



The Fiscal Decentralization Initiative
for Central and Eastern Europe

Intergovernmental Finance and Fiscal Equalization in Croatia

by

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Executive Summary

The major characteristic of the Croatian system of local and regional self-government is fragmentation, with a multitude of small local and regional self-government units. The subnational level of government has a two-tier system and consists of 426 municipalities and 124 towns (cities) as local self-government units, and 20 counties plus the City of Zagreb as regional self-government units.

Local government tax revenues are the most important revenue sources in the budget of subnational units. The second most important local government revenue is non-tax revenue. Grants from the central government to local governments have been increasing the last several years. The basic source for the financing of local and regional government is shared taxes between the central government and the lower levels of government.

The main dilemma of intergovernmental finance and fiscal equalization in Croatia is defining the criteria for transferring grants from the central government to local and regional governments. There is a general understanding that it is necessary to make transfers to local and regional self-government units with a below-average fiscal capacity, yet there are no criteria for evaluating this capacity.

The main recommendations regarding intergovernmental finance and fiscal equalization in Croatia refers to many areas. The most important ones are the following:

- development of fiscal indicators;
- costs assessment of all levels of government per capita, per types of costs, and per local government units;
- improvement of transparency in the budgetary process at all levels of government;
- establishment of clear criteria for financing of basic financial needs for each public service;

- continuous analysis of data and evaluation of measures regarding intergovernmental finances.

Introduction

The Croatian System of Local and Regional Self-government

For a better understanding of the context and nature of intergovernmental finance and fiscal equalization in Croatia, this part of the paper gives a short explanation of the legislative framework of the Croatian system of local and regional self-government.

The legislative framework of local and regional self-government in Croatia was formed with the passing of the Constitution of the Republic of Croatia in 1990. (See Box 1.) There are several important laws and other regulations regulating the legal autonomy of local and regional governments with respect to budgeting, expenditure and revenue-raising authority, property ownership, borrowing, etc., including location of the legal guarantee (constitution, local government law, public finance law, etc.).

In spite of frequent changes and amendments to the legislative framework of local and regional self-government, the fact is that Croatia today has a *two-tier system of subnational government*. Municipalities, towns, and cities represent the local level of government and counties represent the regional level of government. The City of Zagreb has status as a local and regional level of government.

Following the latest amendments, and based on the situation in 2004, the territory of Croatia consists of 426 *municipalities and 123 towns (cities)* and the City of Zagreb at the local level and of 20 *counties* at the regional level, which makes a total of 570 subnational units.

The population size of local and regional self-government units in Croatia varies widely. According to the 2001 census, the total population of Croatia is 4,437,315. In the City of Zagreb, the capital, live

779,145 inhabitants. The total number of inhabitants that live in towns (including the City of Zagreb) accounts for 3,071,241 or 69.21 percent of the total population. Municipalities record 1,366,219 or 30.79 percent of the total population. The population that lives in the countryside, outside the City of Zagreb, accounts for 3,658,315 inhabitants or 82.44 percent of the total population. The number of inhabitants that live in municipalities and cities in the area of special government concern account for 679,657 inhabitants or 15.32 percent of the total number of the Croatian population (see Tables 1. and 2.).

The majority of population lives in small municipalities, relatively small towns and medium-sized counties.

Croatia is a highly centralized country on the basis of two important indicators. In 2000, the year before the launch of the first phase of decentralization process in Croatia, the share of local budget revenues in consolidated revenues of the general government budget totaled 10.93 percent, and their share in GDP amounted to 5.35 percent (Jurlina Alibegović and Šišinački 2004).

Table 1.
Population in Local and Regional Self-government Units

	Total	Percent	Average
Republic of Croatia	4,437,460	100.00	—
City of Zagreb	779,145	17.56	—
Republic of Croatia (excluding City of Zagreb)	3,658,315	82.44	—
Population in municipalities	1,366,219	30.79	3,214
Population in towns (including City of Zagreb)	3,071,241	69.21	24,768
Population in towns (excluding City of Zagreb)	2,292,096	51.65	18,635
Population in counties (including City of Zagreb)	4,437,460	100.00	211,307
Population in counties (excluding City of Zagreb)	3,658,315	82.44	182,916

Source: Republic of Croatia. Central Bureau of Statistics. 2002. Census. March 31, 2001. Online: <http://www.dzs.hr/Hrv/Popis%202001/popis20001.htm>.

Table 2.
Data on Local and Regional Self-government Units

Municipalities population group	No. of municipalities	Percent	Towns population group	No. of towns	Percent	Counties Population group	No. of counties	Percent
			< 5,000	18	14.63	< 100,000	3	14.29
< 1,000	31	7.33	5,001–10,000	39	31.71	100,001–200,000	12	57.14
1,001–3,000	212	50.11	10,001–50,000	55	44.72	200,001–300,000	1	4.76
3,001–5,000	112	26.48	50,001–100,000	7	5.69	300,001–400,000	3	14.29
5,001–10,000	61	14.42	100,001–200,000	3	2.44	400,001–500,000	1	4.76
>10,000	7	1.66	>200,000	1	0.81	>500,000	1	4.76
Total	423	100.00	Total	123	100.00	Total	21	100.00

Sources: Pigej, J. H., M. Mikelsons, D. Cvijanović, J. Šišinački, I. Vilka. 2002. *How Many is too Many Local Governments? Territorial Reform and Cooperation among Local Governments for Public Services Delivery. Experiences and Lessons from Europe. Volume 2 – Main report.* Local Government Reform Project – Croatia. Zagreb: The Urban Institute; Republic of Croatia. Central Bureau of Statistics. 2002. *Census March 31, 2001.* Online: <http://www.dzs.hr/Hrv/Popis%202001/popis20001.htm>.

Box 1.**Laws, Amendments, Decrees, and Decisions Related to the Process of Decentralization****1. State Administration**

- 1.1. Amendments to the Law on the System of State Administration. *Official Gazette*. No. 59/01.

2. System of Local and Regional Self-government

- 2.1. Amendments to the Law on Local Self-government and Administration. *Official Gazette*. No. 128/99
2.2. Law on Local and Regional Self-government. *Official Gazette*. No. 33/01

3. Financing of Local and Regional Self-government

- 3.1. Amendment to the Law on Financing of Units of Local Self-government and Administration, *Official Gazette*. Nos. 59/01, 107/01, and 117/01 (corr.), 150/02, 147/03.

2001

- 3.2. Decree on the Manner of Calculating the Amounts of Equalization Grants for Decentralized Functions of Local and Regional Self-government for the Period of July 1 to December 31, 2001. *Official Gazette*. No. 75/01.
3.3. Decision on the Criteria and Coefficients for Provision of the Minimum Financial Standard of Public Needs for Elementary Education in 2001. *Official Gazette*. No. 75/01.
3.4. Decision on the Criteria and Coefficients for Provision of the Minimum Financial Standard of Public Needs for Secondary Education in 2001. *Official Gazette*. No. 75/01.
3.5. Decision on Minimum Financial Standards for Material Expenditure of Healthcare Establishments in 2001 for Decentralized Functions from July 1 to December 31, 2001. *Official Gazette*. Nos. 75/01 and 101/01.
3.6. Decision on the Minimum Financial Standards for Material Expenditure of the Welfare Centers and Assistance for Fuel in 2001. *Official Gazette*. No. 75/01.

2002

- 3.7. Decrees on the Manner of Calculating the Amounts of Equalization Grants for the Decentralized Functions of Local and Regional Self-government in 2002. *Official Gazette*. Nos. 118/01, 97/02, and 155/02.
3.8. Decision on the Criteria and Coefficients for the Provision of the Minimum Financial Standard of Public Needs for Elementary Education in 2002. *Official Gazette*. No. 110/01.
3.9. Decision on the Criteria and Coefficients for the Provision of the Minimum Financial Standard of Public Needs for Secondary Education in 2002. *Official Gazette*. No. 110/01.
3.10. Decision on Minimum Financial Standards for Decentralized Functions for Healthcare Establishments in 2002. *Official Gazette*. Nos. 110/01 and 115/01.
3.11. Decision on the Minimum Financial Standards for Material Expenditure of Welfare Centers and Assistance for Fuel in 2002. *Official Gazette*. No. 110/01.
3.12. Decision on the Minimum Financial Standards for the Decentralized Financing of Homes for the Elderly and Infirm in 2002. *Official Gazette*. No. 110/01.

2003

- 3.13. Decrees on the Manner of Calculating the Amounts of Equalization Grants for Decentralized Functions of Local and Regional Self-government in 2003. *Official Gazette*. Nos. 155/02, 154/03, and 197/03.
3.14. Decision on the Criteria and Coefficients for Establishment of Equitable Rights for Financing of Minimum Financial Standard of Public Needs for Elementary Education in 2003. *Official Gazette*. Nos. 155/02 and 197/03.
3.15. Decision on the Criteria and Coefficients for Establishment of Equitable Rights for Financing of the Minimum Financial Standard of Public Needs for Secondary Education and Pupils Hostels in 2003. *Official Gazette*. Nos. 155/02 and 197/03.
3.16. Decision on the Minimum Financial Standards for Material Expenditure of Welfare Centers and Assistance for Fuel in 2003. *Official Gazette*. No. 155/02.
3.17. Decision on the Minimum Financial Standards for the Decentralized Financing of Homes for the Elderly and Infirm in 2003. *Official Gazette*. Nos. 155/02 and 197/03.
3.18. Decision on the Minimum Financial Standards for the Decentralized Functions for Healthcare Establishments in 2003. *Official Gazette*. No. 4/03.
3.19. Decision on the Minimum Financial Standards for the Decentralized Financing of Regular Performance of Public Fire-fighting Units for the Period of September 1 to December 31, 2003. *Official Gazette*. No. 154/03.

