

# **WHEN BUREAUCRATS CONSTRAIN THE GRABBING HAND**

**ENVIRONMENTAL RESOURCE SUSTAINABILITY IN TOURISM**

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## Declaration

I hereby confirm that this dissertation contains no materials accepted for any other degrees, in any other institutions. The dissertation contains no material previously written and/or published by any other person, except where appropriate acknowledgment is made in the form of bibliographical reference.

Budapest, 29<sup>th</sup> of April 2017

*Sanja Hajdinjak*

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Signature

*Mami i Tati*  
*I Dedi, u uspomenu*



# Abstract

International organizations, donors and politicians advocate tourism as a key developmental strategy that can ensure poverty relief and economic growth. However, tourism development frequently leads to vast resource degradation as countries struggle to balance demands for growth and sustainability. This dissertation researches why some countries successfully prevent rent-grabbing and ensure environmental resource sustainability, while others waste natural resources by allowing colluding political and business elites to capitalize on significant resource windfalls. Applying resource curse theory to the tourism sector and drawing on the tourism, corruption and veto points bodies of literature, I develop a theoretical framework focused on bureaucratic and political veto points (BVP and PVP). I argue that bureaucratic veto points, including bureaucratic expertise, decentralized spatial planning and stringent environmental legislation, provide protection against rent-grabbing and resource misuse. In addition, vertical political cohabitation, turnover in power and an independent judiciary act as political vetos against resource use pathologies. Finally, civil society and the media act as catalysts in ensuring public and judiciary engagement by requiring assessment of legality. The framework is tested empirically using a mixed methods approach. I analyse the role of BVPs and PVPs cross-nationally on a large-N sample of 127 economies using instrumental variables, principal component analysis and graphical modelling. Qualitatively, I engage in a comparative analysis of the two most similar cases, Croatia and Montenegro. While they share tourism dependence and a common Yugoslav heritage, Croatia was more successful in preventing tourism rent-grabbing which in Montenegro resulted in widespread resource devastation. The qualitative analysis has two levels. First, I trace historically the coevolution of political institutions, bureaucracy and economic development across four periods and argue that bureaucratic expertise and capacity are partially exogenous from politics. Secondly, based on original data – Tourism Projects Dataset – I analyse the role of the BVPs and PVPs in Croatia and Montenegro, both on aggregate and tourism project level. This mixed methods approach confirms that bureaucratic and political veto points explain variation in the rent-grabbing and resource management in the tourism sector.



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# List of Abbreviations

2SLS	Two Stage Least Squares
AzT	Arsenal for Tivat (Arsenal za Tivat)
BF	Boka Forum (Bokeljski forum)
BVP	Bureaucratic veto points
CGO	Centre for Civic Education (Centar za građansko obrazovanje)
CIN	Centre for Investigative Journalism (Centar za Istraživačko Novinarstvo)
CNB	Croatian National Bank (Hrvatska Narodna Banka)
CZ	Coastal Zone (Morsko Dobro)
DAD	Society of Architects Dubrovnik (Društvo arhitekata Dubrovnik)
DAI-SAI	Society of Architects Istria (Društvo arhitekata Istre - Società architetti dell'Istria)
DF	Democratic Front (Demokratski Front)
DPS	Democratic Party of Socialists of Montenegro (Demokratska partija socijalista Crne Gore)
DSCG	Democratic League in Montenegro (Demokratski Savez u Crnoj Gori)
DSS	Democratic Serb Party (Demokratska Srpska Stranka)
DUA	Democratic Union of Albanians (Demokratska Unija Albanaca)
DUP	Detailed urban plan (Detaljni urbanistički plan)
DUUDI	State office for management of the state property (Državni ured za upravljanje državnom imovinom)
EIA	Environment Impact Assessment
EITI	Extractive Industries Transparency Initiative
FORCA	New Democratic Power – Forca (Nova Demokratska Snaga – FORCA)
GUP	General urban plan (Generalni urbanistički plan)
HDZ	Croatian Democratic Union (Hrvatska Demokratska Stranka)
HGI	Croatian Civic Initiative (Hrvatska Građanska Inicijativa)
HIC	High-Income Countries
HNS	Croatian People's Party – Liberal Democrats (Hrvatska narodna stranka – liberalni demokrati)
HSLs	Croatian Social-Liberal Party (Hrvatska socijalno-liberalna stranka)
HSP	Croatian Party of Rights – Ante Starčević (Hrvatska stranka prava – Ante Starčević)
HSS	Croatian Peasant Party (Hrvatska seljačka stranka)
HSU	Croatian Party of Pensioners (Hrvatska Stranka Umirovljenika)
IBA	Important Bird Area
ICTY	International Criminal Tribunal for the former Yugoslavia (ICTY)
IDS	Istrian Democratic Assembly (Istarski demokratski sabor)
KANA	Who will if not architects ('Ko će ako ne arhitekti)
LIC	Lower-Income Countries
LS	Liberal Party (Liberalna Stranka (Hrvatska))
LSCG	Liberal Alliance of Montenegro (Liberalni savez Crne Gore)
LSL	Local Location Study (Lokalna studija lokacije)
MANs	The Network for Affirmation of NGO Sector (Mreža za afirmaciju nevladinog sektora)
MOST	Bridge of Independent Lists (Most Nezavisnih Lista)
NOVA	New Serb Democracy (Nova Srpska Demokratija)

