECD, 1999). The very broadness and impreciseness of these principles makes their implementation very difficult: candidate states are required to build the capacity of their public administrations with the aim of implementing the EU *acquis*; however, they are free to choose administrative models and reform measures themselves.

states than in the EU members due to ‘conditionality’ – the Madrid membership criterion<sup>2</sup> is a condition to be fulfilled to access rewards (EU funds, programmes and policies; membership).

Europeanisation is defined in Grabbe (2003: 309) as “processes of (a) construction, (b) diffusion, and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’, and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, identities, political structures, and public policies”. This includes both ‘hard’ (laws, rules, procedures) and ‘soft’ transfer (behaviour, beliefs, norms) and often refers to introducing multi-level and network governance to the accession countries (Lendvai, 2007: 34), which requires openness, effective coordination and cooperation within the public administration, between the political and administrative levels and among various public and private actors.

The new ways of work in public administrations call for new values such as transparency and the rule of law which did not exist in previous regimes (Saarniit, 2006: 50). This often leads to inconsistencies between the new institutional arrangements (laws, rules, procedures) and the informal administrative practices due to inertia but also the conscious decisions of old bureaucrats who cannot accept the democratic behaviour and norms (see Neshkova and Kostadinova, 2012: 326). As a change in values and behaviour demands long-term efforts, and the importance of EU pressure drops after the accession, it is interesting to note that many post-socialist countries face the stagnation or deterioration of their administrative reforms after becoming EU members when the close EU monitoring of the public administration ceases (Verheijen, 2007; Meyer-Sahling, 2009). What seems to be generally missing from the administrative reforms during the accession is a focus on introducing new values, working methods and communication across the entire public administration (and not only in the small part of it which communicates directly with EU institutions).

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<sup>2</sup> EU membership criteria include the ‘Copenhagen criteria’ (political, economic and legal) and the ‘Madrid criterion’ (administrative capacity), which was added later after it had become clear that the candidate countries’ administrations lacked the capacity to effectively implement the EU *acquis*.

## Public administration reforms in Slovenia

The Slovenian public administration formed part of a system which was considered more open and closer to 'Western' democracies than other Central and Eastern European countries, thus opting for a 'softer', incremental approach to institutional reforms (Adam et al., 2008: 59). It had the benefit of a functioning system and basic administrative laws which allowed both the system and staff to be preserved (we will discuss further to what extent this was an advantage or an impediment for reform). Key reforms in fact only started in the late 1990s on the initiative of the EU. Kovač and Francelj (2008: 95) define three main objectives of the administrative reforms: transition to a new social, political and economic system; globalisation; EU accession. Europeanisation thus seems to be a vital external force pushing the reforms. Another key influence came from within as political pressure for greater efficiency and 'bottom-up' initiatives for quality management and functional improvements (Kovač, 2011: 630, 633).

Reforms of the Slovenian public administration are usually divided into four phases (Kovač and Francelj, 2008: 101; Kovač, 2011: 633):

1. **Independence and establishment of the administrative structure and local self-government (1991–1996):** new laws were adopted and mixed with the old legislation without clear criteria for restructuring; the administrative organisation lingered and became more fragmented and uncoordinated (see Trpin, 2003: 60). There was a reluctance to introduce comprehensive reforms since the administration continued to function (path dependency).
2. **Administrative reforms – legislative and managerial – related to the EU accession (1996–1999 and 2000–2003):** a strategic plan for PAR was defined within the Government's EU Integration Strategy adopted in 1996, including a permanent, independent civil service, improved efficiency and collaboration of ministries, capacity building etc. At the same time, the Swiss-funded MASTER project educated about 40 administrative experts in new public management methods and provided a critical mass of competent staff for key positions in the implementation of PAR. From 2000–2002, five key public administration acts were elaborated and adopted in line with the European Administrative Space principles (on the civil service, public sector salaries, state administration,

inspection, public agencies and public access to information). There was a focus on improving civil servants' competencies and customer service. Regular Progress Reports of the European Commission monitored the administrative development and generally estimated that the progress was slow. The last Progress Report (European Commission, 2003) gave positive feedback on the new legislation and work of the key institutions, but mentioned uncertainty about the implementation of laws, in particular referring to the Civil Service Act, which deals with depoliticisation.

3. **Continuous modernisation through specific public policies (2003–2008):** the new Public Sector Development Strategy (2003–2005) was based on the European governance principles and implemented through legislation adopted in 2002 and an action plan. The next strategy, Slovenia's Development Strategy (2005–2013), focused on continuous modernisation of the public administration, but was not entirely implemented due to political turbulence and the 2008 economic crisis. Both promoted new public management methods, as is the case in most post-socialist countries. Improvements in public administration efficiency and a customer orientation were visible, partly as a result of the establishment in 2004 of the Ministry of Public Administration, which was the main promotor of public sector reforms, from the single salary system to the e-administration and a new public procurement system (Kovač, 2011: 631). In the next phase, the Ministry changed its priorities towards rationalisation, cuts in public spending and centralisation up until 2012 when it merged with the Ministry of Justice as a result of the government's economisation policy.
4. **Adjustments to the global economic crisis (after 2008):** development of the administration in Slovenia after the global economic crisis of 2008 focused on economic goals (as part of the Government's "Exit Strategy 2010–2013"). This includes cutting the size and cost of the public sector, merging ministries, reducing the number of staff etc.

The SIGMA<sup>3</sup> report *Sustainability of Civil Service Reforms in Central and Eastern Europe Five Years after EU Accession* (Meyer-Sahling, 2009) analysed the trajectories of civil service reforms in eight 'new' EU

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3 SIGMA is a joint initiative of the OECD and the EU, principally financed by the EU ([www.sigmaxweb.org](http://www.sigmaxweb.org)).

member states and put Slovenia in the middle group along with Hungary, judging that it then had a medium level of congruency with the European Administrative Space principles. It stressed that after the country's EU accession reforms had advanced in some areas, while in others they had reversed. As mentioned earlier, there was evidence of the stagnation or regression of administrative reforms after EU accession, partly because the EU monitoring ceases. The politicisation of the Slovenian administration was not evident as there are transparent selection procedures of top civil servants; however, final appointments are often made on the basis of political affiliation. Above them, there are still two layers of political officials. Top civil servants may be dismissed within 1 year of a change in government, which was leading to a high turnover and inefficiencies. The report stated that even though the civil service reform had been quite successful, the level of professionalisation remained stable and the future was unclear (Meyer-Sahling, 2009: 75).

Looking at the entire period since the transition, the Slovenian administration has improved considerably, particularly in providing effective services to citizens. EU negotiations were the most intensive reform period at the beginning of the 2000s, but there may be some additional factors influencing this, beside the EU pressure.

Like many other EU accession countries, Slovenia developed a small core group of civil servants dedicated to EU affairs. It included experts who were partly educated through the mentioned MASTER course specialised in public management concepts, methods and tools, which entitled them to expert positions within the administration and a faster career. This was the administrative elite which led the changes at the start of the 2000s and was dispersed after EU accession.

Substantial reforms starting at the end of the 1990s were promoted from one central point – first, a PHARE project implementation unit, then the Office for Organisation and Development of the Administration within the Ministry of Interior. In 2004, the Ministry of Public Administration was established, gathering all relevant functions under one roof and strengthening central guidance for implementing the reform measures. It should be noted that the competencies of the political officials leading the reforms during this period included extensive expertise in public administration, law and management. This knowledge and commitment of the political leaders may have been a crucial factor of the reform momentum. There was

also continuous political support from the highest government level to improve administrative services and remove barriers (see Goran, 2014: 197).

The influence of the Ministry of Public Administration was strongest in its own area of authority – territorial administrative offices – which were crucial for changing the administrative culture toward a customer orientation. Removing administrative barriers was a project aimed at changing the mindsets in all other ministries toward less bureaucratisation. New values were thus introduced in the administration, but the process was too short and limited in scope. With administrative staff remaining in their positions after the transition, the ‘old’ administrative culture was strong and persistent. The impact of new values was insufficient to make the reforms irreversible and the lack of intensive pressure and support after acceding to the EU resulted in stagnation and persisting politicisation.

## **Public administration reforms in Croatia**

Croatia’s starting point for its administrative reforms was very similar to Slovenia’s. However, the early 1990s was a period of war, which had long-term consequences for the development of democratic institutions, social values and a market economy. Political decisions were made which limited democratic consolidation, started the non-transparent privatisation of social property and created an unjust and insufficient economic system (see Zakošek, 2007; Grubiša, 2005). The public administration was centralised and given a symbolic function of authority, while the structure of staff changed rapidly, entailing an increase in the number of military and police staff while reducing staff in research, health and culture. These processes in fact decreased the administrative capacity, deteriorated the educational structure of the administrative staff and resulted in up to 59% of civil servants (including the police and excluding the military) having secondary school levels and only 27% with BA or higher degrees (Koprić and Marčetić, 2000; Budak et al., 2011: 22). Another consequence of the war and the problematic transition was the delayed Europeanisation, with a late start to the EU accession negotiations.

Reforms of the public administration in Croatia can be divided into three phases (Koprić, 2008):

1. **Establishment (1990–1992)**: new ministries and services were established (tax, customs, diplomatic service...); the administration



went through a number of poorly prepared reorganisations based on short-term political interests and administrative staff was screened on the basis of non-professional criteria (Koprić and Marčetić, 2000: 67).

2. **Consolidation (1993–2000):** this was a period of centralisation and politicisation, resulting in an unprofessional, closed and bureaucratised administration. New laws were adopted (on state administration, local self-government, civil servants and public employees, public sector salaries), but were regarded as a mere instrument of current political interests (Koprić, 2008: 553).
3. **Europeanisation (from 2001):** dialogue with the EU on the accession process started in 2000 and changed the focus of the administrative reforms. A new law on civil servants and public employees was adopted in 2001, but it was only the third Civil Service Act which introduced SIGMA's principles of good governance: it was adopted in 2005 under the pressure of the EU negotiations and developed through an EU-funded project. Before the EU negotiations, SIGMA had assessed the Croatian administrative culture as being 'very hierarchical, neither responsive nor customer oriented' (OECD, 2004: 9). This prompted several projects financed by the CARDS<sup>4</sup> programme in the field of public administration, which prepared the establishment of a new central body for PAR and a civil service training centre. They were complemented by Swedish, Danish and UK bilateral projects, as well as World Bank financing in the PAR field. The extent of this assistance was not reflected in the results of the administrative reform as there was local resistance to taking decisions and a lack of a comprehensive vision of all reform stakeholders (see Longares Barrio, 2008: 14). The European Commission's Progress Reports testified to the slow pace of the reforms and some progress made. The last report stressed the need for top-level political support, further work on the professionalisation, transparency, customer orientation and implementation of the existing legal framework (European Commission, 2011). The first Public Administration Reform Strategy was adopted in 2008, including 62 activities, but its implementation was hampered from the outset: it did not include quantitative indicators, nor a budget

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4 CARDS – Community Assistance for Reconstruction, Development and Stabilisation was an EU programme for Western Balkan countries implemented in 2000–2006.

plan for its implementation, and it focused on normative measures and neglected their implementation (Koprić, 2008: 557).

The SIGMA report *Civil Service Professionalization in the Western Balkans* (Meyer-Sahling, 2012) follows on from the report from 2009 and analyses the civil service systems in Western Balkan countries, omitting the clustering of countries. Among other issues, the report stresses the low administrative capacity and questions the depoliticisation process in Croatia as political officials have a decisive role in selecting civil servants at all levels. Moreover, due to incomplete selection procedures, 'it is easier to become a director general than a junior civil servant' (Meyer-Sahling, 2012: 47). Indeed, due to the neglect of professional competencies and politicisation, 'in Croatia there are almost no top civil servants who are capable and authorised to propose and elaborate strategies and policy programmes' (Marčetić, 2006: 59).

The EU and SIGMA reports indicate that the Croatian administration did not use the possibilities offered by the abundant assistance programmes, the political pressure of the EU negotiations and the fact that it could learn from other countries that had gone through the same process only recently in order to make a qualitative leap. The negative impact of the 1990s' politicisation processes seems to have reversed the administrative structure and values and prevented significant change in the direction of the European Administrative Space principles.

Some authors discuss this in the context of elite reproduction, based on a regulatory policy requiring a minimum of 10 or more years' experience for any post of authority in the public service. This means that staff with values and competencies from the previous system are maintained as the main decision-makers and young experts are prevented from entering any position of responsibility (Rodin, 2007). From a wider perspective, there is widespread corruption in society, facilitating nepotism and preventing the professionalisation of public services (Bađun, 2005; Čaldarović et al., 2009). The fact that political appointees occupy top management positions in the public administration – jobs which require professional knowledge and experience linked to public management and policy – results in a low administrative capacity and a lack of initiative for administrative reform (see Marčetić, 2006).

The lack of reform leadership is reflected in institutional instability: the central governance of public administration moved from the

Ministry of Justice and Administration to a dedicated Ministry of Administration in 1993, which was again merged with the Ministry of Justice, Administration and Local Self-government at the beginning of the 2000s. In 2003, a Central State Office for Administration was established, which (again) turned into the Ministry of Administration in 2009. On the other hand, there is continuity in much of the staff and even the leadership responsible for administrative reforms from the 1990s, which does not ensure new knowledge, skills or initiative for establishing a modern, merit-based administration (see Goran, 2014: 213).

As mentioned, during the 1990s, even though a specialised ministry existed no in-depth reform was initiated; on the contrary, it was a period of politicisation and improvised *ad hoc* change. Reforms started with the beginning of the EU accession, when the position of the central governing body was inadequate. This resulted in insufficient leadership and competence and the lack of a critical mass of experts who would promote the new behaviour and values in the administrative culture. As late as in 2011, the SIGMA report on the state of the Croatian civil service noted that the management style – centralised, formal and non-transparent – should be changed (OECD, 2011: 3). With a weak centre of the reform, there was no basis for a systematic and coherent public administration reform. Some ‘islands’ of modernisation can be found, usually influenced by foreign institutions, but lacking coordination and perspectives for sustainable change.<sup>5</sup>

## **Results of the PAR in Slovenia and Croatia according to global indicators**

In order to compare the successfulness of the PAR in the two countries, we overviewed the rankings of Slovenia and Croatia on the lists of global indicators dealing with different aspects of public governance. Most of these indicators measure the customer orientation of the administration – its efficiency, openness and support for business – which may represent a limited image of the public administration.

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5 One of them was the Ministry of European Integration (2000–2005), which was praised for its reformist culture (OECD, 2004: 9). The Ministry of Finance was later often mentioned as the leader in introducing change in the Croatian public sector.

However, they do give an idea about the extent to which the administration serves its citizens and supports social and economic development as its key purpose.

The table below lists rankings of Croatia and Slovenia among the 11 countries of Central and Eastern Europe that have joined the EU since 2004, as comparable EU member states which have undergone similar transitions and accession processes. The fact that Slovenia ranks among the first four in all except one indicator, and Croatia remains at the bottom end, supports our conclusions that the public administration reforms in Slovenia had better results than those in Croatia.

*Table 3.1:* Comparison of Croatia and Slovenia according to global indicators related to public governance

Indicator	Croatia	Slovenia
Worldwide Governance Indicators (2013) – selected indicators (percentile rank 0–100)		
– Government Effectiveness	70.81 (8 <sup>th</sup> out of 11 countries*)	78.95 (1 <sup>th</sup> )
– Regulatory Quality	66.03 (11 <sup>th</sup> )	71.77 (8 <sup>th</sup> )
– Rule of Law	60.19 (9 <sup>th</sup> )	80.57 (3 <sup>th</sup> )
– Control of Corruption	61.24 (8 <sup>th</sup> )	73.68 (2 <sup>nd</sup> )
Global Competitiveness Report 2012–2013 (selected indicator)		
– Public institutions	3.47 (8 <sup>th</sup> )	3.99 (3 <sup>rd</sup> )
Freedom House – Nations in Transit 2014 (selected indicators)		
– National democratic governance	3.50 (8 <sup>th</sup> )	2.00 (1 <sup>th</sup> ****)
– Corruption	4.00 (8 <sup>th</sup> ***)	2.50 (1 <sup>th</sup> *****)
Transparency International – Corruption Perceptions Index 2014	48 (9 <sup>th</sup> )	58 (4 <sup>th</sup> )
The Economist Intelligence Unit – Democracy Index 2013 (selected indicator)		
– Functioning of Government	6.07 (9 <sup>th</sup> )	7.50 (1 <sup>th</sup> *****)

\* Selected indicators were compared for 11 of the most recent EU member states in Central and Eastern Europe (Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Slovenia) as comparable post-socialist countries. The numbers in brackets indicate the rank among these 11 countries.

\*\* Shared with Romania (same number of points).

\*\*\* Shared with Latvia (same number of points).

\*\*\*\* Shared with Estonia (same number of points).

\*\*\*\*\* Shared with Slovakia (same number of points).

Sources: World Bank (2015), World Economic Forum (2013), Freedom House (2014), Transparency International (2015), Economist Intelligence Unit (2014)

Taking into account that both countries started from the same administrative system with the same history and values, and went through the same process of EU accession, such a difference in the results may be surprising. It can certainly be partly explained by the war and extreme political circumstances in Croatia during the 1990s

which led to the deterioration of its administration, but the role of the political leadership of the administrative reforms should not be neglected. The strong leadership of the administrative reforms in Slovenia during the EU accession period had an effect of improving the efficiency and customer-orientation of the PA, while the absence of leadership in the Croatian administration kept it at the bottom of the list, inefficient and opaque. Further, when taking into account the advantageous starting positions of both countries compared to other Central and Eastern European countries, it is interesting to note that both Croatia and Slovenia have been overtaken by the Baltic states, which had to re-build their administrations from scratch.<sup>6</sup>

## Conclusions

Public administration reform was not a clear political priority in either Croatia or Slovenia at the beginning of the transition (apart from the necessary adjustments due to their independence). The continuity of their structures and values led to late initiatives for professionalisation and depoliticisation, under EU pressure. In Slovenia, this was done under strong and professional leadership with positive effects for the core administrative services in their work with the citizens. The positive influence of the EU and this leadership was, however, unsustainable; after acceding to the EU, politicisation increased and some reform trends were reversed. The Croatian administration became even more politicised and less professional during the first years of the country's independence, which led to a structural resistance to change. Subsequent efforts of the EU, the World Bank and bilateral partners to introduce measures and structures for a professional, merit-based administration unfortunately only led to dispersed initiatives not systematically implemented. The lack of EU pressure on implementing administrative reforms after Croatia's accession to the EU has been exacerbated by the lack of a comprehensive approach and local leadership.

It may be concluded that the EU is unable to exert sufficient pressure on the PAR processes in accession countries during the period of membership negotiations. The vagueness of the European Administrative Space principles and the lack of competence of EU

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<sup>6</sup> It should be mentioned that the World Bank indicators for Slovenia have been stagnating or falling in many areas over the last 5 years (World Bank, 2015).

institutions in administrative policy results in a lack of implementation and sustainability of administrative reforms, and in their reversibility. Administrative reforms in post-socialist countries happen, in fact, under the influence of various domestic and foreign actors, of which the EU is only one.

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# 4 The Role of Organised Civil Society in EU Policymaking: Evidence from Slovenia and Croatia

Meta Novak

## Introduction

The role of organised civil society from Slovenia and Croatia in EU policymaking can be justified from two perspectives: *opportunity* and *encouragement*. The first is the establishment of a new venue for policymaking. With the decision of Slovenia and Croatia to join the European Union and start the negotiation processes the supranational level of policymaking was also established for these two countries, thereby forcing domestic interest groups to move their lobbying activities to a new level (Mazey and Richardson, 2001). It opened a new opportunity, created new channels for domestic interest groups to enforce and express their interests not simply by influencing national decision makers but also by entering European-level policymaking. The role of domestic interest groups in EU policymaking must according to some scholars now be 'dual'. Besides influencing decision-making at the EU level, due to the implementation of EU legislations by national institutions they also need to promote their interests among domestic institutions (Eising, 2008).

We can understand the second perspective, encouragement, as promoting the inclusion of various interests in EU policymaking in order to reduce the EU's democratic deficit, ensure participation and better EU governance where all stakeholders are included in decision-making (Samardžija and Vuletić, 2009; Kohler-Koch, 2010).

This is also evident from various EU documents. For example, the White Paper on European Governance from 2001 proposed opening up the policymaking process and including more people and organisations in shaping and delivering EU policy. It suggests ‘greater openness, accountability and responsibility for all those involved’ at the national as well as European level (European Commission, 2001). Further, EU institutions define networking with associations, interest groups, business and professional organisations, trade unions and think tanks as ‘permanent, legitimate and necessary’ for democratic policymaking (Transparency Register, 2014) while the Lisbon Treaty mentions that ‘institutions shall maintain an open, transparent and regular dialogue with representative associations and civil society’ (Lisbon Treaty, 2007: Article 8B). For this reason, the Commission and other European institutions are also ‘incredibly open and permeable to interest groups lobbying’ (Mazey and Richardson, 2001) and wish to include in consultations anyone that wants to join in (Ferle 2012).

When it comes to new member states of the EU this encouragement is also supported by political conditionality with an incentive for the new member states to include civil society in policymaking. EU conditionality has encouraged the development of institutional mechanisms in post-communist countries for collaboration between state and non-state stakeholders and the inclusion of civil society organisations in policymaking processes, in particular during the period of accession when candidate countries aimed to meet set criteria and close as many chapters as possible (Filipova, 2014). The EU Enlargement Strategy from 2007, for example, sets the development of civil society in candidate countries from the Western Balkans as one of the key priorities before accessing the EU (European Commission, 2007). Besides the EU, the provision of funds, the European Commission’s patronage and support from EU umbrella organisations have promoted the development of civil society in particular policy areas (Filipova, 2014; Fink Hafner et al., 2015).

Our research question in this chapter is: What is the role of Slovenian and Croatian organised civil society in EU policymaking processes? The study of domestic organised civil society in the European context can encompass several issues. Fink Hafner and Lajh (2006: 6) named the following five: 1) interest group networking with their counterparts and the development of EU umbrella associations; 2) the impact of interest groups’ networking with European

interest groups on their influence in national policymaking processes; 3) domestic interest groups' direct access to European officials; 4) interest groups' participation in EU policymaking *via* communication with national officials; and 5) interest groups' participation in the transposition and implementation of EU legislation. We will try to answer our research questions from various angles. We will first describe the status and role of organised civil society before full EU membership. Second, we will consider the impact of the Europeanisation process of civil society organisations. Last but not least, we will try to identify the weaknesses of inclusion of Slovenian and Croatian interest organisations in EU policymaking.

## **Before accession to the European Union**

Civil society played an important role in the democratisation processes of countries of Central and Eastern Europe (Petak and Vidačak, 2015). The same can be said for Slovenia and Croatia. The possibility of citizens to participate in policymaking processes through interest associations and civil society organisations plays an important role in democracy and strengthens it (Green, 1999). The role of civil society is diverse, ranging from voicing various interests, bringing knowledge into policymaking processes, state monitoring, and requiring quality performance (Green, 1999; Kohler-Koch, 2010). In the first part, we will take a closer look at the characteristics of civil society's development in the period before full EU membership.

Slovenia has a long tradition of non-governmental organisations such as: associations, foundations, private institutions, cooperatives and church organisations (Črnak-Meglič and Rakar, 2009). New and different civil society organisations (e.g. environmental, feminist, subcultural...) began to spread and develop especially in the 1980s when a strong civil society was characteristic of Slovenia (Fink Hafner, 1998; Črnak-Meglič and Rakar, 2009). Between 1975 and 1985, the number of associations increased by 64% (Črnak-Meglič and Rakar, 2009: 239–240). The pluralisation of civil society and its activity reached a peak in 1988 (Fink Hafner et al., 2015). During the 1990s, civil society was gradually developing (Fink Hafner, 1998) when Slovenian scholars also detected a higher number of state and non-state political actors being included in negotiation processes as part of the candidate states' association with the EU (Fink Hafner, 2007: 32).

Slovenian civil society took on an important role in this negotiation processes and characterised it (Fink Hafner, 2000: 85; Fink Hafner and Lajh, 2006: 16; Fink Hafner, 2007: 42). Interest groups were already included in the preparation stage of negotiation positions and were members of the working bodies of the Negotiation Team of the Republic of Slovenia for Accession to the EU. Besides their direct access to negotiation processes, organised interests influenced this processes through the National Assembly and the mass media. What is more, representatives of EU institutions turned to them for opinions and proposed national positions were published and available to civil society for information and for comments (Fink Hafner and Lajh, 2006: 16). A survey of the most active interest groups in Slovenia in 1996 also showed the development of links between domestic interest groups and similar associations from abroad in particular with organisations from EU member states and with European umbrella associations (Fink Hafner, 1998: 296; Fink Hafner, 2000: 84). European interest groups<sup>1</sup> influenced Slovenian policy by strengthening civil society with support in the agenda-setting stage, by developing the active inclusion of interest groups in all key stages of policymaking and implementation and finally with the transfer of knowledge, expertise and experiences to Slovenian domestic interest groups (Fink Hafner, 2000: 92). However, at that point links with EU counterparts were mostly used to gain valuable information and not for lobbying in the EU's policymaking processes (Fink Hafner, 1998: 269).

Croatia and Slovenia share the same historical context but after 1991 their socio-political and economic circumstances have been different. While Slovenian civil society in the 1990s was often evaluated as well developed, Croatia faced criticism of its weak civil society (Stubbs, 1996). Despite the poor tradition, some traces of civil society initiatives can be noted in the 19<sup>th</sup> and 20<sup>th</sup> centuries (Bežovan and Matančević, 2011). After both countries attained independence in 1991, Croatia faced a 4-year-long war (Siročić, 2015) which had implications for newly formed non-governmental organisations that in particular addressed the question of refugees (Stubbs, 1996; Bežovan and Matančević, 2011). Humanitarian aid from abroad has been provided through the establishment of non-governmental

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1 By European interest groups we understand European umbrella associations and Slovenian interest group counterparts from EU member states (Fink Hafner and Lajh, 2006: 34).

organisations (Stubbs, 1996). Civil society was thus developed top-down (Bežovan and Matančević, 2011). In the 1990s, a large number of foreign NGOs operated in Croatia, thereby creating a highly competitive atmosphere for the local NGOs (Stubbs, 1996) that were facing a lack of financial and human resources, low membership and a low level of professionalisation (Bežovan and Matančević, 2011). The slow development of the legal framework for organised civil society activities made it even more difficult for local interest organisations to have an influence (Bežovan and Ivanović, 2005). Nevertheless, a number of grassroots organisations was also present, having developed from women's initiatives in the 1980s or 1990s and in the fields of environmental protection, peace, human rights, and the anti-war movement (Stubbs, 1996: 13; Bežovan and Matančević, 2011). But their position was difficult because they did not receive support and trust from the government or citizens (Bežovan and Matančević, 2011). Since the 1990s the institutional framework for the development of civil society has improved (Bežovan and Matančević, 2011). With the change of government in 2000 organised civil society started to receive even greater support from the government and the legal framework for the activity of civil society organisations has been slowly developing (Bežovan and Ivanović, 2005; Bežovan and Matančević, 2011; Cenzura Plus, 2014).

Today, interest organisations in Croatia have a well-developed institutional mechanism for their participation in policymaking (Cenzura Plus, 2014). This institutional mechanism consists of the Council for Civil Society Development, the National Economic and Social Council established in 1994, government advisory bodies, 25 parliament working committees and local mechanisms for consultations where civil society organisations have the opportunity to voice their interests, as well as the ratification of relevant ILO Conventions that have provided the bases for developing and strengthening civil dialogue and civil society (Petak and Vidačak, 2015). Yet, despite these institutional mechanisms, Croatian scholars warn that civil society as well as social dialogue in Croatia remain weak (Stubbs and Zrinščak, 2005; Petak and Vidačak, 2015).

Similar to Slovenia, in Croatia trade unions and employers' organisations also took part in the EU negotiation processes (Samardžija and Vuletić, 2009). The role of civil society organisations was also recognised and appreciated during preparation of the EU-Croatia Joint Inclusion Memorandum (Bežovan and Matančević, 2011).

However, the lack of organisational capacities of civil society organisations and labour organisations due to union fragmentation and the low level of unionisation weakened the social dialogue and participation of civil society organisations (Samardžija and Vuletić, 2009; Bežovan and Matančević, 2011). Nevertheless, Croatian trade unions and the Croatian Employers' Association expressed satisfaction with their level of involvement in the negotiation processes (Samardžija and Vuletić, 2009).

## **The Europeanisation process**

Studies of the Europeanisation process are usually concerned with the influence the EU has on a member state's political parties, national bureaucracies, legislators and interest groups (Mazey and Richardson, 2001; Beyers and Kerremans, 2007). Beyers and Kerremans (2007) find that interest groups that are more tied to their local environment are less likely to Europeanise. The following three factors define how strongly an organisation is prepared to Europeanise: 1) the type of interest groups – groups that are dependent on their membership are more embedded in the local environment; 2) resource dependencies – groups that are dependent on government funds are less autonomous but also their lack of resources may represent an obstacle to activity at the EU level; and 3) policy domains – policy areas where EU competencies are weak or non-existent. As we can see, the participation of interest groups in EU policymaking processes should not be taken for granted. Interest groups predominantly network with domestic interest groups and seek access to domestic officials. It is only once that an interest group has established its position in the domestic environment that it can start networking on the EU level (Beyers and Kerremans, 2007). Some interest groups also enforce their interest only in relation to the domestic government and institutions. This is especially the case with policy areas that are not within the competence of the EU (Beyers and Kerremans, 2007).

Despite the limited inclusion of organised interests from Slovenia in EU policymaking (Hafner Fink et al., 2014), a survey among 97 interest groups from Slovenia in 2012 reveals that a relatively high percentage of those organisations network with similar organisations from abroad: in 2012, 76.3% of those organisations were members of international umbrella organisations, 52.6% devoted a lot



of their time to networking with similar non-national organisations, while 66% of those organisations turned to similar organisations abroad when attempting to influence policymaking at the national level in Slovenia (24 of those 97 organisations receive support from EU umbrella associations and 24 from organisations that come from other EU member states),<sup>2</sup> where know-how and information remain the most important source of support (Fink Hafner et al., 2014a: 9–10). Croatian trade unions and employers' associations established cooperation with EU umbrella organisations and similar organisations from EU member states already during the EU accession stage when a strengthening of this cooperation and a bigger role for Croatian stakeholders in European social dialogue was expected (Bežovan and Ivanović, 2005; Samardžija and Vuletić, 2009). According to the Civil Society Index study from 2008–2010, 24% of civil society organisations from Croatia were members of European or other international organisations. Despite the weak linkages with international networks of civil society organisations, this share might improve in the following years of EU membership since Croatian interest organisations will probably feel motivated to join European umbrella associations as well as the activities of European civil society (Bežovan and Matančević, 2011).

Networking with European counterparts is not the only indicator of Europeanisation's effects on organised civil society in Slovenia and Croatia. The Europeanisation process also had an impact on the characteristics of Slovenian and Croatian organised civil society. One of the most noticeable Europeanisation effects in Slovenia was the increased Europeanisation of national executives and strengthened power of the national executive in relation to civil society as well as *vis-à-vis* the national parliament (Fink Hafner et al., 2015). The power of civil society is decreasing at the same time. Since non-governmental organisations from Slovenia have lacked financial support from the state they have often turned to EU-funded projects and programmes (Fink Hafner et al., 2015). Of the 97 interest organisations surveyed in 2012, 57.7% of them also receive funds from European structural funds and programmes (Fink Hafner et al., 2014a: 9–10). Support from European groups has also contributed to the active policymaking of Slovenian interest organisations outside the

2 We have to keep in mind that these figures are particularly high due to the sample examined. The data provided are only relevant for the population of these 97 interest groups in Slovenia.

national borders (Fink Hafner et al., 2015). Further, the Europeanisation process has had an effect on Slovenian interest groups' behaviour in the last 16 years, with the result that: "*the more Europeanised interest groups are, the more active they are*" (Fink Hafner et al., 2014b: 1). This may not be a surprise as being active in European issues may strengthen interest groups' position in the domestic environment since interest groups may possess valuable information for domestic officials (Beyers and Kerremans, 2007).

In the period of accessing the EU, the Europeanisation process also had a significant impact on policy regarding civil society in Croatia (Bežovan and Matančević, 2011). Concepts such as 'openness, accountability, participation, consultation' (Bežovan and Matančević, 2011: 16) started to be used in relation to civil society's role. Like in Slovenia, EU funds are important for Croatian civil society organisations. The question of funding when assessing the effect of Europeanisation is significant since interest organisations promoting European values, democracy and the inclusion of civil society are more likely to receive funds from the EU (Mahoney and Beckstrand, 2011). The results of a survey on the role of civil society in Croatia in the EU accession process show that almost 20% of interest organisations indicated that EU funds were one of the most important sources of funding (Ured za udruge Vlade Republike Hrvatske, 2013). According to the Civil Society Index survey, 10% of Croatian organisations received EU pre-accession funds that represented 30% of their budget. For those organisations that have managed to receive EU funds this represents an important funding source (Bežovan and Matančević, 2011). Further, some Croatian scholars also recognise the opportunities that EU programmes bring for the development of organised civil society in Croatia (Bežovan and Matančević, 2011).

### **Problems and weaknesses of inclusion of organised civil society in EU policymaking in the period of full membership**

Today Slovenia has been a member of the EU already for 10 years while Croatia has been a member for just 1 year. In the last part of our assessment of the role of organised civil society we encounter limited data. We will thus limit ourselves to identifying the problems and weaknesses civil society organisations face when seeking to influence EU policymaking.

We have already demonstrated that Slovenian interest organisations are well connected with European interest groups. A high level of networking with similar international and EU umbrella associations may indeed show the transfer of activity in EU policymaking to umbrella organisations. The reason for this transfer might also be found in the understaffing of Slovenian organisations. Namely, data on civil society organisations in Slovenia reveal that employment in non-governmental organisations is very small and represented less than 1% (0.74%) of the Slovenian workforce in 2009 and consequently that there is a low level of professionalisation (Črnak-Meglič and Rakar, 2009: 241). Low levels of human resources in civil society organisations and financial shortages (Petak and Vidačak, 2015) can also be observed in Croatia where 31% of organisations have no employees at all and in only 6.6% of the organisations at least 75% of the work done by volunteers or staff is paid (Bežovan and Matančević, 2011). In 2012, 1.8% of all employed persons in Croatia were employed in a civil society organisation (Cenzura plus, 2014). Croatian trade unions and employers' associations also face a problem with human resources, especially when we talk about experts (Samardžija and Vuletić, 2009). Another problem is the high fluctuation of employed staff and low sustainability of human resources in this sector (Bežovan and Matančević, 2011). Employment in interest organisations in Croatia is predominately project based and only for a fixed term, and this is only for those cases where non-governmental organisations actually employ someone (Petak and Vidačak, 2015). It is very likely that this share has shrunk even further during the recent period of financial and economic crises and that new employment in this sector is more unlikely (Bežovan and Matančević, 2011).

With the full membership of Slovenia and Croatia in the EU an active role of state and non-state actors in EU policymaking processes is expected (Fink Hafner, 2007: 42). But while civil society from Slovenia played an important role during the negotiation period, interviews with 40 non-state stakeholders in the framework of the INTEREURO international project<sup>3</sup> revealed that the use of any influence methods and techniques in EU policymaking is scarce (Hafner Fink et al., 2014). Slovenian non-state stakeholders are predominantly active during the stages of forming a national position,

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3 N5-0014 INTEREURO project, [www.intereuro.eu](http://www.intereuro.eu); also see Beyers et al. (2014).

transposition and implementation. Even when interest groups were active concerning studied proposals of EU directives we did not notice much opposition from their side. We could say that Slovenian interest groups do not get involved in European policymaking processes on time, meaning they miss the agenda-setting stage but also more importantly the stage of accepting new legislation and only enter the entire process in the third stage when the space for enforcing their own interests is already very limited (Lajh and Novak, 2014). The same can also be said for organised civil society in Croatia. The Civil Society Index study in Croatia revealed that civil society organisations there play a minor role in influencing policies at the EU level and their capacity to actively participate in European civil society remains weak (Bežovan and Matančević, 2011). This is also noticed in their poor advocacy and lobbying skills (Bežovan, 2007). Since 1 July 2013 there have been almost no changes in the development of civil society in Croatia (Cenzura plus, 2014). A European Commission position paper for Croatia also indicated the weak involvement of civil society and the lack of organised capacities of the social partners in Croatia and thus proposed this issue as one of the priority issues to be funded in the newest member state. The allocation of new funds in the future should contribute to the greater involvement of civil society in policy processes at all levels (European Commission, 2013). Nevertheless, throughout all of this time the position of civil society has been slowly improving (Bežovan, 2007).

## **Conclusion**

The goal of interest groups is to maximise their interests (Fink Hafner and Krašovec, 2005: 404) and in a multi-level system such as the EU a civil society organisation may take advantage of more than just one venue to enforce its interests. Consequently, the number of interest groups active at the EU level has been growing over time (Mazey and Richardson, 2001) and with the EU's increased legislative competence (Ferle, 2012). Although the EU provides new opportunities for interest groups to represent their interests and influence policymaking processes, not all organised interests take advantage of this opportunity (Beyers and Kerremans, 2007) and some organisations still face many weaknesses when trying to influence policy outcomes. Especially the latter is evident for organised civil society in Slovenia and Croatia. While the process of accession to the EU and EU

membership have influenced organised civil society in both countries, the role of organised civil society in EU policymaking remains an under-researched area.

Tackling our research question from different angles, we discovered that networking with European umbrella associations and receiving EU funds remains important for interest groups by way of support for influencing national policymaking processes. However, when it comes to influencing EU-level policymaking, these activities are sparse and not yet detected. The reasons for the low level of activity of organised civil society from Slovenia and Croatia in EU policymaking should be addressed in future studies. Is this a lack of information, a lack of knowledge, ignorance, understaffing, a lack of resources or a lack of trust in civil society? Only then we might expect a bigger role for Slovenian and Croatian organised interests in EU policymaking. For now we may conclude that, despite the tradition of civil society organisations in Slovenia and Croatia and the developed legal framework for the activities of interest groups, these associations continue to remain in ‘mid-transition’ (Fink Hafner et al., 2015).

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**PART TWO:  
PUBLIC POLICIES**



# 5 Economic Policies and Development of the Slovenian Economy after EU Accession

Anže Burger and Andreja Jaklič

## Introduction

For Slovenia, EU accession proved to be an important catalyst for policy reforms of the inefficient self-management socialism and its subsequent transition towards a market-based system involving the free movement of goods, services, capital and labour across a large single market of 500 million consumers. However, this chapter shows that the E(M)U's systemic flaws contributed significantly to the building up of Slovenian macroeconomic imbalances, further strengthened by a domestic reluctance to reform. While the pre-accession period provided strict guidance and a blueprint for systemic reforms, Slovenia has failed to impose enough initiative and self-discipline in the 'adolescent' post-accession period. A standstill in large-scale privatisation, further liberalisation and especially the deficient institutional environment paved the way for a financial crisis with a double-dip recession in which many of the gains made after EU accession were lost. This chapter seeks to analyse selected economic developments and the external context that marked the Slovenian economy in the period after EU accession. The first section deals primarily with internal macroeconomic developments while the next section predominantly considers the external dimension of the Slovenian economy. The chapter ends with a short conclusion.

## Economic growth

After initial drops of 9% and 5.5% in 1991 and 1992, Slovenia's GDP picked up and resumed robust annual growth of about 4% on average, narrowing the income gap with the EU-15 from 45% in 1995 to 68% in 2004, the year the country joined the EU. Important contributions to the described convergence came from several key strategic decisions that set Slovenia on the road to EU membership. The most important of these were the Strategy for Economic Development of Slovenia (Potočnik et al., 1995), the Strategy of International Economic Relations (Bobek et al., 1996) and the Strategy of Slovenia for Accession to the European Union (Mrak et al., 1998). In the pre-accession period, three main instruments were the most instrumental in driving Slovenian reforms aimed at EU membership in particular and economic transformation in general: the Europe Agreement between Slovenia and the European Union (or Association Agreement; signed in 1996), the Accession Partnership ("AP"), and the National Programme for the Adoption of the Acquis Communautaire ("NPAAC"). Slovenia also benefited from the PHARE assistance instrument through which the EU promoted privatisation, enterprise restructuring, banking sector reform, and assistance in the priority areas defined in the AP and NPAAC.

EU membership corresponded to increasing GDP growth rates from 3.7% in 2004Q1 to 7.8% in 2007Q1. The country's growth rates systematically outstripped corresponding EU and euro area averages, and the margin widened even further in the pre-crisis period (to 5 percentage points). In 2008, the output gap<sup>1</sup> reached 7% of GDP (BSI, 2015: 5),<sup>2</sup> indicating a vast overheating of the economy. The causes of such unsustainably high economic activity in the period 2004–2008 were monetary and fiscal. The former include the entry of Slovenia into the ERM-II system of fixed exchange rates in June 2004, thereby effectively adopting the common currency, the downward convergence of nominal interest rates that spurred investment and aggregate demand, and the adoption of the euro in 2007 which reduced the cost of debt even further. Fiscal sources of the

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1 The output gap is the difference between actual GDP or actual output and potential GDP.

2 The European Commission produced similar estimates of the output gap: 7.1% of GDP in 2007 and 6.9% of GDP in 2008 (European Commission, 2014a: 26).

cyclical expansion included an excessively expansionary fiscal policy (the cyclically adjusted general government balance increased from -2.8% of GDP in 2004 to as much as -5.5% of GDP in 2008), net inflows of EU budget funds, and a reckless inflationary public sector wage reform which increased the public sector wage bill by 11% and 10% in 2008 and 2009, respectively (UMAR, 2014: 3),<sup>3</sup> along with a minimum wage hike of 20% from 2004 to 2008 and 60% from 2004 to 2014.

Alongside other converging euro members, Slovenia experienced the fundamental glitch of the EMU architecture which has been a focus of fevered debate among economists (e.g. Buti and Carnot, 2012; Beetsma and Giuliodori, 2010). The Achilles heel of the eurozone is the fact that some members did not constitute a so-called optimal currency area due to their excessive public indebtedness, nominal rigidities, absence of collective rules of fiscal discipline and lack of real convergence with the core EMU economies. The common monetary policy imposed on peripheral countries created macroeconomic imbalances that transcended the allegedly profligate fiscal policies still in the hands of national governments. As shown by O'Rourke and Taylor (2013), key interest rates set by the ECB were persistently 2 to 5 percentage points below the optimal interest rates for peripheral countries, igniting the hidden expansionary monetary stimulus after the onset of the euro in 1999. The cheap money in Slovenia and other peripheral EMU members resulted in stronger growth of credit to the private sector, rising asset prices, especially property and equity prices, a deteriorating current account balance, a decline in the national saving rate, above-trend growth of private investment or consumption, below-average (and in some periods even negative) real interest rates, an increasing external net financial position, real currency appreciation, above-trend output growth and below-average unemployment.

The credit boom financed abroad facilitated by adoption of the euro fuelled the excessive debt leverage of the Slovenian corporate sector as well as a construction bubble. When the crisis erupted, Slovenia lost almost 10% of its GDP between 2008 and 2013 and experienced one of the deepest and most prolonged economic contractions among EU countries. Active deleveraging, not helped by

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3 The average gross wage increased by 31% in the public sector, compared to a 24% increase in the private sector in the 2005–2009 period according to Statistical Office data.

historically low inflation levels (0.4% in 2014 and forecast at -0.3% in 2015), has had a serious negative impact on investment, which will have undesirable consequences on productivity and economic growth in the medium and long term. If Slovenia was second among the transition countries to recover from the initial output shock of the transition in the 1990s, today it is the second worst in the group in terms of recovery after the 2008 financial crisis.