*Box 1. (continued)**Laws, Amendments, Decrees, and Decisions Related to the Process of Decentralization***2004**

- 3.20. Decree on the Manner of Calculating the Amounts of Equalization Grants for the Decentralized Functions of Local and Regional Self-government in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.21. Decision on the Criteria and Coefficients for Establishment of Equitable Rights for Financing Minimum Financial Standard of Public Needs for Elementary Education in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.22. Decision on the Criteria and Benchmarks for Establishment of Equitable Rights for Financing of the Minimum Financial Standard of Public Needs for Secondary Education and Pupils Hostels in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.23. Decision on the Minimum Financial Standards for Material Expenditure of Welfare Centers and Assistance for Expenditure to Tenants Who Use Wood for Heating in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.24. Decision on the Minimum Financial Standards for the Decentralized Financing of Homes for the Elderly and Infirm in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.25. Decision on the Minimum Financial Standards for the Decentralized Functions for Healthcare Establishments in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.26. Decision on the Minimum Financial Standards for the Decentralized Financing of Regular Performance of Public Fire-fighting Units in the First Quarter of 2004. *Official Gazette*. No. 197/03.
- 3.27. Decree on the Manner of Calculating the Amounts of Equalization Grants for the Decentralized Functions of Local and Regional Self-government in 2004. *Official Gazette*. No. 48/04.
- 3.28. Decision on the Criteria and Coefficients for Establishment of Equitable Rights for Financing of Minimum Financial Standard of Public Needs for Elementary Education in 2004. *Official Gazette*. No. 48/04.
- 3.29. Decision on the Criteria and Coefficients for Establishment of Equitable Rights for Financing of Minimum Financial Standard of Public Needs for Secondary Education and Pupils Hostels in 2004. *Official Gazette*. No. 48/04.
- 3.30. Decision on the Minimum Financial Standards for Material Expenditure of Welfare Centers and Assistance for Expenditure to Tenants Who Use Wood for Heating in 2004. *Official Gazette*. No. 48/04.
- 3.31. Decision on the Minimum Financial Standards for Decentralized Financing of Homes for the Elderly and Infirm in 2004. *Official Gazette*. No. 48/04.
- 3.32. Decision on the Minimum Financial Standards for Decentralized Functions for Healthcare Establishments in 2004. *Official Gazette*. No. 48/04.
- 3.33. Decision on the Minimum Financial Standards for Decentralized Financing of Regular Performance of Public Fire-fighting Units in 2004. *Official Gazette*. No. 48/04.
- 4. Education**
- 4.1. Amendments to the Law on Elementary Education. *Official Gazette*. Nos. 59/01 and 114/01.
- 4.2. Amendments to the Law on Secondary Education. *Official Gazette*. Nos. 59/01 and 114/01.
- 5. Healthcare**
- 5.1. Amendments to the Law on Health Insurance. *Official Gazette*. No. 59/01.
- 5.2. Law on Health Protection. *Official Gazette*. No. 121/03.
- 6. Social Welfare**
- 6.1. Amendments to the Law on Social Welfare. *Official Gazette*. Nos. 59/01, 82/01, and 103/03.
- 7. Culture**
- 7.1. Law on Museums. *Official Gazette*. No. 142/98.
- 7.2. Amendments on the Law on Libraries. *Official Gazette*. No. 104/00.
- 7.3. Amendments on the Law on Theatres. *Official Gazette*. No. 127/00.
- 7.4. Law Concerning Arts Councils. *Official Gazette*. No. 53/01.
- 7.5. Law Concerning the Management of Public Establishments in the Area of Arts (Culture). *Official Gazette*. No. 96/01.
- 8. Other**
- 8.1. Law Concerning Fire-fighting. *Official Gazette*. Nos. 106/99, 117/01, 36/02, and 96/03.
- 8.2. Law Concerning the State Survey and the Cadastre of Real Estate. *Official Gazette*. No. 128/99.

Table 3.
Revenues and Expenditures of the Consolidated General Government in GDP in Percent

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total revenues and subsidies	48.22	50.37	48.62	52.56	52.98	48.93	47.60	46.17	46.59
State Budget	28.34	29.05	27.34	31.66	32.74	29.27	31.64	37.16	38.69
Extra-budgetary funds	15.44	15.65	15.62	15.22	14.77	14.31	11.84	4.37	3.23
Local self-government*	4.44	5.67	5.66	5.68	5.47	5.35	4.12	4.64	4.67
Total expenditures and borrowing minus repayment of debt	48.93	50.74	49.83	52.07	55.19	53.97	50.75	48.81	49.54
State Budget	26.46	25.35	23.52	24.28	25.08	23.83	26.17	37.11	38.01
Extra-budgetary funds	18.27	19.71	20.61	21.75	24.27	24.72	20.31	7.03	6.37
Local self-government*	4.20	5.67	5.69	6.04	5.84	5.42	4.28	4.67	5.16
Total deficit/surplus	-0.71	-0.37	-1.21	0.49	-2.21	-5.04	-3.15	-2.63	-2.95

Note: * Because of change in the program for collecting data on local budgets for the fiscal year 2001 and onwards, the Ministry of Finance has disposed only with data on the outcome of only 53 subnational budgets (21 county budgets and 32 city budgets).

Source: Ministry of Finance. Online: <http://www.mfin.hr>.

At the moment, the Ministry of Finance does not publish all data on the execution of local and regional government budgets for the years 2001,¹ 2002, and 2003. Because of the changes in the methods of data collection, for the budget year 2001 it only disposes with 70 percent of local and regional budgets.² On the basis of the available data, the share of local and regional budget revenues in consolidated general government budget revenues totaled 8.82 percent and 4.12 percent in GDP. The fiscal data for the year 2002 are the first data on results of the first phase of decentralization process in Croatia. Data shows that the share of local budget revenues in consolidated revenues of the general government budget totaled 10.05 percent, and their share in GDP amounted to 4.64 percent. (Table 3.)

¹ For the years 2001, 2002, and 2003 the Ministry of Finance has disposed with data for only 53 local and regional government units.

² This 70 percent of local budgets covers 53 local government units (21 counties and 32 big cities) out of 570 local government units that, by law and government decree, cover decentralized functions in primary and secondary education, social welfare, and health-care.

Review of Government Reform Initiatives Regarding Decentralization

One of the most important tasks of the Croatian government is the reduction and rationalization of public expenditures. Besides that, Croatia has started the work on the decentralization of special public functions, which will result in decentralization and delegation of certain organizational and administrative work and activities from the central level to local and regional self-government units.

In July 2001, the first phase of the decentralization process began, covering issues of administrative and financial decentralization. The proposed decentralization model was that expenditures for wages and employer contributions in primarily and secondary education, and part of current expenditures in the healthcare and social welfare sectors, are ensured in the government budget, but other material expenditures, expenditures of current maintenance, and capital investment have been transferred to the local government budget. Besides functions of primary and secondary education, healthcare, and social welfare, the function of fire protection has been transferred to local self-governments. Local government units are responsible for financing regular activities of public fire brigades.

The major change in revenue sources for municipalities and counties is the possibility of introducing new municipal and city taxes, as well as the possibility of introducing different levels of surtax on income tax depending on the size of the municipality.

Distribution of shared revenue sources between the state and subnational government has changed. The most significant change is in the distribution of income tax revenues, with a larger part of income tax revenue going to local government units. A special part of income tax revenue is reserved for covering expenditures regarding decentralized functions in primarily and secondary education, healthcare, social welfare, and fire protection. For local government units that do not have enough resources for financing decentralized functions, equalization grants for decentralized functions have been established.

Important Issues of Fiscal Decentralization

Three years after the first phase of decentralization was launched in Croatia, it is still not possible to analytically elaborate on the achieved results,³ and several important issues still remain to be resolved.

The fiscal decentralization process in Croatia has witnessed certain improvements in the segment of: division of functions and responsibilities, budget classification, fiscal capacity indicators, allocation of grants, consolidation of local governments' budgets, accounting system, budget planning, national treasury system, tax reports, long-term capital planning, financial control over the borrowing system, and participation of citizens (Ott and Bajo 2002).

The existing organization of local and regional self-government is inefficient in terms of fiscal capacity, which is indicated by the empirical evidence obtained from subnational budget analyses. Abolishing the autonomy of local self-government units and merging with neighboring municipalities and towns, or any other change that would affect the present territorial organization, is not a solution that could be supported currently. Before such a change is carried out, the existing possibility of connecting municipalities, towns, and counties should be used in order to implement projects that cannot be financed individually.

The process of decentralization in Croatia has all the characteristics of territorial fragmentation into a large number of small, incompetent local self-government units that are highly dependent on central state aid and lack the capacity to manage autonomous development. Formal decentralization had led to the hidden central-

ization of power of the central state (Budak, Jurlina Alibegović, and Šišinački 2004).

The real decentralization of power will not be realized without strengthening the overall development capacity of local and regional self-government units, transparent information and communication, including the legislative framework, a clear division of functions, and improved cooperation and coordination of activities at all levels (Budak, Jurlina Alibegović, Starc, and Šišinački 2003).