NS	People's Party (Narodna stranka)
OCCRP	Organized Crime and Corruption Reporting Project
PCA	Principal Component Analysis
PCB	Protected Coastal Area (Zaštićeni obalni pojas)
PCG	Positive Montenegro (Pozitivna Crna Gora)
PDP	Party of Democratic Prosperity (Partija Demokratskog Prosperiteta)
PGS	Alliance of Primorje-Gorski Kotar (Primorsko goranski savez)
PIF	Privatization Investment Fund (Privatizacijsko investicijski fond)
PVP	Political veto points
PzP	Movement for Changes (Pokret za Promjene)
RTCG	Radio and Television of Montenegro (Radio Televizija Crne Gore)
RZZSK	Regional Bureau for Protection of the Culture Monuments (Regionalni zavod za zaštitu spomenika kulture)
SDP	(CRO) Social Democratic Party of Croatia (Socijaldemokratska partija Hrvatske)
SDP	(MNE) Social Democratic Party of Montenegro (Socijaldemokratska partija Crne Gore)
SEIA	Strategic Environment Impact Assessment (Strateška procjena utjecaja na okoliš)
SL	Serbian List (Srpska Lista)
SLS	State Location Study
SNP	Socialist People's Party (Socijalistička narodna partija Crne Gore)
SNS	Serbian People's Party of Montenegro (Srpska narodna stranka Crne Gore)
SPSPCZ	Spatial Plan for Special Purpose Coastal Zone (Prostorni plan posebne namjene za obalno područje Crne Gore)
SRSJ	Union of Reform Forces (Savez Reformskih Snaga Jugoslavije)
SSR	Party of Serb Radicals (Stranka Srpskih Radikala)
TA	Tivat Action (Tivatska Akcija)
UDPCS	Urban Development Plan of County Significance (Urbanistički Plan Uređenja Državne Razine)
UPU	Urban development plan
USKOK	Bureau for Combating Corruption and Organized Crime (Ured za suzbijanje korupcije i organiziranog kriminala)
UZKD	Directorate for the protection of cultural heritage (Uprava za zaštitu kulturnih dobara)
ZA	Green Action (Zelena Akcija)
ZI	Green Istria (Zelena Istra)





# 1

## INTRODUCTION

### The Paradox of Plenty Revisited

**A**cross the world, tourism development is frequently accompanied by resource degradation of vast proportions (Sharpley 2009; Sharpley 1998; Agarwal and Shaw 2007; Ioannides 1995; Dodds and Butler 2010; D. Hall 2003). Simultaneously, billions earned from the commercialization of the valuable resources find their way to the pockets of the privileged elites (Mekinc, Kociper, and Dobovsek 2013; Mihdha 2008; T. Richter and Steiner 2007; Duffy 2000). Despite the obvious dependence of the tourism sector to environmentally preserved and culturally protected resources (Tisdell 1987), reports from countries across the world show that growth of tourism sector and business interests for more land urbanization incentivise rent-grabbing and fuel unsustainable use of resource (Orueta and Loures 2006; Satta 2004; Jiménez, Quesada, and Villoria 2011; Jiménez and Villoria 2012). In addition to non-sustainable resource use, tourism development results in an unfair distribution of the profits made through the development of the resorts and concessions over cultural heritage (Tosun 1998; Tosun Cevat 2000; Duffy 2000).

### **1.1 Research Questions and the Gap in the Literature**

Why is it the case that in some localities tourism growth and development goes hand in hand with the devastation of natural resources, while in others the stakeholders converge toward a sustainable resource use approach? Why are resource rents in some localities hoarded in the pockets of the colluding political and business elites, while others manage to prevent resource grabbing? In response to the failure of the sustainable tourism notion, numerous tourism studies have attempted to shed light on the mechanisms that could ensure long-term sustainable resource use.