## **Prices, wages and competitiveness**

Above-trend growth spurred by expansionary monetary and fiscal policies resulted in high inflation. Prior to EU accession, the inflation rate was successfully lowered in an attempt to fulfil the Maastricht criteria. To meet this challenge, the Bank of Slovenia switched from targeting monetary aggregate growth to targeting inflation and financial contracts ceased to be indexed to inflation. When the tolar-euro exchange rate was fixed via ERM-II in 2004, the inflation rate converged completely with the euro area rate of 2%. The lower inflation, liberalised financial internal market and absence of foreign exchange risk soon brought about a convergence in nominal interest rates. As soon as these were equalised between Slovenia and the euro area in the second half of 2006, just prior to the country's adoption of the euro, Slovenia experienced a sudden hike in inflation. At the peak of the boom, prices in Slovenia rose at an annualised rate of 6.6% compared to 4% in the euro area. The high inflation and excessive aggregate demand led to accelerating wage growth in the private and especially the public sector (under the new Public Sector Salary System Act agreed in 2008) (Banka Slovenije, 2015a: 2–11).

The real exchange rate, a measure of external competitiveness, started rising apace with inflation. Having increased by more than 8% between 2006 and 2009 (Banka Slovenije, 2015a: 6), Slovenian competitiveness deteriorated significantly, leading to current account imbalances similar to those experienced in Greece, Portugal and Spain. The current account deficit reached 6% of GDP in 2008 (matching the peak level in the USA in 2006) and was financed considerably by short-term borrowing abroad. From the time of entering the EU to the onset of the crisis, Slovenia's gross external debt had increased by a staggering EUR 26 billion (approximately 70% of GDP) to reach EUR 39 billion in 2008, one-quarter of which was short-term liabilities (Banka Slovenije, 2015b: 84–85).



## Fiscal policy

Realising the limits of a common currency area without the euro-wide synchronisation of member states' fiscal policies, the Bank of Slovenia and the Slovenian government should have paid more attention to the systemic imbalances emerging in the economy in the period after EU accession. In retrospect, the central bank should have promptly reacted to the obvious indicators of financial system imbalances such as the extremely high growth rates of loan issuance (30% on average in the 2006–2008 period, reaching an annualised growth rate of almost 45% in 2007), deteriorating credit standards for borrowers, negative real interest rates from the end of 2007 to the first half of 2008, abnormal debt leverage of the corporate sector, dangerously high exposure of domestic banks to highly indebted large firms, overindulgence of management buyouts, and historically high residential real property prices. On the other hand, the government should have proactively neutralised the expansionary monetary policy with a restrictive fiscal stance. Instead, adding to the net inflows of EU funds (in 2006 the net balance *vis-à-vis* the EU budget amounted to 0.27% of GDP) the government persistently generated budget deficits from 1996 onwards. Not only was the actual general government balance negative (ranging from -3.9% to -0.1% of GDP in the 2001–2008 period and -14.6% to -3.7% GDP in the subsequent crisis period), the cyclically adjusted balance that removes the effects of the business cycle exhibited an even more reckless fiscal position. After acceding to the EU, although fulfilling the Stability and Growth Pact (SGP) limits for a budget deficit of less than 3% the cyclically adjusted balance deteriorated from -2.8% in 2004 to -5.1% in 2008 (European Commission, 2014a: 26).

The deep and prolonged recession with accompanying automatic fiscal stabilisations, discretionary anti-recession measures and extensive restructuring of the Slovenian financial system created huge government deficits despite the ambitious consolidation in recent years. On 2 December 2009 the Council decided that an excessive deficit existed in Slovenia and recommended that it put an end to the identified excessive deficit situation by 2013. On 21 June 2013 it issued a recommendation prolonging the correction of the excessive deficit by 2015 due to unexpected adverse economic developments. The 2014 In-Depth Review for Slovenia concluded that Slovenia was still experiencing excessive macroeconomic imbalances, requiring decisive

policy action to improve the economic structure characterised by weak corporate governance, a high level of state involvement in the economy, losses in cost competitiveness, a corporate debt overhang, and an increase in government debt. The government aims to bring the deficit to below 3% of GDP by the end of 2015, in line with its commitments under the Excessive Deficit Procedure of the EU, the corrective arm of the SGP. Public debt is expected to rise to 83% of GDP in 2015, up from 21.6% of GDP in 2008, boosted by the large deficits and bank recapitalisations since the crisis started. In addition to the relatively high public debt, about EUR 6.4 billion in contingent liabilities to the state budget is currently outstanding in the form of guarantees (18% of 2013 GDP). According to the Slovenian Constitution, as amended in May 2013 in accordance with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the legislation implementing the general government budget structural balance rule should have been adopted by the end of November 2013. However, the draft Fiscal Rules Act implementing the constitutional amendment was only adopted by the government in December 2014 and submitted to Parliament.

### **State ownership in the economy**

Despite the EU's constant appeals for further privatisation, the Slovenian state is presently still the largest employer, asset owner and corporate debtor in the economy. State-owned enterprises ("SOEs") and state-controlled enterprises ("SCEs") employ one-fifth of employees working in non-financial companies ("NFCs"),<sup>4</sup> create a quarter of the value added, over 40% of the value of equity<sup>5</sup> and hold approximately one-third of total corporate assets and total outstanding corporate debt. At the end of 2014, 642 SOEs and SCEs (approximately 1% of the total number of enterprises) were directly or indirectly owned by the state *via* a complex cross-ownership

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4 SOEs and SCEs employ 19% of all workers in NFCs (approximately 80,000), and an additional 15,000 employees in the financial sector. Together with the 160,000 employees in the public sector, this amounts to 33% (approximately 255,000 workers) of total employment in Slovenia (roughly 800,000 workers).

5 The book value of the equity of SOEs and SCEs as a share of GDP is the highest in Europe if majority state-owned firms (over 50%) are considered, and the second highest if minority shares are also included (between 10% and 50%).

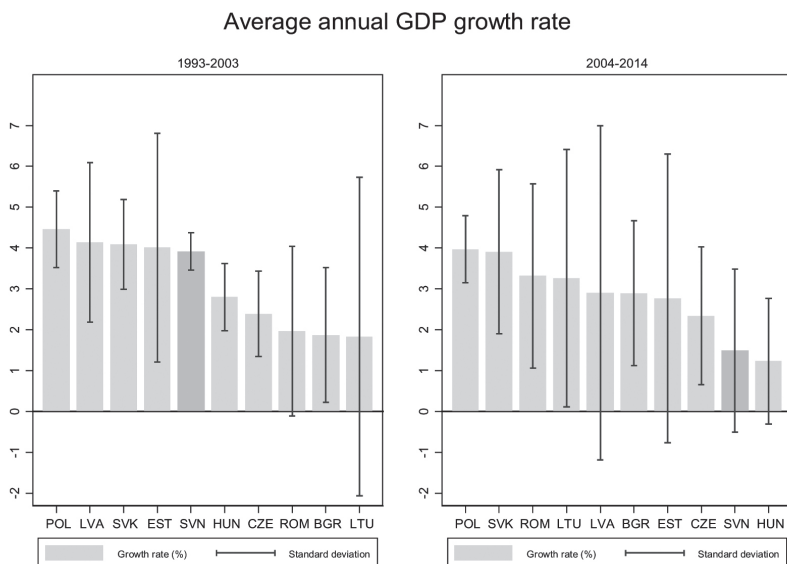
structure. The majority of these enterprises (62% in terms of the book value of assets) are directly controlled by the Republic of Slovenia. A further 32% are indirectly controlled through the *Bank Assets Management Company* (“BAMC”), banks, insurance companies, and other financial companies which are all fully and directly owned by the Republic of Slovenia (European Commission, 2015: 23–34). According to the OECD’s 2013 Indicators of product market regulation, state involvement in business operations and network sectors, control in the economy and the use of command and control regulation is among the worst in the EU (OECD, 2014). Due to ownership and political perplexities between financial and non-financial state-controlled companies, their debt leverage ratio has been increasing significantly since EU accession, exceeding 10 in 2009, significantly above the economy-wide average (7.5) and the commonly accepted credit risk threshold (5). The result has been considerably lower profitability, efficiency and competitiveness compared to privately-owned and especially foreign-owned firms (European Commission, 2015: 27–30; Domadenik, 2014; Rojec, 2014). The total fiscal and economic implications of the state’s involvement in the economy for the period 2007–2014 are estimated at over EUR 13 billion or just over one-third of 2013 GDP (44% of that is due to financial sector stabilisation measures). In the same period, one-third of the rise in public debt was caused by state interventions concerning SOEs and SCEs (European Commission, 2015: 30–31). The privatisation process is progressing with long delays. A list of 15 companies was compiled in 2013 for a first cycle of privatisation, out of which only four companies have been privatised or acquired by their creditors.

### **The political economy of Slovenia’s EU membership and the role of institutions**

Slovenia’s path to the EU can best be described as gradualist. Arguments favouring this approach are that rapid reforms bring about excessive losses of output and employment, social unrest and a possible reversal of public opinion against reforms. In contrast, a gradualist agenda should give people and firms more time to adapt to the new socio-economic circumstances. If this reasoning is correct, Slovenia should have experienced a relatively small output loss, maintained normal growth rates after the transition shock and had comparatively stable GDP growth rates. This hypothesis is unfortunately

only partially confirmed, just for the period prior to entering the EU (Figure 5.1). Among 10 transition member states, Slovenia had the lowest variability in GDP growth and a median average growth rate. Yet the period of EU membership has turned the trend upside down: Slovenian average growth became the second lowest in the group, whereas its variance increased the most. A process that had proved to be a panacea for the pre-accession transitional period had turned into a huge inhibitor of Slovenia's adjustment to common market. Unlike in other post-communist countries where the cut from the previous regime's elites was more abrupt, Slovenian elites anticipated and prepared themselves well for the changes by obtaining private economic and political capital (Šušteršič, 2004: 400–401).

*Figure 5.1: Growth and fluctuation of economic activity before and after EU accession*



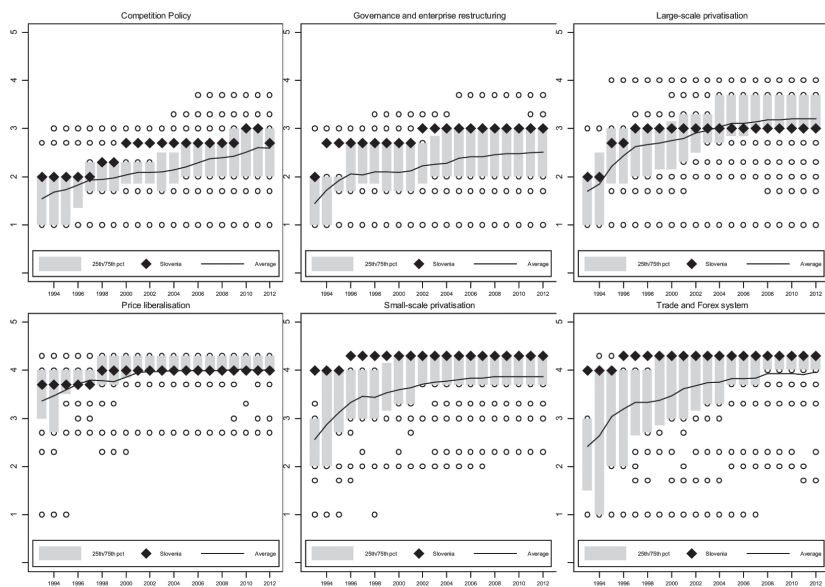
Source: Own calculations based on World Bank and Eurostat data

The style of privatisation favoured internal owners and produced ownership blocs controlled by political and business elites. These elites promoted the idea of the Slovenian national interest, a rhetorical stance in support of interventionist industrial policy resting on

four pillars: national ownership (control) of major banks and enterprises, the staving off foreign direct investment, the deferment of privatisation, and linking large systemic business groups within keiretsu-style alliances. In this juggernaut, EU institutions served only as a moderating force especially through the pre-accession adoption of the *acquis* and by providing constant warnings and advice in favour of large-scale privatisation (see Lindstrom and Piroska, 2007). The overwhelming state ownership in the banking sector created a network of ties between financial and political elites that resulted in imprudent supervision and dreadful corporate governance. In this triangular structure, political elites supported inefficient domestic banks and the corporate sector in return for material favours, domestic banks serviced state-controlled firms with cheap loans for exuberant management buyouts in return for their own equity strategies and political support, while state-owned enterprises supported politicians with jobs, contracts and ideological support in return for a legal vacuum and lack of any real external competition whatsoever (Burger and Kunčič, 2014).

It is a long established fact of development economics that institutions are the fundamental cause of long-run development, working not only through physical capital and productivity but also through human capital (Acemoglu et al., 2014). Some authors even go a level deeper and claim that informal institutions such as dignity and liberty for ordinary people, innovators and entrepreneurs is what caused great enrichment (McCloskey, 2006, 2010; Khan, 2015). Both formal and informal institutions have a role in explaining political economic development in Slovenia within the EU. With regard to formal institutions, it is instructive to look at the reform progress as measured by the EBRD transition index. Figure 5.2 shows that Slovenia quickly and more or less completely converged with the best performing countries in the realm of price liberalisation, small-scale privatisation and liberalisation of the trade and foreign exchange system. However, due to vested interests in peculiar comrade arrangements between politics, big business and financial institutions, the economic and political elites effectively blocked any meaningful reforms in the most important domains: competition policy, large-scale privatisation, and governance and enterprise restructuring. Therefore, the fundamental elements of a functioning market economy (competition, the rule of law and private ownership) were disabled in order to maintain an unhindered ability to extract rents.

Figure 5.2: EBRD transition index, 1993–2012



Source: Own calculations based on EBRD data

The development of institutional quality was slow. While economic and political institutions progressed relatively slower than in other new EU member states, the quality of legal institutions even decreased in absolute terms (Kunčič, 2012). Malfunctioning formal institutions and a weak rule of law in Slovenia shaped informal institutions. Burger (2014) demonstrated that the lack of a satisfactory strengthening of the rule of law in Slovenia has resulted in several anomalies with regard to the public's trust in the rule of law, entrepreneurship, markets, as well as overall trust among people in general. In line with the receding trust in domestic institutions, the image of the EU in the eyes of Slovenians turned sour: a positive image fell from 62% in 2004 (60% in the pre-crisis year of 2008) to 38% in 2014 while a negative image of the EU reported by the Slovenian public increased from 5% in 2004 (7% in the pre-crisis year of 2008) to 17% in 2014 (Eurobarometer, 2004, 2008 and 2014). Public opinion often transposed the consequences of the lack of reforms and poor governance at home to the external environment.

## **External balance, international trade and foreign direct investment**

The weak institutional progress and worsened business environment not only increased business costs and slowed productivity growth, but harmed the external balance, competitiveness and capacity to internationalise. Early experience with exports and foreign direct investment (“FDI”) helped Slovenian enterprises accelerate the restructuring process, international trade and economic growth in the first decade after the country’s independence. The EU accession process accompanied by supportive policies in the second half of the 1990s further sped up the intensity of foreign trade, exports, FDI inflows and the creation of domestic multinational enterprises through FDI outflows. The rising export intensity and internationalisation through FDI stimulated technological capacity, skill intensity and productivity improvements (Damijan and Rojec, 2007; Jaklič and Svetličič, 2003).

After EU accession Slovenia increased its traditional dependence on external demand; exports represented 54% of GDP in 2004, 58% in 2008 and 75% in 2014. Slovenian exporters enjoyed geographical advantages before 2008; their target markets – mainly the euro area and the Balkans – were dynamic at the time, and gained significant market share in new products, although they lacked the necessary dynamism to enter new markets and lost market shares with the beginning of the crisis. Export volume contracted for the first time in 2009 due to reduced price and cost competitiveness. Afterwards, exports remained volatile till 2012 when the export performance and current account balance improved. Since 2013, Slovenia has managed to regain its share of the export market and an increased share of high-tech products in exports. The geographical concentration of export flows remains high (the EU captured over 75% of Slovenian exports) and makes weaker-than-expected external demand still one of the risks for future growth and development.

Expectations that entering the EU would result in increased FDI and vertical integration (Radošević et al., 2004; Liebscher et al., 2007; Narula and Bellak, 2008) were only partially fulfilled in Slovenia. Apart from some bigger peaks (due to individual larger foreign acquisitions), FDI inflows exhibited a steady trend up until 2008. Inward FDI stock rose from EUR 5.3 billion in 2004 to EUR 7.8 billion in 2009. Still, in 2004 Slovenia had the lowest (less than 22%) share of FDI stock in GDP among the new member states

(“NMS”), and kept this position for an entire decade of EU membership (32% in 2013). The slow privatisation process, lengthy administrative procedures, unsupportive business environment and political instability made Slovenia less attractive to foreign investors. All other NMS faced higher absolute and relative<sup>6</sup> growth of inward FDI stock in the period after the 2004 EU enlargement. As a consequence, the Slovenian share of inward stock in total NMS-10 inward FDI stock fell from 2.6% in 2004 to 2.0% in 2013. Apart from Slovenia (32.5%), Romania (45%) and Latvia (37%), all NMS exceeded the EU average inward FDI stock to GDP ratio in 2013 (49%). The latest privatisation efforts entail a recovery of the previously wary FDI inflows in 2014 and improved prospects for 2015.

In contrast, FDI outflows rose faster and continuously up until 2007 so that outward FDI stock almost tripled from EUR 2.2 billion in 2004 to EUR 6 billion in 2008 and stayed relatively steady afterwards. While Slovenia was the leading outward investor among NMS at the start of the transition, other NMS made greater progress in outward FDI after enlargement. In many of them (Estonia, Hungary and Poland in particular) outward FDI was induced by foreign affiliates (regional headquarters) that spread further across the NMS. Meanwhile, the majority of outward FDI in Slovenia relied on large (mostly state-owned and politically influenced) enterprises and only a small share (less than 10%) on foreign affiliates. With a 9.2% outward FDI stock to GDP ratio in 2004, Slovenia lagged behind the EU average (which stood at 42% in 2004), but was (beside Estonia that significantly increased its outward FDI significantly after the EU agreement) ahead of other NMS. In 2013, Slovenian outward FDI stock reached a 16.5% share of GDP, while Estonian and Hungarian were already much higher, i.e. 30% and 27% respectively. Slovenian outward FDI stocks in total outward FDI stocks of NMS-10 fell from 15.5% in 2004 to 5.4% in 2013.

Slovenia has thus experienced a lower increase, greater volatility and weaker effects of FDI since the 2004 EU enlargement, especially in comparison to other NMS. The modest growth in FDI inflows and outflows before the economic crisis and rapid decline afterwards has reflected investment rationalisation and some investment diversion effects within the EU due to Slovenia’s decreased competitiveness,

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6 Only Hungary had a lower inward FDI stock increase than Slovenia in the period 2004–2013.



stagnating institutional quality and worsening business environment. These have also resulted in a weaker development impact of the already modest stocks of FDI. The European Commission's 2014 Industrial Competitiveness report concluded that insufficient effort has been made to address the weaknesses mentioned above, making Slovenia less attractive to foreign direct investment, especially when compared to other countries in the region (European Commission, 2014b: 223–230).

## Conclusion

After entering the EU Slovenia has slowed down its ambitions for reforms and restructuring. The costs of its delays in economic restructuring became evident with the onset of the economic crisis, yet this has still not been used as an incentive for a rapid reaction. Compared to other EU member states, Slovenia has worsened its position in a variety of macroeconomic indicators. Resting on laurels has resulted in rising public debt, high unemployment, poor institutional quality, a deteriorated business environment, competitiveness and output below pre-crisis levels. The key policy challenges (according to the European Commission, the IMF and the OECD) include: (i) strengthening the health of the banking sector to enable it to support the economy; (ii) accelerating corporate restructuring to address the large debt overhang and reduce the role of the state in the economy; (iii) putting public finances on a sustainable path; and (iv) further boosting the economy's potential growth through ambitious structural reforms.

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# 6 Impact of EU Accession on the Croatian Economy

Velimir Šonje

## Introduction

Croatia became the 28<sup>th</sup> EU member country on 1 July 2013. After 8 years of accession negotiations and a referendum with 66.3% of votes for the accession, its membership was the end of a long process. It lagged behind the Višegrad countries which entered in a big wave in 2004.<sup>1</sup> The almost decade-long lag means there are three important differences between the effects EU accession has had on Croatia compared to the Višegrad countries.

First, their cyclical positions were different. The Višegrad countries joined at the beginning of a long period of economic growth in Europe which lasted until 2008. Croatia joined during the EU-wide recession in 2013, coupled with the financial and institutional turmoil marked by the crisis in Greece. Therefore, historical coincidence provided the Višegrad countries with ample opportunities to reap the benefits of accession before and immediately after their entry in 2004, which was not the case for the Croatian entry. Second, institutional reforms in Croatia in the first decade of the 21<sup>st</sup> century were much slower than in the new member states that entered in 2004. Thus, low world interest rates, ample liquidity and economic

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<sup>1</sup> Voter turnout at the referendum was low (43.5%). The low interest of voters was a consequence of *EU fatigue* as most people had expected earlier accession. However, the war in the 1990s, unresolved border issues with Slovenia and, most of all, unresolved relations with the Hague War Tribunal led to the significant postponement and duration of the accession process.

growth in this period impacted the Croatian economy with weaker institutional fundamentals compared to the Višegrad group. Mistakes made during the pre-EU entry period were therefore harder to correct than in the Višegrad countries. Consequently, a long recession and period of stagnation have lasted in Croatia since 2009, with cumulative real GDP drop of around 12% since 2008. Third, the post-accession period (2013–2015) has been marked by economic policy strains reflected in the EU Excessive Deficit Procedure and the Macroeconomic Imbalance Procedure. Accordingly, for the time being<sup>2</sup> the EU serves as an institutional framework for macroeconomic discipline rather than an engine for growth and job creation.

Nevertheless, the first signals related to export growth and the use of EU funds show promising low hanging fruits of accession. The low hanging fruits may be picked in the near future conditional on policy improvements. There is thus still a good chance for Croatians to reap significant benefits from EU membership in the near future.

### **The curse of ample liquidity in the first decade of the 21<sup>st</sup> century**

When the EU negotiations began in 2005, the Croatian economy was benefitting from the low interest rates and ample liquidity then prevailing in international financial markets. These benefits were used to fund public sector investment in infrastructure (mainly highways). The private sector followed, based on strong capital inflows which fuelled bank lending, mainly for real-estate purchases. The private sector credit to GDP ratio increased from 55% in 2005 to 76% of GDP in 2011. The current account deficit in the balance of payments reached 8% of GDP, reflecting the strength of capital inflows and buoyant domestic demand that drove imports. The average real GDP growth rate in 2003–2008 stood at 4.3%. While this economic growth rate seemed solid, the Višegrad countries, Romania and Bulgaria recorded higher growth rates in this period (Hungary was a notable exception due to its fiscal and political turmoil which marked the first decade of the 21<sup>st</sup> century). Even the notoriously high double-digit unemployment rate in Croatia saw a significant decline, reaching a minimum of 8.6% in 2008 (see Table 6.1 below).

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2 This chapter was written in April 2015.

However, policymakers did not pay attention to unsustainable asset prices, declining merchandise export market shares and institutional weaknesses reflected in Croatia's low international ranking according to the Doing Business, Global Competitiveness and Transparency International indicators in the first decade of the 21<sup>st</sup> century. The biggest economic problem by far was that no one looked at the structural fiscal deficit. The overly optimistic expectations of potential GDP growth implied that the 'small' general government deficits before 2009 were sustainable in the eyes of most policymakers and the general public. This feeling of being in a fiscal comfort zone was additionally supported by the fact that the public debt to GDP ratio did not exceed the 40% before the crisis.

However, fiscal deficits of between 2.5% and 3.7% of GDP before the crisis (see the table below) turned out to be some kind of macroeconomic insanity as they exhausted fiscal capacities to deal with the crisis later on.

## Wandering through the crisis

The negative external shock at the beginning of the crisis was primarily reflected in sinking demand for Croatian exports in 2009 (Bogdan et al., 2014). The export to GDP ratio – which was comparably low anyway – dropped from 39% in 2008 to 35% in 2009 (CNB, 2015) due to real exports plummeting by 15% in 2009.

The 7.4% decline in GDP in 2009 came as a complete surprise for policymakers. Moreover, there was a political shock when former PM Ivo Sanader – later convicted for corruption<sup>3</sup> – resigned without explanation in 2009. That happened at a time when anxiety due to the crisis had begun to spread across all segments of society. Sanader's successor from the same centre-right party HDZ, Jadranka Kosor, managed to negotiate the border dispute with Slovenia and paved the way to the signing of the Europe Treaty in 2011. However, during her term in the cabinet economic policy was treated as an issue of second-order importance. This is a kind of political tradition in Croatia as inertia and the postponement of serious institutional and economic reforms were common to all of the policy measures taken by Sanader's and Kosor's centre-right governments. In fact, by raising taxes (both the VAT rate from 22% to 23% and income tax by 4

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3 Court ruling of first instance. The appeal process is underway.

percentage points above a certain threshold) in the midst of the crisis in 2009 Kosor probably helped worsen its effects.

In consequence, the recession continued. Real GDP in 2011 (the last year of Kosor's mandate) was 9.5% below that in 2008. The rate of unemployment stood at 13.7% by the end of that year (Table 6.1).

*Table 6.1: Main macroeconomic indicators 2005–2014*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP growth in %	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-0.9	-0.4
Unemployment rate in %	13.0	11.6	9.9	8.6	9.2	11.7	13.7	16	17.3	17.3
Employment rate in %	60.0	60.6	62.3	62.9	61.7	58.7	57	55.4	57.2	
Tertiary education attainment in age group 30–34 years in %	17.4	16.7	16.7	18.5	20.6	24.3	24.5	23.7	25.6	
Inflation HICP year avg %	3.3	3.2	2.9	6.1	2.4	1.1	2.3	3.4	2.2	-0.2
Fiscal balance*/GDP in %	-3.7	-3.3	-2.5	-2.7	-5.9	-6.0	-7.7	-5.6	-5.7	-5.6
Gross public debt*/GDP in %	38.6	36.1	34.4	36	44.5	52.8	59.9	64.4	75.7	85.0
Govt expend.* / GDP in %	45.0	44.9	44.7	44.3	47.2	46.8	48.5	47.0	47.7	48.0
C/A balance in % GDP	-5.2	-6.5	-7.1	-8.1	-5.1	-1.1	-0.8	-0.1	0.8	0.7
Exports in % of GDP	39.4	39.7	39.0	38.5	34.5	37.8	40.5	41.7	43.0	46.2
Bank credit to private sector to GDP in %	54.7	61.9	65.0	67.4	70.4	73.5	75.8	71.5	70.9	69.8
HRK vs EUR end-year	7.38	7.35	7.33	7.32	7.31	7.39	7.53	7.55	7.63	7.66
Money market interest rate end-year (Zibor o/n)	3.62	2.90	5.18	5.96	7.16	1.04	1.03	1.23	0.59	0.47
R&D expenditure in % of GDP	0.86	0.74	0.79	0.88	0.84	0.74	0.75	0.75	0.81	

\*General government; \*\*Estimate

Sources: Eurostat, Main Tables; Croatian National Bank Bulletin

A coalition of social-democrats and centre parties (the so-called *Kukuriku* coalition) won the elections in December 2011. The new government led by PM Zoran Milanović did not change the macroeconomic policy stance radically. It continued by introducing new taxes (the VAT rate was raised from 23% to 25% in April 2012, becoming the second highest in the EU), but the substantial fiscal deficit still continued.

The economy continued to deteriorate, partly due to the domestic tax shock and partly due to the impact of the EU recession in 2012. The public debt to GDP ratio reached 75% at the end of 2013. Its estimate for the end of 2014 was 85%, with a likely continuation of



the trend towards 90% in the near future. As a result, Croatia topped the list in the 'New Europe' with respect to public sector indebtedness. In terms of the level of development, Croatia is stuck at around 60% of the EU average as measured by GDP *per capita* at purchasing power standard. The first signs of growth only emerged recently, at the level of activity which is still approximately 12% below the level of 2008.

There is a paradox related to the described developments under the incumbent government. The coalition in power stated in its programme for the late 2011 elections (Plan 21, 2011) that they would cut the overall deficit to 3%, the primary deficit to 0% and government expenditure to GDP by 1% *per annum* during its term in office. It gave up the pursuit of these goals immediately as it came to power. Consequently, Croatia's sovereign rating was downgraded below investment grade ('junk') in late 2012/early 2013. Risk spreads paid by Croatian debtors immediately reacted in an upwards direction, resulting in the highest CDS spreads in the region of Central Europe.

Policymakers did not worry much about such developments. Interest rates in world markets were declining at that time and the lower rates were translating into ample liquidity in the domestic market.<sup>4</sup> Falling international reference rates compensated for the higher local risk hence the cost of new debt was on a downward path in nominal terms. Consequently, no disciplining pressure was coming from the financial markets. This situation continued after the European Central Bank started with its quantitative easing monetary operations in late 2014.

Nor was there external motivation for policy discipline arising from a wish to adopt the euro, i.e. enter ERM II, as soon as possible. A 'wait and see' doctrine with respect to the euro and the European Banking Union was in place.

Finally, having signed the Europe Agreement and seen that many other EU countries were having fiscal and structural problems made Croatian policymakers feel that the Croatian problems were similar to the problems in other countries. There was a firm belief that Croatia was in no respect an outlier. This belief was shared by the IMF.

Since 2009 the IMF has changed its traditional prudent fiscal stance in favour of more relaxed views about fiscal deficits and public

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<sup>4</sup> See the money market rates in Table 6.1.

debt growth. This view rests upon the belief that there are high fiscal multipliers. This is heavily influenced by experiences from larger and institutionally sound countries with long traditions in macro-economic policymaking. Unfortunately, this view has been uncritically applied to small and open economies with weak fiscal and social institutions. As a result, despite the galloping public debt to GDP ratio and obvious lack of any political will to build a sound fiscal position, the IMF was warning against rapid fiscal consolidation as if it ever was a real danger: *‘To avoid an excessive fiscal contraction in the short term, IMF staff recommends stretching adjustment over three years in roughly equal annual portions’* (IMF, 2014).

Later on I will show that the European semester procedures provided no external incentives for reforms, either. Thus, no external motivations for reforms and fiscal adjustment were present after EU entry. Policy motivations were fully dependent on internal motivations for change. And there were none.

Turning inwards meant two things. First, interest groups such as public sector employees consolidated and began to block even weaker attempts for reform. A highway concession project failed due to the mobilisation of employees of Croatian Highways who feared for the security of their working positions. An attempt to outsource facility services in the public sector was also blocked by public sector unions. On top of this, influential economists and politicians reinforced popular criticism of the fiscal austerity.

Government officials did not want to swim against the current. They perceived anti-austerity as the dominant public opinion even though public polls showed that the public held much more nuanced views on public spending (Arhivanalitika, 2015). Their tactics were to pursue with the smallest possible fiscal cuts. Deputy PM Branko Grčić has been explicit in saying that the Croatian Government is pursuing a ‘special’ (probably meaning ‘different’) economic policy compared to other EU countries, which provides a good balance between austerity and demand management (Grčić, 2015).

This is partly a reflection of the belief in the Keynesian doctrine of fiscal policy. But this is also partly a reflection of political vested interests, rent-seeking and a lack of political determination to pursue the reform of the public administration. Hence government expenditure as a percentage of GDP has stubbornly remained at around 47% (reaching 48% in 2014), while the general government deficit to GDP ratio has remained significantly above 5% under the new

government. Despite these troubling numbers, the widespread public perception was that some anti-social, austerity-based adjustment was going on (Bartlett, 2015). The absence of numbers to support this view did not prevent it spreading within the academic arena (pointing out that PM Milanović's government is not social-democratic (Dolenec, 2015)) as well as in the political arena, creating strong opposition to PM Milanović within his own social-democratic party.

### **The European semester as a disciplining tool: entry into the macroeconomic procedures in 2014**

No wonder Croatia set an unenviable record (similar to Hungary in 2004/05) in terms of its speed of entering into formal macroeconomic policy procedures after EU accession. Only 5 months after accession, in early December 2013 the European Commission recommended, and in January 2014 the European Council voted for, Croatia's entry into the Excessive Deficit Procedure ("EDP"). The main assessment was that the structural fiscal deficit significantly exceeds the 3% threshold and the growth of the public debt to GDP ratio seems unbounded from above. Further, in spring 2014 the European Commission recommended that Croatia enter the Macroeconomic Imbalance Procedure and in June 2014 the European Council adopted the following eight recommendations for the Croatian Government (European Commission, 2014):

1. *Further fiscal consolidation*: a thorough expenditure review should be completed by 3/2015; a new law on Fiscal Council should be implemented by 10/2014 ensuring the political independence and broader mandate of this body; an action plan for increasing the efficiency of the tax administration should be presented by the end of 2014. As far as the EDP is concerned, the Commission's opinion was that the 2014 budget had a good chance of meeting the 2014 target deficit (4.6% of GDP) while a small additional adjustment may be required in 2015.<sup>5</sup>
2. *Pension system*: legislation harmonising the retirement age at 67 years for men and women and implementing additional reform with respect to equalisation of the treatment and prevention of early retirement should be enacted by March 2015.

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<sup>5</sup> That was the Council's opinion in June 2014 based on deficit targets set in January 2014 of 4.6% of GDP for 2014, 3.5% in 2015 and 2.7% in 2016.

3. *Labour market I*: to present results of the review of the wage-setting mechanism by end 2014 and implement legislative changes regarding liberalisation of working time and dismissals (second phase of the labour market reform) by March 2015.
4. *Labour market II*: to review the tax and benefits system and present an action plan to reactivate inactive and unemployed persons by the end of 2014.
5. *Business environment*: to set targets for the considerable lowering of administrative requirements, including para-fiscal charges, by March 2015.
6. *State property*: to present a public property management plan for 2015 by October 2014.
7. *Insolvency procedures*: to reinforce the role of commercial courts in overseeing the pre-bankruptcy procedures by October 2014.
8. *Financial stability*: to complement the ECB's AQR and stress-test exercises with respect to banks' domestic risk exposures not covered by the ECB via international banks.

These recommendations were slightly modified in 2015, but the main points remained unchanged.

The Council's recommendations were firmly grounded in an analysis of macroeconomic imbalances. The Macroeconomic Imbalance Procedure (MIP) is based on tracking the 11 main indicators shown in Table 6.2 below. The weakest spots of the Croatian economy were detected: fiscal imbalances reflected in unbounded growth of public debt to GDP, competitiveness problems reflected in declining shares of exports in world markets, weak management capacities in a highly politicised public sector, high unemployment as a consequence of structural problems, low adjustment capacities and inability for sustainable growth. Therefore, the eight recommendations listed above can be grouped to reflect the weak spots: insolvency procedures, the business environment and labour market reforms are meant to tackle competitiveness and unemployment problems; fiscal consolidation and improved state property management are meant to tackle the weak fiscal position.

Table 6.2: Measures of macroeconomic imbalances in Croatia in 2014

		INDICATOR	LIMIT CRITERIA	SOURCE OF DATA	DATA FOR CROATIA AS OF MARCH 2014
EXTERNAL IMBALANCES AND COMPETITIVENESS	1.	Current account balance to GDP – 3 yr average	–4% or +6%	EUROSTAT BoP Statistics	–1.8%
	2.	International net investment position in % of GDP	–35%	EUROSTAT BoP Statistics	–89.0%
	3.	Real effective exchange rate. 3 yr change (REER)	±5% for Eurozone and ±11% for other	DG ECFIN Price and Cost Competitiveness	–8.3%
	4.	5 yr change in share of exports in the world market	–6%	EUROSTAT BoP Statistics	–24.7%
	5.	3 yr change in nominal unit labour cost (ULC)	9% for Eurozone and 12% for other	EUROSTAT National Accounts	0.8%
INTERNAL IMBALANCES	6.	Annual change in relative price of real estate	6%	EUROSTAT	–2.4%
	7.	Flow of private sector credit in % of GDP	14%	EUROSTAT (National Accounts)	–2.1%
	8.	Private sector debt in % of GDP	133%	EUROSTAT (National Accounts)	132%
	9.	General government public debt in % of GDP	60%	EUROSTAT (EDP)	75%
	10.	3 yr average unemployment rate	10%	EUROSTAT (LFS)	13.8%
	11.	Annual rate of change of financial sector liabilities	16.5%	EUROSTAT (National Accounts)	0.9%

Source: HUB Analyze no. 48, p. 7, updated by author

## Policy failure and the problem of a weak market economy

In February 2015 the European Commission issued a Country Report on Croatia including an In-depth Review of the Prevention and Correction of Macroeconomic Imbalances (European Commission, 2015). This report accompanied the Commission's announcement that Croatia (and France) may be the first countries to be classified in the so-called sixth zone of corrective measures for combating macroeconomic imbalances. It is unclear what entry into the sixth zone of the corrective arm really means as no country has held this status before. There are speculations that it may lead to denied access to EU funds, which happened to Hungary several years ago but was never *de facto* active.

The expectation that it is more probable that pressures on Croatia would be politically framed and scaled without major political shocks such as the denial of EU funds turned out to be correct as the European Commission stopped scaling up pressures in May 2015. The assessment is that the National Reform Plan and Convergence Programme that the Croatian government adopted in the meantime provide a fair basis for structural reforms although the Croatian government showed an unusual lack of ambition with respect to the reforms (European Commission, 2015). Despite the absence of any stronger political pressures, the Commission's announcement is a clear indication that the Commission thinks that the Croatian authorities have failed to deliver in terms of economic policies after joining the EU. More specifically, it turned out that the deficit targets for 2014 were not met. Some other policy recommendations from the above list (e.g. pension reform) were also not met. Most importantly, Croatia's slow exit from the recession (2014Q4 GDP was 0.3% higher than in 2013Q4, being the first positive YoY growth rate after 11 consequent quarterly declines) continued to show a worrisomely low capacity for adjustment and economic growth.

The 2015 In-depth Review by the European Commission contains a very detailed assessment of the Croatian economy's weaknesses. The Commission sees the main risks in the fields of high external liabilities, declining export performance, highly leveraged firms, increasing general government debt and poor adjustment and growth capacities, which call for decisive policy actions. In this respect, labour market reforms and improvements in the business environment (the functioning of markets) are seen as key areas for reforms.

The labour market is detected as a particular problem in Croatia. The employment rate of around 57% in 2013 is the second lowest in the EU after Greece. According to the In-depth Review, the current policies insufficiently address the needs of vulnerable workers and discourage the labour market participation of elderly workers. Early shifts from the labour force to the state pension system are still not penalised strongly enough, which creates perverse labour incentives and builds additional risks into the pension system. The pension system alone is responsible for the fiscal deficit of 5% of GDP and remains by far the most important single driver of the unsustainable fiscal position. This problem will be magnified in the near future due to ageing and migration. At present, the number

of inhabitants in Croatia is declining by 0.2%–0.3% *per annum* on average and the demographic structure has begun to change rapidly towards older cohorts. This process will continue and no policies have been designed to address this fundamental long-term problem.

The labour market deficiencies are part of a broader problem of insufficiently developed and flexible market mechanisms. For several reasons, the allocation of resources is generally slow. There are institutional weaknesses with respect to the entry, exit and restructuring of companies. This is particularly related to weaknesses in the judicial and administrative system (regulatory costs, contract enforcement, bankruptcy and liquidation procedures). According to the Doing Business ranking system, Croatia is ranked 27<sup>th</sup> in the EU (only Malta has a worse position) and 65<sup>th</sup> in the world. In the areas of registering property and enforcing contracts, Croatia's ranking is below 100<sup>th</sup> place in the world. Croatian governments have obviously failed to create an efficient institutional mechanism for dealing with the regulatory burden and administrative inefficiencies which remain some of the biggest obstacles to doing business in Croatia.

Another problem is related to the education system and weak innovation capacities. Tertiary education attainment (as measured by % of the population aged 30–34 who have finished some form of tertiary education) has recorded significant growth since 2005 (see Table 6.1). Despite this improvement, the level of educational attainment is still very low. Only Italy and Romania have lower levels of educational attainment in the EU as measured by the tertiary education indicator. R&D expenditures of 0.81% of GDP are among the six lowest in the EU (sharing the group with Greece, Cyprus, Latvia, Bulgaria and Romania). The interplay of the weaknesses in the education and innovation systems indicates that the Croatian economy is unable to react to technological changes in the global economy. Croatia is stuck in an adverse equilibrium of low activity, low innovation and high structural unemployment.

Public sector network industries, state-owned companies and weak public administration also represent a drag on the economy. According to the European Commission's In-depth Review, there is unnecessary fragmentation of competencies between various governmental levels and agencies. There is also suboptimal decentralisation (a gap between political and fiscal decentralisation). The public procurement system which still allows significant corruption is weak, especially at local levels, and governance in state-owned enterprises

– by itself an overly large sector with around 1,400 units – is still highly inefficient and politicised. In general, the broadly defined public sector ties up economic resources in inefficient uses and provides an economic basis for corruption and nepotism in a large part of the economy which is shielded from the market. The obvious lack of political will and managerial know-how to deal with this problem probably reflects deeper political motivations and an underdeveloped liberal democracy in terms of checks and balances for controlling the behaviour of public officials (weak elite integrity).

### **The problem of an election year**

It would be wrong to conclude that the incumbent government has done nothing. The EU framework and a 25-year history of an illiberal democracy and corruption provided the social democrat–centre coalition with a strong motive to improve institutions. Indeed, a reform of the social benefits system aimed at eliminating fraud was undertaken. It brought non-negligible savings of public funds. The ruling coalition managed to decrease government outlays on subsidies and material expenses, the main vehicles for corruption and favouritism. One also gets the impression that the State Attorney's Office is working much more independently since, for the first time in Croatian history, there are charges against public officials who are still holding offices and whose parties are in power (traditionally politicians were prosecuted only after they and their parties had lost power). There are also some improvements in the field of public sector management as costs in some of the largest state-owned companies have been brought under control and profitability has increased.

Nevertheless, the scope of these reforms is far too small and too late in comparison to what needs to be done in order to turn the Croatian sleeping beauty into a vibrant, modern economy. On more technical, macroeconomic grounds, the key question is whether the analysis and recommendations revealed within the policy cycle of the European semester will reach the hearts and minds of Croatian policymakers and voters in general. The most likely answer is – not yet. 2015 is an election year<sup>6</sup> and so it is unlikely that the incumbent government will speed up economic reforms. It is also unlikely that the European Council will escalate pressures for reforms on Croatia

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6 Parliamentary elections will be held in 2015Q4 or very early in 2016.



because European partners tend to avoid situations where their decisions may have a significant impact on the electoral outcome in a member country. It is clear that any faster and deeper structural reforms will have to wait for the new government.

For better or worse, this may turn out to be an advantage in three respects. First, postponed pressures on public officials in 2015 will lead to escalating pressures from Brussels and Berlin in 2016. The EU surely does not want to passively observe the birth of a 'new Greece' in the Western Balkans. Second, both the incumbent and opposition are aware of the depth and scope of the country's economic problems as information and analyses about these issues were enhanced significantly after the EU entry, partly thanks to the Commission's analyses and documents. Third, it is always easier to promote reforms during the first year after winning elections. PM Milanović has himself publicly expressed regret for not undertaking braver policy moves in 2012, which is a significant lesson not only for the ruling coalition but for all those with pretensions to power.