The existence of a certain conflict between the demands of functional decentralization on one hand, and ensuring sufficient funds for their financing on the other, should not result in the attitude that the decentralization process is an additional burden on the budget, but quite the contrary, should be interpreted and understood as an opportunity to enhance the quality of services that local government units provide for their citizens.

The subnational level of government has limited revenue sources. Continuous pressure on the economy to stimulate taxation demonstrates the need to compensate for a part of tax income (including shared taxes) with non-tax budget income. In turn, it means higher demand and efforts for local government units concerning their organization and efficiency in collecting non-tax revenues. The subnational level of government is responsible for introducing and collecting non-tax revenues (different charges and fees). Non-tax revenues have defined purposes and cannot be replaced so easily with tax income.

Regarding the organizational system of local governments, there has been a tendency to concentrate more on conducting the current activities related to decentralization and the conditioned growth of operational responsibilities. Local governments focus on daily administration and less on the development functions like ensuring sufficient financial resources for development. There is a need for local government reorganization in order to make it prepared and able to manage local development functions.

Finally, there is a significant difference in fiscal capacity between certain local and regional self-government units, which still makes the role of the state important. It has to ensure the financing of decentralized functions in less developed local and regional self-government units, i.e., in local government units with significantly lower fiscal capacity, through adequate grants. With these local government units, the financing of local development is completely dependent on capital transfers coming from the state budget or from state-owned development funds.

³ There is no publicly available data on local and regional self-government budget execution for the fiscal years 2002 and 2003.

Basic Competencies of Local and Regional Self-government

Based on provisions of the Law on Local and Regional Self-government, counties, in their self-governing scope of authority, are responsible for functions of a regional character. Municipalities and towns (cities) perform tasks

of local significance, which directly address the needs of citizens and which are not assigned to state bodies by the Constitution or by law (see Table 4.).

Towns with more than 30,000 inhabitants may be also responsible for functions which may otherwise fall within the competence of counties, as long as they

Table 4.
Mandatory Functions of Local and Regional Self-government Units

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

Source: Author.

Table 5.
Financing of Public Expenditures on Decentralized Functions

Decentralized functions	The City of Zagreb, cities (32), and municipalities*	State budget
Primary education	<ul style="list-style-type: none"> • material costs • maintenance of structures, equipment • procurement of aids, school equipment, and resources • student transportation • capital constructions according to norms and standards outlined by the Ministry 	<ul style="list-style-type: none"> • wages and employee transportation • compensation • training • school IT equipment • library supply • capital construction
Secondary education	<ul style="list-style-type: none"> • material costs • employee transportation • co-financing of the food and accommodation of the students in student halls • maintenance of structures, equipment • procurement of aids, school equipment, and resources • capital constructions according to norms and standards outlined by the Ministry 	<ul style="list-style-type: none"> • wages and employee transportation • compensation • training • student tuition in minority languages • schooling for students with learning difficulties • programs for gifted students • IT equipment for schools • library supply • co-financing of the private education system • capital construction
Social welfare	<ul style="list-style-type: none"> • expenditure for materials, energy, maintenance, and other current expenditure • heating costs 	<ul style="list-style-type: none"> • employee expenditure
Health	<ul style="list-style-type: none"> • structure and equipment maintenance of the health institutions owned by the municipalities and the City of Zagreb 	<ul style="list-style-type: none"> • employee expenditure • training • capital expenditure
Fire protection	<ul style="list-style-type: none"> • employee expenditure in public fire brigades • compensation • material and energy expenditure • services expenditure • financial expenditure 	

Note: * Only decentralized expenditures for fire protection.

Source: Author.

Table 6.
Functional Classification of Subnational Budget Expenditures, 1998–2001

Functional Classification of Expenditures	1998	1999	2000	2001
General public services	20.2	21.3	22.4	21.3
Public order and security	0.4	0.5	0.8	0.9
Educational affairs and services	11.1	11.3	11.9	10.7
Health affairs and services	1.0	1.1	0.8	1.0
Social security and social welfare affairs and services	3.3	3.1	2.9	3.1
Housing and communal affairs and services	25.4	23.5	23.9	26.1
Recreational, cultural, and religious activities	13.8	16.2	14.3	12.8
Agriculture, forestry, hunting, and fishery affairs and services	0.6	0.7	0.7	0.8
Mining and mineral extraction affairs and services, excluding fuel	4.5	3.7	2.6	3.1
Transportation and communication activities	13.5	13.2	13.3	12.8
Other economic activities and services	4.8	3.5	3.9	4.8
Expenditures not included in main groups	1.1	1.7	2.1	2.0
Total expenditures per function	100.0	100.0	100.0	100.0

Source: IMF. 2001. *Government Finance Statistics Yearbook 2001*, Washington, D.C.: International Monetary Fund; Ministry of Finance. Online: <http://www.mfin.hr>.

Table 6a.
Functional Classification of Subnational Budget Expenditures, 2002–2004

Functional Classification of Expenditures	2002	2003	2004
General public services	20.1	18.2	17.0
Defense	0.0	0.0	0.0
Public order and security	2.9	3.4	2.9
Economic affairs	16.5	16.1	17.3
Environmental protection	3.8	3.9	4.1
Housing	19.1	21.4	21.0
Health	4.2	4.0	3.3
Recreational, cultural, and religious activities	11.3	11.0	12.4
Education	17.3	17.5	17.1
Social welfare	4.9	4.6	4.9
Total expenditures	100.0	100.0	100.0

Source: Ministry of Finance. Online: <http://www.mfin.hr>.

ensure the necessary conditions for performance of these services.

Special administration departments and services in cities and counties are responsible for state administration affairs that are transferred to the level of local and regional self-government (see Table 5.).

In the structure of total expenditures of local and regional self-government units, current expenditures have recorded a growth trend. In 1999, the share of current expenditures was 68.3 percent and, in 2000, it accounted for 71.9 percent. The largest share of total expenditures is

accounted for by expenditures for the purchase of goods and services, transfers, and labor expenditures.

In total expenditures, *labor expenditures* and contributions amount to 17.5 percent on the national level. Out of a total number of 422 municipalities in the Republic of Croatia,⁴ 279 municipalities or 66 percent used between

⁴ The analysis of local budgets was carried out in 2001, so the number of local self-government units (municipalities) does not correspond to their actual number.

three percent and 50 percent of their current revenue for their labor expenditures. Seventeen municipalities spent more than 100 percent of current revenue for labor expenditures. An analysis of the share of labor expenditures in current revenue per town in 2000 indicated that, out of 122 towns and excluding the City of Zagreb, 108 towns or 89 percent spent between seven percent and 50 percent of their current income on labor expenditures. It will be interesting to do such analysis on data for fiscal years 2002 and 2003.

In terms of the functional classification of expenditures, so far most of the local budget funds have been allocated for housing and municipal services, recreation, culture, and religious affairs, as well as transportation, communications activities, and services (see Table 6.).

In conclusion, it seems that local government revenues are adequate to meet the assigned functions. This is because of the high dependence of subnational government on central state transfers. But local and regional development can be seen without more dependence on own resources (financial and human).

The Structure of the Intergovernmental Finance System

Present System of Intergovernmental Finances and Revenue Sources

The Law on Local and Regional Self-government Financing is the legal basis of the local government finance system. Local and regional self-government units realize revenue through: own sources, shared taxes, grants from the state and county budget, equalization transfers for decentralized functions, and shared revenues.

Local governments' *own sources* include income from local governments' own property; from county, city, or municipal taxes; from fines, fees, and charges. (See Table 7. and Appendix 1.).

In Croatia, the law stipulates the *distribution of shared revenues* between the state and local authorities. Local self-government units are entitled to the revenue from *shared taxes* and fees collected within their area, at a percentage stipulated by law. Shared taxes are the income tax, the profit tax, and the tax on real estate transactions.

The revenues realized through *income tax* are distributed in a manner that it distinguishes whether or not municipality or city finances are decentralized functions with respect to the special area that a local government unit belongs. A distinct distribution of income tax is provided for the City of Zagreb. Within local self-government units that have founded public fire-fighting units and that finance the regular work of the employees therein, the share of a county and town in income tax increases as a percentage of income tax.⁵

A share in the distribution of revenue from *profit tax* for municipalities and cities is 20 percent, for counties 10 percent, and for the state 70 percent. A share in the distribution of revenue from *tax on real estate transactions* for municipalities and cities is 60 percent, and for the state 40 percent. (For details, see Appendix 2.)

Regarding *grants, transfers, or subventions*, a system of financing community needs has been designed in such a way that grants are used solely as funds to support local self-government units with poor fiscal capacity.

Equalization grants for decentralized functions are ensured from the state budget to cover public expenses in the area of primary and secondary education, social

Table 7.
Local and Regional Self-governments' Taxes

Municipal, town, and city taxes	County taxes
<ul style="list-style-type: none"> • surtax on income tax • consumption tax • tax on vacation homes • tax on idle lands • tax on unused commercial real estate • tax on unused building plots • tax on firm or name • tax on the use of public surfaces 	<ul style="list-style-type: none"> • tax on inheritance and gifts • tax on motor vehicles • tax on boats and vessels • tax on gambling machines

Source: Author.

⁵ The share of the state in the distribution of income tax from the area of these municipalities and cities reduces by the same percentage.

welfare, and healthcare, which are transferred to local and regional self-government units.