Tourism-related land urbanization schemes receive a share of the limelight in the media and have been a topic of discussion in the EU institutions (European Environment Agency 2015; Giulietti et al. 2016; Sabban 2013). Moreover, movies such as “You’ve been Trumped” and “A Dangerous Game”<sup>1</sup> bring the issue of resource devastation and land uptake for the sake of vested interests closer to a wider audience (Baxter 2011). However, the focus has been mostly on the importance of the local community engagement and prevalence of the business interests for short-term profit over dedication to long-term resource sustainability (Buteau-Duitschaever et al. 2010; D’Angella, Carlo, and Sainaghi 2010; McLeod and Airey 2007; Pastras 2012; Zuffi 2011; Mowforth and Munt 1998; Presenza, Del Chiappa, and Sheehan 2013).

Despite the attention sustainability debate receives, limited scholarship has connected the resource misuse to the rent-grabbing and corruption which is behind it (F. Yuksel and Yuksel

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<sup>1</sup> You’ve Been Trumped is Anthony Baxter’s first documentary film which traces construction of a luxury golf course on a beach in Balmedie, Aberdeenshire, Scotland, by investor Donald Trump. The wilderness area selected for the golf course is also a recognized natural habitat called “shifting dunes.” Local homeowners oppose the project and attempt to fight off Donald Trump and Scottish legal and governmental authorities. In his second film, “It’s a Dangerous Game” Baxter continues to research devastation of resources and political pressures behind development of golf courses across the world, specifically focusing on the case of Srđ golf in Croatia. He follows the success of the citizens’ initiative to organize a first citizens’ initiated referendum in the history of the country, as well as the motives behind local level civil society’s fight against golf resort on a plateau above UNESCO’s World Heritage site Dubrovnik.

2007; Jiménez, Quesada, and Villoria 2011; Bianchi 2004; José et al. 2010). However, the existing literature has not investigated the role of the bureaucratic and political institutions, nor has it defined specific mechanisms governing outcome divergence.

## 1.2 Argument

Ignoring corruptive activities in the literature prevented a better understanding of the mechanisms which can discourage and minimise resource misuse. Therefore, two dependent variables, rent-grabbing and resource misuse, and their relationship are the focus of this dissertation. To explain the divergence in the rent-grabbing and resource abuse, I emphasize the role of the bureaucracy in the process of the spatial planning and of the political institutions. Neither has been widely explored in the existing scholarship. In doing so, I formulate a Bureaucratic and Political Veto Points argument, drawing from the existing tourism, natural resource curse, corruption and veto points scholarship.

My research argues that Bureaucratic Veto Points (BVPs), including bureaucratic expertise, spatial planning decentralisation and stringent environmental legislation, hinder rent-grabbing and resource misuse in tourism. The effect of BVPs is analysed both individually, and in interaction with Political Veto Points (PVPs). The PVPs include “vertical cohabitation”<sup>2</sup> and turnover in power and judicial independence. Civil society and media have a role of catalysts, helping in preventing corruption and resource abuse through the judiciary. The dissertation builds on the existing scholarship on the role of veto points in stabilizing policies and, even more important, ensuring good governance. The term *veto points* is used in the dissertation to connect with the veto points or players framework. However, spatial planning decentralization, stringency of legislation, vertical cohabitation and turnover in power are de facto *veto*

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<sup>2</sup> In dissertation, I use the term vertical cohabitation to delineate an occurrence when national and sub-national levels of government are under control of different political parties or blocks. The term will be elaborated later in the Introduction chapter.

*mechanisms* relying on political and bureaucratic actors that veto rent-grabbing and resource misuse

BVPs, PVPs and their interaction define outcomes on dependent variables. The interaction of decentralised spatial planning and stringent legislation with vertical cohabitation, party turnover and the judiciary improves the quality of monitoring and controls rent-grabbing. My argument is that by preventing land use related rent-grabbing in tourism, bureaucratic and political veto points also prevent non-sustainable resource use. I suggest that bureaucratic capacity and expertise are to an extent exogenous from politics of the day. However, the changes in the quality of bureaucracy can be explained through a coevolution of the bureaucracy, political institutions and economic development.

### **1.3 Conceptualising Rent-Grabbing and Resource Use**

Dependent variables on which I focus in the dissertation require conceptual framing. First, I provide a conceptual framework for rent-grabbing, land urbanization and land speculation. Second, I define resource use and management.

#### 1.3.1 Rent-grabbing

Rent-grabbing extends the term rent-seeking within Mehlum et al.'s grabbing equilibrium framework (2006b) in which resource abundance provides differing incentives for the private sector in economies characterised by “grabber friendly” compared to “producer friendly” institutions. Mehlum et al. argued that protection of property rights and control of corruption help turn resource riches to economic growth. In such setting, more resources incentivise businesses to engage in productive investments and create positive externalities. In contrast, fragile property rights and weak control of corruption hinder growth prospects when combined with an abundance of natural resources. In such countries, more natural resources can

incentivise developmental pathologies, in turn creating negative externalities for the rest of the economy (Mehlum, Moene, and Torvik 2006b).