### **Concluding remarks: the low hanging fruits of EU accession**

2016 will be the first cyclically favourable year since the crisis began. The country's main trading partners (Slovenia, Italy, SEE) are recovering. Exports are recovering in line with their revival. Croatian tourism, traditionally the key to Croatian exports (services export revenue is higher than total merchandise exports in Croatia) is growing. Merchandise export is growing too, contributing to overall export growth of 6.3% in real terms in 2014. EU accession has certainly contributed to the recovery of exports, which is structurally a very important fact because domestic demand will remain subdued for years to come. There is and should be a fundamental reorientation of the whole economy away from domestic (construction- and real-estate-driven) demand towards foreign (mainly EU) markets. This process takes time for learning, innovations and shifts of resources from non-tradable towards tradable sectors to happen. The outcome of this process is already reflected in the exports to GDP ratio (see Table 6.1 above). It increased from 35% in 2009 to 46% in 2014. And this is just the beginning because a small and open economy like Croatia should target a ratio closer to 75%–100% in the long run if it wants to develop economically and converge with the EU average.

EU membership is a fundamental catalyser of this long-term export reorientation process.

Access to EU funds will play an important role in this resource diversion process. First, it will revive public investment which is (and will remain) constrained by the lack of fiscal capacities and needs to pursue fiscal consolidation. Second, it will divert funds toward weak spots of the Croatian economy (education, innovation) because programmes such as HORIZON 2020 and COSME specifically address these problems. There are no reliable data and studies to assess efficiency in the use of EU funds, but this is not essential at this stage. Croatia is still at the beginning of its EU membership. It is relatively normal and similar to developments in other countries that it takes time to prepare Operational Programmes, build capacities and prepare projects for the use of EU funds.

The use of EU funds and recovery of EU demand for Croatian exports (of both goods and services) represent low hanging fruits of EU accession. They will probably stimulate growth of the Croatian economy, starting in 2015 and speeding up in 2016. Nevertheless, the growth potential primarily depends on policy capacities and structural reforms which are needed to change the domestic landscape. Relying on external demand and EU funds only would imply slow growth and a lack of visible real convergence in the medium run. Adding serious structural reforms is required to begin true convergence. The Croatian people are about to decide which line of development they want to pursue.

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# 7 Common Agricultural Policy: The Case of Slovenia

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## Introduction

The experiences of past European integration processes show that agriculture is one of the most demanding sectors with some of the most exacting obligations during the accession process. The accession tasks were divided into: a) legal harmonisation; b) implementation capacity upgrading; c) policy reform and economic adjustment; and d) accession negotiations (Erjavec, 2007). The accession negotiations were fundamental and represented a training course on change.

Slovenia's accession to the European Union fundamentally changed the legal, economic and political framework of agricultural policy and thus conditions in agriculture (Potočnik et al., 2007). With the acceptance of the Common Agricultural Policy ("CAP"), competencies related to agriculture passed entirely into the domain of the EU's institutions. The process may be denoted using a neologism, 'refolution', which combines the characteristics of reform with radical, almost revolutionary changes in the public and political structure of agriculture.

The CAP is a common name for the EU's legal and budgetary instruments in the areas of agriculture and rural development. The role of agriculture and the CAP in the European integration processes and the decision-making system has often been misunderstood or underestimated (Erjavec, 2007). This is attributable to the complexity of the CAP and the strong ideological connotation these

issues hold. The CAP's basic goals have not formally changed since the beginning of the European integration process; however, with the reforms over the last 20 years, the multifunctionality of European agriculture was brought to the forefront. Various agricultural externalities and public goods, especially related to the environment, have begun to be regulated by comprehensive measures. There is serious criticism that this new emphasis is only a new set of arguments to preserve the existing level of protectionism using new names and instruments. EU newcomers have difficulty understanding and implementing this concept, especially in the pre-accession period (Bureau, 2012).

CAP measures can be divided into two pillars. Market interventions, defined in the Common Market Organisations, and direct payment schemes represent the first pillar (Erjavec, 2007). These were previously applied to individual agricultural products and varied in terms of the substance and intensity of market protection, but since the 2003 CAP reform the processes of simplifying regulations, liberalising market interventions and decoupling direct payments from production have been underway (Swinnen, 2008; Garzon, 2006). Gradually, tasks related to rural development have been added to the CAP and today they represent its second pillar, which is gaining in importance. Although there is no formal need to implement first-pillar measures before accession, institutions for the implementation, management and control of CAP measures have to be upgraded and strengthened, if not established from scratch. Paying agencies, the IACS ("Integrated Administration and Control System") and various registries are only some of the demanding and costly institutional novelties for acceding countries, where obviously such administration practices did not exist at the beginning of the integration process (Erjavec, 2007).

Due to budgetary and World Trade Organisation ("WTO") constraints as well as low public acceptance, the CAP has been under constant pressure for reforms, running in 5- to 7-year cycles since 1992 (Swinnen, 2008; Daugbjerg and Swinbank, 2007). Slovenia was preparing to accede in the period when coupled direct payments replaced price support measures, and entered the EU when it had already been decided to transform coupled direct payments into decoupled payments based on historical rights. The last CAP reform was adopted in 2013 and determined the budget and measures of agricultural policy until 2020. Market interventions are now reduced

to the level of a safety net measure in the case of market instabilities, while supply management measures have been abolished. The system of direct payments brings with it an array of solutions that are based on single area payments (with additional environmental conditions).

Slovenian agriculture is characterised by unfavourable natural and structural conditions, which also explains its status of a net food importer and its relatively protectionist pre-accession agricultural policy (Rednak et al., 2003). The level of support to agriculture was already comparable to the level of support in the EU in the 1990s (Volk, 2004), which placed Slovenia in a unique position compared to other acceding countries (Lovec and Erjavec, 2012). During its preparations for EU membership, agricultural policy in Slovenia had to undergo a comprehensive transformation. Whilst preserving the level of support, the nature of its mechanisms had to change. Gradually, Slovenian agricultural policy transposed the goals and mechanisms of the CAP and largely put in place a comparable agricultural policy well before accession (Potočnik et al., 2007). Simulating the CAP was a clearly defined goal of Slovenian agricultural policy as the policymakers wanted to ensure a ‘soft landing’ for agriculture in the common market and the timely establishment of comparable institutions, as well as the necessary change in the mentality of farmers and public institutions (Erjavec et al., 2003).

In this chapter we wish to present the process of Slovenia’s accession to the CAP in light of the changes in the decision-making powers, planning and implementation of agricultural policy since the commencement of the country’s accession negotiations around 1997 until the conclusion of the last CAP budgetary framework in 2013, which finalised the inclusion of Slovenian agriculture within the decision-making and functioning of the EU. Special emphasis is placed on illustrating the impact which the changed agricultural prices and budgetary support, brought on by the accession, have had on the main socio-economic indicators. National statistical data are used to compare the situation in the Slovenian agri-food sector in the pre- and post-accession periods and to analyse the most noticeable economic effects of the accession on the agri-food sector in Slovenia. The main expected effects were related to joining the vast common market and subsequently increased market competition and opportunities, as well as the necessary structural and organisational adjustments of the relatively small agri-food sector.

## **Changes to the institutional framework of Slovenian agriculture in 1995–2014**

### ***Pre-accession agricultural policy***

In the first years after the break with the former political and economic system in 1990s, Slovenia preserved a large part of the measures from the pre-transition period. New policy guidelines were only set with the Strategy of Agricultural Development of Slovenia, which provided for agricultural policy goals similar to the European agricultural policy: improvement of food security, farm income, farm productivity and competitiveness, and the multifunctional nature of agriculture. Agricultural policy thus became fully concentrated on family farms (Erjavec et al., 2003).

Border protection based on import levies became the most important measure in the first period after the adoption of the Strategy. Slovenia's membership in the WTO (1994) and the ensuing trade commitments, as well as numerous bilateral free-trade agreements concluded in the subsequent years, led to the opening of the agricultural products market and limited border protection. This in turn called for an altered agricultural policy. Another important reason for the required changes was the beginning of the process of Slovenia's accession to the EU, which dictated a gradual transposition of the *acquis* and adaptation of Slovenia's agricultural policy to the CAP. The processes which later led to the adoption of the main guidelines for agricultural policy reform (liberalisation of prices, increased agricultural budget) started in the mid-1990s. These new guidelines were formalised in the Programme of Agricultural Policy Reform (1998–2002) and its implementing document, the National Development Programme for Agriculture, Food, Forestry and Fisheries for the period 2000–2002 (1999). The reform transferred the burden of agricultural support from consumers to taxpayers, which also meant a policy reorientation from market-price support to budgetary support (direct payments, compensatory allowances, development support) (Erjavec et al., 2003).

The most strategically important and also the most original decision from that period was the already mentioned fact that Slovenia began an early and comprehensive reform of agricultural policy in order to facilitate a softer landing in the competitive European market, a better budgetary yield in the accession negotiations and also to appease the concerns of the loud anti-European voices in the



agricultural sector. The reform was to bring about the gradual introduction of CAP-like measures. This would also enhance the establishment of institutions, familiarise farmers and other stakeholders with the new instruments, compensate for the loss of profits due to the expected fall in prices because of the opening of markets, and provide a foundation for the accession negotiations (Volk, 2004). The basic cost was a considerable (at least doubled) agricultural budget and a substantial increase in staff at the Ministry of Agriculture. The pre-accession reform concept originated in the academic sphere and was supported and accepted by all stakeholders in the country.

### ***Accession negotiations***

Accession negotiations in the chapter on agriculture (1998–2002) were particularly politically sensitive as their results would have serious financial consequences (Potočnik et al., 2007). The scope and level of direct payments were an important political issue for Slovenia. The European Commission proposed starting with a low level of direct payments in comparison with the existing level of payments in the EU-15 (25%). This would have led to a decline in the post-accession economic position of Slovenian agriculture so early in the negotiations the Slovenian negotiators informally proposed to complement – to ‘top up’ – direct payments from the national budget. There is informal evidence that Slovenia was the one to open the issue of topping-up as a topic of negotiation. Eventually, the European Commission offered this possibility to all candidate countries; however, the level of these ‘top-up’ payments was intensively negotiated. Slovenia was thus given the possibility to start topping up payments from the level of payments reached in 2003, which stood at 75% of the level applied in the existing member states. In 2004 Slovenia was allowed to raise this level by 10% and in the following three years by another 5% per year. Thus in 2007 a 100% level of direct payments could be reached. Compared to other candidate countries (except Cyprus), Slovenia was granted the highest possible level of complementing the direct payments, even in the first period after accession (Potočnik et al., 2007).

The expectations of agricultural stakeholders about quotas and reference quantities – the amount of funds for individual direct payments – were very high and attracted a lot of publicity in Slovenia. The quotas and reference quantities carried the symbolic meaning of an attempt by the EU to limit production and discriminate against

the agricultural sectors of candidate countries. In its first proposal, the European Commission – by using the reference period 1995–1999 – suggested levels much lower than both those stated in Slovenia’s negotiating positions and the actual production levels (Potočnik et al., 2007). Thanks to the carefully conducted technical part of the negotiations, the final levels were in no case lower than the actual production level at that time and even gave some additional development potential. The finally agreed levels are even more important in view of the fact that they serve as a basis for the future calculation of CAP funding for direct payments.

Most candidate countries had no tradition of typical EU-style rural development policy or any similar measures. Therefore, its political importance was smaller in comparison with other agricultural financial issues. Slovenia used this opportunity and – in line with the domestic sector reforms – based its negotiating positions strategically on the rural development policy. The Slovenian negotiators succeeded in convincing the EU side that Slovenia’s primary interest was encouraging the sustainable development of agriculture and, doubling the Commission’s initial proposal, Slovenia was entitled to funds amounting to around EUR 249.8 million (in 1999 prices, paid out over the first 3 years of membership), which is comparable with the total funds earmarked for structural and regional policy and represents the largest share of EU budgetary funds allocated to Slovenia (Potočnik et al., 2007).

### ***Institutional changes in the pre-accession period***

Throughout the 1990s, the development of agriculture was marked by the constant change and development of democratic institutions in charge of implementing and monitoring the implementation of agricultural policy. In the entire period, the implementation of agricultural policy was in the domain of two ministries, namely the Ministry of Economic Relations and the Ministry of Agriculture, Forestry and Food (Erjavec et al., 2003). The former was responsible for the market-price policy, whilst the latter could give suggestions on this matter and was responsible for all other agriculture-related matters. The Slovenian government adopted key decisions collectively. However, because of this mechanism of coordination, changes could only progress slowly and the market-price policy remained influenced by the past system deep into the 1990s.

The restructuring of the Ministry of Agriculture, Forestry and Food in terms of gaining new powers and establishing a new internal

structure only started with the beginning of serious preparations for accession to the EU. In the years after 1998, it was reorganised and strengthened considerably by the recruitment of new staff. The Agency of the Republic of Slovenia for Agricultural Markets and Rural Development was established and given responsibility for transposing the measures of the CAP. Since 2000, the Agency has also been increasingly responsible for implementing the national agricultural policy. However, if an institution-building process is limited to a short period of time it is often accompanied by problems of recruiting experts, which are – because of, *inter alia*, a deficient education system – scarce (Erjavec et al., 2003). Another problem typically related to setting up new democratic institutions is recruitment dictated by the political orientation of new staff.

In the National Assembly, there is a special Committee responsible for agriculture. Its role was, however, more important in the first period of the transition and diminished in the late 1990s. Throughout the 1990s, there was one party with a decisive influence on agricultural policy, i.e. the Slovenian People's Party. Despite changing its name and strategic alliances, the party proved to be the strongest policymaker in the domain of agriculture. It evolved from the former Slovenian Agricultural Union and profited from intertwining trade-unionist and party elements in its activities. Its influence was further consolidated after it joined the government coalition in 1997.

Interest groups also play an important role in Slovenian agriculture. There is the Cooperative Union of Slovenia, a representative of economic interests of farmers, the Chamber of Commerce and Industry, representing agricultural enterprises and the food industry (in addition to various agricultural movements and trade unions) and, finally, an organisation established in the late 1990s, which is currently the most active and holds the greatest political power: the Chamber of Agriculture and Forestry of Slovenia. It is an organisation modelled on the Austrian Chamber of Agriculture which functions on the basis of compulsory membership. The interest organisations in agriculture have had great and increasing influence on the decision-making processes in agriculture. Typical of all interest organisations is a high degree of political unity and lately also their strong influence on government decisions. The professional community and the media also have an important role in public opinion-making and in turn on decision-making in Slovenia.

***Post-accession agricultural policy and institutional evolution***

In the area of agricultural policy, the period after Slovenia's accession to the EU can be divided into three parts. The first post-accession period covers the years 2004–2006. The second lasted from 2007–2014 and covers the period of implementation of the new policy of direct payments after the 2003 CAP reform, as well as the 7-year rural development programme and new EU budgetary framework. During this period (in 2008) Slovenia also presided over the EU. The new period began in 2015 and has brought about a new agreement on the EU budget, a new CAP reform and a new rural development programme.

In the first three years after its accession, Slovenia continued its pre-accession, practically already CAP-compliant policy of direct payments in the form of payments per area and per head for specific production activity. This is in stark opposition to the other new member states (the only other exception being Malta) which introduced the simplified area payments scheme (“SAPS”). This approach in the policy was well accepted by agricultural producers who adapted to a great extent, for example by strengthening the previously stagnating beef production. In this period, Slovenia also began implementing a strong rural development policy, allocating the lion's share of the funds to agri-environment measures and payments for farming in less favoured areas (“LFA”). These payments were largely income-oriented and additionally strengthened the economic position of agriculture.

In the budget period 2007–2013 Slovenia received an even larger amount of funds for rural development policy and changed its direct payments policy. In the latter field, the government chose the static hybrid scheme among the options offered by the reformed CAP, meaning that in addition to single payments per area of arable land and permanent grassland, a substantial part of historical payments and coupled measures was kept. The goal was to reform in a way that allowed the largest possible number of producers who had been receiving production-coupled payments to keep receiving funds, thus diminishing the redistribution of payments towards more extensive producers; this would not have been in the interest of agricultural development and achieving food security as the fundamental goal of Slovenian agricultural policy. The new rural development programme, in addition to the existing environmental and LFA direct

payments, allocated more funds to the restructuring of agriculture and to broader aspects of rural development.

The accession also caused an institutional change in the manner of conducting and implementing policy. The Ministry of Agriculture, Forestry and Food took over all the powers in the areas of agriculture and food safety, and in this capacity joined the Agriculture and Fisheries Council, which was the key agricultural decision-maker at the EU level until the Treaty of Lisbon (2009). Simultaneously, the main part of agricultural policy decision-making was transferred to the EU level. Due to a smaller number of votes (4) in the Council, Slovenia cannot significantly influence changes and must therefore try very hard to enforce its partial interests. Therefore, a clearer government strategy regarding European matters is required, as well as more experienced and stable civil servants dealing with the CAP. The professionalisation of EU affairs reached its apex during the Slovenian presidency in 2008. Cooperation in the work of the Council (ministerial meetings, Special Agricultural Committee, working groups) and the European Commission (management committees) is well organised and active. Yet, unfortunately, an unstable employment policy has led to the considerable fluctuation of employees, which weakens the quality of work and two-way communication of views in certain fields. Stakeholders in agriculture are mainly interested in the implementation of CAP policy, which is also a constant subject of public debate and confrontations.

Slovenia has no trouble absorbing EU funds. An efficiently functioning paying agency has been established and good use has been made of the branched network of extension services which enabled access to first- and second-pillar direct payments to all agricultural producers and supports projects for different rural development measures.

With the accession, a special role in decision-making regarding agricultural policy was given to the Council for Agriculture, the agricultural Minister's consultation body for legislative and policy matters. Since it includes all key leaders of agricultural institutions (interest, representative and academic), it has become a platform for forming and reviewing major national decisions. This corporatist practice points to a certain democratic deficit in the decision-making process and the prevalence of interest-weighting as the main method of decision-making.

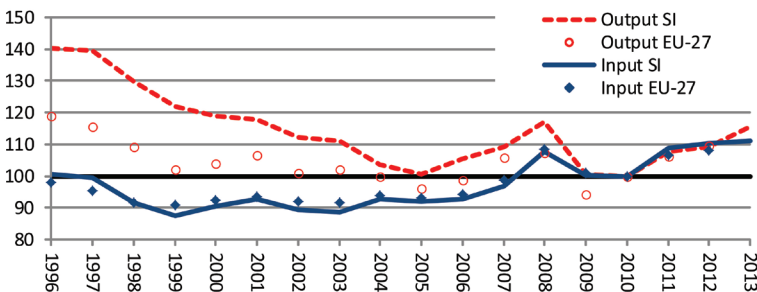
## Main changes in the Slovenian agri-food sector in the European integration process

The European integration process in agriculture brings certain typical economic effects with it (Baldwin and Wyplosz, 2012). The abolition of foreign trade barriers and inclusion in the single market leads to price convergence, while the change in agricultural policy leads to a change in the level and structure of budgetary transfers to agriculture. Simultaneously, these factors change the economic conditions affecting different agricultural indicators.

### *Agricultural price convergence*

In the 1990s, Slovenia had a fairly high level of producer prices compared to the EU (Volk, 2004). The liberalisation of foreign trade as a result of numerous trade agreements gradually lowered the price level and brought it closer to that of the EU. The drop in agricultural output prices was the most pronounced in the years 2004 and 2005 due to increased supply because of favourable harvests and partially also as a ‘convergence’ impact of joining the competitive EU single market (Figure 7.1). Agricultural input prices show the opposite trends, with their development being similar as in the EU (Volk, 2005–2013).

*Figure 7.1:* Comparison of agricultural price developments between Slovenia and the EU (2010 = 100); 1996–2013



Source: Statistical Office of the Republic of Slovenia (SORS), calculated by Agricultural Institute of Slovenia (AIS)

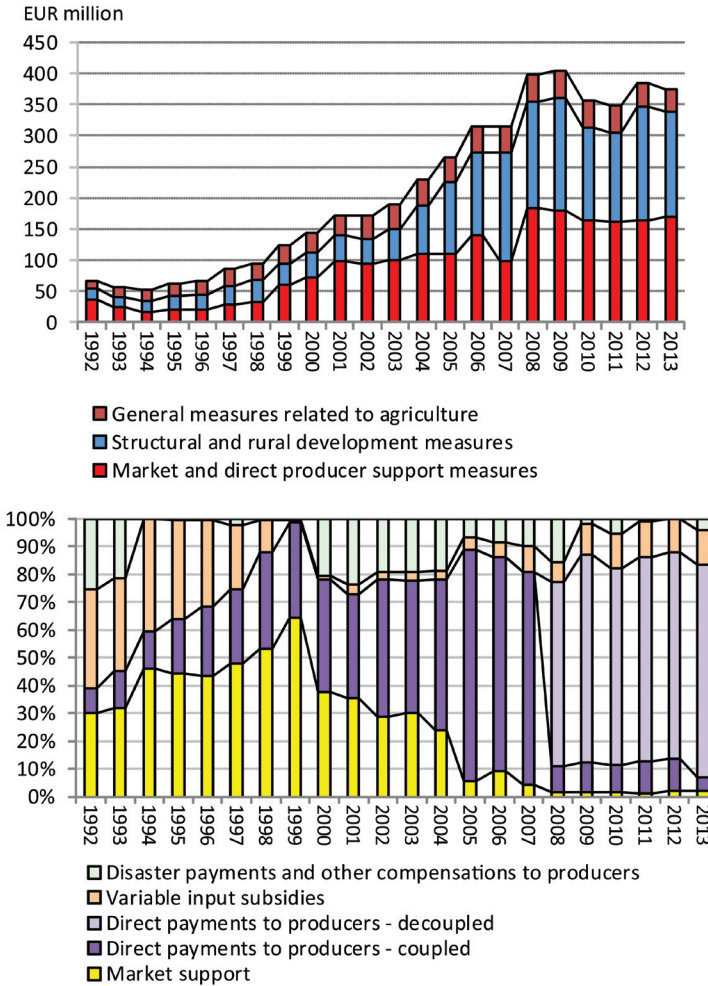
Strong synchronicity in agricultural producer prices in Slovenia in comparison with the average EU level can be observed after 2010, suggesting that price transmission is a direct effect of EU accession. Thus, major price pressures and developments directly spread from the EU to the national level. On the input side, price levels between Slovenia and the EU are traditionally more strongly synchronised due to the almost complete dependency of Slovenia on EU markets regarding inputs.

### ***Significant increase in budgetary support to agriculture***

Total budgetary support to agriculture increased significantly with the accession (by 97% from 2003 to 2013 and almost 400% from 1998 to 2013), in the most part due to significant increases in market and direct producer support and structural and rural development support (Figure 7.2). In the period 2010–2013, total budgetary support for agriculture on average reached almost EUR 366 million (current prices), with market and direct producer support on average contributing 45% and direct payments contributing 37% to the total. The increased budgetary support to agriculture was an important buffer for preventing drastic income losses due to the reduction in producer prices in the first post-accession years (Volk, 2011).

Changes in the structure of total budgetary support followed those in agricultural policy. In the area of market and direct producer support, the pre-accession market support policy shifted from indirect support to agriculture in the form of high border protection and administrative prices to direct support in the form of coupled direct payments (Volk et al., 2007). Due to phasing-in and national topping-up, the total funds for market and direct producer support measures were mostly increasing up until 2008 when the major CAP reform entered into force and transformed the coupled direct payments into decoupled ones, which currently prevail (Volk, 2005–2013).

Figure 7.2: Total budgetary support to agriculture and the structure of market and direct producer support measures; 1992–2013



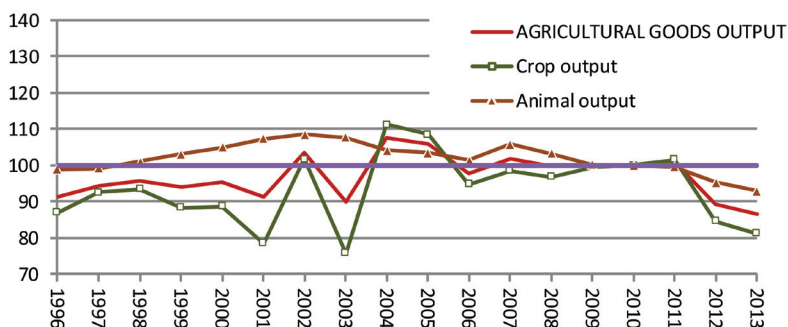
Source: Ministry of Agriculture, Forestry and Food, Agency for Agricultural Markets and Rural Development, calculated by AIS



### **Stagnation of agricultural production**

There have been no major increases in the aggregate volume of agricultural production in the post-accession period. Since the accession, agricultural output volume changes have been exhibiting an oscillating pattern and a long-term decreasing trend which has been more pronounced for crops than for animal output in the most recent years (Figure 7.3).

*Figure 7.3:* Changes in agricultural goods output by volume (2010 = 100); 1996–2013



Source: SORS, calculated by AIS

The structure of the crop area has not changed significantly due to EU accession. There are, however, two exceptions. First, in 2005 a reform of the EU sugar market was adopted, resulting in the abandonment of sugar beet production in Slovenia and closing of the only sugar mill in the country (Volk, 2005–2013; Volk et al., 2006). Further, the production of oilseeds and oleaginous crops has significantly risen in the post-accession period, mainly as a result of the increased bio-fuel demand; the average production in 2004–2013 was almost 2.8 times higher than in the period 2000–2003.

Animal output is by nature less prone to fluctuations in the short term. Nevertheless, it has been decreasing since 2007, predominantly due to the substantial contraction of pig meat production which may be attributed to accession effects. Pig meat production contributed less than 5% to agricultural output in 2013, which is almost half compared to 2003. The key reasons for the drop in the production of

pig meat, in addition to soaring input prices in the period after 2007, lie in the lagging technological and structural development and less efficient market organisation of producers.

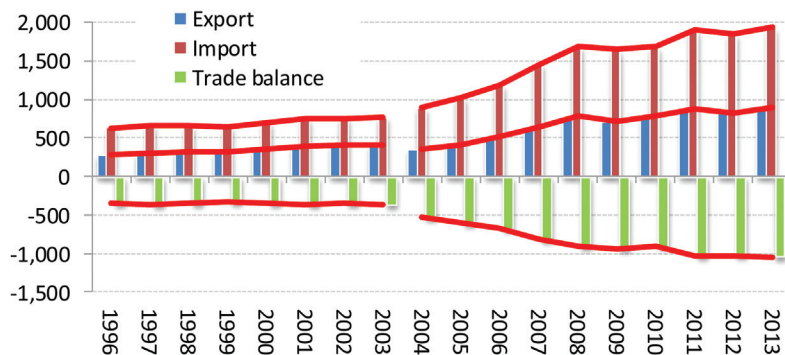
Very intensive structural changes can also be observed in the milk sector, especially after 2007 (Volk, 2014). The number of agricultural holdings rearing dairy cows in 2013 had dropped by almost two-thirds since 2000. In 2013 only 13% of the agricultural holdings were producing milk, compared to 33% in 2000. Further, in 2013 the number of dairy cows dropped by almost one-quarter compared to 2000. On the other hand, milk production intensified and specialised after the accession; the average number of dairy cows per agricultural holding has more than doubled since 2000, reaching 10.6 head per holding in 2013 (Pintar, 2015). In addition, milk yields have been constantly increasing.

### ***Expanding agri-food trade***

Slovenia is traditionally a net food importing country, with the exchange of agri-food goods and agri-food trade deficit increasing markedly after EU accession (Figure 7.4), mostly as a result of the abolition of customs protection for EU imports and changes in trade regimes with the rest of the world (Volk et al., 2006). In 2013 the negative trade balance almost tripled compared to 2003, reaching a historic low of EUR 1 billion in 2013. Both agri-food exports and imports grew markedly after the accession. The total value of agri-food export in 2013 increased by about 120% and the total value of agri-food import by 150% compared to the pre-accession year 2003. Export on average covered 44% of import in the period 2003–2013, slightly less than in the pre-accession period.

After the accession, we can also observe significant changes in the composition of trade. The emergence of raw products such as live animals and milk as new export groups was not an expected accession impact (Volk et al., 2007). Also considering the increased import of processed produce (such as meat or dairy produce), it can be concluded that this development is an aggregate result of the market-survival strategies of individual agricultural producers of a small national economy in the presence of an insufficiently developed, less competitive and disorganised food industry (Kuhar et al., 2012). The opportunities to export value-added products to the vast Common market appear to be underexploited.

Figure 7.4: Agri-food trade (EUR million); 1996–2013



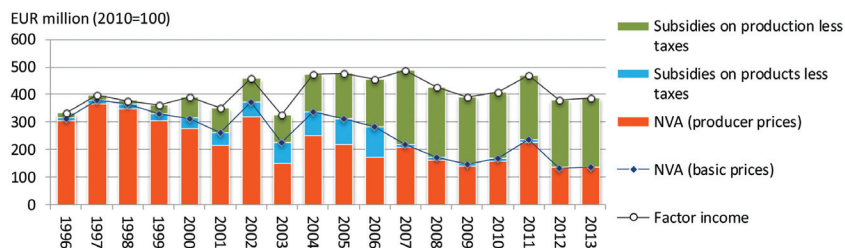
Source: SORS, calculated by AIS

The majority of the export value in the pre-accession period was oriented towards the traditional markets, i.e. ex-Yugoslav countries (61% on average in the period 1996–2003) through favourable free-trade agreements, which ended with the accession. This caused the share of total exports to ex-Yugoslav countries to drop to 35% on average in the post-accession period 2004–2013. On the other hand, the share of exports to EU-15 countries, especially to nearby countries (e.g., Italy, Austria, Germany), increased to 46% on average in the same period (pre-accession average of 24%). The structure of total imports is more stable in the long term; after the accession imports from ex-Yugoslav countries dropped by 2 percentage points in the 2004–2013 period compared to the 1996–2003 period. The average share of imports from the EU-15 also increased in the post-accession period 2004–2013 (from 53% to 63%).

### *Increasing farm income*

Agricultural factor income remained relatively stable during the transition and pre-accession period (Figure 7.5). This can be largely attributed to the gradual adjustment of agricultural policy, especially in terms of increasing the levels of (coupled) subsidies. Downward income oscillations were caused by poor harvests due to poor weather conditions (Volk et al., 2007).

Figure 7.5: Main income indicators of the Economic Accounts for Agriculture (EAA); 1996–2013



Sources: SORS, EUROSTAT, calculated by AIS

The accession brought about the stabilisation of factor income level at a higher level compared to the pre-accession period, chiefly due to the continuing trend of a slightly increasing production volume and the compensation of decreased producer prices with direct payments. Thus, the economic situation of agricultural producers at the aggregate level was generally perceived as favourable in the immediate post-accession period (e.g., Volk et al., 2007; Volk, 2005–2013). However, the income structure changed considerably, increasing the dependency on subsidies for production and for products to almost two-thirds in 2013 (Pintar, 2015).

Factor income reached almost EUR 400 million in 2013; calculated per annual working units (“AWU”) it reached around EUR 4800 or almost a third of the EU-27 average (Pintar, 2015). Lagging of the income level compared to the EU is a chronic characteristic of Slovenian agriculture, indicating the worryingly low productivity of Slovenian agriculture, which has only improved marginally since EU accession.

### *Slowing structural change down*

The structural changes in Slovenian agriculture are an ongoing trend since the mid-1990s. The number of agricultural holdings is constantly decreasing, with the main drop in the pre-accession period, whereas the average size of holdings is increasing (Table 7.1).

Table 7.1: Main structural indicators of Slovenian agriculture; 2000–2013

	2000	2003	2005	2007	2010	2013
Agricultural holdings; total	86,467	77,149	77,175	75,340	74,646	72,377
Utilised agricultural area, UAA (ha)	485,879	486,473	485,432	488,774	474,432	477,023
Number of livestock units (LSU), total	470,498	456,167	421,587	433,382	421,553	399,349
Number of annual working units (AWU)	107,809	95,605	95,263	83,950	77,012	82,746
Average size of agricultural holdings (ha UAA/holding)	5.6	6.3	6.3	6.5	6.4	6.6
Average LSU on agricultural holdings (LSU/holding*)	6.1	6.6	6.3	6.8	7.2	6.9
AWU/agricultural holding	1.2	1.2	1.2	1.1	1.0	1.1
AWU/100 ha of utilised agricultural area	22.2	19.7	19.6	17.2	16.2	17.3

\* Only agricultural holdings with livestock included

Source: SORS, calculated by AIS

In 2013, the average agricultural holding in Slovenia used 6.6 ha of utilised agricultural area (“UAA”) (almost 5% more than in 2005), reared almost 7 livestock units (“LSU”) (almost 10% more than in 2005) and employed 1.1 annual working unit (“AWU”) (about 7% less than in 2005). Agricultural holdings in Slovenia are on average much smaller than in the EU-27 (14.6 ha of UAA, almost 20 LSU, 0.8 AWU in 2010), and their labour productivity, as well as efficiency of use of the other production factors, appears to be notably worse on average, despite some improvement in recent years. Previous studies (e.g., Volk et al., 2007) found that, instead of speeding up the consolidation process, the accession actually halted it in the first post-accession years. This was mainly attributed to the fact that CAP direct payments made agricultural production economically profitable enough for the smaller farms, which thus did not (have to) exit agriculture.

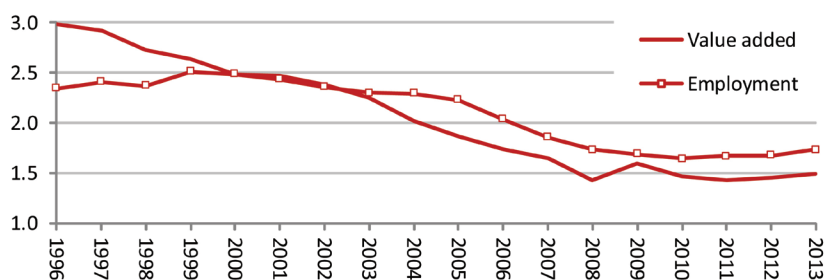
### *The food industry under pressure*

Before EU accession, the Slovenian food industry was enjoying a relatively low level of competition in both internal and key external markets. This situation was characterised on one hand by a system of high tariff barriers and a domestic oligopoly-like market structure and, on the other hand, strengthened through a specific foreign trade structure oriented predominantly towards the ex-Yugoslav countries. In these markets Slovenia was engaged in favourable free-trade agreements which were terminated with EU accession (Kuhar et al., 2012).

Even though the radical economic impact of accession on the food industry was to be expected with a high degree of probability, Slovenian policy failed to arrange for a more gradual trade liberalisation (phasing out of export subsidies) by increasing (on time) the funds for restructuring and other measures of competitiveness enhancement. This resulted in an *ad hoc* liberalisation shock for the Slovenian food industry (Kuhar et al., 2012), highlighting its lagging structural, managerial and foreign trade adjustment even more intensively in the post-accession period.

Several studies of the economic performance of the Slovenian food industry after the accession confirm that the already small sector is continuing to contract in macroeconomic terms (e.g., Kuhar and Erjavec, 2007; Kuhar et al., 2012). In 2003 the contribution of the food industry to national gross value added was 2.3% and it dropped to 1.5% in 2013 (Figure 7.6). Further, the share of total employment in the food industry fell considerably, from 2.3% in 2003 to 1.7% in 2013.

*Figure 7.6:* Contribution of the food industry to gross value added and total employment (in %); 1996–2013



Source: SORS, calculated by AIS

The production volumes in food manufacturing shrank twice, by more than 10% in 2004 and by a further 10% in 2007 (Kuhar et al., 2012). In addition, the productivity and creation of value added are on a long-term worsening trajectory (with some oscillations), and consequently the profitability indicators have been dropping in recent years as well (Kuhar et al., 2012). In terms of structural changes after the accession, the number of small companies in the

food industry is growing, whereas the average number of employees is decreasing, indicating that the previous dual structure of the food industry (big, oligopoly-like companies alongside micro companies) is loosening up (Volk, 2014).

Another notable development in the Slovenian post-accession food industry is the further concentration and domination of retail trade in the vertical agri-food chain (Kuhar et al., 2012). The level of concentration in the food retailing sector is among the highest in the EU, resulting most notably in additional price pressures and in the shifting of transaction and distribution costs to suppliers (Juhasz and Stauder, 2005; quoted from Kuhar et al., 2012).

## Discussion and conclusions

The transitional and immediate pre-accession period saw the gradual adjustment of the national agricultural policy in Slovenia to the CAP in terms of objectives, policy instruments and measures, and the multifunctional positioning of agriculture in society. This gradual alignment was stimulated by the accession negotiation process (Volk et al., 2007). The previous, predominantly market-price support oriented policy, mainly composed of high border protection and the administration of prices in internal markets, shifted to budgetary support, transferring the burden of agricultural support from consumers to taxpayers (Volk et al., 2007). At the time of the accession, Slovenian agricultural policy and budgetary support were at a level almost matching that of the EU (Volk, 2004).

Looking back, the most important achievement of the accession negotiations on agriculture was the volume of funds earmarked for rural development. With the exception of Malta, Slovenia obtained the highest amount *per hectare* of agricultural land and *per capita* (in 2013, own calculation), which somewhat improved Slovenia's net payment position. We can again observe the importance of the initial financial basis set in the accession negotiations and the benefits of making an effort in this phase.

Slovenia's agriculture and countryside have been granted about EUR 3.5 billion in direct budgetary funds (about half of these were European funds) since the accession. Such an investment in agriculture, which was primarily the result of accession to the EU, was never possible before and will probably never happen again. What are the effects of such grants? Perhaps the most important is the discovery

that these funds buffered the effect of the price depression related to the integration process, limited the structural change and stabilised the economic situation in Slovenian agriculture.

The accession changed the conditions in Slovenian agriculture considerably. The market expanded and imports increased significantly, which exporters were not able to follow, causing the external market deficit to double thus far. However, dairy and beef farmers took advantage of the new conditions and began exporting raw milk to Italy and beef to Austria, thus reducing the domestic raw material base. The food industry was not adequately prepared for competition. In addition to the consequences of the financial crisis and pressures from the growing competition in retail sales, this important link in the Slovenian industry is still struggling today. Domestic consumers remain loyal to Slovenian food, but this traditional connection is slowly weakening.

Since EU accession, agricultural income has become greatly dependent on direct support. In recent years, the agricultural subsidies have on average contributed around half of the factor income of Slovenian agriculture. The grants may have a stabilising effect on income, and some have a strong effect on production due to their support for environment-friendly technologies. Namely, production is not growing, but stagnating. Some production activities, particularly pig production, did not respond well to the fierce competition. Support obtained through the European integration process remains the key to preserving farming in Slovenia and, in some cases, is unfortunately also the sole *raison d'être*. Such dependence on subsidies is truly a weakness of Slovenian agriculture.

In conclusion, agriculture is certainly one of the positive stories in the Slovenian process of European integration. Publically echoed fears about the fall and end of Slovenian farmers have proven to be wrong. However, economic conditions in the agri-food market are not favorable. The Slovenian agri-food industry has been unable to develop an efficient and integrated agri-food chain. Without this concept, budgetary support has more of an income and social character than a developmental one. Agriculture is an economic activity which is important for the provision of certain public goods related to the environment, safe food and also socially and spatially balanced development. Similarly to the European level, certain good intentions of agricultural policy are in the grip of interests which benefit most from the financially rich policy. In conducting agricultural



policy: is it better to be guided by these interests or to consider what is really socially beneficial and how public funds can be utilised to the fullest? The search for an answer to this question will define future CAP reforms and is becoming the very essence of modern agricultural policy.

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# 8 Common Agriculture Policy: The Case of Croatia

Ramona Franić and Tihana Ljubaj

## Introduction

The beginning of the 1990s was a dramatic period for Croatia: gaining independence, war conflict, economic transition and a serious shift in political orientation. The strategic orientation was Euro-Atlantic integration, but political circumstances caused delays in comparison to other Central and Eastern European countries. One of the most important sectors in this adjustment and accession process is agriculture, the key issue in most of the international negotiations.

By a change in Croatian socio-economic organisation, family farms were recognised as the official pillar of agricultural development, which was the first significant change in agricultural policy strategy. Companies of the former social sector lost their long-term favourable treatment and have been passing through a difficult privatisation process that has weakened their economic power. Together with the consequences of the war, this caused weak production and economic results in the sector, and therefore ‘imposed’ agricultural policy goals (productivity, self-sufficiency) that were inconsistent with trends in the European Common Agricultural Policy (“CAP”) at the time.

The past two decades have been marked by intense activities in adaptation of the agricultural sector and policy to Western European standards. However, it seems that the harmonisation has been more successful in the formal, administrative and institutional domain and less so in the production and rural structure. Production and economic results are still below those of the 1990s, and

the socio-demographic characteristics of rural areas are disturbing with a great share of old and poorly educated farmers and rural inhabitants.

The negotiation process for EU membership intensified the adjustment of agricultural policy to the CAP standards, but in this process the policy choices were often made as a ‘wish list’ or as the result of ‘Europeanisation pressure’, lacking in clear policy targets, criteria and argumentation. Both elements – administrative disorientation and the weak absorption capacity of domestic farmers – have resulted in a slow and inadequate policy result even today, when Croatia is a full EU member. That is why in this chapter we try to identify the critical points of the domestic agricultural policy reform under the influence of EU accession and the CAP reforms, and find an explanation for the policy results and failures during the past two decades.

## **Introducing CAP rules into Croatian agricultural policy**

### ***From gaining independence till EU accession (1991–2004)***

‘In agriculture, the most important formal rules probably concern property rights over land and water’ (Slangen et al., 2004: 3). This was the guiding principle of the first Croatian strategic document regarding agriculture, especially important because about 33% of available agricultural land in 1991 was state-owned. Namely, all formerly socially-owned agricultural land has become state-owned, and its disposal has been regulated by the Law on Agricultural Land (which for the first time prescribed rules for land protection regarding its conversion, harmful substances and agro-technical measures). This Law has been amended several times since 1991 because its implementation revealed considerable faults and impediments which delayed the disposal of farmland. Since 2002 the process of disposing and privatising state-owned agricultural land has been decentralised and implemented on the local level in accordance with programmes approved by the Ministry of Agriculture. However, unresolved property and legal issues due to double and uncoordinated land records have meant that Croatia has not managed to accomplish the goals of these programmes. Only 20.6% of state-owned agricultural land is offered for disposal through public tenders, although the plan was to sell 42%; there is still almost 900,000 ha of state-owned agricultural

land in Croatia, which is mostly unused (Svržnjak and Franić, 2014).

No matter how well a government designs policies, it is institutions that enable policy implementation. Since in Croatia the period after 1990 was characterised by a big political change, soon after the war institutional development became a priority. Regarding agriculture, the first Law on Agriculture (Official Gazette 66/01) defined institutional support to agriculture through government bodies, local government bodies, institutions and various forms of professional and interest agricultural business cooperation. Legal entities were authorised as providers of services in agriculture, i.e. vocational and administrative jobs regarding advisory work, breeding and selection work in animal husbandry, seeds and seedling, plant protection, animal health protection and welfare, viticulture and oenology, agricultural land etc. The period before achieving the status of a candidate country was marked by slow and uncoordinated institutional development. Institutions were established (some of them a long time ago) and operated according to partial sectoral interests (see Table 8.1), and the most important step forward was the establishment and development of a national advisory service, first as an Extension Service under the Ministry of Agriculture and Forestry (together with the Croatian Agricultural Centre still in 1991), then through the establishment of the Croatian Department for Agricultural Extension Services (in 1997).

Agricultural and rural development is a public concern that has generated many innovative institutional arrangements. During the 1980s, the established common sense was to recommend the fading out of the interventionist state as it had developed decades before. The market and private initiative were the new sole means for satisfying most social needs and goals (Martinez Nogueira, 2006). Such ideas and principles were reflected in CAP reforms after 1990 when Croatia gained its independence. When the CAP went through one of the most important reforms (Mac Sharry) characterised by a shift from price towards income support and the introduction of agri-environmental schemes, Croatian agricultural policy was implemented through legislation mainly taken over from the former state. At the same time, war circumstances did not allow the government to focus on agriculture and agricultural policy modernisation. Moreover, it was a time of the destruction of natural resources (agricultural land, livestock fund, production facilities) and a dramatic exodus of the population from the most valuable agricultural and rural areas.