Shared revenues of the state, municipality, and city are the revenues from agreed annual concession fees for pumping mineral and thermal water, and for the use of water for the public water supply.

Apart from the aforementioned taxes and grants, local self-government units have introduced numerous other revenues on the basis of special acts and/or decisions of representative bodies, such as *charges and fees*, which are contained and stated in the *non-tax revenues* of their budget.

Borrowing

Local and regional self-government units may incur debt in two ways: borrowing by taking a loan or issuing securities (bonds). The Ministry of Finance has settled the general principle on local and regional government borrowing. Municipalities, cities, and counties can borrow sources for the purpose of capital investment financed from their budget, with previous approval by the government of the republic of Croatia. Counties also can issue guarantees to the municipalities and cities, with previous approval by the Croatian government.

Municipality, city, and county can issue guarantees to the public institution or company that it owns or of which it is a majority owner, without previous approval by the Croatian government.

All borrowing, guarantees, and obligations cannot exceed the maximum rate prescribed by the Law on the State Budget. The total borrowing limit of a local and regional self-government unit for a fiscal year is a maximum of 20 percent of total revenues from the previous fiscal year. The amount of total borrowing limit includes the amount of the annual loan annuity, liabilities regard-

ing issuing securities, and guarantees from previous years, as well as all unpaid liabilities.

Local and Regional Budget Revenues

Current revenues account for the major share in total revenues of municipalities, cities, and counties: in 1999, they accounted for 85 percent, and in 2003 they decreased to 80 percent. The share of *capital revenues* amounted to 6.6 percent in 1999 and 4.3 percent in 2003. The share of *grants* increased from 7.7 percent in 1999 to 16.4 percent in 2003.

In 1999, the share of *tax revenues* in total revenues was 55.2 percent, whereas in 2003 their share recorded a slight decrease to 54.9 percent (see Table 8). The largest share of tax income of subnational government units is collected from the share in the *distribution of revenues from shared taxes* (income tax and profit tax). Together, it accounted for approximately 47 percent of total revenue in 1999 and 49 percent in 2002. (Table 8.)

By levels of local government, the dominating revenue items of city budgets are tax revenues, as they account for more than half (58 percent) of their budget revenues. In county budgets the share of tax revenues accounted for 57 percent of total revenues in 1999 and 62 percent in 2002. However, in municipalities those revenues make up a little over one-third of their income, accounting for 31 percent in 1999 and 36 percent in 2002.

Income tax and the surtax on income tax had a share in total municipality revenues of 20 percent in 1999 and 24 percent in 2003. In towns their share of total revenues was 39 percent in 1999 and 40 percent in 2003; in counties the income tax and surtax on income tax accounted for 29 percent of total revenues in 1999 and 50.3 percent in 2003. The City of Zagreb collects approximately 50

Table 8.
Total Revenues and Grants of Sub-national Budgets, 1998–2003, in Percent

Revenues	1998	1999	2000	2001	2002	2003
I. Total revenues and grants	100.0	100.0	100.0	100.0	100.0	100.0
I.A Total revenues	90.3	92.3	92.6	90.4	86.8	85.4
I.A.I Current revenues	94.4	85.7	84.8	83.5	81.6	80.8
• Tax revenues	65.8	55.2	53.1	52.9	57.1	56.0
• Non-tax revenues	34.1	35.5	31.7	30.6	24.5	24.8
I.A.II Capital revenues	5.6	6.6	7.9	6.9	5.2	4.6
I.B Grants	9.7	7.7	7.4	9.6	13.2	14.6

Source: IMF. 2001. *Government Finance Statistics Yearbook 2001*, Washington, D. C.: International Monetary Fund; Ministry of Finance. Online: <http://www.mfin.hr>.

percent of total revenues from income tax and surtax on income tax.⁶

Grants amounted to eight percent of overall collected income of all municipalities, towns, and counties in 1999; in 2003 they accounted for 14.6 percent. In 1999, they accounted for 25 percent and 30 percent of the county budget in 2002. In municipalities, the share represented by grants amounted to 19 percent in 1999 and 2002, whereas in the case of towns this share accounts for only three percent of their budget resources.

Own tax revenues of subnational budgets amount to only 4.4 percent of the total tax revenues of towns, municipalities, and counties.

Non-tax revenues of all subnational budgets amount to 24.8 percent of the total revenues and grants. Non-tax revenues in municipalities have the most significant share, with 38.5 percent of collected total budget revenues. In towns, non-tax revenues make up 30.8 percent of their total income, and in counties this share accounts for only 7.6 percent in 2002. If non-tax revenues are added to own tax revenues and capital revenues, the share is considerably higher and accounts for 47 percent of municipality budget revenue, 38.6 percent of city budget revenue, and 20 percent of the county budget. In the structure of municipal and city budgets, the majority of these revenues are collected on the basis of utility fees and contributions. In some local self-government units this amount exceeds 50 percent of the local self-government budget.

Equalization Measures

Grants, Transfers, and Subventions

The primary aim of the grant system is the uniform provision of public services in Croatia. Considering that the budgetary funds for a large number of local government units are insufficient, grants are given from the state and county budget resources. Grants for local and regional government are realized in line with the abilities of the state budget, in a way to secure grants for the counties, but also directly for municipalities and cities in areas of special government concern.

⁶ Until July 2001, 12 cities used the possibility to introduce the surtax on income tax. On the basis of the Amendments to the Act on Local and Regional Self-government Financing, and according to the current data, 198 municipalities and cities have used the possibility to introduce surtax on income tax.

Each year, the Budget Act includes the basic criteria for the calculation of grants. These criteria are applied for all units of special government concern.

Grants to counties refer to a correction to the fiscal capacity of the budget and investments in development programs of municipalities, counties, and cities in their area of interest.

*The criteria for the calculation of the grants for counties*⁷ in the areas of special government concern are the following:

- the number of inhabitants according to the 2001 census,
- the average revenues of the county budget in 2002 per capita on national level (national average) and the revenues of the county budget per county inhabitant,
- the average expenditure on capital programs, financed by the county budget in 2002 per capita on the national and county level.

At least 50 percent of the current grants of the county are distributed to municipalities and cities that are not direct grant beneficiaries. The county outlines the criteria for the distribution of parts of these grants.

Grants to municipalities and cities relate to the correction of the fiscal capacity towards the budget, stimulation of investments in development programs, and the rationale of the implementation of the various public functions of the counties and cities.

The criteria for the calculation of the grants for municipalities and cities in areas of special government concern are the following:

- the number of inhabitants according to the 2001 census,
- the average income of municipality and city per capita on national level (national average) in 2002,
- the average income per capita in the areas of special government concern, i.e., specific municipality or city,
- the level of expenditure for capital programs in 2002 as part of the total expenditure,
- the balance of material expenditure (number of inhabitants and expenditure per capita) in 2002,

⁷ For example, the state budget for 2004.

- the rationale of the execution of the system functions (employment numbers, expenditure per employee) and the expenditure for the functions of the city (up to 30.000 inhabitants) in 2002, and
- the correction variable for the gradual transition to the new model of grant calculation.

Municipalities, counties, and cities may use the grants for the sole purpose of financing the obligatory expenditure as outlined by law.

Apart from the state grants, the counties provide grants for the municipalities and cities in their jurisdiction directly from their own budgetary resources, or via co-financing the capital expenditure. Apart from direct fund transfer, resources are made available for local and regional self-government units within other bodies of government (for example, from the budget of Croatian Waters, Croatian Bank for Reconstruction and Development, Regional Development Fund, and others). Mainly, this involves the co-financing of the development programs through current or capital grants or subventions.

Appendix 3 contains the data concerning the income and expenditure of the counties, cities, and municipalities in the 1999–2003 period. A noticeable characteristic is the growth of the total amount of local government grants in 2003. In municipal budgets, grants represent 19.2 percent, in the city budgets 5.6 percent, and in county budgets 30.3 percent of total revenues in 2002. In 2003, grants represented 16.4 percent of total budgets for the subnational level of fiscal authority.

Equalization Transfers for Decentralized Functions

Equalization transfers for decentralized functions are provided from the state budget to cover public expenses in the area of primary and secondary education, social welfare, and healthcare, which are transferred to local and regional self-government units.

*Specific legislation*⁸ defines the public functions transferred from the state to county and city level. These Acts specify the types of public expenditure financed from the budgets of local and regional self-government units.

⁸ Primary education: Primary Education Act; secondary education: Secondary Education Act; for social welfare: Social Welfare Act; for health insurance: Health Insurance Act; and for fire protection: Fire Protection Act.

A Decision of the Government of the Republic of Croatia defines the criteria and the standards for securing the minimum provisions of the public needs in the sectors of primary education, secondary education, health, social welfare, and fire protection. The government sets out these minimum financial criteria and standards on an annual basis along with the state budget.

The criteria and standards for the provision of the minimum financial standard of public needs for elementary, secondary education, healthcare, social welfare, and fire protection have been set out for the current fiscal year on the basis of expenditures in the previous fiscal year. Material and financial costs for financing education expenditures are defined on the basis of average annual expenditure per student. Maintenance expenditures and capital constructions expenditures are defined per student, per classroom, and per school.

Maintenance expenditures of health institutions owned by municipalities and the City of Zagreb are defined on the basis of the following criteria: number of insured persons, number of location of healthcare institution, number of healthcare institutions, and number of beds in healthcare institutions per a certain county or the City of Zagreb.