In the broader literature, rent-seeking is defined as the practice of manipulating public policy or economic conditions as a strategy for increasing profits. It is important to note that it can be achieved through both legal and illegal means (Torvik 2002). While rent-seeking can take place in any sector of the economy, I use rent-grabbing to denote that the practice happens in an unproductive, grabbing equilibrium in the natural resource extraction or use process. Richter and Steiner argue that scarcity, low substitutability and sensitivity to price differentials create absolute resource rents in tourism. Furthermore, policies lowering the factor costs of a given product relative to the factor costs in other locations create differential rents in tourism (T. Richter and Steiner 2007). I refer to rent-grabbing in tourism to define corruptive activities of both private and public actors to ensure control over resource rents. I now turn to explain the land and urbanism speculations in tourism.

### 1.3.2 Land and urbanism speculations

Term land or urbanism speculations has three meanings in the literature. First, originally it was used for risk taking investments where the investors speculate that the demand for the land might rise or that the plot might get urbanised, capturing rents and increasing the profit margin as a result (Yeh and Li 1999; Clawson 1962). Second, it can also refer to risk-taking land purchase whereby the investors lobby political and bureaucratic elites for land urbanization, but have no guarantees the efforts will be successful (Münster and Münster 2012; Scheyvens 2011). Third, it can denote risk-averse investments where the investors purchase the land and either have insider information that the land will be urbanised, exert undue influence or bribe to ensure desired outcomes and high-profit margin (Romero, Jiménez, and Villoria 2012; Bianchi 2004).

When analysing rent-grabbing, I refer to speculations in the third meaning of the term. However, it is potentially problematic and difficult to differentiate between the three types. For example, purchasing agricultural land and waiting for the price of the land to increase, or simultaneously lobbying for a change in spatial plan and land urbanization is not illegal. Bribing an official or a politician to ensure the land urbanization or to facilitate issuing necessary permits is illegal. Therefore, unless there is explicit data on illegalities, I refer to all three types as land urbanisations. Cases for which there are court or other official records suggesting bribery, undue influence, insider information or another type of illegal activities are coded as illegalities.

### 1.3.3 Resource use and management

Resource use and management are used interchangeably in the dissertation to delineate management of natural beauties and cultural resources in interaction with people, tourism and other economic activities. Particular focus is on sustainability so that the economic benefits can also be ensured for the future generations. Carter et al. highlight that even though sustainability is an overarching concern of the tourism literature, there is an absence of focus on resource management in tourism discourse (Carter, Baxter, and Hockings 2001).

Tourism sector relies on given, natural and cultural resources such as natural beauties enveloped in favourable climate and cultural resources such as tangible and intangible heritage. Natural resource mismanagement includes loss of biodiversity including land uptake, beach erosion, dredging and destruction of wetlands, mangroves, seagrasses and corals. I argue that the environmental effects are a result of large-scale urbanization of the natural areas, incentivized by the lucrative rapid growth of mass-market tourism. Therefore, I focus on the rent-grabbing and land urbanization patterns that follow.

Cultural resources face similar challenges as the natural resources. Commercialization of the cultural goods guarantees revenues and funding required for preservation which otherwise might be lacking or insufficient (Sharpley and Telfer 2002). However, commercialisation of the cultural resource can also lead to congestion and devastation of the unique sights as they are transformed into tourism and accommodation facilities without full respect of the original form and purpose. When studying cultural resources, I focus on the alienation of the publicly owned cultural sites. I connect misuse of both natural and cultural resources with vested interests and harm to what could potentially be a long-term source of profit.

### **1.4 Theoretical Framework**

To explain variation in outcomes in resource use and rent allocation in the tourism sector, I rely on the resource curse, tourism, corruption and veto points literature. Based on these building blocks, the thesis identifies two groups of veto points, namely bureaucratic and political. In the literature, veto players are defined as an actor or a group without whose agreement a law cannot be passed. Tsebelis' seminal work developed the veto player framework which includes political institutions of legislation, executive and judiciary (Tsebelis 2002, 31). In this framework, Bureaucratic Veto Points (BVPs) include spatial planning organisation and stringency of environmental regulation. Political Veto Points (PVPs) include vertical cohabitation, turnover and judicial independence. As already mentioned, I use the term *veto points* in an attempt to situate the research terminologically within the the original veto points body of literature. However, some of the BVPs and PVPs are technically *veto mechanisms* relying on political and bureaucratic actors that veto rent-grabbing and resource misuse. Civil society and the media do not have a formal role of veto points, but act as catalysts through the judiciary.