Soon after the war ended, the Croatian government set the main strategic orientation: trade integration processes and membership in the EU. The process started with WTO membership in 2000 and free-trade agreements with almost all European countries, forcing Croatian agricultural policy to adapt its system of protection based on protective guaranteed prices and incentives based on produced quantities (Kumrić and Franić, 2005). The first official document to define the agricultural policy objectives was the Croatian Agricultural Development Strategy from 1995. The main (general and ambitious) goal was 'encouraging more efficient production and marketing of agricultural products to the benefit of producers and consumers and contributing to the growth of the Croatian economy, protecting national natural resources and ensuring the competitiveness of Croatian agriculture in the global market'. These goals had to be achieved by measures for enlarging family farms, favourable loans for farmers, ownership transition processes and the development of the market structure and extension services. Agricultural policy was based on an outdated model of price support as well as production and input support that constituted the biggest budgetary item. A new system of area payments and payments per head in livestock production was introduced in 1999, together with one-off payments for establishing plantations. This was the first attempt to adjust domestic agri-policy measures to the European trends and CAP reform (Agenda 2000), characterised by a gradual decoupling and reduction of direct payments in favour of rural development measures. Croatian agricultural policy measures were some kind of 'CAP-like hybrid', directly linked to the production sector, yet still unsuccessful in achieving the domestic policy goals of increased productivity and self-sufficiency.

At that time, strong activities were carried out to improve the agricultural and rural legislation so in 2001 the first Agricultural Act was adopted and soon after the Croatian Agriculture and Fisheries Strategy, as well as the Act on State Support to Agriculture, Fisheries and Forestry. A commitment was made to reduce the implementation of measures that cause distorting effects on trade (customs protection, guaranteed prices, payment per production unit), and veterinary, phytosanitary and food safety measures also underwent certain changes. The reform of the subsidy system envisaged support measures for rural development and direct income support (Kumrić and Franić, 2005).



The next reform of Croatian agricultural policy also coincided with the Mid Term Review of the CAP. But, when the CAP developed the system of single farm payment linked to the environment, food safety and animal welfare, the prevailing system of Croatian policy models remained unchanged and linked to production. In addition, three new models of structural support were introduced: income support to encourage farmers to retire, capital investments for commercial farmers and a rural development model. The intention was to gradually reallocate funds in favour of agricultural competitiveness and rural development.

Regarding rural development policy, it was a time when good legislation was established to manage and protect national resources, primarily agricultural land and areas of special state concern (areas damaged by war, mountain areas, islands). Different measures were developed for improving the standard of living and retaining people in rural areas, with a special emphasis on sustainable development principles, but to date the results have been modest and the majority of funds still goes to support production.

### ***From starting negotiations till EU membership (2005–2013)***

Croatia became an EU membership candidate country in 2004, and negotiations started in 2005. The ‘Agriculture and rural development’ chapter was one of the most demanding in this process, during which the Croatian government had to prove the gradual adjustment of Croatian agricultural policy to the CAP standards. This was relatively difficult because the CAP was continuously changing, and at the end of 2008 the Health Check reform brought new requests: administrative simplifications, responses to climate change, better resource management, biodiversity, greening etc. The support is now mostly decoupled from production, and special incentives are provided for young farmers.

The first Croatian response to these requests was to adopt a new Agricultural Act (2009) that provides the legal grounds for establishing key institutions to help in the further adjustment of the agricultural and rural sector to meet the CAP standards: a Paying Agency for Agriculture, Fisheries and Rural Development and a Croatian Chamber of Agriculture.

With some slight corrections, the goals of Croatian agricultural policy remain the same up until the last Agriculture Act from 2012: efficient production and competitiveness to the benefit of farmers

and consumers and protected resources. The gradual alignment with the CAP objectives includes a vision for the development of organic agriculture, while previous structural policy measures have been translated into rural development policy, which aims at preserving and developing rural areas and rural values.

*Table 8.1: Institutional development towards the CAP standards in 1991–2012*

Year	Institution
1991	Croatian Agricultural Centre (with the Agricultural Extension Service)
1994	Croatian Agricultural Agency
1995	Market Information System in Agriculture
1996	Croatian Institute for Viticulture and Oenology
1997	Croatian Department for the Agricultural Extension Service
1998	Institute for Seeds and Seedlings
2001	Institute for Pomology Institute for Soil
2003	Croatian Food Agency (which started working in 2005)
2009	Croatian Centre for Agriculture, Food and Rural areas – merged institutions: Institute for Pomology, Institute for Soil, Institute for Plant Protection in Agriculture and Forestry of the Republic of Croatia (that was a successor to the institution of the Entomological Section established in 1909), the Croatian Institute for Viticulture and Oenology and the institution of the Station for Southern Cultivars Dubrovnik (operating since 1908) Croatian Chamber of Agriculture (with the Agricultural Extension Service) Agricultural Land Agency Paying Agency for Agriculture, Fisheries and Rural Development Council for Agricultural Research
2012	Agricultural Extension Service (a public service established by the Ministry of Agriculture)

With the Act on State Support to Agriculture and Rural Development of 2009 the difference between direct payments and rural development support was defined and basic area payments were set apart from coupled payments. Farm support policy was generally harmonised with the European single farm payment scheme and rural development models, and direct payments have only been kept for economically sensitive sectors (olive oil, sugar beet, tobacco, suckler cows, sheep and goat, cattle fattening, breeding sows, cow, sheep and goat milk). All measures are arranged to meet the requirements of cross compliance, the land and farm identification system and modulation. This Act was subsequently updated annually, trying to keep track of the CAP regulations.

The period after 2004 was also a period of ‘learning rural development’ through the pre-accession and accession programmes – SAPARD (“Special Accession Programme for Agriculture and

Rural Development”) and IPARD (“Instrument for Pre-accession Assistance – Rural Development”). SAPARD was prepared in 2006 together with an unofficial action plan for agriculture and rural areas. These documents were aimed at agricultural and rural competitiveness that had to be achieved by investments in agricultural holdings, processing and marketing of agricultural and fishery products. Since 2008 rural development has been planned by the IPARD Programme 2007–2013, and its priorities were improved market efficiency, agri-environmental measures and local rural development strategies and overall development of the rural economy. Both programmes show the deficiencies of the Croatian agricultural sector due to which their utilisation was relatively unsatisfactory: the weak financial capacity of farmers, complications with gathering ownership documents and other administrative obstacles, poor information dissemination, a lack of farmers’ business initiatives etc. (Franić and Mikuš, 2013).

In 2008, the Rural Development Strategy of the Republic of Croatia 2008–2013 was officially adopted, with the key words being in line with the European rural policy: agricultural and rural competitiveness, preservation, protection and sustainable use of the landscape and the cultural and national heritage, the quality of life in rural areas, the diversification of rural activities. However, the administration did not manage to explain to users and implement the necessary policy reforms in practice. Therefore, Croatian agricultural policy measures were still focused on direct payments, which were outdated in the CAP, instead of using pre-accession funds for rural development, environmental protection, animal welfare and less favoured areas.

Finally, in mid-2013 and in the midst of an economic crisis Croatia became a full member of the EU. For agriculture and rural development, this means accepting the rules and regulations of the CAP completely. Therefore, the system of support for agriculture and rural development regulates all negotiated measures – direct support for producers, support for particularly sensitive sectors, measures of rural development and state aid. The recent regulations emphasise the importance of records, registers and administrative control of financial transactions which will, together with the current environmental requirements, cause a lot of confusion among domestic farmers not only because of these criteria but also due to the many deficiencies in those records.

Table 8.2: Comparison of the CAP and Croatian agricultural policy reforms

Measure Reform	Direct payments (DP)		Price support		Rural development (RD)	
	EU CAP	CRO AP	EU CAP	CRO AP	EU CAP	CRO AP
1992 Mac Sharry Reform	Introduction of compensatory payments to support farm income	Coupled payments (premiums per production quantity) and reimbursement for inputs	Reduction in the price of wheat (30%) and beef (15%)	Protection prices for most products Price ceiling for key food products during the war	Introduction of accompanying measures: agri-environmental scheme, early retirement for farmers, afforestation	Establishing the legal framework (land protection and disposal, protection of strategic areas)
1999 Agenda 2000	Direct payments linked to production for specific arable crops and livestock	DP per ha or head, but still linked to production	Reduction in the price of wheat (15%), beef (20%) and dairy products (15%)	Price support in crop production and input subsidies are eliminated	Optional reduction of DP in favour of accompanying measures Single framework for 22 measures and introduced CAP Pillar II – environmental and RD measures	Agricultural land legislation; legislation regarding areas of special state concern, mountain areas and islands
2003 Mid Term Review	Single farm payment linked to the environment, food safety and animal welfare		15%–25% price cut for dairy products	Price support reduction	Compulsory modulation of DP to RD Modulation funds used for RD and increased the RD measures – environment, food quality, animal welfare	Structural support – rural development model
2008 Health Check	Decoupling of support Greening	Preparation for the Single Payment Scheme	Price reductions	Price reduction	Shifting money from direct aid to Rural Development	SAPARD IPARD

Sources: Gorton et al., 2009: 1308 (CAP reforms), the authors (Croatian policy reforms)

At the end of 2014, Croatia was still waiting for official approval of its Programme of Rural Development 2014–2020, a document prepared upon a proposition of the European Agricultural Fund for Rural Development. With this document the Croatian government envisages capital investments and farm entrepreneurship, the revitalisation of rural areas, activities linked to the agri-environment and climate, organic production, agricultural production insurance and local initiatives (local action groups and the LEADER approach). Currently, the administration elaborates the criteria and conditions

for spending funds for achieving competitive production *via* sustainable resource management and adjustment to climate changes. New requirements are in front of them – how to achieve the harmonised territorial development of rural areas, how to include knowledge, innovations, animal welfare and ecosystem protection into Croatian agricultural practice to provide public goods; how to achieve social inclusion and poverty reduction in traditional rural areas that are lagging behind contemporary business and social trends.

So far, all efforts of the Croatian government to adapt the domestic agricultural policies to the CAP standards have not resulted in economic success. Progress has been made in the institutional and administrative domain, but productivity, farmers' income and a positive trade balance in agri-food products have not been met. The relationship among the state, markets and civil society is extremely complex (Martinez Nogueira, 2006) and obviously Croatia still has a lot to do to reach the European production and rural development level.

### **Conclusion: critical points of the adjustment of Croatian agricultural policy in line with the CAP**

Analysis of agricultural policy in the past two decades has resulted in the clear knowledge that the public interest has completely changed. Agricultural productivity has increased, international agri-food trade has been liberalised and intensified, and the policy focus has switched from agricultural producers to consumers. The shift in public policies in the area of agriculture is towards food safety and security issues, structural adjustment in the sector and the multifunctional role of agriculture and rural areas (Boulanger and Messerlin, 2010).

Three key elements are important for economic development: economic institutions, the role of the state, and social capital (Slangen et al., 2004). The process of the Europeanisation of Croatian agricultural policy is obviously dominated by the first two of these elements – institutional and administrative formalisation and the (double) role of the government – a more successful one towards formal CAP standardisation and the other, less successful, towards practical results in the domestic agricultural and rural sector. According to Van Tongeren (2008) and Cooper et al. (2009), the need to provide public goods in Europe would be a valid and coherent justification for a future CAP. There are several challenges in this process: adequate formulation of the policy objective (with an emphasis on

environmental protection), evaluation of the current policies, implementation of new policies toward achieving results, monitoring and evaluation, removing obstacles and sufficient budgetary resources.

Research shows that these elements were often missing in the Europeanisation of Croatian agricultural policy (Franić et al., 2007; Franić and Mikuš, 2013) and, like in other Central and Eastern European countries (“CEECs”), a kind of emulation (of the existing CAP measures) is the most likely outcome in the process of policy harmonisation. Several reasons can explain such a situation in CEECs, including in Croatia: differences in socio-economic conditions within rural areas between the old and new member states, the imbalance between Pillar I (production support) and Pillar II (rural development) due to the misleading consequences of direct payments in favour of large, corporate farms instead of family farms’ welfare and increasing direct payments that work against the objectives of Pillar II, such as stimulating the non-farm rural economy (Gorton et al., 2009).

The most important issue for Croatia so far lies in the field of direct payments, strictly regulated by the European Commission’s regulations, and the challenge is to achieve the environmental standards required by the CAP. Within the CAP, direct payments are now subject to ‘greening’ requirements; in this area there are difficulties for Croatia due to the slow adjustment of the institutional set up (land information system, payment entitlements) and implementation of a subsidy system still strange to farmers (single payment scheme, cross-compliance and greening payments).

The development of rural areas continues to be an international priority, a way to fight poverty and to increase economic and social cohesion. Development patterns are territory-specific so the public policies should have a better understanding of territorial dynamics in order to propose strategies to efficiently trigger changes. Rural policies might have focused on factors that have little influence in fostering changes rather than on those with leverage effects (Delgado-Serrano et al., 2010). Rural development policy in Europe is also changing due to the changed rural structure. New priorities are risk management, climate change and innovation. For Croatian farmers, those measures will be particularly challenging since most farmers in the country are inadequately educated, have low social capital, and unwilling to accept the new policy requirements (Franić et al., 2007; Franić and Mikuš, 2013).

Research shows that administrative capacities of the ministries (and administrative social capital) were directly related to policy success in both the negotiation process and policy implementation. The fact is that Croatia, as a candidate country, could not achieve maximum benefits in its negotiations with the EU due to a lack of arguments based on true, scientifically proven arguments (Kumrić and Franić, 2005). Although great progress has been achieved in institution-building, much work is still needed for ministries and public services to be governed by an impact orientation, cost-effectiveness criteria and reinvigorated in their analytical, operative and innovation capabilities (Martinez Nogueira, 2006).

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# 9 Cohesion Policy in Slovenia: A Magic Wand or a Nightmare?

Gregor Greif

## Introduction

The Lisbon Strategy, Europe's great aspiration and the platform for the previous cohesion policy, ended its mission without accomplishing its ambitious objectives in 2010, at the same time as the financial crisis was affecting countries across the EU. As a redistributive and allocation policy, cohesion policy is one of the key instruments for ensuring an integrated EU, but a strong EU in terms of effective cohesion policy depends importantly on national or even subnational implementation efforts.

For Slovenia which is facing significant development challenges, EU funding means an additional opportunity for faster growth and the achievement of its development objectives and their potential, therefore for strengthening its economic position. The common cohesion policy framework at the EU level, which allows national allocation and implementation modalities, raises the question of whether having access to EU funds brings real empowerment on the national or subnational level (Bailey and De Propriis, 2000). The availability of funding (framework conditions) is not the only reason for good absorption since internal conditions need to be met on the national level.

This chapter therefore reviews the characteristics and challenges of cohesion policy from a national perspective in a wider context, with the following intertwining variables: section 2 surveys the major (pre)accession variables and findings on pre-accession assistance, regionalisation, the negotiation process and Europeanisation.

Section 3 critically describes the key cohesion policy implementation arrangements that mainly overlap with the 2007–2013 financial perspective. Section 4 opens the issue of the new 2014–2020 programming period and offers some final remarks.

## **The pre-accession period (1992–2004)**

Slovenia gained its independence in 1991, just after integrating structural funds<sup>1</sup> into an overarching cohesion policy. In the framework of a great cohesion reform up until 1998, the resources for the structural and cohesion funds were doubled, to amount to one-third of the EU budget (Regional Policy, 2014). The promotion of economic, social and territorial cohesion and solidarity among the member states has its roots in EU treaties.<sup>2</sup> Cohesion policy is thus a long-term vehicle for managing economic integration, aiming to reduce regional disparities across the EU. At its origin there is a political objective, warning against a two-speed Europe, particularly at the end of the 1990s due to preparations for the great Eastern enlargement (European Commission, 1992: 9).

Policy reform in the 1990s took a new direction by focusing on the principles of concentration, additionality, programming and partnership, which were introduced hand in hand with the principle of subsidiarity (Bailey and De Propris, 2000: 11), also bringing decentralising power by involving subnational authorities in the decision-making process (Bache, 1998). Therefore, we review the response to the renewed and strengthened cohesion policy that was based on national grounds in Slovenia hereinafter.

### ***Pre-accession assistance***

Before examining regionalisation and the Europeanisation process, we look at the pre-accession assistance that followed after the country's independence. The use of cohesion policy funds was not possible before the accession, but at the same time as the negotiation process the EU provided pre-accession assistance (Lajh, 2006: 116).

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1 The European Regional Development Fund (“ERDF”), European Social Fund (“ESF”), European Agricultural Guidance and Guarantee Fund (“EAGGF”), Financial Instrument for Fisheries Guidance (“FFG”).

2 Enlargements in the 1970s and 1980s brought huge development disparities among the member states and their regions. Therefore, in 1987 the Single European Act defined the cohesion policy (Wostner, 2009: 1).

Financial assistance to (potential) candidate countries is intended for legal, economic, political and institutional adjustments. Today, the EU uses a single pre-accession assistance instrument (“IPA”), while before 2007 assistance was implemented via different programmes.<sup>3</sup>

Slovenia was a PHARE<sup>4</sup> recipient after 1992, going through three periods: transition (1992–1995), pre-accession (1996–1999) and accession (2000–2004) (Pur in Lajh, 2006: 118). Initiating the programme meant the beginning of the institutional relationship between Slovenia and the EU (ibid: 151) as well as a request to enter the EU by applying to conclude the Europe Agreement.<sup>5</sup> In 2000, after the formally agreed enlargement, the PHARE accession period started and moved more towards an institution-building instrument, ‘Twinning’, aimed at supporting transposition of the *acquis*, and building the capacity of the administration to implement it. In this period, Slovenia also received pre-accession assistance from the ISPA and SAPARD programmes.<sup>6</sup> Slovenia obtained more than EUR 449 million in pre-accession aid in the period 1992–2003, of which more than EUR 339 million came from PHARE (SVREZ).

### ***Regionalisation in Slovenia***

The starting of the pre-accession assistance activities substantially opened up the regional policy issue in the 1990s. The absence of regional government might be a difficulty in accessing the structural funds in general (Bailey and De Propriis, 2000). Across the EU regions have different (administrative) roles that vary according to the centralised, regionalised or even mixed character of the member states.

Regions have not ever existed as constitutional entities in Slovenia, but efficient regional policy and balanced regional development are highly important because of the country’s diverse regional character. Slovenian regional policy was thus put in a challenging position from a viewpoint of accession. The state carried out regional policy

3 Programmes like PHARE, ISPA and SAPARD.

4 PHARE provided key assistance for the membership preparations, mainly concentrating on helping to improve the administrative capacity to implement the Community *acquis* and supporting investments in basic infrastructure and economic restructuring.

5 The Association Agreement between Slovenia and the EU was signed in 1996 and means that the government formally applied for the EU membership.

6 ISPA financed major investments projects in the field of the environment and transport. SAPARD financed agriculture and rural development projects.

changes that coincided with the EU integration process at the end of the 1990s (Lajh, 2006) because the accession process influenced regional policy changes in the direction of the cohesion (regional) policy core principles of programming, partnership and subsidiarity (Piry, 2003).

The Promotion of Balanced Regional Development Act (“PBRDA”), the basis of the negotiation process, was adopted in 1999. After this, some results were visible in terms of being more balanced, but not balanced regional development itself (Lajh, 2006: 137–142). The new law implied the enactment of EU principles and built a basic framework for implementing regional structural policy. Planning in the field of regional development (PBRDA, the Slovenia Regional Development Strategy etc.) introduced the institutional framework and the territorial division of Slovenia into 12 statistical regions with regional development agencies (“RDAs”) (Piry, 2003), which could be seen as meeting the principle of partnership, but this did not happen in the area of subsidiarity and real regional empowerment, even though this possibility was planned and enacted in basic regional legislative and strategic documents (Lajh, 2006: 150–151; Piry, 2003). Some strategic concepts (UMAR, 2001: 86), considerations (Piry, 2003) and posterior political attempts (a consultative referendum in 2008) have not led to success in shaping regions as self-government entities with authentic mandates which should facilitate an optimal development and regional policy. Not shifting the promotion of economic development to the regional level preserves the locus of strengthening balanced regional development on the national level and through sector policies (*ibid.*: 30).

We summarise that regional policy in Slovenia has become a development policy with economic and social dimensions, including different policy levels, but a specific regional approach of integrating local communities on the level of functional cohesion areas (statistical regions) has been developed (*ibid.*: 26), as described in more detail below.

### ***The EU negotiation and Europeanisation process***

In connection with the regionalisation issue we further combine the main negotiation and Europeanisation findings. The negotiation process between Slovenia and the EU overlapped with the pre-accession assistance and required a learning and institutional adjustment process that is called Europeanisation.

In each candidate country institutional adjustments are under pressure. Besides the external factor, some internal reasons like inefficiency and unrealised hidden potential for changing regional policy were pressured (Lajh, 2006: 143). The negotiation chapter 'Regional policy and coordination of structural instruments' was essential for Slovenia's participation in the cohesion policy. For that purpose, Slovenia prepared programming documents that played a key role in enforcement of the Community *acquis*<sup>7</sup> (Piry, 2003: 26–28; Lajh, 2006: 146). In 2000, Slovenia was forced to also prepare a multi-annual National Development Programme for 2001–2006, which was the basis for the pre-accession funding and negotiating on the allocation of funds after entering the EU (Piry, 2003: 32). Even though the accession conditions had to be met, there was no simply convergence in arranging the new EU policy due to 'relative fitting' and room for national interpreting, translating and editing (Lajh, 2006: 156).

In case of Slovenia, the Comprehensive Monitoring Report on Slovenia's preparations for membership (36–38) disclosed major findings concerning the negotiation commitments and requirements. Territorial organisation, whereby Slovenia agreed to a provisional (statistical) NUTS–3 classification of regions,<sup>8</sup> and programming (by submitting programming documents) and establishing a monitoring and evaluation system are issues that essentially had to be met. Other issues (legislative framework, institutional framework, financial management and control) were only partially satisfied, bringing further obligations. Despite the weaknesses, great effort was made in the area of the institutional framework, while structures for the preparation and implementation of the cohesion policy were modified by designating a managing authority, intermediate bodies and a paying authority.

On this basis, one can point to two major characteristics of the Europeanisation adjustment process. The first is institutional capacity, the establishment of the institutional framework and competence

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7 The Strategy of Regional Development of Slovenia was adopted in 1995 and the National Programme for Enforcement of the EU *acquis* was adopted in 1999.

8 12 statistical regions: Pomurska, Podravska, Koroška, Savinjska, Zasavska, Spodnjeposavska, Jugovzhodna Slovenija, Notranjsko-kraška (the 'Eastern cohesion region'), Osrednjeslovenska, Gorenjska, Goriška and Obalno-kraška (the 'Western cohesion region').

to coordinate and implement the cohesion policy. The second is regional capacity, namely creating a regional structure compatible with the NUTS model of regionalisation (Lajh, 2006). Notwithstanding the modified territorial dimensions of regionalisation, we conclude that the adjustments were less in the direction of regionalisation and more in the direction of Europeanisation by building the cohesion policy institutional framework by adapting to the existing (centralised) administrative system (*ibid.*: 56–62), as described below.

## **Cohesion policy in the period of full EU membership**

### ***Financial perspective 2004–2006***

In this part, we discuss the full membership aspect of cohesion policy in Slovenia based on the 2007–2013 experience. Slovenia entered the EU (in 2004) during the 2000–2006 financial perspective with a cohesion policy Single Programming Document (“SPD”) for 2004–2006. The SPD proceeded from the National Development Programme (“NDP”) that was approved by the European Commission in 2003. It created an implementation framework for projects in Slovenia, and amounted to more than EUR 334 million of Structural Funds support. Further, the NDP was the framework for more than EUR 190 million in Cohesion Fund (“CF”) support. The SPD replaced the pre-accession assistance and was in fact a ‘transitory’ period after concluding the accession process. Negotiations on the financial package were the most important (Mrak et al., 2004: 139–144) and were held in 2002 when Slovenia had set two main goals of furthering the convergence process and maintaining a public finance position in the short (2004–2006) and long term (2007–2013). According to the SPD final report, the absorption of the programme amounted to 87.80% of available funding. After the interim period of 2004–2006, we continue by looking at the first full financial perspective 2007–2013 that was eagerly awaited and full of promise.

### ***Financial perspective 2007–2013***

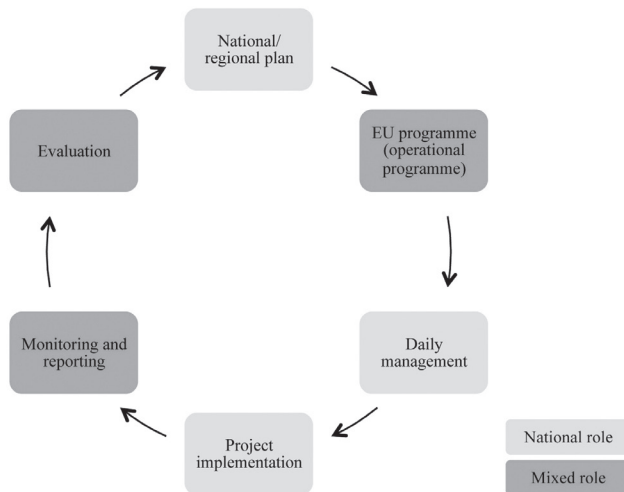
Cohesion policy in Slovenia is conditional on institutional (absorption) capacity, which has been determined as the micro efficiency of the policy<sup>9</sup> (Wostner, 2008: 1). Cohesion policy is implemented

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<sup>9</sup> For the absorption capacity circle (containing real, financial, programme/project and administrative capacity), also see Mrak and Wostner (2005).

within the framework of sharing management between the European Commission and a member state, with generally divided and overlapping responsibilities (see Figure 9.1). To understand the national implementation arrangement it is necessary to highlight the following micro efficiency factors (Wostner, 2008: 1): framework conditions (the existence of an EU and national legislation and financial critical mass); 2) an implementation structure (national institutional system); 3) programming (a substantive process of preparing operational programmes); 4) project generation, appraisal and selection (policy ‘on the ground’); 5) financial management and control (payment and certifying process, control and audit); and 6) monitoring and evaluation (progress and value added of the policy).

*Figure 9.1:* Cohesion Policy division of powers between the Commission and Slovenia



Source: European Commission in Wostner (2009: 108)

As it had done before, in 2005 the European Council confirmed the importance of the Cohesion Policy 2007–2013 by allocating increasing shares of the EU budget to it. Focusing on growth and jobs as the biggest changes to the cohesion policy,<sup>10</sup> it has been

<sup>10</sup> According to Regulation 1083/2006, the financial perspective 2007–2013 focuses on achieving the convergence objective (81.54% of the period resources), the regional competitiveness and employment objective (15.95% of the

generating the highest concentration ever of resources in the poorest member states and regions<sup>11</sup> (European Commission, 2008: 2.22). For the period 2007–2013 (expenditure eligibility ends in 2015), the whole of Slovenia as a less developed region was allocated more than EUR 4.2 billion of Structural Funds<sup>12</sup> and CF financing under the convergence objective, with the national contribution of more than EUR 0.7 billion. The most resources were allocated to those member states whose average *GDP per capita* for the period 2001–2003 was below 85% of the EU-25 average (see Table 9.1). Slovenia succeeded in the financial perspective negotiations in terms of financing and convergence status (that is, the widest possible access to funds). That meant a full range of funding and a significant increase in resources compared to the period 2004–2006 (Mrak et al., 2004: 146). It is noteworthy that the inter-institutional agreement on the EU budget 2007–2013 was far away from the EC's proposal, which shows that national interests to maintain the net financial position prevailed during the budget negotiations (Mrak, 2013).

*Table 9.1: GDP at current market prices by NUTS regions*

	In euros per inhabitant as a percentage of the EU average (%)		
	2001	2002	2003
<b>EU-25 NUTS 0 (member states)</b>	<b>100</b>	<b>100</b>	<b>100</b>
Slovenia	61.30	62.70	63.91
<b>EU-25 NUTS 2 (regions)</b>	<b>100</b>	<b>100</b>	<b>100</b>
Eastern Slovenia	48.17	50.42	51.19
Western Slovenia	68.24	70.78	74.63

Source: modified by Eurostat

After the financial and objective aspects, we now move on to the institutional arrangements. On the basis of the 2002 institutional structure reform<sup>13</sup> and 2004–2006 interim period, a centralised system has been arranged. It is stated (Regional Policy, 2014) that Slovenia has been involved in a process of devolving responsibilities

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period resources) and the European territorial cooperation objective (2.52% of the period resources).

11 That is over EUR 308 billion.

12 They no longer cover rural development and fisheries funds.

13 By determining the managing authority, intermediate bodies and paying authority.



from central government to regional and local communities,<sup>14</sup> but we should understand this in the context of policy cooperation and the implementation structure, instead of cohesion policy multi-level decision-making.<sup>15</sup> Slovenia actually falls within the group of states that uphold the existing implementation structure and powers,<sup>16</sup> and within the group that has a centralised implementation system. RDAs are given more involvement in the administration process,<sup>17</sup> but not to the extent of regionalising management or self-government (Bachtler et al., 2007: 63–64). Due to ministerial decision-making, the use of sector expertise and the existing project system, the Slovenian system has low administrative additionality. It is a subsumed system of allocating funds (unlike a differentiated system) *via* the existing decision-making channels (Taylor et al., 2000: 2; Wostner, 2009: 163–170).

Next, the programming approach is a tool for multi-annual planning and an area where the principle of partnership is fully expressed. On the first level, Slovenia prepared and harmonised the national strategic reference framework for the period 2007–2013 and, on the second level, three operational programmes for three different funds.<sup>18</sup> All three programmes were approved by the European Commission in the first year of implementation, following a smooth and proper process on the strategic level (Greif, 2011: 107).

After programming, project and administrative capacity are especially in question. At the beginning of the period, there were great implementation pressures to generate projects, which explains why administrative and control pressures increased in the following years. Because of the changed socio-economic context and implementation difficulties (public procurement etc.), a political consensus was

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14 This means establishing RDAs (according to NUTS regionalisation) and programme committees.

15 The development of regional potential (regional policy) was given a strategic position and is based on a bottom-up approach enabling regions to include their initiatives in the national framework.

16 Bachtler et al. (2007: 63) designate three types of management and implementation modifications: 1) upholding the existing implementation structure (centralised, regionalised and mixed); 2) the regionalisation of some implementation aspects; and 3) the rationalisation of implementation structures.

17 RDAs were determined for preparing regional development programmes.

18 The operational programme for strengthening regional development potential (for the ERDF), the operational programme for human resources development (the ESF) and the operational programme of environmental and transport infrastructure development (the CF and partly the ERDF).

reached about reprogramming and allocating funds to crisis priority projects (*ibid.*: 109–124). But at the end of the period 2007–2013 that entails implementation up till 2015, absorption as a whole is in question. In 2014, the Slovenian authorities encountered serious problems with absorption of the remaining funds. The managing authority reported on almost all of the invested funds,<sup>19</sup> but only on 62.19% of authorised payments to the European Commission. In 2015, the last year of absorption, the latter is slowly improving by reaching 78.41% certified payments to the European Commission.<sup>20</sup> In relation to financial problems a net deficit position occurred, mainly because of the interruption and suspension of the ERDF and CF interim payment by the European Commission, due to irregularities. The general finding that Slovenia is not using the Cohesion Policy funds pursuant to the plan (Greif, 2011: 131) is, according to the national reporting, therefore still relevant. The identified risk of fund loss (*ibid.*: 145) has thus even been higher and further stimulated by management and control system modifications according to the national politico-administrative instability during 2011 and 2014 with two early elections.

## **Future perspective and conclusions**

A lack of absorption capacity in Slovenia characterised the financial perspective 2007–2013 because the financial crisis and structural difficulties affected implementation of the cohesion policy.<sup>21</sup> Due to both external difficulties and system implementation misfits, EUR 4.2 billion in available funds might exceed the country's absorptive capacity.

For the new programming period 2014–2020 cohesion policy is (again) experiencing a major change, becoming a key policy for delivering the Europe 2020 Strategy. Funding is being redirected to the

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19 Poročilo o črpanju sredstev evropske kohezijske politike 2007–2013 from April 2014 mentions the rate of subsidy contracts amounting to 95.42% according to the total commitment appropriations.

20 Poročilo o črpanju sredstev evropske kohezijske politike 2007–2013 from April 2015.

21 The moderately developed member states (including Slovenia) have been affected more strongly as a group by the crisis than the other member states and Slovenia has namely been strongly impacted by the recession (a change in GDP and unemployment in 2007–2011) (European Commission, 2014: 16–19).

areas and sectors in greatest need for growth and job creation. Priorities will be in line with a clear strategy discussed and agreed between member states and the European Commission. Slovenia has to prepare the basis<sup>22</sup> for the absorption of funds (Regional Policy, 2014). The Western cohesion region with a capital city region is, unlike the Eastern cohesion region, no longer in the less-developed category, but grouped as a more developed region<sup>23</sup> (European Commission, 2014: 193). This means less EU money compared to the period 2007–2013.<sup>24</sup> In 2014, Slovenia carried out strategic and programming issues<sup>25</sup> for managing one common operational programme for all three funds. Beside this change, an important shift away from infrastructure-based support to more innovation and entrepreneurship investments has happened (Regional Policy, 2014). But this time it seems that Slovenia is already running behind schedule in the early programming stage, before investing his first euro.<sup>26</sup>

In this chapter, we first briefly showed that the cohesion policy reform in the late 1980s and 1990s overlapped with the Slovenian transition and pre-accession period. We noted that the lack of regionalism (institutional gap) and subsequent establishment of a new regional framework involving RDAs was a specific challenge in Slovenia's EU (pre)accession activities. The EU accession and regionalisation process did not allow dispersion of (national) authority and therefore we cannot speak about the genuine empowerment of subnational actors.

We then described, within the negotiation and Europeanisation framework, the relatively large legal and institutional adjustments (Lajh, 2006: 157). Irrespective of the necessary modifications and weak institutional structure, a clear political consensus degree has

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22 The basic documents are the Partnership agreement, Operational programme and Smart specialization Strategy.

23 This is a change regarding the Structural Funds eligibility because the whole national area is still eligible (with GNI of less than 90% of the EU-27 average) for the CF.

24 Slovenia has been allocated around EUR 3.07 billion for 2014–2020.

25 At the end of 2014, after concluding partnership agreement, the Commission approved single Operational Programme, in which the priorities of the country are presented.

26 In the first half of 2015 Slovenia has not yet developed Smart Specialization and established the management and control system to the extent that would allow the first calls for proposals.

prevailed regarding the importance of national regional policy and the establishment of administrative and budgetary procedures able to channel the EU Structural Fund actions. Indeed, Slovenia has moved more in the direction of Europeanisation and less in the direction of regionalisation, partly because of fulfilling the EU's requirements and partly because of the reality of the national system.

For the financial perspective 2007–2013 we considered micro efficiency factors as implementing conditions for each member state that need to be arranged on the national level and realised on the ground, particularly those relating to implementing project and payment claims. The national institutional capacity, lack of regional power, crisis and structural problems are all related to the question of the smooth access to, allocation of and absorption of funds. Structural difficulties and cohesion absorption capacity obstacles remained serious at the concluding of the period 2007–2013, which means that the national arrangements are not flexible enough to optimally address the cohesion and wider challenges. It is clear that cohesion policy is not a magic wand or even a nightmare. The real nightmare concerns structural reforms and clear development specialisation, which is a national task waiting to be done again or finally.

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# 10 The Europeanisation of Regional Policy in Croatia: From Institutional Absorption to Transformation

Aida Liha Matejiček

## Introduction

The main aim of this chapter is to identify the type of response Croatian institutions have had to the Europeanisation pressures coming from the EU's cohesion policy.<sup>1</sup> If Europeanisation is defined as a process of the construction, diffusion and institutionalisation of formal and informal rules, procedures, policy paradigms, and styles which are, in response to the Europeanisation, incorporated in the logic of domestic (national and regional) institutions, policies and discourses (Featherstone and Radaelli, 2003), EU cohesion policy is credited with influencing the content, policy instruments, strategies and principles of regional policy in Croatia as well as with strengthening institutions and their capacities across the broader public administration in Croatia. Regional development legislation and multiannual development strategies and plans in Croatia have been guided by the policy instruments of the Cohesion Policy (programming, partnership, additionality) while the reforms introduced through the Europeanisation process have introduced new administrative structures and bolstered administrative capacities, becoming 'important components of domestic regional policy systems in their own right' (Ferry and McMaster, 2013: 1516).

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<sup>1</sup> This chapter only deals with institutions at the national level.

The evolution of institutional and policy adjustment in the area of regional policy in Croatia has been the object of Europeanisation and strong conditionality which the EU used as the major tool for ensuring progress in the EU membership negotiations. This chapter will identify the level of domestic change in regional policy and the level of internalisation of change by assessing the impact the partnership principle has had on the internalisation of changes across several indicators related to the national level in Croatia.

## **The EU's cohesion policy and partnership principle**

The EU's cohesion policy is one of the most prominent redistributive EU policies. It is specific in its heavy administrative demands on national administrations as it requires the development of domestic institutions and policies, an understanding of complex administrative procedures, the development and strengthening of capacities and processes and the way of doing things. The four key principles of EU cohesion policy are programming, concentration, additionality and partnership, with partnership being fundamental to implementation of the cohesion policy (Bache, 2010). The partnership principle requires the member states to closely involve all institutions at the national, regional and local level as well as NGOs and socio-economic partners in decision-making on development at all stages of the policy process. Over time, the partnership principle has become the measure of success in the absorption of funds and success in institutional adaptation (Bache, 2010).

The potential and added value of partnership are widely acknowledged. For example, work in a partnership with a wide range of stakeholders from local and self-governments, social partners to special interest groups who are seen as the 'owners' of regional development can improve the effectiveness of programme development, monitoring and evaluation (European Commission, 2005). Partners from socio-economic organisations or civil society can improve information on specific needs at the local or regional level. This can lead to greater commitment and ownership of programme output. The added value of partnership can also be found in its contribution to institutional capacities which have to be strengthened, while reinforcing the innovative aspect of an organisation and enhancing organisational learning.



## The response of domestic institutions to the pressure to adjust

The most common taxonomy used to describe the process of institutional development and the response of the main actors to different degrees and directions of change in institutional and policy arena differentiates between the periods of *absorption*, *adaptation*, *transformation*, *inertia* and *retrenchment* (Héritier et al., 2001; Börzel and Risse, 2003; Saurugger, 2012). *Absorption* is the lowest level of domestic change in which domestic institutions provide a mixture of ‘resiliency and flexibility’ (Radaelli, 2003: 37) to the introduction of change. Absorption of change means the incorporation of European policy, models or ideas into the national arena or domestic structures, but without any substantial modification of the core institutional processes, policies or institutions (Radaelli, 2003; Börzel and Risse, 2003). *Adaptation (accommodation)* leads to a modest change. Member states adapt to existing institutional processes, policies and politics but without changing the fundamental features of the institutional and policy arena. *Adaptation* does not lead to a change in political behaviour and collective understanding and internalisation of change.

*Transformation* implies the replacement of an existing policy, process or institution with a new policy, process or institution. As such, *transformation* leads to a significant change in the fundamental features of a policy or institution, the logic of political behaviour, as well as collective understanding related to them (such as the party system, macroeconomic policy or system of belief) and to the internalisation of change. Domestic change can take a variety of degrees and directions. Contrary to the aspect of transformation lies *Inertia* which refers to a lack of domestic change in the form of delays in the transposition of directives, as well as a long-term resistance which can lead to ‘a crisis and usher in radical change’ (Saurugger, 2012: 107, Exadaktylos and Radaelli, 2012). *Retrenchment* implies complete resistance to change, leading in the opposite direction to what has been decided at the EU level.

Institutions serve as a catalyst for domestic change and it is only when institutions attain all the conditions to transfer the policy to the national arena horizontally and vertically that one can expect the transformation of policy, politics or policies in the member state. The intensity of change depends on the strength of the Europeanisation pressure as well as the determinants of institutional behaviour (formal

institutions, veto actors, policy entrepreneurship and political culture). The process of negotiations with the EU combined with strong political and financial conditionality together with the quantitative and qualitative measurement of the progress Croatian institutions have made in this process represent some of the most conditioned pressures the European Commission has used *vis-à-vis* an EU candidate.

### **The Europeanisation of regional policy in Croatia – from *inertia* to *adaptation* and beyond**

From the policy perspective, Croatia inherited a long period of fragmented and marginalised regional development. In the absence of an integrated approach to development and a single normative act up until 2009, the legislative basis for regional policy was scattered, covering parts of the country with a special status such as Areas of Special State Concern, based on the needs to restore war-torn areas damaged during the Homeland War in Croatia, Hilly and mountainous areas, the Islands and the special status of the City of Vukovar.<sup>2</sup> This approach was inconsistent as it was not based on any methodology of measuring socio-economic development, neglecting the other parts of the country less directly affected by the war (Maleković et al., 2011b). In addition, regional development was addressed in several other legislative acts whose direct aim was not regional policy (Đulabić, 2007). In terms of policy substance, policy on less developed regions was marked by a lack of well-defined goals, instruments and measures of regional development, strategic planning and vertical and horizontal coordination between all levels of governance. The need for policy and institutional change is becoming even more evident because the major structural weakness of regional development in Croatia lies in the high level of inequality of development between the units of regional and local self-governance in Croatia. This structural inequality is deeply reflected at the level of NUTS-2 regions, counties within larger territorial units as well as within their urban and rural units (Maleković et al., 2011b).

The development of regional policy in Croatia can be understood as a direct consequence of the Europeanisation process strengthened

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<sup>2</sup> The Law on Local and Regional Self-Governance (NN 33/01) and the Law on the City of Zagreb (NN 60/01) divide Croatia into 21 counties, 123 towns and 428 municipalities with their local administrations.

by the political and financial conditionality, the process of policy and project learning (through the CARDS and IPA projects) and the EU negotiation process. Following the taxonomy of domestic institutions' responses to change, the Europeanisation of regional policy in Croatia can be observed through three distinct periods: (1) a period of *inertia* and institutional fragmentation (2000–2005); (2) a period of *adaptation* (2006–2012); and (3) a period of *transformation* (2013 onwards).

The period of *inertia* and institutional and policy fragmentation starts from the point of a total *misfit* between the EU policies and the domestic practice in regional development in Croatia. Institutional fragmentation was reflected in the fact that several institutions were directly responsible for policy formulation and implementation.<sup>3</sup> This period marks the start of the process of policy learning through the implementation of EU-funded projects (the CARDS programme). In the framework of such projects, experts drafted the legislative and strategic basis for regional policy (the draft law on regional development was finalised in 2006) as well as a number of proposals for recommendations and methodological guides for establishing a new institutional structure for regional policy (Đulabić, 2007; Maleković et al., 2011a). Nevertheless, due to strong institutional resistance to change, inertia and a lack of political will institutions resisted the introduction of an integrated normative basis for regional policy, strategic and multi-sectoral planning (Maleković et al., 2011) for several more years. Institutional inertia was 'shadowed' by continuous changes in the institutional environment, changes in the roles and responsibilities of institutions responsible for individual elements of regional policy or in changes to the titles of institutions. Vertical and horizontal coordination between the institutions and bodies dealing with regional development was inefficient, favouring the existence of an 'unstable, unpredictable and uncertain environment' (IDILb, 2003:17) in the policy arena in Croatia.