Material costs and other current expenditures of social welfare institutions are defined per number of personnel employees in a certain welfare institution. Criteria for social welfare assistance in the form of transfers regarding heating costs are defined per number of care recipients.

Employee expenditures and other material and financial expenditures for public fire brigades are based on the following criteria: number of firemen in a public fire brigade, average number of activities of public fire brigade in the period 1999–2003, and number of citizens that live in the municipality or the city that established the public fire brigade.

A Decree of the Government of the Republic of Croatia defines the manner in which the calculations are made for the purpose of balancing the decentralized functions of the local and regional self-government units from the state budget in a specific fiscal year. The decree contains a table with the summary overview of the resources for the decentralized functions (see Table 8) and the formulae for the calculation of equalization grants (see Box 2.).

Each year, a decision of the government sets the minimal financial standards, the criteria, and the benchmarks for provision of a minimal standard for each decentralized function, which is the basis for the establishment

Box 2.
Review of Formulas Used to Calculate Equalization Grants
Example of 2001*

Primary Education

$$P_{O2001j} = MS_{O2001j} - [0.029 \times D_{2001j}] - S_{O2001j}$$

Where:

- j = A certain unit of local and regional self-government. In the following text:
 L = Municipality, city, county.
 R = Municipality only.
 P_{O2001j} = Grant for primary education in 2001 Lj.
 MS_{O2001j} = The minimal financial standard, according to the decision of the Croatian government in 2001 for the institutions in primary education Lj.

The minimal financial standard for all decentralized public functions for future fiscal year is calculated on the basis on expenses in the current fiscal year but using some pre-defined criteria. For example, criteria for calculation of the minimal financial standard for secondary education for all counties (20) and the City of Zagreb, as well as criteria for calculation of the minimal financial standard for primary education for 32 cities is the average yearly price per student in secondary and primary school.

- D_{2001j} = The realized revenue from the income tax (excluding local taxation) in the Lj area increased by the additional share in income tax for the local self-government units that finance decentralized functions – primary education (share of PIT plus additional share [2.9 percent] of PIT for financing decentralized function).
 S_{O2001j} = [si + spli]
 si = Executed expenditure from the state budget for the period January 1 until June 30, 2001 (in the first year of decentralization, starting from July 1, 2001).
 spli = Contractual, unfulfilled obligations for the maintenance and equipment and the capital obligations up to the resources levels planned by the state budget in 2001 for these expenditures for the institutions in primary education which are financed by Lj.

Secondary Education

$$P_{S2001j} = MS_{S2001j} - [0.02 \times D_{2001j}] - S_{S2001j}$$

Where:

- j = A certain unit of local and regional self-government. In the following text:
 L = Municipality, city, county.
 R = Municipality only.
 P_{S2001j} = Grant for secondary education in 2001 Rj.
 MS_{S2001j} = The minimal financial standard, according to the decision of the Croatian government in 2001 for the institutions in secondary education Rj.
 D_{2001j} = The realized income from the income tax (excluding local taxation) in the Lj area increased by the additional share in income tax for the local self-government units that finance decentralized functions – primary education.
 S_{S2001j} = [si + spli]
 si = Executed expenditure from the state budget for the period January 1 until June 30, 2001.
 spli = Contractual, unfulfilled obligations for the maintenance and equipment and the capital obligations up to the resources levels planned by the state budget in 2001 for these expenditures for the institutions in secondary education which are financed by Rj.

* The additional share (coefficient) in income tax for the local self-government units has been set up by using different criteria and measures for calculation the minimal financial standard for different decentralized public functions (education, social welfare, and healthcare). Equalization grants for decentralized functions are ensured from the state budget and are transferred to local and regional self-government units that do not have enough revenues from the additional share in income tax to cover public expenses in the area of primary and secondary education, social welfare, and healthcare.

Box 2. (continued)
Review of Formulas Used to Calculate Equalization Grants
Example of 2001¹²

Social Welfare

$$P_{C2001j} = MS_{C2001j} - [0,004 \times D_{2001j}] - S_{C2001j}$$

Where:

- j = A certain unit of local and regional self-government. In the following text:
 L = Municipality, city, county.
 R = Municipality only.
 P_{C2001j} = Grant for social welfare centers in 2001 Rj.
 MS_{C2001j} = The minimal financial standard, according to the decision of the Croatian government in 2001 for the current expenditure of social welfare centers and heating allowance R j.
 D_{2001j} = The realized income from the income tax (excluding local taxation) in the Lj area increased by the additional share in income tax for the local self-government units that finance the decentralized functions – social welfare.
 S_{C2001j} = [si + splo]
 si = Executed expenditure from the state budget for the period January 1 until June 30, 2001 for social welfare centers.
 splo = Planned, unfulfilled obligations ranging up to 50 percent of the heating cost, from the state budget from July 1 up to December 31 for social welfare centers financed by Rj.

Healthcare

$$P_{Z2001j} = MS_{Z2001j} - [0,025 \times D_{2001j}]$$

Where:

- j = A certain unit of local and regional self-government. In the following text:
 L = Municipality, city, county.
 R = Municipality only.
 P_{Z2001j} = Grant for health in 2001 Rj.
 MS_{Z2001j} = The minimal financial standard, according to the decision of the Croatian government in 2001 for the current expenditure of the building maintenance of the health institutions Rj.
 D_{2001j} = The realized income from the income tax (excluding local taxation) in the Lj area increased by the additional share in income tax for the local self-government units that finance the decentralized functions – healthcare

of transferred (decentralized) commitments of local and regional self-government units. The government passes the regulation on the mode of calculation of the amount of equalization grants for decentralized functions of local and regional self-government units that have taken over the financing of decentralized functions.

The local and regional self-government units have the right to receive an equalization grant from the state budget if they do not collect enough funds from the additional share in PIT, up to the amount of the minimum standards established in the decrees and the decisions of the government on the minimal financial standards for a respective function in a particular year.

The financing of the decentralized functions has been taken over by counties, the City of Zagreb, and

32 cities,⁹ the financing of which is secured by the additional sections of the income tax for the decentral-

⁹ There are 32 cities in total that have taken over the decentralized functions and their financing. These are the following: Samobor, Velika Gorica, Vrbovec, Zaprešić, Krapina, Kutina, Sisak, Karlovac, Varaždin, Koprivnica, Bjelovar, Crikvenica, Opatija, Rijeka, Gospić, Virovitica, Požega, Slavonski Brod, Zadar, Osijek, Šibenik, Vinkovci, Makarska, Split, Labin, Pazin, Poreč, Pula, Rovinj, Umag, Dubrovnik, and Čakovec.

Table 9.
Distribution of Shared Taxes

Shared taxes	Central government budget	Counties	Municipalities, towns, and cities
Income tax	25.6% share of income tax for equalization fund 21%	10% + share of income tax for decentralized functions 9.4%	34% + share of income tax for decentralized functions 2.9%
Profit tax	70%	10%	20%
Tax on real estate transactions	40%	—	60%

Source: Author.

ized functions.¹⁰ In case the units of local and regional self-government do not have sufficient funds within the additional share of the income tax in any given fiscal year, they are entitled to *equalization grants*.

The criteria for the selection of cities which, together with the counties and the City of Zagreb, take over the financing of the decentralized expenditures for primary education were that these cities have more than 10,000 inhabitants, or are county capitals, and that the income tax per capita in 1999¹¹ was higher than HRK 400.

Equalization grants are significant for financing decentralized functions. In 2002, total commitments for decentralized functions amounted to HRK 1.511 million. The additional share of PIT in 2002 was HRK 665 million, which covered four percent of the execution of expenditures. The remaining part of 56 percent of the transferred liabilities was settled from equalization grants. In 2003, the PIT from the additional share amounted to HRK 680 million, which covered 39 percent of expenditures, and the other part of 61 percent was settled from equalization grants. In 2004, the PIT from

the additional share was 40 percent and the rest 60 percent was from equalization grants (see Table 10.).

Fiscal capacity analysis of the counties, cities, and municipalities, in relation to the institutional network in primary and secondary education, health, social welfare, and partly in fire protection, concluded that, due to the unbalanced development of the local and regional self-governments, the decentralized functions are transferred on the county levels (20), the City of Zagreb, and the level of a certain number of cities (32). This means that 53 local and regional self-government units in total have taken the obligation to finance the decentralized public expenditures.

Legislation provides for the possibility that a municipality or a city with more than 8,000 inhabitants or multiple municipalities or cities jointly totaling 8,000 inhabitants can, on the basis of the decree, finance the decentralized expenditure for primary education.

Each unit of local and regional self-government plans the expenditure for the decentralized functions in its annual budget. The state budget plans the income for the decentralized functions according to the income estimates of each separate additional section of the income tax. The income difference is planned from the equalization grants resources in the state budget under the heading *expenditure for the equalization grants for the decentralized functions*.

The financial resources allocated to each of the decentralized functions are decided on the basis of real expenditure in the previous year and the minimal standards estimates for each function. It should be added that the state budget provides its share of the income tax, i.e., the additional part for each function and the equalization grants. (Table 9.)

The counties and the City of Zagreb finance the decentralized function by transferring the funds for primary and secondary education, health, social welfare, and fire protection to the ultimate users (institutions). The

¹⁰ Additional parts of income tax for decentralized functions are the following: for primary education, 2.9 percent; secondary education, two percent; social welfare, two percent; health, 2.5 percent; and fire protection, one percent.