The veto points are grouped in the two groups based on the nature of their influence on rent-grabbing and resource management. BVPs have a passive role, through bureaucratic

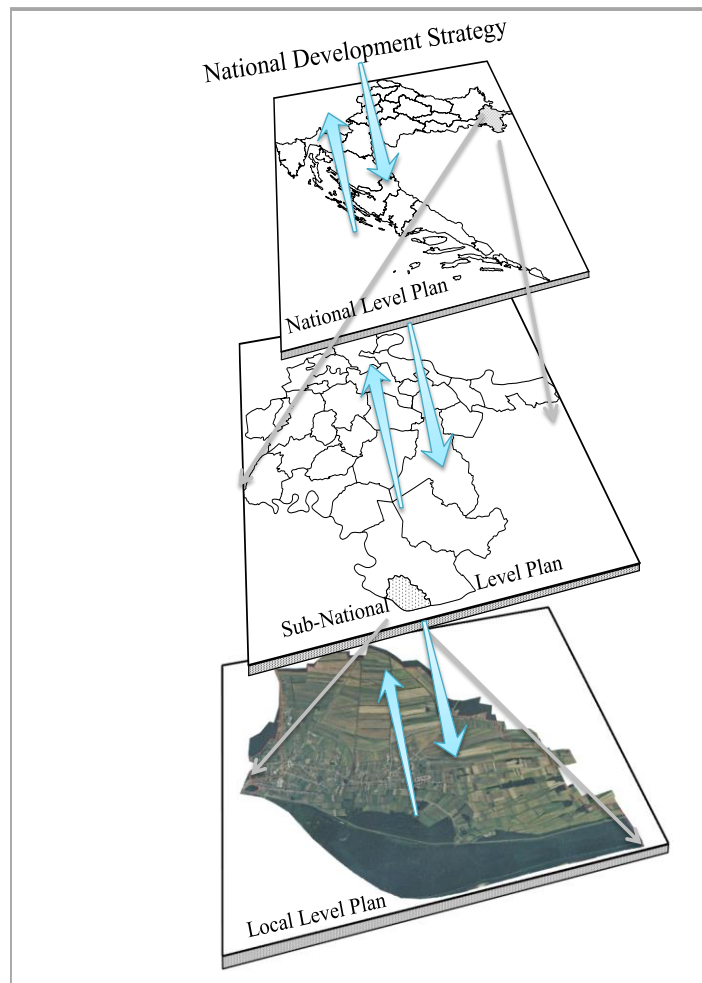


expertise, implementation, drift or procedural inertia, on either curbing or facilitating rent-grabbing and corruption. PVPs have an active role in the struggle for influence and therefore encompass both mechanisms and institutions from inside the political system, such as vertical cohabitation, turnover in power and judiciary, as well as institutions from outside of the system, such as civil society and the media. I now explain the role of each veto point. First, I focus on the BVPs and explain how spatial planning organization and legislative stringency influence resource use. Second, I outline the role of the Political Veto Points, explain what I define as the vertical cohabitation and how I understand and use turnover in power and judiciary. The role of the media and civil society is also discussed. Third, I present interaction effects of the BVPs and PVPs.

#### 1.4.1 Bureaucratic veto points

In the thesis, I show that the BVP and PVP mechanisms and their interactions define the window of opportunity for resource misuse and rent-grabbing. For the purpose of conceptual clarification, I first describe the role of spatial planning organization. Throughout the thesis, spatial planning refers to a system of plans influencing the use of space for various groups and activities, in various scales. Term urban planning is used to define planning on a more detailed level. Spatial plans are developed on different levels, for example national, regional, county and municipal, each level providing a more detailed overview of how land is used. A schematic overview of planning process on multiple levels is presented in Figure 1-1. It illustrates three levels of spatial plans: national, subnational and a municipal.

Figure 1-1 Multi-level planning



Source: Author

While spatial planning is frequently organized on multiple levels, numbers of planning levels differ across countries as well as the authority for adoption and approval of the plans. Spatial planning organization, defined here as a BVP, refers to a number of planning levels, but also to the type of control over changes of the plans. Planning documents, based on spatial planning policy, define how land will be distributed among different sectors of the economy, such as for example agriculture, tourism, industry, protected areas, housing and public areas, roads and energy corridors. Land use defines if the land is non-urban or is planned for urbanization. Non-urban land includes various types of agricultural lands, forests, infertile land, wetlands and grasslands.

In its application to tourism, spatial planning defines how land as a scarce resource is used. Non-urban land categories in this thesis are agricultural, forest and recreational land. After urbanization, the value of the land, depending on supply and demand, rises even up to a thousand per cent. Such multi-fold increase in the value of the land, based on the tourism absolute resource rent, induces speculative and corruptive behaviour. Therefore, investors purchase coastal land defined in spatial plans as non-urban and lobby or exert pressure on political elites and public administration to facilitate the urbanization.