Alongside such resistance, the reasons for the resilience of inertia are to be found in the lack of knowledge of cohesion policy, the lack of coordination between the central state and other bodies and the

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3 In this period, there were 13 registered institutions, bodies and agencies that played a part in decision-making on regional policy in Croatia (Ministry of Finance; Central State Office for Development Strategy; Central State Office for Administration, Ministry of Agriculture, Forestry and Water Management; Ministry of Economy, Labour and Entrepreneurship etc.).

national and subnational level, as well as in the low fiscal capacities of units of local self-governance (Maleković et al., 2011a). Some progress was made through the implementation of EU-funded programmes and the internal policy entrepreneurship of civil servants (at the level of Head of Unit and below) who, in this period, used their limited powers to bring the 'regional question' onto the policy agenda. Their expertise represented an internal driver of institutional adjustment to the cohesion policy and, as such, a clear example of internal policy entrepreneurship which progressed based on their expert knowledge of regional development in Croatia and personal initiative and enthusiasm.

The shift from the *inertia* period to the *adaptation* period was initiated by the start of the EU negotiation process in 2006. Adaptation was strongly marked by the complex duality of the Europeanisation process of regional policy in Croatia, which ran in two parallel and not necessarily exclusive processes in the area of regional development. The first one is the process of institutional and policy 'building' in the area of regional policy through policy and project learning. The second process is marked by the requirements of negotiation Chapter 22 'Regional policy and coordination of structural instruments' which was directly informed by the need to bring the policy in line with the cohesion policy. The pre-accession period had to prepare a candidate country for the more effective management of the cohesion policy and, in this framework, decentralisation, partnership and programming were the key requirements (Bache, 2010). As such, the requirements addressed by Chapter 22 intensified the strengthening of institutional capacities and resources at the national and subnational levels, establishing institutions *ab ovo*, setting up the procedures, as well as a system of coordination and programming at the central level. It also pushed forward the programming documents, finalisation and approval of the Law on Regional Development (in 2009) and the finalisation and approval of the National Strategy of Regional Development (in 2010).

The outcome of the two processes depended on the preparedness of Croatian institutions and decision-makers to introduce a systematic and integrated approach to development. The most significant policy lag was registered in the areas of financing, project monitoring, evaluation, and policy coordination (Maleković et al., 2011). Work in programming and implementation of the CARDS and IPA programmes identified inefficiencies in vertical coordination among

different levels of governance and horizontal coordination as well as coordination with policies previously burdened by the overlapping and duplication of efforts (Petak, 2009; Bache, 2010; Maleković et al., 2011a). Well-organised vertical coordination is important for implementation of the partnership principle as well as for the participation of municipalities, towns and counties in the stage of policy programming. The partnership principle at the level of national institutions has been implemented throughout the stage of the programming of strategic documents at the national level (e.g. NSRF) since 2007 and in consultation with the regional development actors invited to participate in the consultations. The first Law on Regional Development builds on this experience and obliges the counties to formulate their county development strategies based fully on cooperation and work in partnership between the members of the county development councils. Although during the *adaptation* phase national institutions introduced a number of reforms and transformative elements into existing institutional processes, policies and politics, there was ‘no change in the essentially centralist approach to development policy’ (Ferry and McMaster, 2013: 1589), and the key features of the institutional and policy arena and related collective understanding.

The shift to the *transformation* period started with the closure of the negotiations on Chapter 22 and an ongoing, long-term process of policy learning. The reforms introduced by this time are directly informed by the cohesion policy approach and linked to the need to establish a new administrative system to take over responsibility for the coordination, multiannual strategic planning and financial management of the EU pre-accession programme IPA and the Structural Funds. Nevertheless, although Europeanisation implies the replacement of an existing policy, process or institution by a new policy, process or institution, the changes introduced have not led to their internalisation or a change in fundamental features. The degree to which *transformation* has taken place will be tested by examining the impact of implementation of the partnership principle on institutional adjustments in Croatia.

### **The impact of the partnership principle in preparing for the EU cohesion policy**

The starting premise is that partnership leads to a long-term and irreversible process of policy learning and institutional adaptation in

Croatia. Research on impact of the partnership principle on Croatian institutions and their adjustment to the requirements of the cohesion policy was carried out in the period from March to July 2014.<sup>4</sup> The selection of indicators was based on the findings of research on the effectiveness of implementation of the partnership principle (Tavistock Institute, 1999; Bachtler et al., 2009), the latest research on the influence of the partnership principle on the institutional adaptation, forms of partnership, the culture of partnership and its innovation potential (Polverari and Michie, 2011) and on the European Commission's Discussion paper on the implementation of partnership (2005). The integration of the findings into the indicators enables a deeper understanding of the potential of partnership along with the characteristics and use of partnership through all stages of the programme (planning/programming; implementation; evaluation and monitoring). This chapter will select only a few indicators to illustrate the level of transformation by assessing the impact of partnership on national institutions in Croatia: *Management of resources*, *Institutional innovation*, *Eligibility of programmes/projects*, *The transfer of good practice to other policy area(s)*, *Inclusiveness of the policy process*, and *Policy phase of programme or project planning*.

The research into institutional adaptation at the national level was conducted by examining the available materials and by conducting semi-structured interviews with regional policy actors in Croatia (governmental and non-governmental sector, academia, corporate advisory sector, international organisations and others). All responses received were graded and grouped into responses attributing the partnership with 'some impact' (30%–50%), 'a significant impact' (51%–70%), or 'a transformative impact' (over 70%). A transformative impact radically alters the fundamental features of an indicator and proves a high level of institutional adaptation.

The first indicator *Management of resources* means that the more stakeholders are included in the decision-making process on development, the more control and more transparency in the management of human, financial, technical or ideational resources within the

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<sup>4</sup> This research forms part of wider research conducted for a PhD thesis entitled 'Institutional adjustment to the EU's regional policy in the pre-accession period in Croatia'. The full PhD research entails two levels of research: institutions at the national level and institutions responsible for implementation of the partnership principle at the subnational level (counties) in Croatia. The thesis had not been published at the time of writing this chapter.

institutions responsible for regional policy in Croatia. Only 20% of respondents perceived a significant impact, while 45% of respondents believed that the implementation of partnership at the level of national institutions in Croatia has had a small impact.<sup>5</sup> Partnership has a mild control function regarding the aspect of improved resource management.

The second indicator *Institutional innovation* is reflected in the degree to which partnership between institutions at the national and county levels in Croatia offers an opportunity to find joint innovative solutions to the problems of programming and implementation of regional development policy (Polverari and Michie, 2009). Institutional innovation potential is reflected in the intensification of cooperation between institutions at both levels, which further leads to the establishment of new structures at the local and regional levels, as well as new forms of cooperation such as entrepreneurial networks (Brusis, 2005). Here, 40% of the respondents confirmed a significant impact, while 25%–30% of them saw little or no relationship between institutional innovation and application of the partnership principle. Implementation of the partnership principle has a limited contribution to the innovative approach to the issues of inclusiveness and the approach to regional and local actors in the policy programming phase.

On the premise that knowledge, skills and experience are gained by implementing partnership, the *Eligibility of programmes/projects* indicator implies an improvement in the quality of the eligibility of programmes or projects prepared at the national or regional levels in Croatia. The majority of respondents (70%) agreed that the implementation of partnership significantly improves the quality, effectiveness and dissemination of programmes/projects. Partnership therefore has a transformative impact by way of the high quality eligibility of programmes or projects at the level of national institutions.

*The transfer of good practice to other policy area(s)* is based on the premise that experience gained by implementing the partnership principle leads to a deep learning process (Bache, 2010). Once the policy learning process has started, the partnership principle triggers the process of transferring the knowledge gained on the use of pre-accession funds to other policy areas. Although the policy learning

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5 The remaining respondents had no opinion or saw no impact of partnership on an indicator.

process has started in Croatia (Maleković et al., 2011a), only 20% of the respondents perceived a significant impact on the transfer of knowledge and experience to other policy areas, while 30% of them believed there is little or no impact on the transfer function.

The inclusiveness of regional policy in the programming stage is one of the most visible signs of the openness of the policy process to other stakeholders. A significant impact of partnership on the indicator of *Inclusiveness of the policy process* at the national level was supported by 55% of the respondents, while 25% of them acknowledged some/little impact.

A transformative impact is registered in the *Policy phase of programme or project planning* at the national level, where 70% of the respondents confirmed a significant impact, while 15% of them stated little or some impact on internal consistency in planning, well-defined goals, prepared analyses, the feasibility of measures and the relatedness to financing sources at the national level. Such an impact results from the fact that all institutions are obliged to include the stakeholders of development in the programming or planning phase, which should improve the quality of outcomes and work results.

## **Conclusion**

The research results imply that implementation of the partnership principle in Croatia is highly important for the transformative capacities of the national institutions responsible for regional policy. Its transformative impact was found in the better and high quality eligibility of programmes or projects at the national level, as well as in transformative improvements during the programming stage. The implementation of partnership has significantly changed the fundamental features of these two indicators applied to regional policy in Croatia.

In contrast, although the process of policy learning and project learning has started, an inclusive approach to policy has not been embedded in the management of regional policy. National institutions have adapted their processes in order to comply with the partnership principle, nevertheless this does not fundamentally influence the aspect of inclusiveness of the policy process. Minor improvements are confirmed in the areas of the efficient and transparent management of resources, an opportunity for spill-over effects from best practices identified during the implementation of partnership as well as in the innovativeness and inclusiveness of institutions.



The results confirm that the Europeanisation of regional policy in Croatia has been developed along the lines of absorption and adjustment, while its transformative potential is an unfinished and important work in progress.

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# 11 Proposal for a New Slovenian Integrated Maritime and Transport Policy

Marko Pavliha

## Introduction<sup>1</sup>

In October 2014 the Slovenian Government published a new version of the draft Strategy on the Development of Transport in the Republic of Slovenia which will most likely be enacted as a Resolution on the National Programme on Transport Development in the Republic of Slovenia. Although this document could be seen as a well-researched basis for a future transport policy, it is too theoretical and contains various deficiencies, e.g. it does not critically analyse the existing policies and omits the costs of key projects, financial models and deadlines for their realisation, such as the increasingly urgent construction of a crucial second railway track between the Port of Koper and Divača, which represents one of the major bottlenecks.

It is hereby argued that Slovenia needs a fresh integrated (holistic) transport and logistics policy arising from the EU Transport White Paper 2011, the Maritime Policy Blue Paper 2007 and other relevant

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<sup>1</sup> The following chapter is based on M. Pavliha: *Integrated Maritime and Transport Policy of Slovenia: A National Utopia or the EU Ultimatum?*, CO-EFFICIENT with the 17th International Conference on Transport Science and Open ENLoCC – European Network of Logistics Competence Centres, 21 May 2015, Portorož, Slovenia. It is worth noting that on 27 July 2015, after the submission of this chapter, the Government of the Republic of Slovenia has adopted a new Transport Development Strategy of the Republic of Slovenia and the Environmental Report for the Strategic Environmental Assessment for the Transport Development Strategy of the Republic of Slovenia. Unfortunately, the criticism expressed on the following pages is still very much applicable. See [http://www.mzi.gov.si/si/dogodki/strategija\\_razvoja\\_prometa\\_v\\_rs/](http://www.mzi.gov.si/si/dogodki/strategija_razvoja_prometa_v_rs/).

European legislation, taking the privileged geographical location at the crossroads of very important corridors into consideration (especially the Baltic-Adriatic and the Mediterranean core network corridors) and focusing especially on the fast, cheap, safe and comfortable mobility of passengers and their rights, the efficient supply of goods, logistics, transport infrastructure, safety, security, transport ethics and protection and improvement of the quality of the environment.

Further, the administrative ‘mutant’ that is the Ministry of Infrastructure should be reorganised and renamed the Ministry of Maritime Affairs and Transportation and a new Resolution on Integrated Marine and Transport Policy should be implemented *via* specific and precise national programmes on maritime affairs, civil aviation, railways, cableways, national roads, logistics, traffic safety, public transportation, environmental protection in transportation etc. Some of these have already been adopted, yet they are mostly outdated and thus insufficient.

In short, we need the three-step approach which forms the nucleus of this article: the creation of a Ministry of Maritime Affairs and Transportation, the adoption of a holistic maritime and transport policy, and implementation of the policy in the nearest future.

## **The creation of a Ministry of Maritime Affairs and Transport**

One of the preconditions for reviving and improving transport in Slovenia is to reconcile with the fact that the existing Slovenian Ministry of Infrastructure (*Ministrstvo za infrastrukturo*) is an ill-considered ‘mutant’ created by a few short-sighted politicians who most probably did not base their decision on persuasive research (e.g. a SWOT analysis) and did not follow the prevailing government structures in other European countries.

There are three different groups of EU member states with respect to the governance of transportation:

- 4 countries with a specific ministry of transport;<sup>2</sup>
- 12 with a ministry of transport which is also responsible for other fields, e.g. communications or infrastructure;<sup>3</sup> and

2 The Czech Republic, Latvia, Romania and the UK.

3 Austria, Bulgaria, Croatia, Denmark, Finland, Germany, Greece, Ireland, Italy, Lithuania, Malta and Slovakia.

- 12 with ministries not having the word “transport” in their names but also covering it<sup>4</sup> (however, in Belgium the regional and community governments have jurisdiction over transport and in France there is a Delegate Minister for Transport, Sea and Fishing).

In addition, six countries have established ministries also expressly covering maritime affairs,<sup>5</sup> fisheries,<sup>6</sup> shipping,<sup>7</sup> marine<sup>8</sup> or sea.<sup>9</sup> It is worth observing that the ‘European Government’ itself, i.e. the EU Commission, organises its work in the fields of transport and marine affairs within two Directorates-Generals (‘European ministries’), namely DG MOVE<sup>10</sup> for mobility and transport under the jurisdiction of Commissioner Violeta Bulc (Slovenia) and DG MARE<sup>11</sup> for maritime affairs and fisheries under the command of Commissioner Karmenu Vella (Malta).

In my humble opinion, Slovenia needs a new, renamed and reorganised Ministry of Maritime Affairs and Transport for several convincing reasons. First, sea orientation was already proclaimed by the *Resolution on Maritime Direction of the Republic of Slovenia* adopted by the former National Assembly in March 1991 (*Resolucija o pomorski usmeritvi Republike Slovenije*), even before the country became independent. It is to be mentioned with pride that Slovenia is one of the few countries in the world with the sea painted within its national coat of arms and consequently on its flag. Second, the smaller a maritime country is, the more it must promote its privileged location by the sea or ocean and do whatever is necessary to benefit from it, starting with its politics and politicians. Third, according to the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions entitled *Guidelines for an Integrated Approach to Maritime Policy: Towards Best Practice in Integrated Maritime Governance and Stakeholder*

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4 Belgium, Cyprus, Estonia, France, Hungary, Luxemburg, the Netherlands, Poland, Portugal, Slovenia, Spain and Sweden.

5 Croatia.

6 Denmark.

7 Greece.

8 Ireland.

9 Italy and Portugal.

10 [http://ec.europa.eu/transport/index\\_en.htm](http://ec.europa.eu/transport/index_en.htm).

11 [http://ec.europa.eu/dgs/maritimeaffairs\\_fisheries/index\\_en.htm](http://ec.europa.eu/dgs/maritimeaffairs_fisheries/index_en.htm).

*Consultation* (European Commission, 2008), the member states are to develop their own national integrated maritime policies and should ‘consider creating internal coordinating structures for maritime affairs within their government frameworks’ which should include ‘a mechanism providing political guidance at the highest level’. Further, a responsibility to act as a ‘political leader and as a catalyst for the integrated approach at political level should be clearly assigned’ and this function ‘must have sufficient weight to be able to structure the dialogue between sectorial interests’.

The Slovenian Maritime Administration clearly cannot fulfil those requirements because it is only responsible for the economic development of the port infrastructure and safety at sea, inland waters and lakes (Uprava Republike Slovenije za pomorstvo: Areas of work). Thus, maritime affairs are literally hidden, left and almost forgotten in a small sector within the Directorate for Infrastructure of the Ministry of Infrastructure which is, to say the least, a very unfortunate and damaging approach. In addition, maritime issues are spread fragmentarily amongst other ministers, e.g. the Ministry of Agriculture, Forestry and Food (fisheries, aquaculture), the Ministry of the Interior (maritime police), the Ministry of the Environment and Spatial Planning (coastal zone management, protection of the marine environment), the Ministry of Labour, Family, Social Affairs and Equal Opportunities (the status and rights of seafarers), the Ministry of Defence (the navy) etc.

In order to reform the existing Ministry of Infrastructure, Article 8 of the Government of Slovenia Act (*Zakon o Vladi Republike Slovenije*) has to be amended, along with certain other legislation, e.g. the State Administration Act (*Zakon o državni upravi*), which can be done in a relatively short period of time, together with management, personnel and financial adjustments. The scope of the portfolio of the new ministry would integrate all transport and maritime matters, thereby increasing efficiency and decreasing costs. At a minimum, what needs to be accomplished as soon as possible is to prepare a special study to evaluate the strengths, weaknesses, opportunities and threats of such a rejuvenation of the Slovenian public transport administration.

### **Adoption of a holistic maritime and transport policy**

As mentioned, towards the end of 2014 the Slovenian Ministry of Infrastructure published a new version of the draft Strategy on



the Development of Transport in the Republic of Slovenia (*Strategija razvoja prometa v Republiki Sloveniji*) which will probably result in a Resolution on the National Programme of Transport Development, although this is unclear from the text. This document could perhaps be generously treated as a solid basis for a forthcoming transport policy, but it is definitely too vague and theoretical with various deficiencies identified and argued against by the leading civil and academic societies<sup>12</sup> and sent to the Government at the beginning of February 2015, together with suggestions for improvement. Regrettably, the vast majority of such recommendations were ignored or misinterpreted (Ministrstvo za infrastrukturo, 2015).

These are some of the biggest imperfections of the Strategy: a) it is too extensive and inconsistent; b) there is too much emphasis on infrastructure; c) it does not critically analyse the existing policies<sup>13</sup> and omits the costs of key projects, financial models and deadlines for their realisation, such as the increasingly urgent construction of a crucial second railway track between the Port of Koper and Divača, which represents one of the country's major bottlenecks yet is not even mentioned expressly as a national priority in the Strategy;<sup>14</sup>

<sup>12</sup> The Slovenian Logistic Association, the Chamber of Commerce and Industry of Slovenia – Transport Association, the Faculty of Logistics at the University of Maribor, the Faculty of Economics and Business at the University of Maribor, the Faculty of Maritime Studies and Transportation at the University of Ljubljana and the Association of Freight Forwarders.

<sup>13</sup> E.g. the very modest transport policy of 2006 – *Resolucija o prometni politiki Republike Slovenije (Intermodalnost: čas za sinergijo)*, Official Gazette of the RS, No. 58/06

<sup>14</sup> Two economics professors Jože P. Damijan and Aleš Groznik prepared an excellent study proposing a very realistic model for financing the second track Koper-Divača: 25% of the estimated costs of the project in the amount of EUR 1.350 billion shall be received from the EU funds and 75% borrowed from the European Investment Bank for 25 years, whereas the annuities can be paid by the concession fees due from the Port of Koper to the Government, the Port's dividends, the charges for use of the infrastructure collected by Slovenian Railways and the so-called 'gas cent' (Damijan and Groznik, 2015; Pavliha, 2015). There are, of course, other unexploited sources of financing, e.g. public-private partnerships with the gigantic shipowner Maersk, various partners from Bavaria and China etc. Groznik and Damijan (2013) also prepared a Resolution on Developments of Slovenian Logistics and Transport Infrastructure. A commendable approach was taken by former Minister Patrick Vlačič (2008–2011) in 'his' Act on Providing Financial Resources for Investments in Transport Infrastructure (*Zakon o zagotavljanju sredstev za investicije v prometno infrastrukturo*), establishing a special fund within the state budget, but it was unfortunately dissolved by the succeeding government.

d) there are too many notorious facts which belong to a master's thesis or dissertation, not to a strategy; e) analyses should not be part of the Strategy but its enclosures or appendixes; and f) the definition of transport logistics is not in accordance with internationally accepted definitions.<sup>15</sup> The authors of the Strategy have not been publicly revealed, although it must be stressed without hesitation and with substantial regret that the leading Slovenian academic institution – the Faculty of Maritime Studies and Transportation at the University of Ljubljana – was not invited to participate.<sup>16</sup>

It is asserted that Slovenia needs a fresh integrated (holistic) maritime and transport policy arising from the EU Transport White Paper 2011 (European Commission, 2011), the innovative and holistic Maritime Policy Blue Paper 2007, and other relevant European legislation. The main objectives of the new EU transport policy<sup>17</sup> are to prepare the European Transport Area for the future, a vision of a competitive and sustainable transport system,<sup>18</sup> and the strategy for implementing the policy ('what needs to be done').<sup>19</sup> The EU has been working for years towards a model of sustainable mobility 'which involves an integrated approach to optimizing the efficiency of the transport system as well as to reduce energy consumption,

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15 See the website of the Transport & Logistics Industry Skills Council (<http://tlisc.org.au>).

16 E.g., this is commendably not the case in Croatia where the Faculty of Transport and Traffic Sciences at the University of Zagreb is playing a crucial role in creating a new transport strategy and related documents and models.

17 Despite a separate title in the former EC Treaty on the subject of transport (now Title VI of the *Treaty on the Functioning of the European Union*, Articles 90–100), it was only after the European Court of Justice in Luxemburg condemned the inactivity of the Council of Ministers and the latter agreed to a programme of legislative measures to achieve an internal market by the end of 1992 that a common transport policy 'began to emerge as a cornerstone of the internal market' (see Case 13/83 *European Parliament v EC Council* (1985) ECR 1513; Greaves, 2000; compare with Radionov and Marin (Eds.), 2011: 11–13).

18 A vision of a competitive and sustainable transport system means growing transport and supporting mobility while reaching the 60% emissions reduction target, an efficient core network for multimodal intercity travel and transport, a global level-playing field for long-distance travel and intercontinental freight, clean urban transport and commuting, and ten goals for a competitive and resource efficient transport system: benchmarks for achieving the 60% GHG emissions reduction target.

19 Single European Transport Area, innovating for the future – technology and behaviour; modern infrastructure and smart funding and the external dimension.

congestion and other negative environmental impacts'; the objective is to develop 'a framework for optimal integration of different modes' (see Eftestøl-Wilhelmsson et al., 2014).

The European Commission adopted a roadmap of 40 concrete initiatives for the next decade to build a smart, green and competitive transport system that should increase mobility, remove major barriers in key areas, and fuel growth and employment. The proposals are also intended to dramatically reduce Europe's dependence on imported oil and cut carbon emissions in transport by 60% by 2050. The long-term key goals *inter alia* include the abolition of conventionally fuelled cars in cities and a 50% shift of medium-distance intercity passenger and freight journeys from road to rail and waterborne transport. One of the 'hot' topics is the increasing focus on intelligent transport systems.

The most significant aspects of the new European maritime policy are blue growth, marine knowledge, maritime spatial planning and integrated coastal zone management, sea basin strategies, integrated maritime surveillance and maritime security. Projects of particular importance are, for instance, a European maritime transport space without barriers, a European strategy for marine research, national integrated policies to be developed by member states (*sic!*), a roadmap leading towards maritime spatial planning by member states, the elimination of pirate fishing and destructive high seas bottom trawling and a strategy to mitigate the effects of climate change on coastal regions.

An 'ideal' *Resolution on Integrated Marine and Transport Policy of the Republic of Slovenia* would have to consider the country's privileged geographical location at the crossroads of very important corridors (especially the Baltic-Adriatic and the Mediterranean core network corridors), focusing on the fast, cheap, safe and comfortable mobility of passengers and their rights as consumers (*in dubio pro consumatore*), efficient supply of goods, logistics, transport infrastructure, safety, security, transport ethics (compare with van Wee, 2011; Pavliha, 2012) and protection and improvement of the quality of the environment (sustainable transport).<sup>20</sup> It should be implemented by

<sup>20</sup> Perhaps one should re-examine the first transport policy of the independent Slovenia adopted by the Government of Anton Rop in July 2004, which was unfortunately withdrawn from the parliamentary procedure by the Government of Janez Janša: *Resolucija o prometni politiki Republike Slovenije* (2004) (see Pavliha, 2008: 9–12).

specific and precise national programmes (by way of resolutions) on maritime affairs, civil aviation, railways, cableways, national roads, logistics, traffic safety, public transportation and environmental protection in transportation. Some of them have already been adopted, yet they are mostly outdated and insufficient. National programmes need to be adopted or upgraded in the following fields in particular (the list is probably not comprehensive):

- Maritime affairs: The existing national programme on the development of shipping is too narrow as it does not cover all maritime affairs, e.g. it is silent about energy policy, fisheries, aquaculture, climate change etc. (*Resolucija o Nacionalnem programu razvoja pomorstva Republike Slovenije*). The idea of establishing a Slovenian coast guard should be reconsidered again (for more, see Twrdy et al., 2014).
- Railways: The national programme currently in force was adopted in 1996 and is absolutely obsolete (*Nacionalni program razvoja Slovenske železniške infrastrukture*). A new draft version seems to be caught up in a political *circulus vitiosus*.
- Cableways: There is no vision or strategy for this transportation mode and the legislation is out of date.
- Highways: The programme of 2004 is almost a perfect example of good practice despite a few deficiencies and problems which are always to be taken into account. The bottom line is that Slovenia can now brag about its solid basic highways network, although some road sections still have to be built (*Resolucija o Nacionalnem programu izgradnje avtocest v Republiki Sloveniji*).
- Other national roads: These are literally collapsing and the disastrous situation is more than urgent. The national programme is still being prepared.
- Civil aviation: The national programme of 2010 (*Resolucija o Nacionalnem programu razvoja civilnega letalstva Republike Slovenije do leta 2020*) was adopted for the period up until 2020 and should be reviewed and upgraded after it expires.
- Road traffic safety: The valid national programme of 2007 (*Resolucija o nacionalnem programu varnosti cestnega prometa za obdobje 2007–2011, skupaj za večjo varnost*) should be updated by the Parliament (not only by the Slovenian Traffic Safety Agency) for the period 2015–2025.
- Public transportation: Given the increasing importance of the public carriage of passengers, a special national programme is in order.

- Logistics: This can be included in the umbrella holistic policy, the implementing programmes or in a special programme *alias* action plan.
- Protection and improvement of the environment (sustainable transport): Environmental threats (and opportunities!) arising from transportation are so important and *sui generis* that they deserve a separate action, although national, European and international environmental protection regulations are already in abundance.

## Conclusion

The mission statement of the new Slovenian holistic maritime and transportation policy should be ‘exploration, legalisation and implementation, as well as inspiration, innovation and impact’. It should motivate flexibility, innovativeness, openness and ‘coopetition’ (cooperative competition). This is not a national utopia but an implied set of guidelines by the EU for the prosperity of Slovenia which is rapidly facing the imminent danger of being bypassed by global cargo and related transport channels and logistics opportunities.

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# 12 Croatian Transport Policy in the EU Context

Mladen Vedriš

## Introduction

The initial talks on the Republic of Croatia's possible association with and subsequent accession to the EU that took place in the early 1990s (it was the EEC then) and the first related (unofficial) talks with Croatia in Brussels indicated their mutual interest. The EEC's interest in Croatia's full membership was 'geotraffical' and geopolitical in nature. The country's location would enable very efficient communication of Eastern and Western Europe (from Greece to Germany) and Continental and Mediterranean Europe (from Poland, Slovakia and Hungary to Italy and beyond).

In terms of its location, the Republic of Croatia is at once a Mediterranean, Pannonian and Danubian country. Its position and location imply substantial advantages and development potential, evaluated in different ways in recent and earlier history, often for the purpose of various interests of the neighbouring political, military and economic forces and states: Italy, Austria-Hungary and, in certain historical periods, the Turkish Empire. The construction of the overall communications network (roads, railway lines, ports) often – even predominantly – served the purpose of these external interests. The period of the first and second Yugoslavia then ensued, marked by further development of the communications network in accordance with – again, predominantly – geopolitical interests, this time within the common country. Of particular importance from that period is the road network built on the territory of the present-day Republic

of Croatia: the Adriatic Highway that gave a strong impetus to the development of the (coastal) tourist industry, and the Brotherhood and Unity Highway that connected the central and eastern parts of Croatia. Development of the railway network was relatively modest, particularly in terms of connecting the interior with the coastal ports with infrastructural potential. That period saw the substantial development of the air-traffic land infrastructure, including the Pula, Rijeka, Zadar, Split, Dubrovnik and Zagreb airports. From the geopolitical point of view, the priority of connecting the Socialist Federative Republic of Yugoslavia's continental interior with its Mediterranean coast resulted in the construction of the Belgrade–Bar Railway and the Port of Bar, involving a considerable financial investment (including international investment).

The war and the country's independence gave rise to new, great expectations for the overall future development of Croatia. In the two following decades, the country primarily concentrated on a single aspect of traffic communications (spending substantial funds for the capital investment in it): the construction of a highway network connecting the country's interior with its coastal region: from Osijek (and the already existing highway section there) to Zagreb and further along the coast, to Pula, Rijeka, Zadar, Split, Ploče and Dubrovnik. Two major challenges remain for the upcoming period: a) integrating the existing road network into a wider concept of intermodal transport (ports, railways, inland waterways, air and road transport); and b) making sure that the network thus conceived and constructed for the future becomes fully integrated into the existing transport strategy of the European Union.

### **The transport sector – its main characteristics before EU accession**

In the first decade of independence, after the war and aggression on Croatia, the transport sector shared the fate of all other economic sectors: railway transport was severely reduced in both passenger and cargo segments. The port of Rijeka (as the country's leading port) and other ports along the coast lost the significance they once had in terms of transport. Road transport was functionally predominant, albeit in considerably more complex circumstances for its users due to difficult movement in some parts of the country (particularly up until 1995 and 1997, respectively). The expenditure on the

communications network was also sharply reduced and there were no investments for its extension.

In such circumstances, on the government's proposal in 1999 the Croatian Parliament adopted the Strategy of Transport Development in the Republic of Croatia. The document primarily served as a basis for certain infrastructural investments and much less as a consistently prepared basis for development. The transport development strategy underlined the need to increase international use of the Croatian transport area.

Immediately after the parliamentary election of 2000 and subsequent forming of a new ruling coalition, an important political decision was made: to begin construction of the Karlovac–Split Highway following the route that, having crossed the Velebit Mountain, reaches the coast at Maslenica near Zadar and continues south from there. The highway's continuation all the way to the southernmost point – Dubrovnik – was originally planned.<sup>1</sup> Preparations and initial works on sections of other highways (Zagreb–Varaždin–Čakovec–Hungarian border and Karlovac–Rijeka) took place at the same time.

When the then opposition came to power after the parliamentary election of 2004, construction of the highways continued: intensive efforts were made to finish the above-mentioned routes and a new route of the highway connecting the Zagreb–Serbian Border highway with the city of Osijek was built. In the second phase of the 2001–2008 highway construction programme, Croatia was annually spending 3.6% of its GDP on its realisation, which soon turned out to be unsustainable in the medium and long term (World Bank, 2008).

Such an intense, more than a decade-long orientation toward investment in only one type of traffic infrastructure resulted in the strong discrepancy and lagging behind of other transport sectors, chiefly the modernisation and construction of a new railway network and, consequently, other transport segments: maritime ports and

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1 When analysing the cost efficiency of that road and using several calculation methods (traffic rate and expected trend growth), the World Bank did not find any positive financial results and therefore rejected the idea of participating in its (co-)financing. That is why construction of the overall highway network was financed using commercial loans and with operators of individual sections (HAC, ARZ) incurring debts directly, with government guarantees. When Croatia became a full member of the EU, those debts became part of the government's consolidated public debt. It became evident then that the debts could not be serviced with the funds collected from toll payments.

airports and inland waterways. Thus, as early as in 2007, Croatia had 23 kilometres of highways per every 100,000 inhabitants, compared to the EU-15 average of 14 km per 100,000 inhabitants. In other words, at the time, the country had reached the European level as regards this particular type of infrastructure. However, that level exceeded the level of Croatia's general economic development. At the same time, Croatia also exceeded the European average with the length of its railway lines: there were 62 kilometres per 100 inhabitants in it, compared to 45 kilometres in the EU. Yet the quality of the railway lines was far below the EU level because only 9% of the lines were double-track lines and not more than one-third of the railway network was electrified. At the same time, the rolling stock and the use of driving energy was 30% – 50% below the average of EU railways and the profit Croatian Railways (HŽ) was making was insufficient to even cover the cost of labour (Milićević Pezelj, 2009: 5). To summarise, the Croatian government's proactive policy (oriented to restructuring the railway network) and the HŽ policy were always predominantly focused on maintaining the status quo and social peace by ensuring continued significant subsidies at the expense of the state budget.<sup>2</sup>

## **The EU and reform process in the transport sector**

The European Commission's White Paper published in 2011 sets out the goals that will enable the creation of a competitive and efficient transport system across the entire territory of the EU – in other words, a single internal transport market (European Commission, 2011). The most important of these goals is to establish an integrated trans-European transport network (TEN-T network) that would comprise all EU member states, thus enabling the balanced development of all transport sectors. Another major goal is to reduce greenhouse gas emissions by at least 60% until 2050, without slowing the growth of transport down and affecting mobility (in practice, the transport sector should use less energy and focus on cleaner energy that would reduce the environmental impact).

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<sup>2</sup> Although approximately EUR 2 billion has been paid for the subsidies for HŽ from the state budget over the past decade (according to the Ministry of Finance, as quoted by the Croatian Chamber of Commerce, June 2015), almost no essential improvements in efficiency or the creation of added value for the overall national economy have been recorded.

‘From the perspective of the Republic of Croatia and in the context of its EU membership, the principle of establishing efficient communication between European countries is underlined as the essential prerequisite. Traffic contributes to economic development, while influencing the shaping of space and the way of life and enabling contacts between different societies and social groups. For this reason and as a new EU member state, the Republic of Croatia should act toward establishing high-quality communications with all EU member states and other countries. It is of particular importance for the evaluation of Croatia’s favourable geographical position, as well as for playing a relevant role in European transport areas and establishing integral synergy with European transport corridors. In this respect, gaining economic benefits from enlargement of the European market is to be expected. These reasons support the claim that it is essential for the Croatian transport network to be included in the European transport system projects, with a particular emphasis on the European transport corridors’ (Violić and Debelić, 2013: 19).

Such viewpoints and attitudes of the professional and scientific communities were officially confirmed in the government’s document that unequivocally stated as follows (Vlada Republike Hrvatske, 2006: 30): ‘In the process of developing the transport infrastructure, it is necessary to insist on the advantages arising from the geographical position of Croatia which make it naturally geared to all modes of transport. The development of the transport infrastructure should aim at increasing the integration and connection of the entire transport system – maritime transport, seaports, railways, road infrastructure, waterway transport and river ports on the mainland – in order to achieve synergic effects on economic development and competitiveness’.

The same document also underlines which essential steps should be taken as soon as possible: ‘Moreover, the geographical position of Croatia shows that the potential for synergic effects that may result from the efficient combination of road, railway and water transport should be more frequently achieved. To this end, and keeping in mind the expansion of the areas gravitating to ports, the investment in the infrastructure of seaports should be directed to increasing the ro-ro passenger and container capacities for handling of bulk cargoes’ (Vlada Republike Hrvatske, 2006: 30–31). The passages from the document quoted above indicate the principal commitment to

launching a complex procedure of adjustments and fitting in with the broader concept of the EU transport infrastructure based on modern economic and environmental parameters. However, the commitment was not operationalised and no talks with EU institutions on the implementation of these (mutually) important strategic commitments took place.

### **Full EU membership and the challenges, opportunities and possibilities of transport sector development**

When it comes to the transport sector, there is a striking discrepancy between the authentic and strong developmental interest (of both the EU and Croatia) in putting to use the development potential that exists in the transport sector on one hand and the achievements of individual specific programmes and (lack of) evaluation of individual transport routes on the other. In 2014, Croatia adopted a document entitled *Transport Development Strategy of the Republic of Croatia*, revising the 1999 version of a document with the same title. The 2014 version concludes that it will serve as a basis for the National Transport Model (NPM) – to be drafted by 2016. Upon publishing the results contained in the NPM, the Strategy would be assessed and, possibly, revised as a basis for transport policy planning for the upcoming EU programme periods (Vlada Republike Hrvatske, 2014: 1).

At the same time, what failed to take place (over a period longer than just one term of office of the executive branch of government) was an active and substantial discussion with the European Commission (primarily) on what should be done to activate the true potential of intermodal transport and combine the capacities of the Adriatic-Ionian Corridor. ‘Such positioning requires construction of a multimodal infrastructure network with multimodal transport terminals in the Danube–Adriatic area, elimination of bottlenecks in the transport network and terminals and adjustment to the European transport network and integration in it. Thus indicated, the combined and complex transport program has a permanent growth trend because it follows the permanent growth of international trade. With its 20–25% share in the overall transport of some EU countries, the share of such a complex transport program is almost twice as high as is the case with the present-day situation in the Republic of Croatia. There is space for additional growth – a space that

could be attractive in terms of competitiveness' (Dušak, 2011: 10).

The authentic strategic possibilities of integrating the Croatian transport area into investment- and infrastructure-related development plans could be evaluated by fitting them in the basic prerequisites for realisation of the *Single Internal EU Transport Market*, which is one of the main preconditions for boosting economic growth and employment. The European Parliament and European Council's regulation on establishing the Connecting Europe Facility (December 2013) envisaged the creation of a complete and integrated trans-European transport network (TEN-T) comprising all EU member states and enabling the balanced development of all transport sectors. Based on the Regulation, the TEN-T network would be developed using a 'two-layer' approach, consisting of the comprehensive network and the core network. The core network is a subgroup of the comprehensive network and strategically comprises the most important sections of the comprehensive network. The core network is concentrated on those parts of the TEN-T network with the greatest European added value: the lacking cross-border communications, crucial bottlenecks and multimodal junctions. The planned deadline for completion is 31 December 2030. The core-network corridors are the facility required for efficient project implementation in the core network and are crucial for using the EU budget funds. Ten corridors of the core network are defined in the Annex to the Regulation on the Connecting Europe Facility (CEF) – Part I that includes an indicative list of projects along these corridors.<sup>3</sup> The question, of course, is what Croatia intends to do as regards its integration into these corridors, particularly in the two core-network corridors: the Mediterranean Corridor and the Rhine–Danube Corridor.<sup>4</sup>

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3 The projects on the corridors are to be financed with the Connecting Europe Facility (CEF): EUR 23.174 billion has been earmarked for the transport sector.

4 The Mediterranean Corridor begins in the south of the Iberian Peninsula, follows the Spanish and French Mediterranean coastlines, crosses the Alps in northern Italy, enters Slovenia and then proceeds further to the Hungarian-Ukrainian border. It is a road/railway corridor and the Rijeka–Zagreb–Budapest route (Corridor Vb) is one of its components. The Zagreb–Slovenia road (Corridor X) is a continuation of the Mediterranean Corridor. This is the corridor that will connect Croatia with the Baltic–Adriatic Corridor stretching from the Baltic Sea via Poland, Vienna and Bratislava to northern Italy.

The Rhine–Danube Corridor is a waterway connecting Strasbourg, Frankfurt, Vienna, Bratislava and Budapest, where it branches off: one leg goes to Roma-

All of this has become even more important and realistic after adoption of the Juncker Investment Programme focused on investments in infrastructure – primarily energy, IT and transport infrastructure, aiming at the further and deeper integration of the overall EU area and connecting that area with the EU’s geopolitical partners. These additional investment assets can also be connected with the assets already earmarked for the purpose within individual EU funds. Of particular importance for Croatia and for the EU in general is the project of the adequate positioning of the Port of Rijeka on the map of major Mediterranean ports. This port is located in the northern Adriatic which penetrates deep into Continental Europe, with more than 200 million people living in the hinterland areas gravitating to this junction.

*Figure 12.1: The Port of Rijeka’s position in the ‘belly of Europe’*



Source: Croatia – New Gateway to Europe, Croatian Chamber of Civil Engineers, Zagreb-Opatija, June 2011, p. 14.

What contributes to the strategic position of the Port of Rijeka is the fact that, unlike other north Adriatic ports, it is naturally protected

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nia and the other follows the Danube along the Croatian and Serbian river banks and further to the Black Sea (Corridor VII).



by the Kvarner islands and has deep-access waters (60 m). The Port of Rijeka's favourable position in relation to Central Europe and its features that allow the putting in of even the largest ships have not been sufficiently used, mainly due to the port's low-capacity connections with its hinterland. Particularly neglected are its connections with the inland waterways – in this case, with the Danube Corridor that, owing to its transport features (substantial capacity, low cost of transport) could become Rijeka's major gateway to Central and even Western Europe (Dušak, 2011: 14). However, this is simply impossible without the construction of an adequate railway network.<sup>5</sup>

This exceptionally clear and concrete example of both possible and necessary cooperation between Croatia and the EU in passing suitable strategic and operational decisions illustrates the deficit in the making of high-quality public policies in areas of indisputable and clear mutual interest.<sup>6</sup> The following example is even more topical in operational terms and has to do with the above-mentioned Juncker Investment Programme for EU infrastructure. The Island of Krk LNG project is a significant project, not only in terms of energy

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- 5 We should emphasise here that 'the sailing distance between the Suez Canal and northern Adriatic port of Rijeka is merely 1,254 km, while the distance between the Suez and North Sea ports is almost three times that. This is why sailing from the Suez to North Sea or Baltic ports takes 10 to 14 days more (plus the same period of time on the way back). In the context of abrupt increases of fuel prices, the advantage of the Adriatic route becomes even more pronounced.' The same document also concludes that the throughput of northern Adriatic ports is strikingly low today: 'while the throughput of Rotterdam, as the biggest European port, is approximately 370 million tonnes per year, the combined northern Adriatic ports handle not more than 40 million tonnes. This unsatisfying situation is primarily due to the poor and obsolete connections between the Danube–Adriatic area and Central and South-eastern Europe'. The paper concludes that it is faster and cheaper today to transport goods from the Danube Basin using the longer way: by modern, lowland railway lines to North Sea ports. The shorter way, the one via the obsolete mountain lines leading to Adriatic ports, is much slower and more expensive. And, finally, the completion of the intermodal Danube–Adriatic network could enable Adriatic ports to become the 'Adriatic gateway to Europe' and Zagreb, located on the interface of trans-European routes (European Corridors X, Xa, Vb and VII – the Danube), could become the 'gateway to Southeastern Europe' (*ibid.*, pp. 22–23).
- 6 Among other things, this example and potential is exceptional due to the fact that every business or political delegation from the Far East (China, South Korea...) expresses an interest in possible participation in this infrastructural project, or at least in participation in the use of such infrastructure, if and when it is built using the joint efforts and capital of the EU and Croatia.

(primarily logistical), for a gas supply route alternative to the existing Russia–Ukraine–EU route. As such, it has received support from all relevant decision-making levels in the EU in the category of security-related projects.<sup>7</sup>

In this context, we should indicate the need for a strategic defining of the EU and Croatia's common transport-related interests based on the established transport corridors that will be the EU's financial and capital priority in the upcoming decade. It is also part of the trans-European network within which the following projects are defined as the most relevant: the railway route Ljubljana–Slovenian/Croatian border–Zagreb–Croatian/Serbian border–Belgrade (the so-called Pan-European Corridor X) and the Danube Waterway (the so-called Pan-European Corridor VII).

The said EU priority routes are particularly important given the fact that the national railway transport is internationally still less competitive than it was before 1990. Of a total of 2,604 km, only 5.4% of that route allows speeds of between 141 and 160 km/h. Only 17% allows a maximum speed above 100 km/h and 37.5% allows a maximum speed below 60 km/h (Vlada Republike Hrvatske, 2014: 26). The volume of business in cargo transport is substantially lower than the one recorded in Yugoslavia and the number of passengers in passenger transport is just above half the number of passengers in the years preceding 1990.