¹¹ In the final year prior to the beginning of the decentralization process and the enactment of the decentralization legislation for which data was available concerning the budgets of the local and regional self-government units. Due to the process of regulation preparation in the first half of 2001 the process of decentralization proper began on July 1, 2001.

Table 10.
Review of Revenues for Decentralized Functions, 2001*–2004, HRK million

Function	Counties and the City of Zagreb (21 units)				Towns and cities (32 units)				Total subnational government (53 units)			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Primary education	160.2	411.4	496.8	530.9	59.3	153.0	187.9	199.9	219.5	564.5	684.8	730.8
Secondary education	107.3	317.3	383.7	380.8	—	—	—	—	107.3	317.3	383.7	380.8
Healthcare	192.2	384.6	398.0	398.0	—	—	—	—	192.2	384.6	398.0	398.0
Social welfare	36.0	244.5	259.9	263.6	—	—	—	—	36.0	244.5	259.9	263.6
Fire protection	—	—	—	—	—	—	79.1**	237.5	—	—	79.1	237.5
Total	495.8	1,357.8	1,538.4	1,573.3	59.3	153.0	267.0	437.4	555.2	1,510.9	1,805.4	2,010.9
Revenue from additional share of income tax	231.5	n.a.	n.a.	n.a.	37.1	n.a.	n.a.	n.a.	268.7	665.4	680.0	799.0
Revenue from central government budget – equalization fund	264.3	n.a.	n.a.	n.a.	22.1	n.a.	n.a.	n.a.	286.5	845.5	1,125.4	1,211.9

Notes: * The process of decentralization started on July 1, 2001. This is the reason that the data for the fiscal year 2001 refer only to the first six months of the year;

** Minimum financial standards for decentralized financing of regular performance of public fire-fighting units for the period September 1 to December 31, 2003; n.a.: Because data on revenue sources for financing decentralized functions (revenue from additional share of income tax or revenue from central government budget – equalization fund) for the budget years 2002–2004 is not available publicly at the web page of the Ministry of Finance.

Source: *Official Gazette*. Online: <http://www.nn.hr>; Ministry of Finance. Online: <http://www.mfin.hr>.

financing priorities are defined by the relevant legislation and/or decrees.¹³

The state budget transfers the funds for the decentralized functions to the municipalities, the City of Zagreb, and cities on a monthly basis. In return, they are required to provide a report to the Ministry of Finance every three months outlining the amount of obligations according to each decentralized function and the amount of funds transferred to the end-users (institutions) for these functions.

The overview of the resources for the decentralized functions (Table 8.) shows that, in the period 2001–2004, there is an increase in the amount of funds for the purpose of financing the decentralized functions. Decentralized financing (transfer of funds and functions) from the state to local and regional self-government levels aims to strengthen the responsibility of the local authority in the implementation of the public functions in their respective areas of responsibility. In addition, the aim is

to build an efficient public sector, closer to the citizens and their needs.

Table 10. provides the details of the types of public expenditure for the decentralized functions in primary and secondary education, health, social welfare, and fire protection in terms of responsibility distribution for their financing between the state, municipality, the City of Zagreb, and the 32 cities.

In the initial stages of the decentralization process there was unfounded doubt concerning the success of the realization of the decentralization process. This was due to insufficient and unsuitable preparation for the whole process, insufficient training, and the poor qualification of employees in local and regional self-government units and their ability to implement the designated functions. However, the practice showed that the authorities have executed the transferred duties in a professional and expert manner.

The formulae for the calculation of the equalization grants are shown in Box 2. As they clearly show, publishing the minimal financial standards for primary and secondary education, social welfare, health, and fire protection, and the calculation of the required additional funds for the decentralized functions, requires the co-operation of the Ministry of Finance with the relevant ministries, local and regional self-government units,

¹³ The priorities are the costs of transportation of students in primary education, transport of employees in secondary education, and the energy costs for heating and lighting in primary and secondary schools.

and end-users. The end-users (institutions) receiving the funds for decentralized functions should construct their own financial plans with the corresponding explanations, forming the basis for the calculation of their total annual resource amounts.

Advantages and Disadvantages of the Grant System

Grants for local and regional government are realized in line with the abilities of the state budget in a way to secure grants for local units without the fiscal capacity to completely finance mandatory functions.

The criteria for the calculation of grants for local and regional self-government changes every year. This does not leave enough room for subnational government to forecast all the revenues in their budgets. The result could be seen as a lack of financial capacity to manage planned activities and local development. Lack of financial capacity to manage development is characteristic of more than 30 percent of local government units in Croatia because these units cannot cover current expenditures with current revenues.¹⁴ Some of these local government units are municipalities and cities in areas of special government concern. These units have received grants according to the basic criteria for assessment of grants in the Law on the Execution of the State Budget. Additionally, incentives for the development of municipalities, cities, and counties are planned within the funds of several line-ministries, the public enterprise "Croatian Waters," the Regional Development Fund, and others. This is mainly co-financing of development programs in the area of crafts, agriculture, small- and medium-sized enterprises, etc.

Because of the constant increase of the number of towns and municipalities without the capacity to provide services, it is necessary to establish clear and measurable criteria for local government units to meet in providing mandatory services to their citizens. Criteria should exclude all political aspects like whether to form new local government units or not, but carefully examine if the local government units will be capable to manage autonomously their development (Budak 2004). This will have great implications for the design of the future grant system in Croatia.

The grant system can be seen as a way to manage local government units. Generally, there is no monitoring and evaluation system because of problems with data quality and availability. Inefficient audit and few real sanctions, together with no monitoring or evaluation system, lead to bad management and irregularities in local government units' work. Official auditing is prescribed by law but rarely performed. In the case of irregularities, sanctions are lacking. Regular reporting to the Ministry of Finance is obligatory, but many difficulties relate to the accuracy of data provided, while the Ministry of Finance has no sanctioning tools. Internal control should be established in the local government units.

Starting from 2002, the manner of calculating the amount of the equalization grants to be given to cities and counties for decentralized functions for the following year is determined by a special decree of the government. In order to implement these decrees, the government adopts specific decisions to define the criteria and coefficients for the minimum financial (or expenditure) standards in elementary and secondary education and in the investment maintenance of healthcare institutions, as well as for the current expenditures of welfare centers and expenditures for heating costs.

The formulas, although complicated at a first glance, are quite clear, to an extent. The achievement of their application has been that the financing of decentralized functions has maintained the existing levels during the period when the state financed all public services. Thus, the decentralization process has achieved one of its goals, to provide local public services in accordance with the preferences of the local population.

However, the equalization grant system requires constant monitoring, analysis, and improvements. A key area for which a better solution is required is the definition of the minimal financial standard. As the decisions of the Croatian government provide detailed criteria and standards (the expenditure types entering the calculation of the minimal financial standard), it is essential to monitor costs according to the type and amount, and to create a performance-based system with incentives in order to increase rationality and generate better results.

Apart from this, the equalization grant system should eliminate the unfounded element and introduce the criteria of the real cost of providing each public service. The formula has ample room to add the variable "quality standard for the provision of public service," since the decentralized provision of local public services should imply a higher satisfaction level of the local population in the services provided by the public sector.

¹⁴ There is no improvement in the last fiscal year. More than 35 percent of local and regional government units have been unable to cover their operating expenses with operating revenues (without grants).

Conclusion

Strengths and Weaknesses of the Intergovernmental Finance System

The central government plays the major role in the system of subnational financing because the majority of local and regional revenues come from shared taxes and grants from the central level of government. For both important revenue sources, subnational governments do not have any independence to set tax rates, define tax bases, or establish criteria.

Two major issues that have affected the overall health of intergovernmental finance are (a) changes in administrative and territorial organization and (b) frequent changes to laws.

Constant changes in the administrative and territorial set-up of Croatian territory on the local and regional level have led to the impossibility of evaluating new solutions to the intergovernmental finance system.

The existing organization of local and regional self-government is inefficient in terms of fiscal capacity, indicated by the data obtained from budget analyses. However, the current institutional framework allows the connection and cooperation of municipalities, towns, and counties in the implementation of those projects that cannot be financed individually.

The laws that determine various aspects of intergovernmental finance have been modified frequently and such frequent changes have also affected many areas of local and regional financing. Such practices create much uncertainty and forecasting long-term revenues and expenditures at the local and regional level is difficult.

Strengths and Weaknesses of the Current Equalization System

The major aim of the grant system is to ensure the uniform provision of public services in Croatia. In general, grants are used as funds supporting local and regional self-government units in areas of special government concern with poor fiscal capacity to finance development programs.

The current equalization system refers to equalization transfers for decentralized functions, in direct correlation with the first stage of the decentralization of management and financing of part of public services. Unfortunately, even selected local and regional government units that have been assigned decentralized functions were unable to cover all of these decentralized functions with own revenue sources. Less than half of

the needed revenue sources for covering decentralized functions come from a higher local share of income tax and a majority of needed revenue sources come from the equalization fund – equalization grants for decentralized functions.

The current fiscal equalization system relies predominantly on the distribution of revenue between the central government and subnational government units in areas of special government concern and on transfers from the central budget to subnational government units. This system is not effective enough. The major problem comes from the disadvantages of the fiscal equalization mechanism. The most important issue is the lack of quality criteria for the transfer of grants. Such an inadequate grant and equalization system is unable to solve the problem of vertical and horizontal imbalances.