High demand for tourism land allows reselling the land and ensures unearned revenues, similar to the resource windfalls in oil, gas and mineral extraction. The other option is the construction of the apartments for the market, sales of which also create high profits for the investor. The issue is that neither of the two scenarios helps in the development of tourism. Sales of the land enrich investors, while development of the real estate apartments reduces the supply of the land for tourism and creates numerous infrastructural issues. The apartments are not occupied throughout the year, leading to the phenomenon of the so-called “ghost cities” for which all infrastructure has been built, but is not maintained. Opposite, inadequate infrastructural development can result in congestion, insufficient water and electricity supply during the season and lead to environmental degradation (Agrusa, Jerome Albieri 2011; Sabban 2013; Bianchi 2004).

Therefore, control over changes in the planning documents is very important for prevention of rent-grabbing and resource mismanagement in tourism. In decentralized multi-level planning, local level spatial plans must be aligned with the higher level spatial plans. To change land use on a local level, the higher level sub-national spatial plan must be changed first, which requires the approval of the ministry in charge of spatial planning and adoption in the sub-national level assembly. I argue that the higher the number of vertical veto points

required for approval of the changes in the spatial plan, the lower the chances for a window of opportunity for rent-grabbing and resource misuse. Now, I turn to the stringency of environmental legislation.

The stringency of the legislation defines how much and in which ways natural and cultural resources can be used. Bureaucratic planning and environmental expertise define strict legislation prescribing procedures to ensure sustainable resource use, as opposed to weak legislation that fails to impose limits or controls. Depending on the legislation, the window of opportunity for resource misuse and rent-grabbing can either be increased or decreased. The legislation is prepared and drafted by public administration, but politicians influence it based on their preferences. However, regulations which allow interpretation of the laws are then brought and implemented by the experts in the public administration bodies. The stringency of legislation, therefore, lies between bureaucratic and political mechanisms and represents an interaction between the bureaucracy and the politics.

In the dissertation, the stringency of environmental legislation refers to tourism, planning and environmental standards defining the use of land. There are various ways in which tourism land use can be defined. For example, in some countries, there is a certain number of tourism zones – areas defined for tourism purpose, within which residential use is not allowed. In other countries, there are no specific zones for tourism, nor is residential use prohibited in areas defined for tourism development. Moreover, there are different ways in which certain types of land use are classified. For example, golf and camping land can be defined as both urban and non-urban land. Depending on how golf and camping are defined, a different set of permits and controls is required for project development. There are also differences in the stringency of legislation regarding how much land can be designated for construction, whether urbanization

is prohibited in the coastal belt and so on. Finally, the legislation can prescribe procedures, such as conservation and environment impact studies, that can independently ensure resource use.

The stringency of the environmental regulations is a crucial component as understandably, stricter regulations ensure long-term resource sustainability. A basic set of protective measures, such as urbanization restrictions within a coastal belt, significantly decreases the window of opportunity for resource misuse and rent-grabbing. However, in the context of the researched cases, stricter regulations also mean that tourism projects must satisfy quantitatively more and qualitatively higher standards, verified by separate institutions.

#### 1.4.2 Political Veto Points

In parallel with BVPs, I also research the role and the importance of the Political Veto Points in preventing rent-grabbing and ensuring sustainable resource use. I argue that static political competition, such as parliamentary opposition, does not have a direct effect in controlling tourism resource-related corruption in grabbing equilibrium. Nevertheless, the empirical investigation undertaken here shows that dynamic effects of the vertical cohabitation and turnover of power help preventing rent-grabbing and resource overuse. Vertical cohabitation is political control of various sub-national levels of government by different political option, including parties and coalitions. In the literature, the term cohabitation is prevalently used to describe a division of power between the prime minister from one party and the president from another in a semi-presidential system. Cohabitation can lead to increased presidential activism (Tavits 2009) and has been noted to influence policy making by increasing the number of veto points in comparison with the unified government (Leuffen 2009)

I suggest there are at least two types of vertical cohabitation. In the first case, political leadership on the national and sub-national levels represents different parties. In the second case, different parties control levels of sub-national government, for example, regional and

municipal level. Therefore, I predict cases of multi-level cohabitation where different parties control each level of government, from national to local level units of self-governance. Vertical cohabitation can veto tourism projects – leadership that does not belong to the same party as the other levels of government will engage in a detailed control of the potential outcomes of the project.