Another important aspect of transport policy, besides the above-mentioned and analysed transport sectors (roads, railways, maritime and seaport potential), is the degree of utilisation of inland waterways – again, from the viewpoint of possible Croatian-EU synergy.<sup>8</sup> The most important here is the construction of the multipurpose Danube–Sava Canal that, when finished, would have four major functions: transportation, irrigation, reclamation and water-levelling) (Vlada Republike Hrvatske, 2014). It would not only interconnect the Croatian inland waterway network but also connect Croatian

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7 However, although Croatia has founded a separate company for the purpose (LNG d.o.o.), it has failed to undertake the necessary actions to exclude the location (land) intended for the purpose from the ongoing pre-bankruptcy proceedings against the company that (in one way or another) came into possession of the land (which is now the subject of court proceedings).

8 The overall length of the existing inland waterways in the Republic of Croatia is 1,066.8 km, of which 601.2 km has been integrated into the European waterway network of international relevance.

seaports with the Danube, and thus with Central Europe. It is also planned for the canal to connect the TEN-T Rhine–Danube corridor (Pan-European Corridor VII) with the TEN-T core network (Pan-European Corridor X). In order to achieve the greatest value of the corridor connecting the Danube and Adriatic regions, construction of the canal should be coordinated with the construction of the Zagreb–Rijeka railway line and the Sava River waterway development project (the latter should be upgraded to Class IV navigability). When completed, these projects would help form an intermodal transport corridor from Vukovar to Rijeka (566.0 km long), connecting the Danube and Mediterranean countries via inland ports (Vlada Republike Hrvatske, 2014: 339).

## **Conclusion**

It can be said that in its recent history (since the mid-1950s) the Republic of Croatia has witnessed three phases regarding the development of its transport system – each of them formally and legally within different states and regulatory frameworks: the first phase lasted throughout the existence of the then common state of Yugoslavia; the second phase coincided with the war and subsequent activities and public policies in the period after independence. The third one covers the years of preparations for and the decade of negotiations on EU accession, followed by the eventual full integration and membership in the EU.

In accordance with the above, the level of autonomy in the proactive pursuit of transport policy as part of the overall development policy was noticeably reduced and limited by various factors. In the joint state of Yugoslavia, priorities in the development of transport infrastructure and utilisation of the overall position of transport were predominantly oriented to the priorities of the then central government. A certain degree of autonomy was only present in defining the local organisation of transport. The second phase – independence – was initially characterised by a sharp decrease in overall economic activities, including transport-related ones. In its second part, an intensive but utterly one-sided development of part of the transport infrastructure took place (investment in the construction of an extended national highway network). The role of EU institutions and policies and active coordination were narrowed and almost exclusively concerned the adoption of formal regulations (the Strategy

and accompanying documents) in the form required and prescribed by EU institutions.

The third (current) phase – full EU membership – is of a particular importance because it should imply convergence towards the EU's goals and programmes, clearly set in principle, containing plenty of room for an evaluation of Croatia's geographical location and transport-related position. This is particularly important from the aspect of establishing a meaningful concept of intermodal transport, which has rapidly gained importance over the past two decades, in terms of both competitiveness (prices and costs of transport) and environmental protection (reduction of CO<sub>2</sub> emissions by increased use of railway capacities and inland waterways). The text also points to the exceptional (unused) potential of seaports (primarily Rijeka and, to some extent, Ploče), the need to build a new railway network, and form an axis between the maritime and continental parts of Croatia: the Port of Rijeka–the railway network–the Port of Vukovar. In other words, an evaluation of Croatia's existing transport potential is possible and feasible as part of the construction and completion of the EU transport network along its vital corridors: the Mediterranean Corridor and the Rhine–Danube Corridor.

The modality Croatia will use in its current position to achieve the conceptual – and then concrete – linking of the programme statements and utilisation of assets from the EU Structural and Cohesion Funds is intended for the regular (co-)financing of these projects, especially with the new opportunity created by Juncker's Investment Programme – that is becoming one of the essential components for developing *turnaround* programmes for the country's recovery and economic growth by 2020. That is the year when the EU's overall development strategy will be reviewed once again in the context of its realisation and in the context of the new, overall developmental priorities. Any further delay in the attempts to catch up with the EU trends and priorities could additionally marginalise interest in the overall transport-related and economic evaluation of Croatia's national space.

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# 13 Slovenian Environmental Policies in the EU Context<sup>1</sup>

Tomaz Boh

## Introduction

It is generally accepted that the role of ‘the state’ in Western Europe has undergone fundamental changes since the 1970s. As part of that development, member states have had to share ever more of their traditional regulatory and promotional functions with the EU level (Goetz, 1995: 214). Even though the new members have challenged the institution-setting and decision-making procedures found at the EU level, the implementation of European policies implies even greater adjustments for their domestic institutions and decision-making procedures.

New EU states<sup>2</sup> face the challenging task of changing their domestic legal systems, institutions and procedures in accordance with European requirements and the *acquis communautaire*. Europeanisation processes vary significantly among different policy fields and depend on the treaty basis of an area, a nation-state’s perception of that area and the tradition (pre-existing patterns) of managing the field (Boh, 2004). The concept of Europeanisation is widely used,

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1 This text is based on the PhD thesis of the author: Boh, Tomaz (2005): *Evropeizacija in izvajanje skupnih evropskih okoljskih politik v Sloveniji (Europeanisation and implementation of common European environmental policies in Slovenia)*, Fakulteta za družbene vede, Ljubljana, and the results of the project ‘Organising for EU Enlargement’, financed under the 5th framework programme, available at: <http://oeue.net/>, 10. 8. 2015.

2 In this article, we use the term ‘new EU states’ for those states that joined the EU after 1 May 2004.

although various authors define it in different ways (Olsen, 2002; Knill and Lehmkuhl, 1999; Radaelli, 2000; Cowles et al., 2001). Europeanisation in this article refers to reactions in domestic systems to 'top-down' influences from the EU level, be they directly included by EC law or indirectly by European policies, and concerns the truly large amount of EU-level stimuli and national systems' adaptations thereto (Falkner, 2003: 1). The first question on which the degree of adaptation pressure depends is how closely changes induced by the EU level fit with what already exists at the domestic level. A country whose domestic institutions are perfectly compatible with Europeanisation requirements experiences no adaptation pressure and, hence, no domestic institutional change is expected (Cowles et al., 2001: 1).<sup>3</sup>

Environmental policy is one of the most controversial areas. On one hand, we can speak of great uncertainty in the policy formulation stage since political actors are dependent on experts and epistemic communities<sup>4</sup> because the highly 'technical' area involved itself calls for extensive knowledge about the field. But, on the other hand, environmental policy is one area with a low level of ambiguity. It is a 'mature' policy area in which the EU has developed a large *acquis* over many years that has already been implemented by member states (Boh, 2004).

Protection of the environment is an important European aim and, given the nature of the area, the overlapping of different levels of governance (national, sub-national and supra-national) is a reality, and the ability to cooperate between them is crucial for success. The environmental framework in the EU has been developing intensively over the last few decades and is a result of the mutual adaptation of different national preferences since the newcomers were forced to adopt their national structures to the existing framework even before they became full members (Fink Hafner and Lajh, 2003). Since European environmental policies are regulative by nature and are an example of a positive type of integration (Scharpf, 1996), member

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3 Risse et al. (2001) define the term 'goodness of fit' between the Europeanisation process on one hand and national institutional settings, rules and practices on the other. For a more detailed explanation, see Cowles et al. (2001: 6–12).

4 The term 'epistemic communities' refers to a community of experts and identifies a network of professionals with recognised expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area (Hass, 1992; Radaelli, 1999: 41; Richardson, 2001: 15).



states are exposed to great pressure from the EU level and simultaneously challenged by considerable financial costs. In some senses, we cannot draw an easy distinction between domestic and external (international) pressure when both levels are largely interconnected as parts of the European governance system (Weale, 2002: 236). Environmental policy is one of the most successful common European policies, with some 80% of related legislation being prepared at the supranational level (McCormick, 2001).

Due to the complexity of the analysis, the article employs a minimalist notion of Europeanisation that sees Europeanisation as national responses to European integration or, more precisely, as national adaptation to European Union policies (Haverland, 2003: 203). As a case study, the case of Natura 2000 is used while, due to its complexity and long-term orientation, it is a significant indicator of implemental challenges. The main dilemma we seek to resolve in the article is how the Europeanisation process has influenced the structure of relations between different actors in the environmental field in Slovenia.

## **Goodness of fit, adaptation pressure and the negotiating process**

### *Three types of misfit*

The European integration process caused a change in the policy paradigms of nation-states and they have thus had to adjust their national systems to EU norms. Despite Olsen's argument that domestic institutional structures, along with the values, norms, interests and power distributions in which they are embedded, are monuments of historical battles, joint problem-solving and peaceful conflict resolution (Olsen, 2002: 944), in nearly every case Europeanisation<sup>5</sup> has led to distinct and identifiable changes in member states' domestic institutional structures (Cowles et al., 2001: 1). The lower the compatibility of European and domestic procedures, policies and institutions (the degree of (mis)fit), the higher the adaptation pressure. Adaptation pressure is clearly a precondition for domestic change yet it is not a sufficient factor. The first question on which the degree of adaptation pressure depends is how closely the changes induced by

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5 Europeanisation is in this case understood as the influence of the EU level on national procedures, institutions and policies.

the EU level fit with what already exists at the domestic level. There are three interconnected aspects of the misfits by which Europeanisation exerts adaptation pressure on member states. We can speak of a *legal misfit* in the situation where the ‘formal/paper’ component of the misfit appears to be important (Falkner, 2003: 4). This kind of misfit is especially notable in the case of accession states whose first step towards the EU was to transpose the *acquis communautaire* into their domestic legal order. Second, we can identify an *institutional misfit*<sup>6</sup> that challenges domestic institutions and procedures and the collective understandings attached to them (Börzel and Risse, 2000: 5; Knill, 2001). A country whose domestic institutions are perfectly compatible with Europeanisation requirements would experience no adaptation pressure on the institutional structure and, hence, no domestic institutional change would be expected (Cowles et al., 2001: 1). The answer to institutional misfit is seen as an institutional change of domestic institutions. Finally, there is a *policy misfit* which refers to differences between national and European rules and regulations. Europeanisation can thus be of a qualitative kind (more or less of an existing policy) or a quantitative kind (new or replacement national institutions or structures) (Falkner, 2003: 3). It also refers to changes in the existing paradigm and practical implementation of a certain policy at the national level. The easing of a policy misfit depends largely on the interplay of institutional adaptation and legal implementation, yet it goes a step further for it depends on the ‘real’ results of the given policy.

While the European legislation’s administrative implications usually differ from domestic arrangements, the effectiveness of implementation can be expected to increase as domestic structures become adapted to European policy requirements (Knill, 2001: 17). Policy misfit and nation-states’ obligation to implement common European policies lead to a domestic change of institutions and procedures. For new member states, the priority task was the elimination of institutional and legal gaps, while the practical implementation of directives (elimination of policy misfit) is normally a longer process, extending to the time following accession.

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6 Falkner (2003: 4) terms it a politics/polity misfit.

## Environmental policy in Slovenia: state of departure

Environmental issues have been on Slovenia's agenda since the early 1970s. Here, Slovenia followed the most developed industrial countries, while in 1972 the *Green Book on the Environment* was prepared – as a result of the UN environment conference in Stockholm. However, up until the end of the 1980s the practical development of environmental protection and the efficiency of its implementation were strongly influenced by specific property relations (common ownership and self-management), where the existing social order was unable to reduce the implementation deficit (NEAP,<sup>7</sup> 1999: 1).

The new Slovenian Constitution<sup>8</sup> was adopted in 1991 and, among others, codifies rights related to the environment. The most important provisions are Article 72 as the central constitutional pillar of environmental protection, dealing with the right to a healthy living environment, and Article 73 covering the protection of natural and cultural heritage (Internet 1).

What was the starting point of the institutions responsible for environmental policy (at the start of the EU negotiating process)? In the key negotiating document prepared by Slovenian authorities (Negotiating Position of the Republic of Slovenia, Chapter 22 (NP)) it was stated that the Republic of Slovenia has in place most of the institutions necessary to implement the EU's environmental legislation (Republic of Slovenia, 1999: 2). In the same document, it was stressed that Slovenia must, before it joins the EU, appropriately reorganise and administratively strengthen its core institutions. The main document in the field of environmental protection, the National Environmental Action Programme ("NEAP"), was approved in September 1999. According to the NEAP, the main obstacles to the efficient management of the environmental field were a lack of personnel and gaps in covering certain areas (most often economic and legislative views on the environment).

Slovenia decided to improve this situation by recruiting new staff and stepping up educational efforts. The responsible ministry and the Academy of Administration regularly organised the training of officials at national and local levels for different sections of

7 National Environmental Action Programme (Official Gazette of RS, No. 83/99).

8 Constitution of the Republic of Slovenia, available at: [http://www.dz-rs.si/en/aktualno/spremljanje\\_zakonodaje/ustava/ustava\\_ang.pdf](http://www.dz-rs.si/en/aktualno/spremljanje_zakonodaje/ustava/ustava_ang.pdf)

the environmental acquis. To resolve these problems, institutional reforms were needed as well. On one hand, the existing institutions had to be strengthened while, on the other, new institutions had to be established. Bolstering the administration's position, especially that of the ministry, in environmental protection was seen as crucial for the appropriate development of environmental protection. According to the NEAP, the key goals before 2008 were as follows:

- dividing up administrative and managerial tasks and creating a transparent division between internal units of the ministry;
- dividing up work according to the principle of specialisation and project cooperation;
- filling personnel gaps; and
- strengthening cooperation within the administration and with local authorities.

The chief goal was to set up an Environmental Agency as a new institution formed from reorganised agencies and able to bring experts together so as to become the key institution responsible for realising environmental tasks. The Environmental Agency would also become the national coordination centre for cooperating with the European Environmental Agency (the National Focal Point). It was established in 2001<sup>9</sup> and, in accordance with the core documents (NEAP, Negotiating Positions of the Republic of Slovenia and Environmental Accession Strategy), it replaced the previous Administration for the Protection of Nature, the Hydrometeorological Institute and the Geophysical Survey of Slovenia. Professional knowledge on environmental protection is brought together here, providing an important precondition in the process of seeking competent and coordinated solutions.

Slovenia has been cooperating with the European Environmental Agency ("EEA") since 1996. In November 1997, Slovenia officially expressed its desire to initiate the application procedure for EEA membership prior to its accession to the European Union (Republic of Slovenia, 1999: 6). In 1999, a network of national reference centres and main component elements had already been partly set up at the national level, but further strengthening and development of the network was necessary. In June 2001, the procedure of ratifying

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<sup>9</sup> Zakon o organizaciji in delovnem področju ministrstev (Official Gazette of RS, No. 30/2001).

the agreement between Slovenia and the EEA was finished and Slovenia<sup>10</sup> became a member.

### ***Key problem areas***

At the end of the negotiating process three transitional periods were granted to Slovenia: for the field of packaging and packaging waste management until the end of 2007, the adaptation of the 15 existing installations to the requirements of the Integrated Pollution Prevention and Control (“IPPC”) Directive until September 2011, and for urban wastewater treatment until the end of 2015 (Regular Report..., 2002: 96). Transitional periods were granted for areas where vast amounts of money were needed to implement the *acquis*.

After 2002, Slovenian legislation was largely harmonised with the *acquis*. The exception was the transposition of the Integrated Pollution Prevention and Control (“IPPC”) Directive which was significantly delayed (European Commission, 2002: 93).

As stated in the 2002 Regular Report on Slovenian’s Progress towards Accession, all administrative capacity was also regarded as being at a high level. Critical problems concerning environmental policy were as follows:

- coordination between institutions and especially with local authorities;
- establishing of efficient enforcement mechanisms;
- further strengthening of the capacities of the environment ministry, especially of inspections and the Environment Agency; and
- guaranteeing enough money for implementing the transposed legislation and the NEAP.

### ***Linkages between national and local governments and non-governmental organisations***

All three key documents of environmental protection (the Constitution, the Environmental Protection Act, and the National Environmental Action Programme) directly or indirectly presuppose the cooperation of NGOs and local authorities in procedures concerning the environment. The advantage of local authorities is that they are close to the very citizens affected by environmental problems. Hence, local authorities are most appropriate for monitoring the

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<sup>10</sup> The ratification document was published in the Official Gazette of RS, No. 18/2001.

state of the environment (Šot-Pavlovič, 2000: 277). Local authorities are empowered to manage municipal problems and the local public services of environmental protection. Since the regional level does not yet exist in Slovenia, in the meantime cooperation between local authorities should be as close as possible.

Slovenia changed its system of local governance (new municipalities) in 1994 and at that time several relatively small municipalities were founded (at the time of writing 212 were existing in Slovenia). In matters of environmental policy there are big differences among various local authorities. The offices or departments within a local administration are empowered to deal with environmental matters, but a problem is especially seen in small municipalities that face a serious lack of personnel. In just 14% of municipalities a special employee is responsible for the environment, while in 60% of municipalities that role is played by a part-time environmental employee. Another significant problem is the inappropriate education levels of staff. Inter-municipality cooperation is relatively weak, while more than 20% of municipalities do not cooperate with any others (Šot-Pavlovič, 2000: 278).

In 2000, the document 'Partnership for the Environment' was adopted. This was a strategy of cooperation between the environmental ministry and environmental NGOs. The primary advantages of this partnership are the strengthening of participatory democracy, representing the opinions of specific social groups and the improved willingness of the public to cooperate in implementing environmental policy (Partnerstvo za okolje, 2000: 9). Figures from the environmental ministry in Slovenia reveal there were about 150 environmental NGOs taking part in environmental programmes. The Environmental Protection Act identifies the Environmental Impact Assessment as one of the main instruments of public cooperation in matters of environmental protection. The aim of this procedure is to minimise impacts on the environment and include the public in procedures of environmental intervention. The Act enables civil society, associations and individuals to disagree with an expected action, while the investor must prove that the solution presented is optimal (in terms of environmental protection and economic benefits). The Environmental Protection Approval is an instrument enabling local interests and individuals to influence solutions formed at the national level.

## Legal, institutional and policy misfits in Slovenia and their resolution

To properly understand the importance of nature conservation in Slovenia, it is necessary to be familiar with a few facts about biodiversity in the country. The share of Slovenia's surface is 0.004% of the world's surface and 0.014% of the world's mainland areas. A similar picture is seen with the number of inhabitants of Slovenia, accounting for approximately 0.033% of the world's population. However, in contrast, over 1% of known world species and more than 2% of mainland species live in Slovenia (Sovinc, 2004). As a result, member states are significantly pressured to transpose and implement these requirements within their domestic legal systems. In the field of nature conservation Slovenia was exposed to a high level of adaptation pressure, with the Commission having clearly stated there was no place for any derogations, exceptions or transition periods. Another factor in this extensive adaptation pressure was Slovenia's obligation to designate the Natura 2000 areas by the date of accession (1 May 2004). Since designation is a demanding task and, given the extremely short time available for preparations and designation, the set deadline represented an extensive form of adaptation pressure.

### *Legal misfit*

Even though some kind of nature conservation was in place in Slovenia since the late 1970s, the gap between the Slovenian system of nature protection and the EU requirements at the beginning of the accession process was quite wide for there was a need to accept a whole set of new legal rules. The Environmental Protection Act was adopted in 1993 (Official Gazette of RS Nos. 32/93 and 1/96) and established new environmental grounds and a legal basis for protection in line with the changed economic and political conditions. The Act stipulates general principles applied through decrees, orders and other binding secondary legislation (Republic of Slovenia, 1999: 2). In 1998, a strategic document *Environmental Accession Strategy for Slovenian Integration with the European Union* was adopted. It determined the timetable for the transposition of the Directives.

It was stated in the negotiating positions of the Republic of Slovenia that the existing legislation concerning the environment partly conformed to the *acquis*. The pre-negotiating grounds for the protection of wild birds were the Decree on the Protection of Endangered

Animal Species (Official Gazette of RS Nos. 57/93, 61/93) and the Protection, Breeding, Hunting and Hunting Grounds Management Act (Official Gazette of RS No. 25/76). Despite this, extensive changes in legislation were necessary when transposing the provisions of the Habitat and Bird Directives. Provisions of the Habitat and Bird Directives were transposed to the Slovenian legal system through a key environmental law – the *Nature Conservation Act* (Official Gazette of RS Nos. 56/99, 31/00, 119/02, 41/04), which was amended for the last time at the end of March 2004 and restored a sound legal basis for further work in the field. It also contains provisions about the role and cooperation of local authorities in the process of designating and managing Natura 2000 areas. Secondary legislation was issued on that basis. The most important secondary pieces of legislation are the *Decree on types of natural values* (Official Gazette of RS Nos. 52/02, 67/03) and the *Decree on habitat types* (Official Gazette of RS No. 113/03). On the basis of the amended law, just a few days before the designation deadline documents about the designated sites were issued. The first of these is the *Decree on special protected sites – sites of Natura 2000* (Official Gazette of RS No. 45/04) in which there is a detailed list of Natura 2000 areas, followed by the *Plan for assessing the consequences of Natura 2000 areas and the designation of development provisions*, which states that the government has to accept the provisions for ascertaining the consequences of implementing such areas. Next come the *Decree on wild flora species* (Official Gazette of RS No. 46/04) and the *Decree on wild animal species* (Official Gazette of RS No. 46/04). All of these documents represent operationalisation of the Nature Conservation Act and together the whole ‘package’ involves the transposition of the Habitat and Bird Directives into Slovenia’s legal order. With that, the legal misfit was practically eliminated and the provisions of the EU directives were completely transposed into the Slovenian legal order. With this transposition, Slovenia has fulfilled legal obligations but, as mentioned, this merely provides the grounds for real implementation of the directives’ provisions. The transposition of the directives into the domestic legal order was characterised by a low level of politicisation. The legislation and expert basis for its preparation were created within a relatively closed working group in the ministry and some experts. The parliament was not a venue for the confrontation of different opinions. The proposals were prepared by experts and, because of the professional argumentation and limited knowledge of MPs about such complex expert topics, the proposed solutions were not opposed.



### ***Institutional misfit***

In accordance with Falkner's classification of institutional misfit, we can classify the Slovenian institutional harmony with the EU requirements at the start of the process as low since there was a need to change crucial domestic institutions and procedures (Falkner, 2003: 5). The way of eliminating the misfit is close to the incremental-transformation type (Fink Hafner and Lajh, 2003: 56) since some institutions already existed, albeit most were re-arranged, merged and given more resources. Hence, we can find some new (or fundamentally reformed) institutions (the Environmental Agency, the Nature Protection Administration) but they are in some way successors of pre-existing institutions. All of the Commission's Regular Reports on Slovenia's progress towards accession (1998, 1999, 2000, 2001, 2002) stressed the significant shortage of staff that would have to be eliminated if the effective implementation of environmental provisions was to be achieved.

The main 'in-house' expert institution of the environment ministry is the Environment Agency ("EA") that was established in 2001 with the transformation of the pre-existing services. Its structure and procedures are greatly influenced by the requirements of the European Environment Agency ("EEA"), while the EA is responsible for expert cooperation with the EEA. In 1999, pursuant to the Nature Conservation Act the Nature Protection Administration of the Republic of Slovenia was established, yet it only formally started work at the beginning of 2002. It brought the existing *Regional Offices for the Preservation of Natural and Cultural Heritage* (7 units) into one organisational form. The NPA is a highly professional and expert institution whose aim is to monitor the state of nature, prepare expert opinions and provide other expert information about nature in Slovenia. To date, the institutional misfit has largely been eliminated. At the level of the environment ministry, a group of 'in-house experts' specialised in Natura 2000 and led by the deputy state secretary is working<sup>11</sup>. Further, the Nature Protection Agency has been consolidated and, together with the Environment Agency, it forms the core expert basis of the nature conservation system in Slovenia.

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<sup>11</sup> The Natura 2000 team works as part of the office for the Environment – Nature Conservation Department.

### ***Policy misfit***

The degree of policy misfit in Slovenia was high since before the EU accession process a system of nature conservation was in place, although the new European nature conservation concept is very distinct from the previous one, moving from a predominantly conservation approach to sustainable use and symbiosis between economic and environmental spheres. The qualitative change is, amongst other areas, also seen in the share of protected territory. Previously, the nature conservation system focused on about 10% of the nation's territory (MESPE, 2004b: 1), predominantly the Alpine region and was conservatory-oriented, whereas the new approach is more widely designed and focused on attempts to ensure the co-existence of all interests. An important challenge was the change in paradigm of nature conservation. If in the past the requirements of nature conservation were seen as a burden and an obstacle to economic development and protected areas had the status of national or regional parks (Triglav National Park, Škocjanske Jame Regional Park), then the implementation of Natura 2000 primarily means new opportunities especially for local communities to develop in a more sustainable direction. Hence, it was stated that the biggest loss in the process is the non-taking of measures from the state and local authorities (MESPE, 2004a: 21). Another important element of well-being is 'environmental capital' which is not directly expressed with a material value. The status of a Natura 2000 area enables all potential commercial and non-commercial users of that ecological capital to co-decide on ways to use it. Outside areas of such protection, decisions on the use of the nature are almost exclusively decided on the basis of commercial or monetarily expressed values (MESPE, 2004a: 13). With the need to adapt the national nature conservation system in line with that of the EU, the old 'conservatory' protection was upgraded to more acceptable and developmentally oriented protection. Given that thorough changes in society are necessary to eliminate policy misfits, its resolution is not finished and will continue now Slovenia is a member of the EU.

### ***The negotiating process***

The process of negotiating on the environment chapter as a whole was complicated and, given the specific requirements of the environmental field, also problematic. Due to the detailed knowledge needed for designating Natura 2000 areas, and especially because Slovenia's

extreme biodiversity resulted in the need to designate a significant part of the country as Natura 2000 areas, negotiations on the Habitat and Bird Directives were complex.

Designating a potential protected area is a very demanding area of work in which inter-institutional cooperation and the inclusion of different profiles of experts are necessary. Because Slovenia was in a position of adapting its legal system to the EU requirements and where transposition of the *acquis* was predominantly a ‘one-way’ process, there was a very limited opportunity to include the Slovenian solutions in the existing European legal order. Slovenia does in fact incorporate the EU’s body of legislation in its domestic legal system. But, the country’s abovementioned biodiversity and especially the fact that it brings to the EU a new region with specific biological features (Dinaric-Karst region) triggered the need to include some technical adaptations of both Directives.

Slovenia proposed supplementing Annex I of the Bird Directive with a new species, namely the Kentish plover (*Charadrius alexandrinus*).<sup>12</sup> The Commission accepted the proposal and the new species was included in the Treaty of Accession. The second technical adaptation was Slovenia’s proposal to list four bird species in Annex II/2 of the Bird Directive, which permits the use of some species because their population is vital and big enough so that those species would not be endangered. This proposal was also accepted and all four species are today listed as exceptions from the Bird Directive. The ability of EU accession states to amend the existing *acquis* via technical adaptations is one of the few options available for ‘uploading’ the national preferences of nation-states to the EU level. Slovenia succeeded in incorporating its vital features within the EU’s legal system.

## Conclusion

Why is a case study of implementation of the Natura 2000 project illustrative of the Europeanisation process in Slovenia, and can it be expanded to show certain types of domestic change? The implementation of Natura 2000 is, like almost all environmental provisions of EU environmental policy, very complex and complicated. Hence,

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<sup>12</sup> An explanation is available in the document: Negotiating positions of the Republic of Slovenia on Chapter 22 – the Environment, page 26.

we can identify the emergence of 'epistemic communities' with a monopoly over expert knowledge. Its implementation 'hits home' to an important extent, even though some social actors do not like it. It is determined by the need for expert knowledge but, on the other hand, it potentially affects economic interests.

The exclusion of local authorities from the process of designating protected areas was extremely problematic. The crucial dilemma remains how to include different (especially local) stakeholders in the process. In the opinion of various stakeholders, the process had two main deficiencies. On one side, NGOs claim that only specialised NGOs were included in the process, and that general environmental organisations were not included. On the other side, local authorities claimed their exclusion and the undefined restrictions and possible financial subsidies for the exploitation of the property discriminate against the inhabitants of municipalities.

We can say that the prevalence of technocracy seen in preparing the proposals has merely postponed the emergence of conflict that still remains unresolved. The technocratic procedure and decisive role of epistemic communities is in any case a good basis for managing a certain area but, at the same time, it is insufficient. Especially in sensitive areas where the interests of certain groups could be seriously affected the inclusion of the societal/political component in the process seems inevitable. It seems that the technocratic procedure (largely 'downloaded' from the EU level) does not offer a sufficient substitute for a democratic procedure, even in the case of intensive communication with affected publics.

It is obvious that a technocratic policy style is no guarantee of avoiding conflict in implementation, even where the specific topic is greatly complex. Issues affecting broad interests should be managed in a democratic way; otherwise, emerging conflict cannot be resolved but merely postponed to the future.

We can conclude that the role of experts is critical in the phase where extensive expert knowledge is needed and when there is a strong need for advocacy of certain decisions. But the final decision remains in the hands of political actors. Nevertheless, despite the extensive external pressure seen in the last stage of the process, pressure from the sub-national and NGO spheres, the nation-state remains the main actor in the process which decides on who the partners in a certain stage of the process are, and the extent to which their opinions will be accepted.

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# 14 Croatian Environmental Policies in the EU Context

Sanja Tišma and Marina Funduk

## Introduction

Environmental policies are a set of appropriate activities aimed at preventing environmental hazards, precluding damage to the environment or environmental pollution, reducing or eliminating the damage caused to the environment, and restoring the environment to its condition prior to the damage (Environmental Protection Act 80/13). Article 3 of the same Act states that environmental protection ensures the integrated preservation of environmental quality, conservation of biological, landscape and geological diversity, and the rational use of natural assets and energy in an environmentally sound manner, as basic conditions for healthy living and the concept of sustainable development.

Environmental protection is a well-established policy in the European Union. EU legislation in the environmental protection field is some of the widest and most complex. It comprises about 300 legal documents arranged in several thematic groups: horizontal legislation, air quality and climate change, waste management, water management, industrial pollution control and risk management, noise and nature conservation.

In its accession process to the EU, Croatia had to comply and incorporate in Croatian legislation a large amount of EU legislation regarding environmental policies. This chapter gives an overview of Croatia's accomplishments and achievements in this area with indications of some future obligations that are contained in Croatia's Treaty of Accession to the EU. First, a historical overview

of EU environmental policies will be elaborated, with an emphasis on Environmental Action Programmes and their priorities. To fully comprehend EU environmental policy and the current Croatian environmental policy it is important to understand the basic policy developments in the EU prior to Croatia's accession.

## **Environmental policies in the EU**

European environmental policies started developing in the early 1970s. And while at the beginning the development and implementation of these policies was dominated by traditional environmental themes such as the protection of endangered plant and animal species, improving water and air quality by removing impurities, over time European environmental policies have recognised the importance of a systematic approach to this complex topic.

After the first United Nations Conference on the Environment in Stockholm in 1972 and growing public and scientific concerns about the limits to growth, the Commission became active in initiating an original Community policy. On the basis of European Council commitments in 1972, the Commission began the practice of periodically issuing Community Environmental Action Programmes. These programmes set out forthcoming legislative proposals and discussed broader perspectives on EU environmental policy. The earliest Environmental Action Programme was adopted in July 1973 and represented the EU's first environmental policy 1973–1976 (OJ C 112, 20.12.73).

Since then, the Commission has issued seven Environmental Action Programmes: the Second Environmental Action Programme 1977–1981 (OJ C 139, 13.6.77), the Third Environmental Action Programme 1982–1986 (OJ C 46, 17.2.83), the Fourth Environmental Action Programme 1987–1992 (OJ C 328, 7.12.87), the Fifth Environmental Action Programme 1993–2000 (OJ C 138, 17.5.93), the Sixth Environmental Action Programme 2001–2012 and, recently, the Seventh Environmental Action Programme that will guide EU policy till 2020.

The EU Treaties provide the legal basis for the adoption of such action programmes by the European Parliament and the Council. In the Maastricht Treaty of 1992, the former goal of economic growth in the EU was changed into 'non-inflationary sustainable growth that respects the environment', while the Treaty of Amsterdam of 1997 placed environmental policies in the context of sustainable

development across the EU. Sustainable development thus became a fundamental objective of the EU in 1997 and it was reiterated in the Treaty of Lisbon. Under the Lisbon Treaty the objectives of the EU's policy on the environment are to preserve, protect and improve the quality of the environment, protect human health, the prudent and rational utilisation of natural resources and to promote measures at the international level to deal with regional or worldwide environmental problems.

The primary reason for the first Environmental Action Programme (1973–1979) was the concern that diverse environmental standards could result in trade barriers and competitive distortions in the Common Market (Johnson and Corcelle, 1989). The first Environmental Action Programme (“EAP”) thus introduced the common environmental policy that initiated the integration of the individual environmental policies of the member states. It also introduced the ‘polluter pays’ principle and set quality standards for the environment, for products and production processes (on the emissions of pollutants in the environment etc.).

The Second EAP (1977–1981) was essentially a follow-up to the first in terms of approach and objective, with simply a greater range of problems to be dealt with. In the Second EAP, nature protection received special attention (Hey, 2005: 19).

The Third EAP (1982–1986) (OJ C 46/1, 17.2.1983) and partially the Fourth EAP (1987–1992) (OJ C328/1, 7.12.1987) reflect a considerable change in policy approach, being much more closely related to the completion of the Internal Market than their predecessors (Hey, 2005: 19). The environmental policy approach was also modified. The Third EAP shifted from a quality approach to an emissions-oriented approach. This policy change came about partially as a result of strong German pressure. The German government had decided on ambitious clean-air policies requiring emission reductions from large combustion plants and cars. During the 1980s, to avoid distortions in competition, German industries and the government successfully lobbied for a harmonised European emissions control policy (Hey, 2005: 20). The Third EAP tried to provide an overall strategy for protecting the environment and natural resources in the European Community. It shifted the emphasis from pollution control to pollution prevention and broadened the concept of environmental protection to include land-use planning and the integration of environmental concerns into the other EC policies.

The Fourth EAP emphasised four areas of activity: effective implementation of existing Community legislation, regulation of all environmental impacts of ‘substances’ and ‘sources’ of pollution, increased public access to and dissemination of information and job creation. This was an initial commitment to the strategic reorientation of environmental policies in the EC. The year 1987 is often seen as a turning point in EC environmental policy since environmental protection received its own chapter in the Treaty (Hey, 2005: 20).

The general approach and strategy of the Fifth EAP (1993–2000) differed from the previous programmes. As its title ‘Towards Sustainability’ implies, the programme set longer term objectives and focused on a more global approach. It emphasised the principal aim of sustainable development according to the definition given in the Brundtland Report. Its legislation in the late 1990s was impressive. It included: new complex and holistic framework legislation, such as the Ambient Air Quality Directive (96/62/EC), the Water Framework Directive (2000/60/EC) or the IPPC Directive (1996/61/EC), formulating an ambitious work programme for several decades. Further, policy preparation at the EU level became much more participatory, and took into account the crucial role of non-governmental protagonists and local/regional authorities of representing the general interest of the environment.

The Sixth EAP (COM (2001)31) set out the framework for environmental policy-making in the European Union for the period 2002–2012 and outlined the actions that need to be taken to achieve them. It was the first programme to be jointly adopted by the Council and the European Parliament. It identified four priority areas: climate change, nature and biodiversity, environment and health, and natural resources and waste. More detailed measures to meet the environmental objectives of the Sixth EAP were set in seven ‘Thematic Strategies’: on soil protection, the marine environment, pesticides, air pollution, the urban environment, natural resources, and waste. It also promoted the full integration of environmental protection requirements into all Community policies and actions and provided the environmental component of the Community’s strategy for sustainable development.

In 2011 the Commission adopted the Final Assessment of the 6<sup>th</sup> Environmental Action Programme that provides a detailed assessment of the priority areas of the 6<sup>th</sup> EAP – in terms of their contribution, achievements and shortfalls of environment policy during the period, as well as lessons learned.

For nature and biodiversity, the 6<sup>th</sup> EAP highlighted the need to increase recognition of the economic value of biodiversity and ecosystem services in the policy process. Shortfalls indicate that the overall target of the 6<sup>th</sup> EAP to halt the decline in biodiversity by 2010 was not achieved. The development of a network of marine protected areas has been slow. Despite having highlighted the sustainable use of soil as a priority in the 6<sup>th</sup> EAP, the ability to reach the 6<sup>th</sup> EAP objective on soil management practices in the EU was limited and showed almost no progress on this issue.

The 6<sup>th</sup> EAP brought a greater focus on the linkages between environmental factors and human health. Comprehensive legislation was adopted in the areas of chemicals, pesticides and water. New measures were taken, reflecting changes in policy priorities due to increased risks of water scarcity and forest fires. Shortfalls indicate that the Thematic Strategy on the Urban Environment (COM (2005)718) did not have a significant impact with respect to the 6<sup>th</sup> EAP objective of improving the quality of the urban environment. Particulate matter and ozone remain major concerns. An estimated 40% of the EU's population lives in urban areas with levels of noise at night above the recommended WHO levels. Access to water of satisfactory quality is insufficient and represents a risk to health in a number of rural areas.

The 6<sup>th</sup> EAP strengthened the link between waste policy and resource policy, and helped reinforce waste management and the move towards policy based on sustainable consumption and production. Waste legislation was also significantly modernised. It has been made more comprehensive by incorporating life-cycle analysis, by establishing re-use, recycling and recovery targets, and by reducing the hazardousness of certain wastes. Shortfalls show that, in contrast to the 6<sup>th</sup> EAP objective of reducing the overall volume of waste generated in the EU, it appears that waste generation has at best stabilised, and is perhaps increasing. Food and drink, private transport and housing are considered to account for 70% to 80% of the EU's environmental impact on consumption (Eder and Delgado, 2006).

The objectives and ambitions of the 6<sup>th</sup> EAP in relation to climate change targets and progress at the EU level were exceeded. The 2007 Climate and Energy Package set 2020 targets for the reduction of greenhouse gas emissions, the share of renewable energy and for energy efficiency. The 2005 EU Emissions Trading Scheme (Directive 2004/101/EC) put a price on carbon, and the Nitrates (Directive

91/676/EEC) and Landfill Directives (Directive 1999/31/EC) succeeded in reducing greenhouse gas (GHG) emissions. Adaptation emerged as a new area of policy-making. The Carbon Capture and Storage Directive (Directive 2009/31/EC) was adopted, although it was not included in the 6<sup>th</sup> EAP. Shortfalls indicate that GHG emissions in the transport sector continue to be closely linked to economic growth.

The Seventh EAP ‘Living well, within the limits of our planet’ was adopted by the European Parliament and the Council of the EU in November 2013 and covers the period up to 2020. It builds on policy initiatives in the Europe 2020 Strategy and the EU Strategy for Sustainable Development. It identifies three key objectives: to protect, conserve and enhance the Union’s natural capital, to turn the Union into a resource-efficient, green and competitive low-carbon economy, to safeguard the Union’s citizens from environment-related pressures and risks to health and well-being. Four so-called enablers will help deliver these goals: better implementation of legislation, better information by improving the knowledge base, more and wiser investment for environment and climate policy, full integration of environmental requirements and considerations into other policies. Two additional horizontal priority objectives complete the programme: to make the Union’s cities more sustainable, and to help the Union address international environmental and climate challenges more effectively. Compared to the previous one, the Seventh EAP is more strategically oriented and focused on the results and long-term vision of the EU. There is a smaller number of priorities and the focus is on the firmer implementation of measures and activities that support those priorities.

## **Croatian environmental policies**

The Republic of Croatia applied for EU membership in 2003 and entered the EU on 1 July 2013. Environmental policies, as well as all other public policies in Croatia during those 10 years, were highly influenced by Croatia’s accession to the EU. It was a decade of the Sixth Environmental Action Programme in the EU and Croatia tried to align with it in that period. The screening process in 2006 revealed that the environmental legislation in Croatia was totally incompatible with the *acquis* so before that chapter was closed a lot of Croatian environmental legislation had to be adjusted. Chapter

27 – Environment, was one of the legally, administratively and financially most challenging chapters in Croatia's accession process.

Today, the right to a healthy environment is guaranteed by the Constitution. Laws are largely aligned with the *acquis*. Different strategies, action plans and measures have been adopted. New institutions have been established. A lot of training and bolstering of administrative capacity has been conducted along with strengthening of the information system and strengthening of public participation. Overall results of Croatian environmental policies show that it has achieved compliance with the EU *acquis* and made progress in establishing a monitoring system for environmental components, although cross-border cooperation in environmental protection is an ongoing process and needs further strengthening. Three key long-term objectives of Croatian environmental policies from the National Environmental Strategy (2002) remain: the protection and enhancement of water, sea, air and soil quality; preserving the current state of biodiversity, and conservation of natural resources, especially the integrity and characteristics of specific natural resources (sea, coast, islands, and mountain areas).

The institutional framework for environmental policies in Croatia comprises a number of ministries including the Ministry of Environmental and Nature Protection, the Ministry of Regional Development and EU Funds, the Ministry of Agriculture, the Ministry of Maritime Affairs, Transport and Infrastructure and the Ministry of Health. It is also made up of several other institutions including the State Institute for Nature Protection, the Environmental Protection and Energy Efficiency Fund, and the Agency for Environmental Protection. It also includes local and regional government bodies, public institutions for the management of protected areas, and regional development agencies. It is interesting to mention here that 250 NGOs are active in the field of environmental and nature protection in Croatia.

The strategy documents that determine the national environmental policy framework in Croatia include the Strategic Development Framework 2006–2013 as a general framework, the National Environmental Strategy (Official Gazette 46/02), the National Environmental Action Plan (Official Gazette 46/02), and the Strategy for Sustainable Development of the Republic of Croatia (Official Gazette 30/09), which guide the enforcement of environmental law. The National Environmental Strategy and the National Environmental

Action Plan are the key strategic documents for environmental protection. They expired a long time ago, but remain the only ones.

Strategic documents concerning environmental components include the: Waste Management Strategy (Official Gazette 130/05) and the Waste Management Plan 2007–2015 (Official Gazette 85/07), the Water Management Strategy (Official Gazette 91/08), the Air Quality Protection and Improvement Plan for the period 2008–2011 (Official Gazette 61/08) and the National Strategy and Action Plan for the Protection of Biological and Landscape Diversity (Official Gazette 143/08). Environmental protection requirements have been gradually integrated into all relevant sectoral policy areas (transport, energy, agriculture, tourism etc.).

Environmental legislation in Croatia is made up of international treaties (conventions and protocols), which are confirmed by the Croatian Parliament, laws governing specific areas and their implementing regulations. The basic law on environmental protection in the Republic of Croatia is the Environmental Protection Act (Official Gazette 80/13, 153/13).

Specific laws in the environmental protection field will be specified further in the elaboration of environmental components. Concretely, laws govern waste management, water management, air quality and climate change and nature protection.

The legal area of waste management in Croatia is regulated by the Law on Sustainable Waste Management (Official Gazette 94/13) and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (Official Gazette – International Treaties 3/94). The Waste Act (Official Gazette 94/13) was adopted in 2013 and complies with the provisions of the Waste Framework Directive.

Waste management is currently a hot topic in Croatia. In the Treaty of Accession to the EU, Croatia agreed that all existing landfills would comply with the requirements of Directive 1999/31/EC on the landfill of waste by 31 December 2018. According to data from the Ministry for Environmental and Nature Protection, there are currently 301 landfills in Croatia, 120 of which have been remediated and 77 are in progress. There is also a delay in the implementation and construction of the regional and county Centres for Waste Management. Since July 2014, an obligation has been in force that prescribes waste separation and the criteria for payments by the volume of waste. These measures were needed since 2012 data show



that only 16% of collected waste was recycled in Croatia. The next deadline for reducing the amount of biodegradable municipal waste going to landfills is 31 December 2016, when Croatia has to reduce the share of biodegradable municipal waste deposited in landfills to 50% of the total amount (by weight) of biodegradable municipal waste produced in 1997.