The criteria for grants have been separately set out for counties and for municipalities and cities. They are based on previous capital expenses but not on the basis of the real needs for grants. Recent changes have been seen in a higher (at least 75 percent) portion of county grants that need to be distributed to municipalities and cities that are not direct grant beneficiaries. The criteria and standards for equalization grants for decentralized functions in selected public services have been set out for the fiscal year on the basis of expenses in the previous fiscal year and on a per certain unit of measurement (per student, per insured person, per care recipient, etc.), but not on the basis of real needs for certain public functions.

Possible Reform Efforts

Decentralization as a principle in Croatia cannot be seen in practice without a clear decentralization strategy. However, no documents of a detailed, implementation-level nature were adopted to determine the objectives, work out the methods, impose concrete tasks, define who would be responsible, propose deadlines, and provide the yardsticks for performance measurement for the achievement of the aims of decentralization.

Five years after the first phase of decentralization process in Croatia, several important issues still remain and need resolution. *But the decentralization process should be continued*,¹⁵ and should be implemented in several phases.

Preparation and continuous work on such a strategy will give ideas for a solution of the most important problem – the lack of fiscal capacity. The lack of fiscal capacity to manage local development is one of the most important issues in Croatia. To solve this problem

a serious analysis is needed in the long-run, that will include major aspects of this problem – the administrative organization of local government units, the mandatory and voluntary responsibilities of local government units, the sources of revenues and expenditures in local and regional budgets, the distribution of responsibilities between three tiers of government and the correlation with the revenue and expenditure structure, analysis of the grant and transfer system, the criteria for the transfer of grants, the status of nonfiscal revenues, borrowing by local and regional self-government units, privatization issues, etc.

The grant system cannot be based exclusively on one type of grant. This is because more than one goal cannot be achieved with only one type of grant. The current grant and equalization system in Croatia has

solved only partly the problem of intergovernmental imbalance among subnational government units. But two problems remain. First, an appropriate measurement of fiscal capacity at the subnational level needs to be established. The distribution of grants should be based on the fiscal capacity (local revenues) and real public needs (local expenses) to ensure uniform provision of public services in Croatia.

Second, grants are transferred to the local and regional self-government units in areas of special government concern. All of these subnational government units lack the incentives for the improved collection of own revenue sources: it is much easier for them to receive state grants than to improve the efficiency of revenue collection. We can see the future reform effort solving at least some of the above-mentioned problems.

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Appendix 1.

Municipal, Town, City and County Taxes in Brief

Taxpayers of the *surtax on income tax* are recorded taxpayers of personal income tax. Municipalities can introduce this tax at a rate up to 10 percent, towns under 30,000 inhabitants up to 12 percent, towns with more than 30,000 inhabitants up to 15 percent, and the City of Zagreb up to 30 percent. Local authorities determine the surtax on income tax, and revenue accrues to the local government unit where the surtax payer resides.

Consumption tax is paid on consumption of alcoholic beverages, beer, and non-alcoholic beverages in restaurants. A taxpayer is a legal or individual person who provides this service. The selling retail price is a tax base and a municipality or city establishes tax rates. A tax rate cannot exceed three percent of a tax base. The tax office establishes assumptions for any increase and rates for this tax.

Vacation home tax is levied on legal persons and individuals that are owners of country cottages and rest centers. The tax base is the useable surface of the property at rates from HRK five to 15 per square meter. The local government makes the decision about the actual tax rates and this tax is revenue of the local unit.

Taxpayers of the *tax on idle lands* are owners or leasers of uncultivated agricultural land. It is paid according to hectare, and the law sets up the maximum annual rates. The local government makes the decision about the actual tax rates and this tax is revenue of the local unit.

Similar to the tax on idle lands are the *tax on unused commercial real estate* and the *tax on unused building plots*. In both cases the law sets up maximal annual rates (from HRK five to 15 per square meter and HRK one to five, respectively), and defines taxpayers as physical or legal persons that are owners of that property. The local government makes the decision about the actual tax rates and this tax is revenue of the local unit.

Legal persons and individuals subject to business or personal income tax pay the *tax on firm or name*. Taxpayers are all physical or legal subjects that are registered as business entities. The tax is levied up to HRK 2,000 per name annually. The local government makes the decision about the actual tax rates and this tax is revenue of the local unit.

Tax on usage of public space is regulated by individual act of municipalities and cities.

Inheritance and gift tax is paid on real estate that is inherited, gifted, or acquired without compensation. The tax rate is five percent of the market value of the tax base.

The *owners of motor vehicles* pay motor vehicle tax. It is paid according to the power of the engine and the year of the motor vehicle, indicated in the tables as a lump sum.

The owners of the boats pay the *boat tax*. The length and the year of the boat determines the tax base, and the tax rate is expressed in the tables as a lump sum.

Appendix 2.

Shared Taxes

Shared taxes are:

- Income tax,
- Profit tax, and
- Tax on real estate transactions.

Collected revenue is divided among the state, municipality, town (city), and county.

The distribution of revenues from the income tax varies according to the functions of local and regional government:

1. If local government is not financing decentralized expenditures for elementary schools, participation is as follows:

Local government	34%*
County	10%*
Equalization fund	21%
State	25.60%

2. If local government is settled in an area of special state concern and it is not financing decentralized expenditures for elementary schools, participation is as follows:

Local government	34% + state share of 56% of income tax
County	10%
Equalization fund	0 % or 21%
State	0% or 25.6%

- 3.1 If local government is settled on an island and it is not financing decentralized expenditures for elementary schools, and not financing expenditures for fire protection, participation is as follows:

Local government	34% + state share of 25.6% of income tax
County	10%*
Equalization fund	21%
State	0%

- 1.2 If local government is settled on an island and it is not financing decentralized expenditures for elementary schools, and financing expenditures for fire protection, participation is as follows:

Local government	34%* + state share of 24.6% of income tax
County	10%*
Equalization fund	21%
State	0%

- 1.3 If local government is settled on an island and it is financing decentralized expenditures for elementary schools, and financing expenditures for fire protection, participation is as follows:

Local government	34%* + state share of 24.6% of income tax
County	10%
Equalization fund	21%
State	0%

2. If local government (town) is financing decentralized expenditures for elementary schools, participation is as follows:

Local government	34%*
County	10%*
Equalization fund	21%
State	25.6%

3. For the City of Zagreb that is financing decentralized expenditures for elementary schools, participation is as follows:

Local government	47%*
Equalization fund	21%
State	25.6%

4. If local government (city) is financing decentralized expenditures for elementary schools, and it is settled in an area of special state concern, participation is as follows:

Local government	34%*
County	10%*
Equalization fund	21%
State	25.60%

Notes:

* In all cases where the local or regional unit is financing decentralized functions, an additional share in income tax has been set up:

Primary schools	2.9%
Secondary schools	2.0%
Social welfare	
Centers for social care	0.4%
Pension homes	1.6%
Healthcare	
Institutions owned by counties	2.5%
Fire protection	1.0%

The share of the state in income tax has been reduced in the same proportion.

Profit tax is distributed among municipalities and cities, 20 percent; counties, 10 percent; and state, 70 percent.

Tax on real estate transactions is distributed among municipalities and cities 60, percent and state, 40 percent.

Appendix 3.

Composition of Local Government Revenues and Expenditures

Revenues and Expenditures by Municipalities, Cities, and Counties, 1999–2002*, HRK

	Municipalities				Cities			
	1999	2000**	2001	2002	1999	2000	2001	2002
I. Total revenues and grants	1,210,917,925	1,449,656,956	1,427,496,271	1,574,559,849	6,392,300,579	7,101,799,950	7,262,862,300	8,899,209,183
II. Total revenues	975,397,034	1,191,419,294	1,173,146,015	1,271,801,350	6,180,687,926	6,864,541,092	7,026,088,823	8,398,759,639
III. Current revenues	880,365,044	1,039,752,947	1,056,023,455	1,172,992,271	5,738,344,907	6,308,880,795	6,468,451,951	7,890,640,693
IV. Tax revenues	380,364,940	426,622,435	464,817,747	566,224,708	3,803,095,731	4,090,171,792	4,154,913,563	5,151,185,251
1.1 Income tax and surtax	241,609,011	265,626,016	300,722,672	378,763,850	2,502,459,116	2,665,885,009	2,868,359,434	3,565,452,091
1.2 Profit tax	35,897,350	45,102,350	45,289,948	54,307,863	789,904,643	887,716,590	720,855,846	978,800,888
1.3 Taxes on real estate	89,726,300	98,508,470	106,613,358	102,491,604	419,595,435	437,878,957	488,665,335	421,510,452
1.4 Local taxes	12,456,772	16,406,057	12,082,162	30,661,391***	83,399,844	92,623,236	77,006,253	185,421,820
1.5 Other taxes	675,507	979,342	109,607	—	7,736,693	6,068,000	26,695	—
V. Non-tax revenues	500,000,104	613,130,512	591,205,708	606,767,563	1,935,249,176	2,218,709,003	2,313,538,388	2,739,455,442
VI. Capital revenues	95,031,990	151,666,347	117,122,560	98,809,079	442,343,019	555,660,297	557,636,872	508,118,946
VII. Grants	235,520,891	258,237,662	254,350,256	302,758,499	211,612,653	237,258,858	236,773,477	500,449,544

Source: Ministry of Finance. Online: <http://www.mfin.hr>.