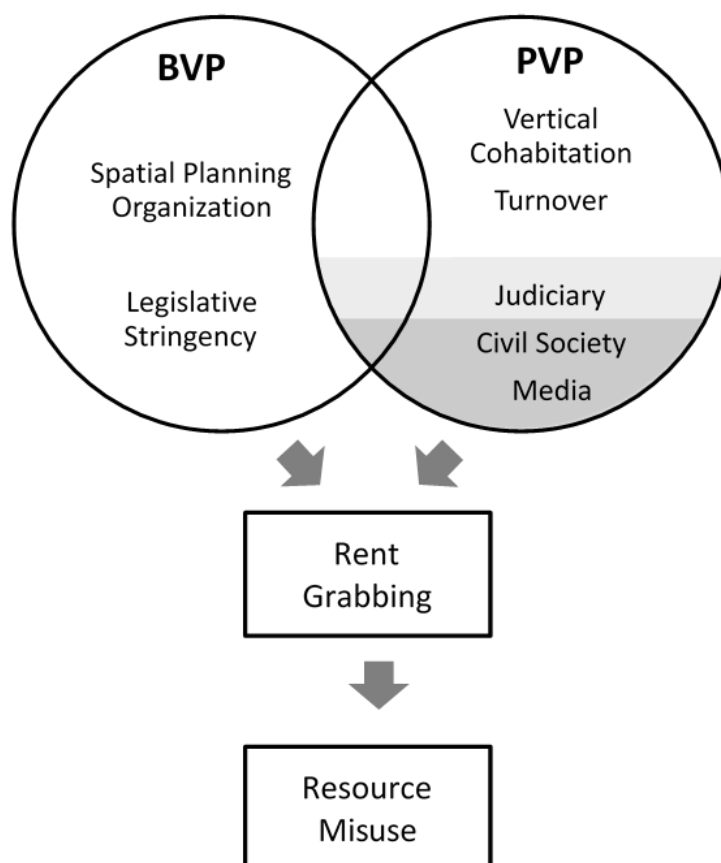
Turnover in power is a change of political party or block governing on the national or sub-national level. The effect of the turnover in power and vertical cohabitation is similar as both allow more careful and effective monitoring, particularly if paired up with decentralized spatial planning. Two types of dynamic, political competition veto point have both an individual effect on rent-grabbing and resource use and a joint, interaction effect with other political and bureaucratic veto points. The analysis suggests that cohabitation and turnover are consistently, both in the quantitative and qualitative framework, less influential than BVPs. Nevertheless, their interaction with BVPs has an important role in controlling corruption and protecting resources.

Vertical cohabitation and turnover in power along with BVPs define the window of opportunity for rent-grabbing. Then, judiciary, and civil society and the media through it, can veto processes already set in motion. The judiciary can prosecute cases for which there are indications of illegalities. In addition to the prosecution of the corruption, the judiciary is a channel for civil society and media's engagement. Civil society and the media can monitor and expose rent-grabbing and resource misuse cases and have the capacity to influence public opinion, with the aim of indirectly influencing political elites through their constituencies. In addition to this channel, civil society and the media can use judicial instruments to request assessments of the legality of spatial planning and environmental documents. Through these

two channels, the civil society and media act as catalysts in vetoing resource misuse and rent-grabbing.

The thesis analyses the effect of the BVPs and PVPs individually, but also their synergy. I argue that vertical cohabitation and turnover in power on the national and subnational level, in interaction with the spatial planning organization and stringent environmental legislation, increases the quality of planning process oversight. Figure 1-2 below illustrates the thesis argument.

Figure 1-2 BVP and PVP Framework



Source: Author

### **1.5 Contributions**

Abundant research confirmed that institutions are crucial in determining the developmental outcomes of resource use (Glaeser et al. 2004; Dunning 2008; Acemoglu,

Johnson, and Robinson 2000; Humphreys, Sachs, and Stiglitz 2007; Bulte, Damania, and Deacon 2005; Mehlum, Moene, and Torvik 2006a; Mehlum, Moene, and Torvik 2006b). I build on this scholarship and show which set of institutions help prevent rent-grabbing and tourism resource misuse.

I contribute to five strands of literature. The existing resource curse has neglected the role of bureaucracy and has not explored tourism resources. Corruption scholarship does not offer a nuanced understanding of the role of the regulations and procedures in preventing rent-grabbing and resource misuse. Tourism scholarship has ignored rent-grabbing and institutional determinants of resource sustainability politics. Veto points framework has so far not been expanded to the resource corruption prevention or spatial planning mechanisms. Developmental political economy literature faces issues of collinearity in analysing the relationship between institutions and development. I now briefly elaborate my contribution to these five strands of scholarship.

#### 1.5.1 Extending the resource curse framework

The first contribution to the literature is expansion and application of the natural resource curse theory on a new, so far unexplored sector. I argue that tourism resources, in the absence of protective bureaucratic and political institutions, can actively stimulate predation and result in negative externalities. In line with the “paradox of plenty,” an area rich in natural beauties, instead of blossoming, paradoxically falls into a vicious circle of corruption and resource misuse. This is an important finding as tourism resources, if used in a sustainable manner and supplemented by the development of a service sector, can be used “infinitely.” However, similarly as in the case of timber-rich economies in which corruption leads to beyond-sustainable rates of timber cutting, rent-grabbing can induce beyond-sustainable rates of urbanization, pollution and congestion. Inadequate regulatory framework and too few veto points can incentivize rent-grabbing, which in turn leads to non-sustainable resource use and



converts the natural and cultural beauties in a finite type of resource that can be “extracted” only once. Tourism resource abundance can also lead to rent distribution through political patronage and, in extreme cases, to higher debt rates than in resource-poor areas.