Water Management was one of the widest parts of the *acquis* in the field of environmental protection. In total, 35 by-laws had to be adopted by 2012 in order to complete harmonisation with the EU legislation. The Water Act (Official Gazette 153/09, 130/11, 56/13, 14/14) and the Water Management Financing Act (Official Gazette 153/09, 56/13) provide the basic legal framework for water management in Croatia, as well as numerous international and bilateral agreements, and they comply with the provisions of the Water Framework Directive (2000/60/EC).

As regards implementation, transition periods are defined by the Accession Treaty – until 2024 for alignment with the Urban Wastewater Directive (91/271/EEC) with intermediate targets in 2018, 2020 and 2023 and until 2019 with the Drinking Water Directive (98/83/EC).

The strategic goal of the Water Management Strategy is development of the public water supply – the percentage of the population supplied with water from public water supply systems should increase from the current 80% to 85%–90% and the share of the population connected to public sewerage systems from the current 43% to some 60% by 2023, which is in line with European standards (Tišma et al., 2012: 83).

International obligations (from the Convention on Long-range Transboundary Air Pollution and eight associated protocols) provide the general framework for Croatian air protection policy and regulation. The Air Protection Act (Official Gazette 47/14), along with international agreements, is the basic law governing the management of air quality and defines the measures, organisation, implementation and monitoring of the protection and improvement of air quality. The Act incorporates the basic provisions of the EU directives on air quality and the basic provisions of EU directives governing the area of climate change.

Croatia has reduced air pollution relative to 1990, mostly due to actions and measures taken in other sectors, and the decline of industrial production. A transition period is defined in the Accession

Treaty regarding the area of air quality and industrial pollution prevention and control (IPPC) Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants till 2018 (Tišma et al., 2012: 231). There is also a transitional period until the end of 2015 for reducing emissions of volatile organic compounds.

Croatia ratified the Kyoto Protocol in 2007 following pressure from the EU and the decision of the Conference of Parties in Nairobi in November 2006, allowing Croatia to add 3500 Gg CO<sub>2</sub> emissions to the 1990 base-year level. Croatia had to reduce its GHG emissions by 5 percent in the first commitment period 2008–2012. The Action Plan for implementation of the Convention and Kyoto Protocol was included in the Air Quality Protection and Improvement Plan 2008–2011 (Tišma et al., 2012: 158). A Strategy for Low-Carbon Development of the Republic of Croatia is currently being prepared.

The biological, landscape and geological diversity is considered an essential Croatian asset and the biggest resource for future development. Croatia has developed and greatly improved its overall system for the protection and conservation of natural values and resources and the sustainable use of natural (biological) stocks since the early 1990s. Progress has been made both in the areas of inventory and evaluation of biological and landscape diversity, as well as in the development of the legislative and institutional framework and improvement of a system for the protection of natural values and the management of natural resources (Tišma et al., 2012: 52).

The fundamental law for regulating nature protection is the Nature Protection Act, adopted in 2013. Preservation of the ecological network is one of the fundamental goals to be achieved through implementation of the measures identified in the Nature Protection Act (Official Gazette 80/13). The Government of the Republic of Croatia has proclaimed the ecological network with a system of areas of ecological importance and ecological corridors. With this legal provision, the Republic of Croatia is in harmony with the European legislation in the field of nature protection.

Alignment with the EU environmental *acquis* has imposed a heavy financial burden on the already strained Croatian public budget. Environmental investment in Croatia has so far been unsatisfactory for meeting all of the EU's requirements. Therefore, the expenses of Croatian environmental harmonisation are estimated to rise to EUR 10 billion in the next 15 years (Tišma and Maleković, 2009: 29).

## Conclusions

The main problems with the implementation of environmental policies and related regulations in Croatia include the absence of a revised strategy framework. For instance, the primary strategy for environmental protection, the Environmental Strategy (2002), is relatively old, but not yet fully implemented. There are also other strategies that exist which can be found to be inconsistent with the priorities and measures related to the topic of environmental protection and sustainable development. An integrated approach to development and the environment is generally lacking.

After 10 years of preparation there is still insufficient knowledge and skills in the administration. Inadequate human resources, short deadlines and scarce finances are considered to be the biggest constraints. Better coordination and involvement of all stakeholders is more than needed. Investments in environmental infrastructure are not observed as activities that will encourage development and there is a lack of understanding of environmental problems and risks. Environmental activities are still understood as secondary compared to the main activity and there is almost no cooperation among the key development sectors.

The large number of new laws, regulations and related amendments create new demands, obligations and expenses for the Croatian economy. Since 2010 there have been predictions of a substantial investment in environmental protection, however nothing is happening. A preserved environment and sustainable development are the goals or priorities of diverse emerging policies and strategies, but there is no effective implementation. The economic crisis and lack of financial resources are the general excuses for everything, but for how long this will be the case remains to be seen.

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# 15 Slovenian Employment Policy in the EU Context: Pre-emption of Austerity

Matjaž Nahtigal

## Introduction

There can be little doubt that the ongoing financial, economic and social crisis is moving further away from the declared goals of the Lisbon Treaty. Namely, Article 2, par. 3, which stipulates that

*...the Union shall establish an internal market. It shall work for the sustainable development of Europe on balanced economic growth and price stability, **a highly competitive social market economy, aiming at full employment and social progress**, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.*<sup>1</sup>

Contrary to the stipulated commitments and goals of the European Union (“EU”), the EU is facing historic levels of unemployment, especially among the young, whereas many EU countries and European regions offer no *prospect* or future for large parts of the population. The discrepancy between the declared goals and socio-economic realities of many member states and their regions across the EU could not be bigger.

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<sup>1</sup> Official Journal of the European Union (C 306/1), 17 December 2007.

## **European employment normative and policy context**

From the normative and policy perspective of the EU, the employment policy is articulated in Chapter IX of the Treaty on the Functioning of the European Union (“TFEU”), Articles 145–150. According to the articles of the TFEU, the member states and the Union shall ‘work toward developing a coordinated strategy for employment and particularly for promotion a skilled, trained and adaptable workforce’ (Article 145), cooperation between member states is encouraged and the Union shall contribute, if necessary, by complementing their actions (Article 147). Each year, a joint annual report on employment shall be adopted as a basis for future activities (Article 148).

In addition to the chapter on employment, other important provisions of the TFEU deal with the labour market. These include provisions regarding the internal market, the free movement of workers, the prohibition of any form of discrimination, and vocational training policy.

Based on the founding European legal documents, secondary legislation in the area of labour law has been adopted. European directives have been adopted in the areas of employment and labour laws, setting of minimum rights and standards concerning health and safety at work, along with protections against discrimination, labour laws dealing with work time, and rights to participation and information. The goal of this growing number of European directives is to strengthen labour and social standards in the internal market, prevent labour and social dumping within the internal market – formed by the highly diverse member states in terms of the overall level of economic and social development – and regulate the activities of multinational companies (for example, by adopting a directive on European Works Councils). In the context of the normative activities, it has to be added that the European employment and labour legislation is one of the most controversial areas where different member states hold different views on the extent and scope of European employment and labour legislation.

Parallel to the expanding body of European employment and labour legislation, European policies and instruments dealing with employment and the labour market are also growing. In the context of the European monetary and economic union, the European Employment Strategy (“EES”) has been evolving since its introduction in

1992. The EES is also part of the Europe 2020 growth strategy. The main instrument for implementing the EES since 2010 is employment guidelines aiming to increase the labour market participation of women and men, develop a skilled workforce, improve the quality and performance of education and training systems, promote social inclusion and combat poverty.

The goals of the normative European framework in the area of employment and labour law and the goals of the EES are undoubtedly positive. The problem is that other European rules, policies and priorities are not coherent with the goals of an improved situation in Europe's labour markets. This was the case even before the protracted financial, economic and social crisis occurred in the EU and especially in the eurozone after 2008. Before the crisis, the incoherency between the stated employment, labour and social goals on one side within the stringent context of macroeconomic policies was less visible, although some authors were clearly pointing to this unsustainable incoherency (e.g., Huffs Schmid, 2005: 215). The EES could have been translated into 'hard law' by strengthening common labour and social standards, but in practice the member states and European policymakers opted for a trajectory toward 'soft law', which amounted to intergovernmentalism and a general suspicion regarding the necessity and desirability of excessive public intervention in the area of labour law. According to analysis of the nature of the EES, the concepts of labour flexibility and supply-side intervention have prevailed over a Keynesian interventionist macroeconomic approach in the circumstances of major disruptions in the labour markets (Ashiagbor, 2005).

Apart from the adoption of broad economic policy guidelines and implementation of national reform programmes, the jurisprudence of the European Court of Justice ("ECJ") deals with labour standards and the European Social Model in the constraining context of economic integration. Analysis of recent cases of the ECJ dealing with the conflict between labour standards and economic freedoms gave priority to economic freedoms. As a result of such deliberation, labour standards can only be maintained insofar as they are compatible with market integration (Ashiagbor, 2009).

In addition to the incoherency of different goals, priorities and policies at the European level, a problematic aspect of the EES was that 'Europeanization went hand in hand with a process of depolitization of public debates on employment and labour market policies,

since the EES operated as a benchmarking process, which detached policy deliberations from political contentions about differing options or choices and committed them to a technocratic search for best practices' (Lahausen, 2009: 172).

After the adoption of austerity measures at all levels of European governance in the crisis period – at the local, regional, national and supranational levels of the European polity – the conditions in the labour markets have deteriorated substantially. The cuts in the areas of education, training, public infrastructure, public services and other important areas will not only have negative short-term consequences, but very likely even more negative long-term ones.

An overview of the employment situation based on a preliminary reading of the most recent draft of the Joint Employment Report from the Commission and the Council (Commission 2015) and data on EU unemployment provided by Eurostat should be viewed as a source of deep concern about the future prospects and development of the European project. The draft Joint Employment Report emphasises that the 'employment and social situation continues to cause concern' and that 'even in economies which perform comparatively well unemployment is becoming structural as evidenced by the increasing number of long-term unemployed' (Commission, 2015: 2). Among the most worrying patterns of development in European labour markets are the probability that long-term unemployment is still rising, the proportion of young people without education, training and jobs remains high, segmentation of the labour market continues to be substantial in several member states and labour market matching has worsened in several member states (Commission, 2015). Of course, there are other more positive signs, especially in the leading and most developed member states and their regions, but the gap between the proclaimed goals of the Lisbon Treaty and the socio-economic realities in a large part of the EU and the *eurozone* is a source of genuine concern.

The efforts of the last several decades to complete the internal market, establish a common monetary framework and dismantle the remaining barriers were all meant to improve efficiency, spur economic growth and create more and better jobs within the European internal market. More than two decades after the Maastricht Treaty was adopted, more than a decade since the euro was introduced, more than a decade since the big enlargement, and more than five years since the big financial, economic and social crisis, the latest

unemployment situation in the EU-28 according to Eurostat is as follows: 'Eurostat estimates that 23,748 million men and women in the EU-28, of whom 18,105 million were in the euro area (EA-19), were unemployed in March 2015... In March 2015, 4,804 million young persons (under 25) were unemployed in the EU-28, of whom 3,215 million were in the euro area' (Eurostat 2015).

It is true that unemployment in the last year has been falling after having peaked in most EU countries, but due to structural unemployment the long-term prospects are not promising. Even after the European Central Bank's ("ECB") bond-buying programme (known as 'quantitative easing') was adopted, the ECB projects that unemployment in the eurozone will remain in double-digits even when its bond-buying programme expires in 2017. These long-term negative prospects of the European labour market are beginning to worry more and more European experts and policymakers.

A loss of prospects, especially for the younger generation, can be observed in many regions and countries across the EU. Lucrezia Reichlin, a professor at the London Business School, points to the large number of young Italians in Italy 'that risk being lost forever and that will create political pressures over time' (Jones, 2015). Jonathan Portes, director of Britain's National Institute for Economic and Social Research, is similarly concerned: 'The bottom line is that it's extremely disappointing that Eurozone policy makers continue to tolerate an unacceptably high and dangerous level of unemployment' (Jones, 2015). Structural unemployment can be especially harmful because it leads to the deskilling of long-term unemployed people. European labour market experts are particularly concerned that the protracted economic and social crisis in the eurozone has 'permanently destroyed the economy's capacity to create jobs, even when demand rebounds' (Jones 2015). Without a deep rethinking of European labour and social policies, of the EU's macroeconomic policy and the nature and character of the European internal market there is a risk that EU integration will develop in very uneven, unbalanced and potentially unsustainable ways.

In the context of the European labour market, another important dimension needs to be mentioned. Namely, there are very large differences between the member states and their regions within the eurozone and within the EU. There are countries and regions with very low unemployment rates, yet there are many other countries and regions in the EU whose unemployment rates are at levels seen

during the Great Depression. These differences in unemployment rates partly explain the lack of any more concerted and systemic action at the European level. Yet without such concerted and systemic European action, the risk is that future differences in terms of socio-economic development and the lost perspectives for many parts of society in many parts of the EU may be exacerbated. This possible trend is both unsustainable and in direct opposition to the proclaimed goals of the EU.

## **Employment policy in the context of Slovenia**

The case of Slovenia in the area of employment policy is largely in line with EU developments concerning employment policy. This is especially true in the period of this protracted crisis and its aftermath.

Before the crisis, many economic, social and institutional weaknesses in Slovenia were well hidden. The processes of the transition and EU integration were more an attempt to maintain the old model, based on traditional Fordist production with low-skilled workers supported by the traditional social welfare mechanisms, than an attempt to develop a modern, dynamic, innovative market economy with a matching quality of education, training, labour market institutions and policies (Barr, 1995).

The crisis has exposed many of the structural and institutional weaknesses, as well as weaknesses in the governance of public and private institutions. Slovenia has been hit particularly hard during the crisis. This impact has been witnessed in terms of a fall in GDP, a steep increase in unemployment, waves of company bankruptcies, financial sector losses which required recapitalisation by the state, and ultimately a steep rise in public debt. At one point during the crisis, Slovenia's access to international financial markets was in question, and even the arrival of the European 'troika' was looming. Slovenia formally escaped the arrival of the 'troika', but the measures taken by the subsequent Slovenian governments – already the fourth government in the last 6 years – were very similar to the measures taken by other peripheral countries dealing with the deep and protracted economic, financial and social crisis.

One specific fact characterising Slovenia during the crisis is that, distinctive from the general pattern of the EU's approach to the crisis, in the first stage there was a denial of the extent of the crisis. Slovenian political, financial and academic elites were unable to

realistically assess its true extent because before and after joining the EU they were constantly repeating that Slovenia is an unequivocal success story. They were hoping that the crisis in the EU would somehow go away and a return to the *status quo ante* would be possible. At the same time, the Slovenian elites were unable to recognise the level of mismanagement that had led to financial failures of epic levels for a small, open economy. However, when it became clear that the crisis would not simply disappear, panic-driven austerity measures were introduced. This response was similar to the responses of other European countries and in line with the guidelines adopted by European institutions. Ultimately, a panicky deleveraging took place after it became clear that the financial and macroeconomic conditions had further deteriorated.

Slovenia duly followed all of the policy measures adopted by the European institutions. A comprehensive law it adopted was the Fiscal Balance Act – with unprecedented legal intervention into more than 40 laws from the areas of employment law, social legislation, health legislation, education legislation and many other areas. It was one of the first countries to ratify the European Fiscal Compact, and subsequently amended its Constitution to introduce the fiscal rule, and it has followed all other measures stemming from the various Brussels economic packages up to the most recent national reform programme. Their common characteristic is the belief that the effect of the combination of austerity and structural reforms (leading almost exclusively to a reduction of labour and social protection) will ultimately return the country to the path of economic growth, job creation and overall prosperity.

Neither in Slovenia nor in any other European country is there available empirical evidence that such a schematic approach can work. From the European perspective, the Slovenian economic, social and employment situation may appear like a puzzle. It has been recognised as a successful new member state capable of active and quality membership in the EU. In the first years of its membership – it was a ‘carefree’ period of the inflow of cheap money in large quantities – and in the first two years after the euro was adopted the Slovenian elites deemed that entry into the EU and the eurozone in particular represented unlimited insurance against any kind of mismanagement. Hence, the prudent, accountable and transparent management of both the public and private sector started to deteriorate. The process of *Europeanisation* – the process of improved,

transparent and high-quality management of public and private institutions – was not overly strong during the period of transition. The period showing the most commitment to an improved quality of management was in the few years before EU accession. This was a time of the close monitoring of the given commitments, when Slovenia had to perform in order to become a credible EU member. It was a period of high hopes and high expectations. Contrary to those expectations, soon after joining the EU the commitment to more transparent, higher quality management in the public and private sector started to weaken. This unexpected shift still needs to be better analysed and explained. In the first stage of accession, Slovenia came very close to the average level of EU development. It was taken for granted that Slovenia would very soon not only reach the average EU development level, but become one of the more developed small EU member states. Today, however, Slovenia after years of recession and stagnation is as far away from the average EU development level as it was at the beginning of its accession.

The relationship between Slovenia and the EU in the area of employment policy can be described as a ‘mismatch’ in the following way: before and since joining the EU Slovenia has not developed strong, transparent and accountable institutions with a clear strategy and vision. This observation also applies to the labour market institutions. Labour market institutions are always part of the broader institutional setting, which includes a coherent framework supportive of research, innovation and industrial policy, consistent support for competitive and education policies, and institutional support for active employment policies, training and lifelong learning policies. All of these policies have only weakly been put in place, functioning more on a formal than a substantive level. These deficiencies have all been clearly exposed during the crisis.

On the other hand, the restrictive EU framework further diminished any hopes and possibilities that Slovenia would be able to carry out a comprehensive economic and social reconstruction. If the broader policy space is promoted by the EU institutional framework at some point in the future, if some breathing room is opened for the stagnating countries and regions in the EU, this would almost certainly give Slovenia a greater chance to re-join the path to recovery and develop in a more inclusive and balanced way than we are witnessing at present. Such a hypothetical shift, however, would require a substantial change in policy direction toward more innovative,



higher value added production, improvements in education and training to match the productive activities of the future and a substantial change in developing supportive institutions of the labour market, social welfare and industrial development.

From an empirical perspective – as reported by the most recent analysis of economic and social trends in Slovenia – the conditions in the labour market are slowly and somewhat improving. The unemployment rate is gradually decreasing from its peak at the end of 2013 and will continue to fall in the next two years, albeit at a slower rate. Currently, the unemployment rate is 12.5% and is projected to reach 11.2% in the next two years. In its projection, the government Institute of Macroeconomic Analysis and Development (“UMAR”) also estimates that some of the new employments will be agency workers (UMAR, 2015: 17–18). From a statistical point of view, there are certain positive signs that after the recent period of recession and high levels of unemployment in the coming two years the labour market will gradually improve somewhat. The challenges and weakness of the Slovenian labour market will, however, remain in place for the foreseeable future, as predicted by official projections.

Despite the country’s long tradition of strong labour law and social welfare protection (Vodovnik, 2014), the labour and social welfare institutions, legislation and policies are eroding at an increasingly fast pace. The protracted financial, economic and social crisis has only exacerbated the already gradual disintegration of the traditional labour and social standards occurring during the transition and EU integration.

What are the most important anomalies we can observe in the Slovenian labour market? These anomalies are essentially no different from the anomalies and weaknesses identified by the most recent draft Joint Employment Report from the Commission and the Council as described in the previous section. In addition to the high level of general unemployment and high levels of youth unemployment, the strong segmentation of the labour market should be viewed as one of the most crucial problems. Namely, there is a core of labour which continues to enjoy guaranteed labour rights and protections. Around this core of protected labour there is a growing number of workers with atypical work arrangements and with much weaker labour and social protection. Slovenian labour law experts warn about the rising share of flexible-type works (Kresal, 2013: 146). We can identify them as an emerging class of precarious workers. In addition, there

is a mismatch between higher education and the market for graduate students. This mismatch represents one of the greatest sources of dissatisfaction among young educated people but, because of its sensitivity, it remains almost completely unaddressed. The problem of structural employment is becoming one of the biggest problems of the European labour market and the same applies to the situation in Slovenia. The problem of the deskilling of workers, observed in the European markets due to the insufficient efforts of the active labour market policy, also applies to Slovenia.

The two-tier labour market, one with the relatively small group of relatively better protected workers and the other with the growing number of relatively less protected workers, will pose a major challenge to policymakers. Even if the Employment Service of Slovenia (“ESS”) is doing everything it can in the context of employment policy in Slovenia, without substantial changes in the implementation of economic, industrial, education and training policies and without substantial improvements to the public and private institutional framework there is little possibility and hope that the future labour market in Slovenia will become more inclusive, more sustainable and more resilient to future crises.

When analysing annual reports of the ESS, it is possible to note that the formal measures developed by other countries and also recommended by the European Commission only have a limited impact on labour market improvements. The most important measure in 2014 was implementation of the youth guarantee scheme. According to the report, the various measures of active labour market policies helped secure employment for almost 74,000 previously unemployed people. The estimate of the ESS is that its activities and measures are successful (ZRSZ, 2015: 21).

However, when we evaluate the ESS’ measures and activities in the context of broader economic, industrial, labour and social policies, the overall assessment becomes more ambiguous due to the identified anomalies in the labour market. Similar to the EES, we can again conclude that without the greater coordination of employment policy with other economic, social and educational policies it will not be possible to adequately address the persistent labour market anomalies and their increasingly negative effects on European societies and economies.

## **Conclusion: comparing European and Slovenian employment policies**

Both the European and Slovenian employment policies are currently being implemented in the broader adverse context of austerity, unselective cuts to education, research, public investments and in the setting of comprehensive structural reforms. One may conclude that both the European and Slovenian employment and development policies find themselves in a dual trap: the member states can no longer promote and implement policies that would provide economic and social security for their citizens, while the EU institutions have been unable to develop policies, instruments and tools similar to those that were once developed by the member states.

This is the main reason that the future development of the European labour market and the future of the Slovenian labour market are not very promising. A major rethinking of the division of competencies and responsibilities between the member states and the European institutions is necessary. The current quantitative easing by the ECB can buy some time, but it will not solve all of the conceptual, institutional and structural problems of Europe's labour markets. More empowerment, more policy space and also more accountability should be given to the lower levels of Europe, including the local communities, regions and the member states.

Having stated all the necessary and substantial changes from the European employment perspective in the years to come does not mean that improvements and changes to the Slovenian labour market are impossible. One of them is reducing the barriers between the relatively protected insiders and weakly protected outsiders in the labour market. Equally important is to be able to develop equal legal protection for all types of atypical jobs, including self-employment, part-time work, even small entrepreneurs should be protected. Another important area that must be improved is the quality of training and re-skilling within the framework of active market policy. Improvements in the quality of education and a smoother transition from studies to the labour market are crucial for the future of the Slovenian socio-economic model. It is necessary to develop a long-term coherent vision about the comparative advantages, niches and opportunities for Slovenian firms, industries and society as a whole.

Profound and substantial changes with respect to the European and the Slovenian employment policy are required. The success or failure of employment policy is one of the key areas where the performance of the European project is measured. After years of recession and record-high unemployment rates in many parts of the EU, it is time for a comprehensive rethinking of employment policies on the European and national levels across the EU.

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# 16 Croatian Employment Policy in the EU Context

*Predrag Bejaković*

## Introduction

The labour market plays the most important role in determining the standard of living of citizens of every society. In the past 25 years, Croatia has been characterised by U-shaped trends in GDP, strong and persistent declines in employment rates and desperately stagnant unemployment pools despite the rapid structural change taking place. After an improvement during the period 2002–2008, when the average number of unemployed persons fell from 390,000 to 237,000, due to the economic crisis unemployment again started to rise, reaching 324,000 in 2012 without any hope that it will be significantly curbed in the near future.

In the Croatian labour market and in the regulation of labour relations, more attention is devoted to maintaining existing jobs than to creating new employment opportunities. Legislative solutions and political actions in Croatia are more dedicated to extending the lives of unprofitable firms than stimulating the creation of new and sound business entities. This persistent and exaggerated maintenance of current employment produces the diametrically opposite result from that desired. In that way, the lack of competitiveness and labour market inflexibility so created have resulted in a reduction of the number of existing jobs, and at the same time restricted the space for new employment. There is thereby a polarisation of society into the relatively safe (although, with respect to the cost of living, underpaid) employed (the insiders) and the unemployed (the outsiders), a very

considerable share of whom are long-term unemployed with very slight chances of finding work.

After some introductory remarks, we briefly explain the similarities and differences in employment policy in the EU. The third part of the chapter is dedicated to an analysis of the most important characteristics of employment and unemployment in Croatia, while after that some main causes of the high unemployment and measures for reducing it are outlined. The chapter ends with concluding considerations and proposals for decreasing unemployment.

## **Employment and unemployment at the EU level**

The condition of employment or the lack of it and the solutions for it vary from country to country within the EU. Esping-Andersen (1990) distinguishes three basic models of social policy, and hence of employment policies. The first is the neoliberal one in which the emphasis is on the effectiveness of the market, and a restrictive assistance policy in which there is great social stratification (e.g., in the UK). The second is the Nordic or social-democratic model in which there is little stratification, the public welfare system is very developed, the state provides direct protection or financially assists members of society at risk and enables them to participate fully in the labour market or to have security during times of unemployment (the Scandinavian countries, for example). The third is the corporate model in which there is also high stratification, while government intervention is provided *via* market regulation or financial assistance (for example, France). There are substantial differences in unemployment rates among countries, as well as in unemployment structures and average lengths of unemployment, and it is hard to speak of any average situation in the EU. In July 2014, among the member states the lowest unemployment rates were recorded in Germany and Austria (both 4.9%), while traditionally the highest rate of unemployment was found in the fourth group – the Mediterranean lands, and the unemployment rate is highest in Greece (27.2% in May 2014) and Spain (24.5%). In 2013, Croatia had a very high unemployment rate of 17.3% (Eurostat, 2014).

Monetary benefits and assistance during a period of unemployment, apart from providing material security for the unemployed, are also important labour market regulation mechanisms. The attitudes to them in the EU, from the point of view of their compass, length



and amount, are fairly similar to the views about the active employment policy. In the corporate and Scandinavian, or social-democrat, countries, a large number of the unemployed receive monetary benefits (about two-thirds in Germany and Denmark) that are relatively high, while in the neoliberal and in the Mediterranean countries the coverage of the unemployed who receive monetary benefits is lower (from 20% to 30%), and the amounts of the benefits are considerably smaller.

## Analysis of the most important characteristics of employment and unemployment in Croatia

We will succinctly explain the determinants of the labour market in Croatia, especially the working age population, activity rates, trends and characteristics of employment and volume and structure of the unemployed.

*Table 16.1:* The demographic structure of Croatia, 1991–2013

	1991	2001	2013	difference 2013–1991
<b>Total population</b>	4,499	4,198	4,285	-214
<b>Working age population</b>	3,279	3,514	3,846	567
<b>Labour force</b>	2,040	1,746	1,682	-358
<b>Persons in employment</b>	1,811	1,469	1,387	-424
<b>Unemployed persons</b>	229	277	295	66
<b>Inactive population</b>	1,711	1,769	2,164	453

(In thousands)

Source: CBS (various years)

According the Labour Force Survey data, in the observed period from 1991 to 2013 the total population fell by 214,000 (5%), but the working age population increased by 567,000. Simultaneously, the activity rate (active in labour force/working age population) dropped from 62.2% in 1991 to 49.8% in 2001 and to 38.7% in the last quarter of 2013. This reduction was mostly a consequence of the fall in the number of employed persons (by 424,000 or 23%), which was accompanied by growth (absolutely and unexpectedly weaker) in the total number of unemployed persons (66,000).

The low employment-to-population ratio – a key indicator of labour market performance – is a result of three factors that distinguish Croatia from the average OECD country. These are: (a) the

extremely high youth unemployment (48.7% in May 2014) and low labour force participation of young persons (aged 15–24) (30.9% in Croatia in 2012, in the EU above 50.0%); (b) the lower labour force participation of prime-age men (aged 25–49) (in Croatia 81.3%, in the EU around 93.0%); and (c) the low labour force participation of older persons (aged 50 or more) (in Croatia 51.5%, in the EU around 60.8%). The activity rate for women is about 42%, more than 10 percentage points lower than the average for men. However, activities for women differ significantly by age groups. Participation is low for young women aged between 15 and 24 years (30%) and for women over 65 years (5%), and quite high for prime-age women (80%). During the economic crisis the mentioned rates have decreased.

The greatest absolute fall in the number of employed was recorded in legal entities, irrespective of their form of ownership. While the number of those employed in legal entities has fallen by 11.5%, the number of those in trades and self-employed occupations has increased by almost two-thirds. After a huge increase in the number of unemployed, the situation improved significantly during the first decade of the new millennium, but deteriorated after the beginning of the economic crisis in 2009 (Table 16.2).

*Table 16.2:* The active agricultural population, employees in legal entities of all propriety forms, in trades and freelance or self-employed occupations

Characteristic	1991	2001	2013	Indices 1990 = 100
Active Farming Population	265	166	130	49.1
Total Number of Employed Persons	1,432	1,272	1,395	97.4
– in legal entities irrespective of type of ownership	1,303	1,056	1,153	88.5
– crafts and trades and free-lances	129	216	212	164.3
Unemployed	254	380	345	135.8

(In thousands)

Sources: CBS (various years)

Employment for the population aged between 15 and 64 years has mostly been below 55%, with signs of a very slow increase in the first decade of the 2000s. The employment rate for the total population aged between 15 and 64 years grew from 53% in 2001 to 58% in 2008, but decreased afterwards to 54%. Employment is high for

prime-age men (above 80%) and low for youth (30%) and persons in the age group between 50 and 64 years (below 60%).

The overall unemployment rate for the population aged between 15 and 64 years fell from 13% in 2005 to 9% in 2008. In 2009 and 2010, the unemployment rate rose to 10% and to 12%, respectively. An even more pronounced deterioration was recorded in 2012 and 2013 when the unemployment rate increased to 15.9% and 17.2%, respectively. Compared to men, whose average unemployment rate remained below 10%, women experience rates of unemployment in the range of 12%. However, since the economic sectors that have suffered the most during the crisis are male-dominated, the percentage increase in the unemployment rate for men in the period from 2008 to 2010 equalled 4 percentage points (from 7% to 11%), while for women it went up by percentage points (from 10% to 12%). The above trends even deteriorated in the period up until 2013.

Age and previous work experience significantly determine the possibility of finding a job and define the position of individuals in the Croatian labour market. Even in a period of expansion young people without work experience faced huge challenges in entering the labour market. In addition, the employment rate for youth between 15 and 24 years has continued to decline due to increased participation in tertiary education. Approximately 85% to 90% of young people completing secondary school enrol in tertiary education. Around 60% enrol in university, while the others enrol in applied science streams.

Educational attainment has a significant impact on both the possibility of finding a job and the duration of unemployment. For instance, at the onset of the crisis in 2008, the share of long-term unemployment among individuals with a primary education or less was almost 75%. These shares were lower for individuals with three- and four-year secondary education (54% and 48%, respectively), and even lower for those with college and higher educational qualifications (43% and 40%, respectively). Employment remains a significant problem for young people who are often employed on a fixed-term and casual basis and find it difficult to obtain a permanent, career job. Labour force entry in the Republic of Croatia occurs at a later age and this reduces the participation rate of youth. However, young people usually find jobs faster than other groups of workers, but mostly under fixed-term employment contracts. Thus, they frequently shift from job to job a lot before they are able to settle down

under a permanent contract. Second, a small but significant proportion of youth enter long-term employment. These young people are at a particular disadvantage as they have little or no employment experience. Hence, they become at risk of social exclusion and welfare dependency for much of their lives.

In response to the fall in product demand, employers reduced hiring. The number of job vacancies plunged by around one-third and the unemployment/vacancies ratio doubled. At the beginning of 2010, there were 22 newly registered unemployed for every 10 vacancies, whereas before the crisis the ratio was only 11 unemployed for every 10 vacancies. This implies that there are no job vacancies for almost 55% of the newly registered unemployed (World Bank; UNDP, 2010).

### **Main causes of the high unemployment and measures to reduce it**

Unemployment in Croatia is mainly structural in nature, i.e. it is a consequence of maladjustment between the supply of and demand for labour with respect to the occupations, education, knowledge and skills of jobseekers and the requirements of existing jobs. When someone loses a job, the chances of their reemployment are slight. This is exacerbated by the inappropriate educational and qualification structure of the unemployed, that is, their failure to have the knowledge and expertise being sought and limited opportunities for relocating to areas where there are certain employment possibilities. Croatia is not unique in having relatively strong interest in adjusting (matching) its educational output with the dynamic trends in the labour market. The country does not have a system of labour market information on occupational trends. Thus, it is impossible to specify which kinds of future requirements and unmet demands are commonly perceived (Bejaković and Mrnjavac, 2014).

The declining production in Croatia in the early 1990s and consequent reduction in the number of employees were not surprising. However, it is less clear why the high unemployment has remained permanent after output increased. Therefore, given the unemployment and related poverty and social exclusion, the main concern is not so much why unemployment grew at very high rates, *but why some people find it so difficult to get out of unemployment*. The very low rates of emerging from unemployment mean that unemployment is

becoming increasingly permanent. Croatia is clearly a country with a high share of long-term unemployment so efforts aimed at reducing it are highly important. Obviously, the suppression of unemployment (particularly long-term unemployment) is a complex and expensive task, which becomes even more expensive if these efforts are delayed.

Long-term unemployment is a determinant of social exclusion. Around 50% of registered unemployed had been unemployed for more than a year. More than one-third had been looking for a job for more than three years. Long-term unemployment affects women more than men. The share of long-term unemployment among workers with a primary education or less was around 75%. Only 15% of the unemployed with a primary education were able to find a job within the first six months of unemployment, compared to 40% of workers with university qualifications.

In addition, there are other labour market restrictions conditioned by the relatively small difference (and certainty of reception of) the lowest wages and the various benefits in the welfare system (which does not fully motivate active job searches). From the position of unemployment benefit recipients, social benefits may create work disincentives because their amounts usually steeply decrease when an individual becomes employed. This can discourage (re)employment and/or longer work. Bejaković et al. (2013) showed that almost all people (including social welfare beneficiaries) would benefit from employment, but this benefit is relatively small. The authors concluded that there are cases and types of families when the incentives are significant because a very high marginal effective tax rate when moving from unemployment or inactivity to employment applies.

According to business climate and competitiveness indicators published by international organisations, Croatia is a country with a rigid labour market and a high level of workers' legal protection. Given that the Act on Amendments to the Labour Act (OG 73/13) entered into force in Croatia in June 2013, Kunovac (2014) examined changes in employment protection legislation in Croatia and Central and Eastern European countries, as well as in Croatia's main trading partners during the period between 2008 and 2013. Despite the amendments to the Labour Act, Croatian labour legislation governing employment protection for regular employment contracts remains relatively inflexible compared to that in other countries. In Croatia, however, except for the flexibilisation of employment

protection legislation for collective dismissals, nothing has been done to adjust the employment protection legislation for regular contracts. Therefore, some hiring and firing procedures remain more complex in this country than in the observed countries. The situation did not improve significantly with the new Labour Law (OG 93/14) in 2014, so future amendments to the Labour Law should ensure further liberalisation of the Croatian labour market and, consequently, more flexible employment protection legislation for regular contracts (Potočnjak, 2014).

To ease the transition to work, the structural mismatch needs to be reduced first of all through active labour market policies (“ALMPs”) targeting those groups of individuals with a lower employability level or those more likely to become long-term unemployed, such as youth, older persons and particularly women and persons with disabilities. Naturally, an increase in overall employment would signify a more favourable impact of ALMP than the redistribution of unemployment to a larger number of people. Therefore, the inclusion of the long-term unemployed or the prevention of long-term unemployment is surely worth considering. Pursuant to the National Employment Promotion Plan 2011 to 2012 and the National Employment Promotion Plan 2013 to 2014, the Croatian Employment Service (“CES”) financed the training of unemployed people to address labour market needs. Long-term unemployed and special groups of the unemployed had priority in being included in the training. In 2011, a total of 13,788 people were included in the training, 202% more than in 2010 when the number of unemployed participants was 4,566 (or 50.9%) more than in 2009, when the number of participants was 3,025 or 28% more than in 2008. This is a significant increase in the number of participants, although it still does not suffice considering the total number of long-term unemployed. Similar activities followed in 2012 and 2013 so the number of participants recorded a further increase (Croatian Employment Service, various years).

Unfortunately, in Croatia there is no more comprehensive series of data and research so the effects of ALMP may only be assessed intuitively. In Croatia, active labour market measures have been more frequently applied for the temporary reduction of unemployment (for example, by co-financing employment and public works) than for the unemployed to be given an opportunity to acquire knowledge and skills, as well as information required for finding a

job. Although expenditure on ALMP in Croatia has increased, there are serious doubts about the efficiency of these efforts (Babić, 2003) where the problems are related to their short duration and relatively low consistency. Various programmes were commenced and yielded better than expected results, but were interrupted mostly due to a lack of money. Further, greater attention and financial support was given to the co-financing of employment and not to improving the knowledge and expertise of jobseekers. With regard to the implementation of active measures on the local level, it is necessary to establish and/or improve the cooperation of the CES and local active employment policy initiatives. When evaluating active labour market policies in 2009 and 2010 in Croatia, Matković et al. (2012) observed the effects of participation in measures realised by the CES. Effectiveness was analytically evaluated by the application of matching techniques as they compared the outcomes of participants with a control group comprised of unemployed persons with similar observable characteristics who did not participate in the measures. They evaluated five measures for which appropriate matching could be enacted: (1) employment subsidies for youth with no employment experience; (2) long-term unemployed; (3) older unemployed persons; (4) training programmes for the unemployed; and (5) public works. Results of this quasi-experimental evaluation approach do not indicate that participation bears a particularly strong effect with respect to the observed outcome. Participants in all three employment subsidy programmes were less likely to be in unemployment than the controls for the first two years after the subsidies ceased, but the participants' advantage was declining over time, and the matching effect is likely overestimated as it does not account for the 'creaming' effect since the selection of (more employable) candidates was done on the employers' initiative. On average, the education programmes turned out to reduce the probability of leaving unemployment for a year after participation (due to the programme effect), and yet within 2 years (the maximal observed time span) the probability of being unemployed for the training programme participants was about the same (or minimally lower) than for comparable non-participants. However, education measures turned to be more effective when certain sub-populations were observed: persons without an upper secondary education, persons who entered unemployment from inactivity (not regular education) and among persons who had not spent a very

long period in unemployment prior to their participation. Participation in public works programmes was estimated to have increased the mid-term unemployment risk for participants, but this has to be understood through both the programme effect and selection of the most vulnerable unemployed in public works. Briefly, there is a need to improve the targeting of ALMP to the most vulnerable groups in the labour market.

## **Concluding considerations and proposals to reduce unemployment**

As an important precondition for a successful labour market policy, taking into account the process of globalisation Croatia is undergoing, economic restructuring and the pressures of competition, there is an obvious need for more effective planning and management of the education system, particularly in terms of putting more attention on the long-term forecasting of labour market needs. Thus, it will be necessary to systematically monitor the labour market and occupational trends to ensure better labour market information on occupational trends.

Investments in human capital are necessary to keep pace with the growing demand for high-level skills. Although the workforce in Croatia is (mostly) well educated, employers often have difficulty finding workers with the right skills. The upgrading of skills, particularly through lifelong learning and adult education, will be one of the major tasks in order to overcome the skill mismatch problem. Participation rates in education need to be raised throughout the education system, including education at all levels.

The employment crisis has hit young people harder than other age groups. This is felt mainly in terms of unemployment, longer job search periods, discouragement and prolonged inactivity. The long unemployment spells young people face when entering the labour market during a recession may have long-lasting effects in terms of future employment and wages. Key priorities for Croatia in the promotion of youth employment are thus: 1) to increase the level of employability of groups most affected by long-term unemployment, primarily by directing active labour market policies towards persons with low employability and/or disabilities; and 2) to expand the scope of secondary and higher education.



Active labour market programmes in Croatia are still limited in their scope, range and coverage. They have been further downsized during the crisis due to fiscal constraints. Active labour market programmes are more successful when they are well targeted, respond to labour market requirements and involve the social partners in their design, monitoring and evaluation.

The challenge of making employment a key target of economic policies requires coherence and coordination across several ministries and institutions. Establishing effective monitoring mechanisms that include employment indicators would facilitate such coherence and cooperation among different stakeholders. For all of the mentioned activities, further implementation of the European Employment Strategy and Open Method of Coordination could be very useful.

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# 17 Slovenian Education Policy in the EU Context

Urška Štremfel

## Introduction

In this chapter, we examine the Slovenian national policy context as the primary site for understanding policy learning, not only initiated by a member state itself, but as the impact and imposition of the EU. The contribution therefore considers the so-called two-level game between the national and European educational space and its impact on the development of the national education system.

The chapter aims to offer an insight into how the EU level has helped Slovenia (as a post-socialist state) to increasingly perceive itself as having a similar agenda to the EU's agendas with respect to which educational changes are important and necessary in the period from Slovenia's independence (1991) until the end of its first decade in the European educational space (2014). The main aim of the chapter is therefore to explicate the development of the Slovenian education system and provide an insight into some interconnected factors that help explain the operation of the new mode of EU educational governance within the Slovenian context. We employ a complex multi-level framework of analysis, which serves to explain the conditions in which Slovenia has been (internally and externally) triggered to follow the EU's educational agendas.

The chapter is guided by the following research question: 'How are the specific features of the development of the Slovenian (post-socialist) system reflected in the Europeanisation of the Slovenian educational space?'. In order to address the research question, we employ a methodological framework, including the following methods

and techniques: an analysis of the relevant literature and secondary sources, an analysis of formal documents and legal sources at the EU and national level, an analysis of data collected through several in-depth, semi-structured social science interviews and stakeholder meetings, the administering of questionnaires and observation by participation as well as an analysis of already existing statistical data (see Štremfel, 2013: 36–46).

The structure of the chapter is as follows. In the first section, a description of specific features of the Europeanisation of post-socialist education systems is provided. In the second section, the development of Slovenia's educational space is elaborated according to three phases which overlap with the three phases of the Europeanisation process (legislative reform – lesson drawing, curricular reform – pre-Europeanisation, monitoring and evaluation of the education system – Europeanisation). The third section offers an insight into the three phases of the Slovenian education system's development through the lenses of a new mode of governance, policy learning and evidence-based policymaking. In the conclusion, opportunities and constraints of Slovenia's involvement in the European educational space are discussed.

## **The Europeanisation of post-socialist education systems – coming back to Europe**

In academic discussions we can find an idea that, despite the particularities of each national education system, post-socialist states share some similarities that can explain their relative openness to the Europeanisation process. Silova argues that part of the explanation for the rapid adoption of Western 'standards' throughout the former socialist bloc is undoubtedly the widespread perception that the whole telos of post-socialist transitions<sup>1</sup> was indeed a return to 'Europe' and to 'normality', with the EU accession processes accentuating the Westernisation trajectory (Silova, 2012: 237). She explains that, in fact, any deviation from the Western 'norm' in these states was immediately reflected in the emerging narratives of 'crisis', 'danger', and 'decline'. In other words, the promise of 'salvation' for post-socialist

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1 Birzea (2008: 106) explains that the term designates an interregnum situation, which requires more or less clear reference points for the destination of transition, intermediary stages and the changes this process involves.

societies lies in abandoning their socialist past and embracing the logic of Western modernity. In this context, the West becomes identified as ‘a forerunner in global institutional trends’ (Baker and LeTendre, 2005: 17), setting new global standards for education quality, equity and achievement. By focusing on the ‘global’, post-socialist states construct ways of reasoning that undermine divergent visions for education reforms and limit the possibilities of imagining any alternative trajectories of post-socialist transformations.