Notes: * A different number of local government units (municipalities, towns, and cities) for different budget years are included because of changes to the existing number of units.

** Plan for 2000.

*** Local and other taxes.

**** Data are available only for total subnational government.

Revenues and Expenditures by Municipalities, Cities, and Counties, 1999–2002*, HRK (Continued)

	Counties					Total Sub-national government					
	1999	2000**	2001	2002	1999	2000	2001	2002	2000	2001	2002
I. Total revenues and grants	775,365,616	858,239,915	1,271,078,943	1,958,365,447	8,378,584,120	9,409,696,821	9,961,437,514	12,432,134,479	8,378,584,120	9,409,696,821	9,961,437,514
II. Total revenues	578,357,242	655,733,767	801,493,917	1,364,930,166	7,734,442,202	8,711,694,153	9,000,728,755	11,035,491,155	7,734,442,202	8,711,694,153	9,000,728,755
III. Current revenues	560,851,276	627,395,322	792,644,952	1,360,810,840	7,179,561,227	7,976,029,064	8,317,120,358	10,424,443,804	7,179,561,227	7,976,029,064	8,317,120,358
IV. Tax revenues	440,871,679	478,676,280	653,327,170	1,212,014,359	4,624,332,350	4,995,470,507	5,273,058,480	6,929,424,318	4,624,332,350	4,995,470,507	5,273,058,480
1.1 Income tax and surtax	223,228,058	245,474,000	456,176,430	984,347,940	2,967,296,185	3,176,985,025	3,625,258,536	4,928,563,881	2,967,296,185	3,176,985,025	3,625,258,536
1.2 Profit tax	149,210,858	162,160,000	126,219,283	137,692,881	975,012,851	1,094,979,140	892,365,077	1,170,801,632	975,012,851	1,094,979,140	892,365,077
1.3 Taxes on real estate	3,454,817	3,624,280	2,131,902	1,497,111	512,776,552	540,011,707	597,410,595	525,499,167	512,776,552	540,011,707	597,410,595
1.4 Local taxes	62,433,942	64,768,000	67,702,135	88,476,427	158,290,558	173,797,293	156,790,550	304,559,638	158,290,558	173,797,293	156,790,550
1.5 Other taxes	2,544,004	2,650,000	1,097,420	—	10,956,204	9,697,342	1,233,722	—	10,956,204	9,697,342	1,233,722
V. Non-tax revenues	119,979,597	148,719,042	139,317,782	148,796,481	2,555,228,877	2,980,558,557	3,044,061,878	3,495,019,486	2,555,228,877	2,980,558,557	3,044,061,878
VI. Capital revenues	17,505,966	28,338,445	8,848,965	4,119,326	554,880,975	735,665,089	683,608,397	611,047,351	554,880,975	735,665,089	683,608,397
VII. Grants	197,008,374	202,506,148	469,585,026	593,435,281	644,141,918	698,002,668	960,708,759	1,396,643,324	644,141,918	698,002,668	960,708,759

Sources: Ministry of Finance. Online: <http://www.mfin.hr> for fiscal years 1999–2001; Ministry of Finance *Monthly Statistical Review*, different issues for fiscal years 2002–2003.

Notes: * A different number of local government units (municipalities, towns, and cities) for different budget years are included because of changes to the existing number of units.

** Plan for 2000.

Appendix 4.

Per Capita Revenues of Local and Regional Self-governments¹ in 2002, HRK

Counties	Population 2001	Total revenues and grants HRK		Total revenues HRK		Grants HRK	
		Amount	Per capita	Amount	Per capita	Amount	Per capita
Zagrebačka	309,696	132,544,596	428	106,658,377	344	25,886,219	84
Krapinsko-Zagorska	142,432	82,335,197	578	69,781,977	490	12,553,220	88
Sisačko-Moslavačka	185,387	96,685,318	522	39,411,858	213	57,273,460	309
Karlovačka	141,787	81,794,171	577	45,424,688	320	36,369,483	257
Varaždinska	184,769	100,236,027	542	59,912,776	324	40,323,251	218
Koprivničko-Križevačka	124,467	67,151,442	540	33,518,021	269	33,633,421	270
Bjelovarsko-Bilogorska	133,084	69,127,913	519	61,941,522	465	7,186,391	54
Primorsko-Goranska	305,505	192,729,389	631	187,544,541	614	5,184,848	17
Ličko-Senjska	53,677	34,845,329	649	11,774,754	219	23,070,575	430
Virovitičko-Podravska	93,389	46,974,809	503	17,685,659	189	29,289,150	314
Požeško-Slavonska	85,831	44,967,438	524	40,635,462	473	4,331,976	50
Brodsko-Posavska	176,765	87,514,098	495	35,990,699	204	51,523,399	291
Zadarska	162,045	87,645,018	541	82,941,650	512	4,703,368	29
Osječko-Baranjska	330,506	167,619,807	507	72,753,829	220	94,865,978	287
Šibensko-Kninska	112,891	62,665,042	555	25,155,634	223	37,509,408	332
Vukovarsko-Srijemska	204,768	94,039,073	459	33,012,379	161	61,026,694	298
Splitsko-Dalmatinska	463,676	231,900,109	500	226,630,358	489	5,269,751	11
Istarska	206,344	141,891,386	688	113,303,713	549	28,587,673	139
Dubrovačko-Neretvanska	122,870	77,833,670	633	71,113,194	579	6,720,476	55
Međimurska	118,426	57,865,615	489	29,739,075	251	28,126,540	238
Total Counties	3,658,315	1,958,365,447	535	1,364,930,166	373	593,435,281	162

Sources: Ministry of Finance. Online: <http://www.mfin.hr>; Central Bureau of Statistics. Online: <http://www.dzs.hr>.

Note: * This refers only to the counties and 32 cities that have taken over decentralized functions and their financing.

Cities	Population 2001	Total revenues and grants HRK		Total revenues HRK		Grants HRK	
		Amount	Per capita	Amount	Per capita	Amount	Per capita
Samobor	36,206	72,545,118	2,004	66,995,149	1,850	5,549,969	153
Velika Gorica	63,517	119,321,669	1,879	111,168,751	1,750	8,152,918	128
Vrbovec	14,658	16,609,463	1,133	12,937,249	883	3,672,214	251
Zaprešić	23,125	54,674,928	2,364	52,359,495	2,264	2,315,433	100
Krapina	12,950	18,280,421	1,412	14,497,136	1,119	3,783,285	292
Kutina	24,597	42,504,124	1,728	37,090,122	1,508	5,414,002	220
Sisak	52,236	109,348,403	2,093	99,971,693	1,914	9,376,710	180
Karlovac	59,395	109,155,731	1,838	92,533,236	1,558	16,622,495	280
Varaždin	49,075	113,975,924	2,322	108,169,980	2,204	5,805,944	118
Koprivnica	30,994	89,958,006	2,902	74,019,446	2,388	15,938,560	514
Bjelovar	41,869	65,706,950	1,569	59,072,960	1,411	6,633,990	158
Crikvenica	11,348	36,832,233	3,246	34,556,755	3,045	2,275,478	201
Opatija	12,719	61,369,842	4,825	57,598,677	4,529	3,771,165	296
Rijeka	144,043	498,726,364	3,462	484,802,775	3,366	13,923,589	97
Gospić	12,980	26,492,179	2,041	19,268,954	1,485	7,223,225	556
Virovitica	22,618	32,505,853	1,437	28,040,075	1,240	4,465,778	197
Požega	28,201	40,320,785	1,430	35,223,230	1,249	5,097,555	181
Slavonski Brod	64,612	81,346,265	1,259	63,684,414	986	17,661,851	273
Zadar	72,718	167,536,512	2,304	154,578,403	2,126	12,958,109	178
Osijek	114,616	246,472,428	2,150	236,734,673	2,065	9,737,755	85
Šibenik	49,374	98,902,378	2,003	87,588,394	1,774	11,313,984	229
Vinkovci	35,912	52,047,113	1,449	49,025,477	1,365	3,021,636	84
Makarska	13,716	30,844,153	2,249	29,928,463	2,182	915,690	67
Split	188,694	544,231,508	2,884	529,377,416	2,805	14,854,092	79
Labin	12,426	31,431,990	2,530	27,111,271	2,182	4,320,719	348
Pazin	9,227	28,699,847	3,110	18,881,652	2,046	9,818,195	1064
Poreč	17,460	80,753,209	4,625	76,408,135	4,376	4,345,074	249
Pula	58,594	179,957,862	3,071	169,156,501	2,887	10,801,361	184
Rovinj	14,234	79,190,236	5,563	76,026,344	5,341	3,163,892	222
Umag	12,901	62,260,664	4,826	58,179,593	4,510	4,081,071	316
Dubrovnik	43,770	135,805,551	3,103	125,134,391	2,859	10,671,160	244
Čakovec	27,526	49,735,886	1,807	43,187,941	1,569	6,547,945	238
Zagreb	779,145	4,167,917,473	5,349	4,132,968,051	5,304	34,949,422	45
Total Cities	2.155.456	7,545,461,068	3,501	7,266,276,802	3,371	279,184,266	130
Total Counties and Cities		9,503,826,515		8,631,206,968		872,619,547	

Sources: The Ministry of Finance. Online: <http://www.mfin.hr>; Central Bureau of Statistics. Online: <http://www.dzs.hr>.

Note: * This refers only to the counties and 32 cities that have taken over decentralized functions and their financing.