Birzea (2008: 107) argues that the post-socialist transition to the EU is characterised by the slogan ‘Back to Europe’. The EU was seen as a promised land, a place of freedom and prosperity that post-socialist states had become abusively estranged from. Europe was primarily seen as a sign of normality and historical justice. Halász (2007: 55) points out that, although in the post-socialist context there were many references to Europe, not many actors in the education policy arena really knew what kind of challenges Europe (meaning Western Europe) was then facing (Halász, 2007: 55).

In terms of the process of reforming post-socialist education systems, Cerych (1997) divided it into four phases: corrective, modernisation, structural and systemic reforms. In his opinion, systemic reforms involve a real paradigm shift, meaning deeper reform and organisational changes which aim to reshape the finalities and relations of education to fit the social system. In his analytical framework of educational transformation, Halász (2007: 46–48) distinguishes three phases: deconstruction, construction (with stabilisation and modernisation) and systemic reform (which usually takes place after one or two decades after the shift from one political regime to another). From that point of view, he argues that the picture of the transformation of Central and Eastern European states (including Slovenia) is not very clear since two transitions (from a planned to a market economy and from an independent state to an EU member state) is intertwined. In the case of Slovenia, this can be illustrated by Barle’s and Svetlik’s explanation (see Gaber, 2008: 1): ‘Recent demands for changes in the education system in Slovenia had been expressed in evaluation studies at the end of the 1980s. However, the change of the social system meant that changes in the education system became a necessity. Thus at the start of the 1990s Slovenia joined the European trend towards reforms of education systems’.

Halász (2007: 34) explains that, as systemic reforms are becoming unbreakably linked with Europeanisation, only the progress of

the latter may create appropriate conditions for the former. Thus, the shift from the second phase of transformation (construction, stabilisation and modernisation) to the third phase (systemic reform) cannot be detached from Europeanisation. This shift is strongly conditioned by the nature and quality of the process of Europeanisation (Halász, 2007: 34).

The transformation of post-socialist education systems should therefore be seen as being intertwined with the Europeanisation process. That is seen from the breaking down of the socialist ideological influences (efforts to depoliticise the educational agenda), openness towards the West (according to Gaber (2008: 102) in Slovenia we wanted to become part of a free Europe with a high standard of living and we saw education as an important tool to reach this goal) and relative restrictions on radical reforms. The latter can be illustrated by Gaber's (2008, 12) explanation: "From the very beginning we avoided the word 'reform'. For one thing, both citizens and us were afraid of yet another experiment in education. A fear of making new mistakes made us opt for a careful comparative step-by-step reform. One of the hypotheses (which proved to be true) was that the existing system formed a sound basis that we could develop further without overly radical change".

In the next section, we explain how the above considerations of the transformation of post-socialist systems and their transitions towards the EU can be identified in a case study of Slovenia and how the peculiarities of the Slovenian transition have influenced the reception of EU agendas ever since Slovenia's independence (1991).

## **The sovereign development and Europeanisation of Slovenia's education system**

The education system in present-day Slovenia has a long history. Authors (Lajh and Štremfel, 2010) have divided it into three main periods: a) an imperialistic education policy (until World War II); b) supervised education policy (from World War II to 1991); and c) sovereign education policy (post-1991) (see Lajh and Štremfel, 2010). For the purpose of this chapter, we argue that the stage of sovereign education policy should be further elaborated and divided into subsections. These subsections could be understood with respect to the plan for a comprehensive school reform in Slovenia, which consisted of three main phases: (a) changes in educational legislation

Table 17.1: The sovereign development and Europeanisation of Slovenia’s education system

			National reform process	Europeanisation process
I. phase	Features	1991 – 1996 Legislative reform	<ul style="list-style-type: none"> <li>– Social and political changes</li> <li>– Development of the theoretical base for reform</li> <li>– Careful, comparative step-by-step reform</li> </ul>	<ul style="list-style-type: none"> <li>– Alignment with European values and international educational standards</li> </ul>
	Actors		<ul style="list-style-type: none"> <li>– Two specific expert committees</li> <li>– Long and well-structured discussions between experts in close cooperation with school and other actors</li> </ul>	<ul style="list-style-type: none"> <li>– Review teams (OECD)</li> <li>– Consultations with experts from France, England, Scotland, Germany and Nordic countries</li> <li>– Identified need for permanent structures for the international transfer of knowledge and good practices</li> </ul>
	Instruments		<ul style="list-style-type: none"> <li>– White Paper on Education</li> <li>– The entire educational legislation</li> </ul>	<ul style="list-style-type: none"> <li>– UNESCO and European Commission White Paper</li> <li>– Comparison of education in Slovenia with education systems from selected countries in Central and Western Europe</li> </ul>
II. phase	Features	1997 – 1999 Curricular reform	<ul style="list-style-type: none"> <li>– Nine-year elementary school programme</li> <li>– Extensive in-service teacher training</li> </ul>	<ul style="list-style-type: none"> <li>– Attaining international standards of knowledge</li> <li>– EU accession process (1998–2002)</li> <li>– Chapter 18 of the Europe Agreement</li> </ul>
	Actors		<ul style="list-style-type: none"> <li>– National Curriculum Council (NCC) (23 experts) in cooperation with 516 external professionals and in consultation with more than 10,000 teachers</li> </ul>	<ul style="list-style-type: none"> <li>– The ministry arranged a series of meetings with representatives of educational authorities from France, Norway and Finland</li> <li>– Involvement of schools in European educational and training projects</li> <li>– From 2002 onwards Slovenian representatives (public officials) have taken part in E&amp;T 2010</li> </ul>
	Instruments		<ul style="list-style-type: none"> <li>– Starting points of curricular reform [Izhodisca kurikularne preнове]</li> </ul>	<ul style="list-style-type: none"> <li>– Information gathering and learning about reform procedures and experiences in other countries</li> <li>– Introduction of the dual system of vocational education, combining German and Danish experiences</li> </ul>
III. phase	Features	2000 onwards Evaluation	<ul style="list-style-type: none"> <li>– Monitoring and evaluation of the reforms</li> <li>– Quality assessment and assurance</li> <li>– School self-evaluation</li> <li>– School inspection</li> </ul>	<ul style="list-style-type: none"> <li>– Voluntary cooperation</li> <li>– Soft law</li> <li>– Institutionalised forms of mutual learning</li> </ul>
	Actors		<ul style="list-style-type: none"> <li>– National Council for Quality and Evaluation</li> </ul>	<ul style="list-style-type: none"> <li>– Representatives in working groups E&amp;T 2010 and E&amp;T 2020</li> <li>– Representatives in Expert bodies and EU Networks</li> </ul>
	Instruments		<ul style="list-style-type: none"> <li>– National examinations</li> <li>– International comparative assessment studies</li> </ul>	<ul style="list-style-type: none"> <li>– Open method of coordination:                             <ul style="list-style-type: none"> <li>– Common goals</li> <li>– Benchmarks</li> <li>– Indicators</li> <li>– Peer-learning activities</li> </ul> </li> </ul>

Sources: Adopted from Zgaga (2000); Štrajin (2002); Gaber (2008); Lajh and Štremfel (2010)

(1991–1996); (b) curricular reform (1996–1999); and (c) implementation and evaluation (1999 onwards).<sup>2</sup> In addition to the national reform process, we argue that from Slovenia's independence onwards we can also recognise three phases of the Europeanisation process, which are to some extent significantly intertwined with the national reform process: (a) lesson-drawing (1991–1998); (b) pre-Europeanisation (1998–2004); and (c) Europeanisation (2004 onwards).

### **Different phases – common (policy learning) features**

The table shows that the Slovenian case confirms Halász's (2007: 34) view that the systemic reforms of post-socialist states are inextricably linked with the Europeanisation process. As shown in the table, reference to Europe has been made as part of the Slovenian national educational reform process ever since the country's independence. From the actors' point of view, experts have been playing an important role in both the national reform process and Europeanisation process, where external experts were intensively consulted. This can be explained by efforts to depoliticise the educational agenda and the break away from the rigid ideological control and orientation of the system (Cerych, 1997: 76). In terms of instruments in the whole modernisation process, we can recognise the adoption of many policy documents, which took account of comparisons with and good practices of other (EU) member states.

Policy learning (in terms of lesson drawing and comparison with EU member states) has thus been involved in the educational reform process from Slovenia's independence onwards. That can (at least partially) explain why in 2004, when Slovenia became a full member

2 Štrajn's typology to some extent corresponds with the typologies of some other (non-Slovenian authors). Halász (2007: 55) explains that the transformation process has led to significant changes in all relevant dimensions of the school system, from aims to structures and to available resources through content and work organisation. According to Cerych (1997), specific educational reforms include: (a) reforms of institutional structures; (b) reforms of curriculum; (c) reforms of management; (d) reforms of governance and financing of education systems; and (e) reform of teacher status and training, while Mitter (2003) distinguishes between five areas of transformations in these systems: (a) decentralisation of responsibilities; (b) financing and privatisation; (c) structural reforms; (d) curricular reforms; and (e) evaluation, assessment and examinations.



of the EU, the Slovenian education system was already fairly well developed, with some targets and indicators already matching or exceeding EU averages.<sup>3</sup> According to Gaber (2008: 102), these results confirmed that ‘comparing reform in Slovenia with the reforms in the region – and even judging by the country’s results in the OECD PISA (Organisation for Economic Cooperation and Development Programme for International Student Assessment) studies – we were relatively successful’.

There has been many academic discussions in the education field around the global convergence on education discourses that direct (and sometimes force) domestic reforms, often on the basis of ‘super-ordinate’ economic and political reforms. That dynamic has often been reflected in the term ‘governance’. According to Altrichter (2010: 148), these studies aim to answer the question of how the regulation and performance of school systems is achieved, sustained and transformed in the perspective of the coordination of action between various social actors in complex multilevel systems.

Silova (2012: 230) argues that the post-socialist education space illuminates the use of normative policy learning as a strategy for normalising educational transformations and subsuming new realities into the familiar conceptual categories of modernity (now recast as globalisation paradigms). Educational policy learning has thus become a vehicle to catch up with the West. ‘Policy learning can be characterised as one of the prime instruments in the exchange of governing knowledge in education in Europe today, as it creates the necessary preconditions for achieving policy understanding, travel, translation and thus, despite local idiosyncrasies and histories, policy consensus’ (Grek, 2012: 56–57).

Thus, governance of the European education space depends heavily on knowledge and its exchange through policy-learning processes (Grek and Ozga, 2010). The process of governance and policy learning, in which knowledge plays a crucial role in the policymaking, is characterised as evidence-based education. Evidence allows common goals to be clearly stated, monitored and their attainment

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3 In addition, Gaber (2008: 103) explains that: ‘a) the time of transition was a time of relative openness; b) the euphoria of a new beginning was an opportunity for all; c) a condition of national common purpose existed in the general desire to join the European Union; and, d) a relatively unstructured political system and ideological divisions, together with political stability are to be credited for the relatively smooth and successful reform of education in Slovenia’.

compared among the member states and across the whole of the EU, and for either EU institutions or member states themselves to identify and resolve the problems of not attaining the goals.

The above discussion indicates Europeanisation is a two-level process in which EU and member-state levels are equally important. Ozga and Jones (2006) assert that this perspective allows for the recognition that, although policy choices may be narrowing, national and local assumptions and practices remain significant and mediate or translate global policy in distinctive ways (Rinne and Ozga, 2011: 75). Educational policy in Europe therefore continues to be shaped, to greater or smaller degrees, by national histories, alongside global orthodoxies and the supranational agenda; such policy should also be understood in terms of its constitutive tensions rather than, or alongside, attempted coherence (Dale, 2001). These observations also hold for the reception of data generated at the European level; that is, these data can be applied to different extents in the attempt to govern national education (Ozga et al., 2011: 90).

## **Conclusions: exploit opportunities, leave behind constraints**

Cerych (1997: 77) argues that changes deriving from transformation and reform processes have long-term consequences, however imperfect their implementation has been. Similarly, Halász (2007: 54) exposes two problems of educational transformation: (a) it can produce many and very uneven (unplanned) outcomes; and (b) some basic structural problems have never been resolved. After more than two decades since the national reform process started and after Slovenia's first decade of EU membership, the chapter tried to answer the question 'How are the specific features of the development of the Slovenian (post-socialist) system reflected in the Europeanisation of the Slovenian educational space?'. In the first section, we elaborated that the transformation of post-socialist education systems (including Slovenia's) has the following features: openness towards the West, the depoliticisation of policymaking, and slow, step-by-step reform.

Empirical evidence from Slovenia confirms Lawn's (2011: 264) view about EU policy as soft governance: a lightly regulated, persuasive and self-managing form of governing in which policy is depoliticised. Lawn (2011: 267) estimates that what is happening now in the European education space is a sophisticated version of structural

adjustment through the embedding of new standards and statistical categories of performance. Based on the results of a case study (see Štremfel, 2013), we can confirm the important role of EU educational instruments (indicators and benchmarks, international comparative assessment studies and good practices) in the assessment and improvement of students' achievements in the Slovenian educational space and therefore in achieving the common EU goals in the field.

Openness towards the West (seen in policy learning from Western countries in the entire process of national reform and the Europeanisation process in Slovenia) sometimes resulted in a non-selective adoption of EU agendas. The relatively weak institutional infrastructure of Slovenia as a new EU member state even intensified the non-selective reception of EU agendas.<sup>4</sup> We can then assume that, although new (post-socialist) EU member states are very receptive to western ideas (ideational pressure), they are also confronted with institutional difficulties in translating these ideas into the national context due to institutional and organisational constraints (organisational pressure) (see Štremfel and Štraus, 2014).

In addition, the desired neutrality of the new Slovenian education system fostered an openness to see progress towards the West and fostered the non-selective reception of EU policy recommendations derived from (neutral) comparisons based on new standards and statistical categories of performance. According to Lawn (2011), the European educational space is characterised by the use of neutral expert data, which does not ensure that these data are not used for politically motivated changes. This is evident at both (the EU and national) levels. According to Lange and Alexiadou (2010), common European cooperation in the education field is characterised by the European Commission's willingness to deepen and widen such cooperation. Expert knowledge therefore has the aim of influencing member states' traditions, deepening the common cooperation

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4 In this respect, especially the new member states from Central and Eastern Europe face several particular domestic challenges that impede efficient coordination and effective participation in the policymaking process: a shortage of resources and expertise relating to EU affairs, financial constraints, a lack of specific skills among civil servants (i.e. insufficient knowledge of the formal and informal working mechanisms and rules of EU policymaking, a lack of language skills), politicisation of the bureaucracies, while governments and coalitions in those countries change more often (Gärtner et al., 2011: 80–82), which can result in frequent (institutional) changes in the coordination of EU affairs at the domestic level.

and the convergence of member states' national educational spaces. Empirical evidence (see Štremfel, 2013) shows that (neutral) expert data produced at the EU level are still used for politically motivated changes at the national level. Institutional and organisational constraints are therefore evident in the lack of appropriate contextualisation of the EU expert data at the Slovenian national level.

Both arguments correspond with Gaber's (2008: 106) thinking about two major mistakes in reforming education in Slovenia: 'First of all, in a time we considered as the end of history, we believed that Western rationalist concepts of society and education were universal. Secondly, the market, competition and work-orientation that aimed at inclusion in the European distribution of labour received overdue attention'.

We cannot change the past. Since Europeanisation was a demanding task, with even unexpected outcomes, it seems that according to Gaber's recognition (2008) and Štremfel's (2013) conclusions, the main challenge of further developing the Slovenian educational space within the EU remains how to learn from our own experience and mistakes, and how to more selectively borrow the EU's agendas for further development of the national education system. It seems that establishing an appropriate institutional infrastructure (involving greater awareness of the key actors and conscious contextualisation of the expert data produced at the EU level) would be a way forward.

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# 18 Croatian Education Policy in the EU Context

Tihomir Žiljak and Teodora Molnar

## **Changes in education policy in transition: policy changes vs. reform of the education system**

This chapter analyses the main elements of education policy changes over the last 23 years in the Republic of Croatia, from declaring its independence until joining the European Union. The past 20 years is a long enough period to allow us to analyse the education policy process and its European dimensions. According to Sabatier, these are the two optimal decades for the process analysis (Sabatier, 2007). The European context is important because recent studies have shown that national education policies cannot be conclusively analysed without considering an international context (Sahlberg, 2011), or the impact of international organisations (Martens et al., 2010). Recent studies on education policy in Croatia have also shown that educational changes cannot be understood without the European dimension (Pastuović, 2013; Žiljak, 2013).

Education policy changes are not identical to an educational reform or a reform of the school system. Educational changes can be incremental, without paradigmatic changes (Tyack and Cuban, 1995),<sup>1</sup> and paradigmatic. On the other hand, educational reform is generally tied to a programme document which seeks to encourage a radical change in educational practice and to radically change the current situation. Reforms generally promote new ideas turned into

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<sup>1</sup> Incremental decisions are usually partial and made quietly, away from the noisy decisions made by the key national actors.

goals, while using existing and creating new institutions with the support of stakeholders who are powerful and interested enough (Tyack and Cuban, 1995).

Therefore, educational reforms tend to be paradigmatic, but paradigmatic changes can occur even without a written strategy. Hall's definition of paradigm is fundamental for the analysis of public policy changes: 'Policy paradigms can be seen as one feature of the all overall terms of political discourse. They suggest that the policy-making process can be structured by a particular set of ideas, just as it can be structured by a set of institutions. The two often reinforce each other since the routines of policy making are usually designed to reflect a particular set of ideas about what should be done in the sphere of policy ... Similarly, policy paradigms are likely to have greatest impact in institutional settings where policy is superintended by experts or by administrators with long tenures in office' (Hall, 1993: 290–291). However, Hall, who clearly distinguishes between normal and paradigmatic changes, sometimes attracts complaints that he is oversimplifying the whole process of changes. For example, Howlett and Cashore have criticised his classic review (*orthodoxy*) of changes and paradigms (Howlett and Cashore, 2009).

Not only do Howlett and Cashore differentiate between incremental and paradigmatic changes, but they classify them in a number of different elements which differentiate rapid paradigmatic change (one large step) from gradual paradigmatic change ('one large step but a slow moving one'). They also differentiate fast incremental change (many small but fast steps) from classical incremental change (many small and slow moving steps). Moreover, they propose new homeostatic and thermostatic models of changes: "A 'neo-homeostatic' one in which paradigmatic changes occur through endogenous shifts in goals; a 'quasi-homeostatic' in which exogenous factors influence changes in objectives and settings; and a 'thermostatic' one in which durable policy objectives require that settings adapt to exogenous changes..." (Howlett and Cashore, 2009: 33, 34). Within a 'thermostatic' model, "goals are set broadly enough to allow, or simply do not figure in, paradigmatic change driven endogenously by major alterations in end-related objectives and settings" (Howlett and Cashore, 2009: 41). Within such a model, incremental changes are occurring "until such time as a built-in thermostatic mechanism is 'tripped', resulting in classic paradigmatic change through changes in policy settings and objectives" (Howlett and Cashore, 2009: 42).



This relationship between policy changes and stability is notably present in Lorraine McDonnell's education policy analysis where she extensively uses the heritage of historical institutionalism (McDonnell, 2009). Levin, one of the most prominent theorists of education reform, argues that it is impossible to analyse educational changes outside of education policy analysis. He also shows the connections between ideas, institutions and politics and the importance of the time required for changes: 'Education is intended to serve other social purposes, so ideas about education will change as ideas about those other purposes change. Changes in the substance of education policy were accompanied by important changes in political processes as well' (Levin, 2001: 7–11).

This chapter describes fundamental changes in Croatian education policy from 1990 until 2013. This period is divided into two parts: 1) from 1990 to 2000; and 2) from 2000 to 2013, where the following differentiating elements are used as criteria for determining individual stages: (1) objectives (whether changes in objectives occur within the framework of the same ideas, or the changes are paradigmatic); (2) the key actors in changes (important for the structure-agency relationship analysis); (3) instruments (this part of the analysis shows the connections between problems, objectives and solutions); (4) institutions that enable changes, which themselves have been changing or not (so this depends on the form of changes); (5) the speed and form of changes (radical or incremental change, which is associated with other elements of the analysis); and (6) the political environment in which the changes have occurred and which has been affecting those changes (national and European environment).

## **From the beginning**

The first stage of the development of education policy encompasses the period from the struggle for independence until the start of negotiations on the Stabilisation and Association Agreement (1990–2000). The main characteristic of the first stage of education policy changes in Croatia described in this chapter is the political, conceptual and institutional breakup with the socialist education system in 1990–1991 and the affirmation of national values in education policy. The *political context* of this stage was characterised by a break off from the socialist system, the creation of an independent state, the Homeland War, the introduction of a multiparty system, economic

transition, and efforts to enable the implementation of policies across the entire state territory. Thus began the process of a paradigm shift, followed by a decade of smaller steps and changes in the field of education policy within the framework of the new paradigm. *Paradigmatic changes* started in 1990 with the determination of a new policy direction. At that time, the first Croatian President, Franjo Tuđman (1990), said in his programmatic speech in the Croatian Parliament: 'The old regime has left us in many areas in a spiritual and material wasteland, especially in education and training. We need to return to our and general European educational traditions, as well as to make a radical turn toward the future information era'. The education policy goal indicated here encompassed the two essential elements of the changes: the breakup with the socialist system and the return to European roots and connections. This was carried out through a reaffirmation of traditional Croatian national values that were understood as European (*non-Balkan*) values. Thus, the national dimension of education was dominant in this period.

The new *goals and objectives* were not shaped into a comprehensive educational reform. A series of individual decisions was made instead. The instruments used here were usually the authoritative decisions of state authorities: changes in management and changes of management personnel in the school system (Klapan et al., 2001). The changes included modification of subject programmes with distinct national content (Croatian language and literature, history, geography, music education), the introduction of religious education, cleansing the Croatian language from foreign words, the termination of the activities of the pioneer organisation in schools, and abolition of the subjects: Marxism and The theory and practice of self-governing socialism (Koren and Baranović, 2009: 96). Through catalogues of knowledge, instructions and new programmes, those contents which did not fit with the democratic system and national idea were changed.

As regards *the institutional* dimension of education, the biggest changes were those concerning the name and domain of the ministries (in the beginning education<sup>2</sup> was put together with culture and

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2 In the 1990s the name of the Ministry was *Ministarstvo prosvjete*. The word *prosvjeta* is rooted in the Enlightenment and acquiring new knowledge for personal and national development, and is more similar to the German *Bildung* than education. The same name for educational institutions was used in the socialist, pre-transition period.

sports, and later with science and technology), and the abolition or re-establishment of the Institute for Schooling of the Republic of Croatia. The Institute was abolished in 1994 by a decision of the then responsible minister, and nearly all of its staff were fired or sent to retirement. In the 1990s, the Croatian education system returned to the education system structure that had existed from 1958 until 1974 (Pastuović, 2012). This means that, instead of secondary vocationally directed education (introduced after 1974), the traditional general-education high schools have returned.

The education system, cleansed from socialist contents, was asking for new contents to fill it with. The first signs of the transfer of European models can be seen in trades and crafts. In the 1995/96 school year, the Ministry of Education and Sports, the Ministry of Economy and the Croatian Chamber of Trades and Crafts experimentally introduced a dual system of education for occupations in trades and crafts for which educational requirements were defined. Since then, schooling for trades and crafts has been carried out through the education and training programmes of the dual education and training system (Miliša, 2000). The dual system was introduced by taking advantage of the experiences and support of the Bavarian Chamber of Trades and Crafts. Here we can talk about the return of apprentices (who had been part of the Croatian tradition) through application of the modern Bavarian experiences.

During this period, education policy was being implemented by state *actors* using traditional, top-down management. Almost all changes were implemented through by-laws (regulations, instructions etc.) as key *policy instruments*, while systemic changes to the laws (except, partially, in secondary vocational education) were not implemented. Key decisions were made within the ruling party, the Croatian Democratic Union (Koren and Baranović, 2009: 96), which was often able to make some arbitrary decisions. Since the internal (endogenous) determinants were crucial for changes in education policy in this phase, we can classify them, according to Howlett and Cashore's typology, as 'neo-homeostatic' ones in which paradigmatic changes occurred through endogenous (national) goal shifts.

After the radical changes in 1990 and 1991, efforts were made to ensure the education system's stability within the war conditions and the process of integration of all parts of Croatia (Eastern Slavonia). Following this stage, we now describe another radical change where European ideas, projects and programmes were transferred as

educational constructs into the national educational space and have become the starting point of future changes.

## **Acceding to the European Union (from 2000 until 2013)**

After the integration of all parts of Croatia (including Eastern Slavonia), the death of the first president and the beginning of the EU accession negotiations in the early 2000s, the second stage of changes in Croatian education policy began. The essential characteristics of this second stage are: system reforms, the placement of education on the agenda and strong momentum in the Europeanisation process, decision-making, implementation, institutional development and evaluation.

### ***Beginning of a new policy cycle in Croatian education policy***

*The political context* that opened a window of new opportunities was shaped by the election of a new coalition government in 2000 and the formal launch of negotiations on acceding to the EU. This was the stage when Croatia began its Europeanisation process that started to deeply affect the education system. Some wider opportunities were opened for the Europeanisation process and fundamental changes in education policy, which have since then not been altered regardless of later government changes (Žiljak, 2013).

The influence of external (European) factors and external changes to education paradigms became stronger in this stage. These were processes in which exogenous factors (*EU education goals and paradigms*) started influencing changes in objectives and settings. After that, durable policy objectives required the adaptation of settings to the exogenous changes. The arrival of education policy in the heart of the EU's political interests (Pépin, 2007; Ertl, 2006) coincided with the transitional changes in Croatia and its accession to the EU. *The context of changes* to Croatian education policy since 2000 has been characterised by the dominant influence of changes at the EU level on changes in Croatia. The key changes in the EU were beginning to occur in the entire education system (from general and vocational to higher education, the concepts of lifelong learning and the knowledge society were introduced, and the strengthening of competitiveness and employability became crucial objectives). The objectives of

education policy that were tied to the idea of nation in 1990 searched for their inspiration after 2000 in the basic European ideas and dominant European discourse.

During this period, important measures in the education policy field were adopted. The most important of these were: Basis for the organisation of education in the Republic of Croatia (Education Council, Ministry of Science, Education and Sports, 2000); Strategy for the Development of the Republic of Croatia, Croatia in the 21<sup>st</sup> century (2001); and Concepts of changes of the education system in the Republic of Croatia (2002). This period was characterised by preparations for the introduction of a state graduation exam in the Croatian higher school system, screening and the accession negotiations on education (2005), as well as joining the Bologna Process at the Prague conference in 2001.

Through *institutional* changes from this period the structure of organisations involved in the preparations and implementation of education policy changed. In 2002, the autonomous Institute for Schooling was re-established, which two years later became the Education and Teacher Training Agency. In the same year (2002), the Centre for Educational Research and Development at the Institute for Social Research began its activities, and it took over the implementation of basic and applied research in the education field from the former Institute for Schooling. Simultaneously, at the Ministry of Science, Education and Sports a Department for Curriculum was established which became responsible for the development of national and subject curricula.

The EU was financing and stimulating institutional changes. This primarily relates to the establishment of agencies as part of the agencification process. The CARDS (Community Assistance for Reconstruction, Development and Stabilisation) programmes have been a key financial *instrument* of the EU's influence on policies in South-Eastern Europe, and from 2003 to 2009 they were important for all institutional and programmatic changes in vocational education, qualifications, adult education and, partially, higher education (CARDS 2001–2004). For changes in higher education since 2001, the contribution of the TEMPUS programme has been significant, especially for the harmonisation of higher education programmes, quality assurance, internationalisation and legislative changes.

Besides the classic state *actors* (government, ministries, institutes), key actors in Croatian education policy have been the following

institutions that have proposed some strategic changes to the education system: the Croatian Academy of Sciences and Arts, which encouraged the process of changes through a Declaration on Knowledge, and the National Competitiveness Council (formed on the principles of partnership between entrepreneurs, government and scientists), that puts the spotlight on education as an instrument for creating a competitive economy. The Academy's 2002 Declaration on Knowledge and 2004 Croatia Based on Knowledge and Application of Knowledge became the starting points for the following educational changes and the basis for introducing the concept of lifelong learning (HAZU, 2004: 10). Among the 55 recommendations of the National Competitiveness Council, the concept of the knowledge society is crucial, which (as an educational policy instrument, together with the lifelong learning concept) should ensure the country's economic competitiveness (NVK, 2003: 8–23). It is a process in which the discourse of the Lisbon Process (competitiveness and employability as key educational terms) was transferred into the national strategy without any specific questioning. The weaker presence and influence of experts whose narrow field of scientific work is education and education policy was notable. Together with placing emphasis on employability, the involvement of the Ministry of Economy, Labour and Entrepreneurship was becoming more apparent.

In this process, there was no direct imposition by the EU but the patterns of its educational models were being transferred (especially in vocational and higher education) and the institutional changes and capacity-building of key actors at the national level were generously funded. Here the providers, nongovernmental associations and the level of local authorities were much less involved than the national educational authorities. An important role was played by some foreign consultants (key experts) who transferred certain educational models and gave a meaning to the changes taking place. Their participation in education mostly occurred within the framework of the CARDS pre-accession programmes. Besides the growing influence of actors from the EU (through screening within the accession process, conditioning policy, and Croatia's participation in various projects on structural changes (GRAPH 2007)), the influence of epistemic communities that helped transfer some of the key developmental educational strategies (e.g. the concept of lifelong learning) was significant (Žiljak, 2008: 108).

***Advanced formulation, implementation/institutional building and evaluation in the education policy process***

Most *decisions* on educational changes were made after 2005. The Lisbon *objectives* (implicitly built-in) continued to be crucial, and the main discourse was the knowledge society with just one narrative form, i.e. a knowledge society based on lifelong learning as a foundation for a competitive economy. There were no counter-narrations and the social dimension was noticed as a problem only at the end of the decade. The external influence was fully accepted in order to ensure fulfilment of the unquestioned objectives.

Almost all of the strategies, laws and subordinate legislation important for changing education policy were enacted during the 2005–2011 period. Most of them were promoted in altered *political circumstances*, after the end of the six-member coalition government when the Croatian Democratic Union (HDZ) and its coalition partners again took political power. Nevertheless, the main course set up in 2000 was kept active whereas the European dimension was further strengthened with EU accession becoming one of the key political objectives (Koren and Baranović, 2009).

Substantial *programmatic* documents and legislation enacted in this period were: the National EU Accession Programme (annual programmes and monitoring of ministerial activities in meeting the pre-accession conditions given in the negotiating chapter 3.25 Science and Research and chapter 3.26 Education and Culture); the Education Sector Development Plan, 2005–2010 (MZOS, 2005); the Development Strategy of the Vocational Education System in the Republic of Croatia, 2008–2013 (2008); the Primary and Secondary School Education Act (2008); Regulations on implementation of the state graduation exam (2008); the Law on Quality Assurance in Science and Higher Education (2009); the Vocational Education and Training Act (2009); the Adult Education Act (2007); and the Baseline of the Croatian Qualifications Framework (2008). The State Pedagogical Standard of the Primary Education System (2008 and 2010) and the State Pedagogical Standard of the Secondary Education System (2008 and 2010) were also formulated and were planned to be implemented gradually by 2022.

In all of these documents, Europe is markedly used as an argument for the changes or as a legitimising *instrument*. For example, the Education Sector Development Plan 2005–2010 justifies its objectives by referring to the need for harmonisation with the European

and global trends and bases its implementation on World Bank loans and the pre-accession EU funds (MZOS, 2005).<sup>3</sup> The strongest reform impulse for the social dimension (integration of vulnerable groups) was given by the Common Croatian Government and EU Commission Memorandum on Social Inclusion in the Republic of Croatia (2007). After 2010, parallel to the Lisbon Process objectives transforming into the new Europe 2020 programme, in the Guidelines for Strategy in Education, Science and Technology (2013) the national objectives are even more distinctively adapted in accordance with the European objectives (MZOS, 2012). In the Guidelines, the government and the key actors (the Ministry, the Croatian Academy of Science and Art, and employers) emphasise the connection between education, research and innovations (MZOS, 2012). This document also mentions one radical change: the transition to nine-year obligatory education as a form of harmonisation with other European states.

The most important *institutional* change made in this period was the foundation of key education agencies: the Agency for Vocational Education and Training (2005), the Agency for Adult Education (2006), and the Agency for Mobility and EU Programmes (2007). These agencies have become some of the main actors in the implementation of education policy. Their establishment was part of a wider process of agencification promoted by the pre-accession projects for institutional enforcement and raising system efficiency (most notably CARDS). However, the de-agencification process started by the end of the first decade of the new millennium, i.e. the merger of the Agency for Vocational Education and Training and the one for adult education (Musa, 2013).

Around 2010 the *implementation* phase became dominant, whereby the previously formulated decisions, strategic and institutional changes were about to be realised. The most important changes to be implemented were the introduction of the Bologna

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3 The imagery example of this is the first draft of the Law on Education from 2008. It emphasises structural and normative harmonisation with the EU. This approach emphasising the need for harmonisation is part of the Europeanisation process present in other EU states and therefore domestic changes were invited to find their primary legitimisation in the need to accommodate the EU standards. In addition, the changes were legitimised by expertise and scientific findings. Discussion of changes thus dominantly stayed within the scientific community and implementers demonstrated their work on education policy by reinterpreting it while it was being implemented (in the classrooms).



Process and the state graduation exam. The former was introduced in the higher education system in the 2005/06 academic year and the latter in 2010. Introduction of the state graduation exam was followed by the formulation of a new National Framework Curricula for Pre-school, Elementary and Secondary School Education (2010 and 2011).

Another substantial task for actors in Croatian education policy was the construction of a National Qualifications Framework (NQF) in correspondence with the European Qualifications Framework (EQF). It was meant to be the key policy tool to make all the educational changes functional (Žiljak, 2007).<sup>4</sup> In the area of vocational education, the EU's models were also implemented (EQF, Copenhagen Process, Green Paper on Entrepreneurship in Europe, Oslo Agenda on Education for Entrepreneurship in Europe, Europe 2020 etc.). The objectives contained in those models were incorporated in appropriate Croatian documents. While being subjected to the Europeanisation process, the Croatian vocational education system also started cooperating with the EU actors involved in various EU programmes and projects (Community Assistance for Reconstruction, Development and Stabilisation (CARDS 2002–2004), Instrument for Pre-Accession Assistance (IPA), Competitiveness and Innovation Framework Programme (CIP) etc.).

One of the *Europeanisation* aspects of Croatian education policy in general has included taking part in the EU's cooperative programmes, the most important of which are: the Lifelong Learning Programme (LLP), Youth in Action, the 7<sup>th</sup> Framework Programme for Research and Technological Development (FP7), EUREKA (Innovation across borders), COST (Co-operation in Science and Technology, CARDS, PHARE and IPA (Instrument for Pre-accession Assistance), TEMPUS and Erasmus Mundus. The Joint Research Centre of Croatia and the European Commission was also constituted. Croatia entered a number of programmatic networks as well (Network for the Development of Higher Education Management Systems, networks in the field of digital literacy etc.). Education policy actors from Croatia have also been taking part in implementation of the European Agenda on Adult Education (2013), and are

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<sup>4</sup> Europeanisation was accepted in Croatia as a synonym for modernisation and was seen in new Croatian documents to be the opposite to the former Croatian traditional education approach that was not coordinated with the market and technological demands of modern society (Žiljak, 2007: 272).

directly participating in implementation of the EU Youth Strategy 2010–2018 dealing with the issues of education and training *via* the engagement of the Croatian Youth Network (that cooperates with the European Council of Youth Ministers).

Alongside the implementation, coming closer to the end of this period (2013) the *evaluation* process started: the formal evaluation was done by national agencies while the informal one is the public's assessment of Croatian education policy. The formal, external evaluation of the higher education system was done in 2008 and 2009. It was carried out through the external evaluation of 21 colleges and reaccreditation of 17 colleges. The latter evaluation jeopardised the very existence of some colleges (due to the insufficient availability of staff as well as the large enrolment quotas and fees).<sup>5</sup> The Institute for the Development of Education also conducted a few research studies on the effects of the higher education changes so far.

Evaluations of the Bologna Process were the first to be done by actual experts. The major implementation deficit that was noticed by the evaluators was, after Kurelić and Rodin (2009), that introducing Bologna in the Croatian education system *de facto* produced the inability, or extremely reduced the employment ability, of holders of Bachelor degrees, which was in contradiction with the Bologna goals. Bologna consequently encountered the academic community's resistance and provoked student protests in 2009 and 2010. These protests also pointed to some other systemic problems such as the general position of higher education and study availability (Horvat and Štikš, 2010).

Implementation of the state graduation exam also provoked sharp reactions by virtue of the fact that, instead of being a tool for education system evaluation, the state graduation exam turned out to be a classification procedure for college enrolment. Therefore, the massive demonstrations by pupils stopped the first attempt to introduce the state graduation exam in 2008. In both cases, the protesters and evaluators accused the Ministry of Science, Education and Sports of having distorted the very idea of the reforms and for the implementation not corresponding with the starting analyses, documents and goals (Bezinović, 2009; Horvat and Štikš 2010; Bešker, 2011).

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5 For more information, see Lider (2012) and the Agency for Science and Higher Education Croatia website (<http://www.azvo.hr>).

Concerning evaluations from the part of the policy target group, students expressed their opinion in research conducted by the Bureau for Quality Control (University of Zagreb) entitled 'Bachelor study assessment by those students who finished their BA in the years 2009/10 and 2010/11'. The students expressed their dissatisfaction with the insufficient share of the practical aspect of education, i.e. training, in their curricula. They also gave a low average grade (2.69 on a 1–5 scale) when answering a question about the role of their studies for qualifying them to work in a profession (Ured za kontrolu kvalitete, 2012).

Since 2006, PISA (Programme for International Student Assessment) research has also been conducted in Croatia. Despite the results being worse than expected, they have not triggered any serious discussion in that respect (there has not been any shock like there was e.g. in Germany). Eurobarometer, Eurostat and other data analyses did not provide enough motivation to start serious public discussions either, and even much less to change the policy course.

The evaluation examples set out above and consequent non-reacting indicate that among the actors there has been a problem of insufficient communication and coordination. Concretely, insufficient communication was recorded between the Agency for Science and Higher Education and other state actors (Lider, 2012), between the Ministry of Science, Education and Sports and the universities, as well as between the universities and professors, which was extra burdened by bureaucratic brakes (e.g. in the accreditation process) (Rodin, 2009; Jutarnji list, 2012). The second major problem has been the insufficient financial support and inefficient allocation of finances within the education system (World Bank, 2008). Therefore, the public discussion has mainly been formed around financial and technical issues such as school fees, professors' wages, faculties' debts to the central state and the conditions for professional promotion, but the quality of education programmes and their market applicability has rarely been discussed (Jutarnji list, 2012).

However, during the given period some positive changes were made. Thus, recent practice shows that, despite the further domination of state actors, the implementation style is being ever more influenced by professors (organised in unions). This has become crucial for the policy users because the Bologna Process, the state graduation exam, the national qualification framework etc. have in this manner acquired their real meaning. The policy users, i.e. students and

pupils, have also become more active in shaping policy by additionally bringing the global dimension into the discourse on educational changes.<sup>6</sup>

Another positive trend that has occurred is that the key state actors are functioning ever more in accordance with the horizontal model of coordination, whereas the Ministry of Education, Science and Sports has been cooperating more with the Ministry of Economy, Labour and Entrepreneurship and the Ministry of Regional Development and EU Funds. Thus the instrumental function of education has partly been confirmed, i.e. employability and even regional development supported by EU funds, although the risks of inefficient and inconsistent interministerial coordination remain (Petak, 2014). Also positive is the new trend of the clear formulation of various narrations within the discourse of the knowledge society: beside employability, issues such as equity, study availability and the commercialisation of education are also present.

In short, it can be concluded that paradigmatic changes in Croatian education policy have been underway since 2000. The process has been pushed by the exogenous influence of the EU during the accession period. Afterwards, the whole policy cycle was carried out and since 2005 the implementation of a series of decisions grounded in the national strategic documents formulated in the early 2000s has started. These changes have helped organise the system within the same European paradigm: lifelong learning in a knowledge society for a competitive EU (and Croatia) with an employable workforce.

## Conclusions

Changes in Croatian education policy in the last 20 years have been marked by two processes: the breakup with the old education system in the early 1990s and the pursuit of the common European objectives after 2000 (Table 18.1). The main ideas motivating the changes in the first phase (1990–2000) were endogenous and basically focused reaffirming the national dimension within the education

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6 E.g. discussions of changes to the Law on Higher Education brought about a public discussion and confrontation between the academic community and the Ministry, professors' unions and students, but the academic community was also divided within itself (Horvat and Štiks, 2010). This resulted in different proposals for the new Law on Higher Education that were connected to study structure and the recognition of levels of qualifications (Kurelić and Rodin, 2011).

system. The ideas dominant in the second phase (2000–2013) have been grounded in the European paradigmatic changes with lifelong learning, the knowledge society, a competent employable workforce and a competitive economy at its heart.

*Table 18.1:* Schematic overview of key segments of education policy change in Croatia

Elements of policy change	Periods (years)	
	1990–2000	2000–2013
<b>Goals / dominant paradigms</b>	Development of a new school system The national dimension as a 'return to Europe'	Integration into European (and global) educational trends A European agenda for Croatian education (competitiveness, competencies for employability)
<b>Key actors</b>	Ministry of Education ( <i>prosvjete</i> )  Government  Political party (HDZ)  Chamber of Trades and Crafts	Ministry of Education ( <i>obrazovanja</i> ), Economy, Labour, Regional Development  Government Agencies  Academy of Sciences and Arts (HAZU), National Competitiveness Council, Chamber of Trades and Crafts Non-state actors (students, pupils, academics) EU actors (European Commission, consultants, evaluators, key project experts)
<b>Instruments</b>	By-laws, instructions, orders    Revised national plans and programmes ( <i>curricula</i> )	Laws, organisational changes: new institutions and procedures  EU financial support/ assistance (CARDS, IPA)  Qualification framework  National curriculum
<b>Institutions</b>	Inherited state institutions with discretionary decision-making  Abolition of the Institute for Schooling	New institutions and procedures (state graduation exam/ <i>matura</i> , the Bologna Process)  Agencification – de-agencification
<b>Mode of changes</b>	Paradigm shift (dominant: the national dimension) and following incremental changes  Endogenous	Paradigmatic, whole policy cycle – implementation of the strategy  Exogenous

The first phase was characterised by the war context and the creation of a new independent state. Therefore, the changes in education policy were concentrated around the paradigmatic breakup with socialism and Yugoslavia. After that was finished, incremental changes were introduced with the aim to stabilise the system burdened by political and security problems. Work on education policy was mostly done by state actors influenced by the ruling party (HDZ)

and the European impacts were still weak. Institutional changes were marginal and there were no radical changes at all; instead, new layers were built over the old institutions.

The second phase was marked by negotiations and the EU accession process with a sharp influence of the European initiatives at stake. Paradigm change was exogenous, embedded in clear strategic guidelines and realised through a number of changes finishing with the EU's acceptance. Throughout the whole of that period the main course in educational changes was retained. New national strategic documents absorbed the European educational targets and goals and European models would be transferred to Croatian education policy as soon as they would appear on the European horizon. During the 2000s, the number of stakeholders in education policy rose significantly and large-scale changes were made, starting from long-term strategies to structural changes in higher education. After having become an EU member, Croatia has started a new policy cycle with new challenges ahead.

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