Other differences prevent direct translation of resource curse to the tourism sector and natural beauties it relies on. Tourism sector faces common pool problems in utilization, instead of point resource type extraction issues. Natural beauties tend to be overused and lack incentives for investments aimed at resource protection and productivity enhancement (Healy 1994; Pintassilgo and Silva 2007). Additionally, tourism tends to be mostly labour rather than a capital-intensive sector, although the jobs it provides are rather low-skilled, seasonal and part-time to an extent. This difference matters since it enables tourism to form stronger forward and backward linkages with the rest of the economy than is the case in most of the classical resource extraction dependent countries (Hirschman 1958; Morris, Kaplinsky, and Kaplan 2012).

#### 1.5.2 Role of bureaucracy and regulations

The thesis provides a second contribution by suggesting that in the case of the tourism sector, lack of bureaucratic monitoring, regulation and simplification of the procedures, particularly in combination with the lack of political controls, can lead to severe resource misuse. The analysis suggests that bureaucratic procedures and legislative strictness can be beneficial in preventing rent-grabbing and resource misuse. Therefore, donor-advocated simplification of the regulatory framework on the grounds of improving business environment should be approached cautiously. Cutting procedures introduced to control rent-grabbing and ensure sustainable resource management can have adverse effects on developmental potential.

#### 1.5.3 Contribution to tourism, development and veto points literature

The third contribution of the dissertation is to the tourism sustainability and resource management scholarship. I fill a gap in the literature on the resource use in tourism sector firstly,

by focusing, on the causes of rent-grabbing and resource misuse in the tourism sector. The literature has so far largely focused on the role of the local community engagement in ensuring sustainable tourism development. I focus on the institutional determinants, namely bureaucratic and political veto points, of resource rent-grabbing. Secondly, I suggest there is a strong relationship between rent-grabbing and resource misuse which has so far been overlooked in the literature.

Fourth, in the dissertation, I research the relationship between political institutions, bureaucracy and economic development. I argue there is a partial exogeneity of the BVP from the politics of the day. This is a contribution to a large debate on the relationship between bureaucracy and politics. Moreover, I suggest bureaucracy has a key role in determining developmental outcomes. This is a contribution to a literature on the relationship between institutions and development, in which bureaucracies have been to an extent sidelined.

Fifthly, the previous veto points scholarship prevalently investigated the effect of the vetos on policy stability and continuity. In the dissertation, I extend the veto framework to explain preventing rent-grabbing and resource misuse in the tourism sector.

Sixthly, the dissertation contributes to the developmental literature by focusing on a new, previously overlooked tourism sector which provides a new insight into the relationship between institution and development. The existing literature focuses on economic development and finds institutions to be corresponding to the level of development, i.e. rich countries have good political and bureaucratic institutions and vice versa. Analysing such cases provides limited insight into causality or endogeneity of the political institutions, bureaucratic capacity and development. However, the tourism sector is special as unregulated growth leads to rent-grabbing and, more important, to misuse of the resources. To avoid negative outcomes, a set of

protective institutions, which undermine short-term growth at the expense of resources, must be set up.

## **1.6 Methodology**

The thesis is based on a mixed methods approach where the hypothesized importance of the BVPs and the PVPs for the rent-grabbing and resource use are tested through both quantitative and qualitative methods. The application of both qualitative and quantitative methods enables a solid test for the proposed model and hypotheses. To avoid that statements about reality are limited to the specific time and context of the study (Charles Teddlie and Tashakkori 2009), I first perform a panel data and graphical modelling analysis. However, to research in depth the relations and interactions between the BVPs and PVPs, I then turn to comparative case study analysis of two most similar cases. The main advantage of a mixed methods approach is that it helps to avoid selection bias and spurious results coming from the exclusive use of small or large-N analysis (Creswell and Clark 2007; R. Johnson and Onwuegbuzie 2004; C Teddlie and Yu 2007).

### 1.6.1 Quantitative analysis

The quantitative analysis enables a generalizable check of a set of hypotheses, while mitigating case selection issues plaguing small-N analyses. In the quantitative chapter, I am interested in assessing the effect of BVP and PVP variables on the outcomes of rent-grabbing and resource use. I analyse panel and cross-sectional data with two-stage least squares (2SLS) and principal component analysis (PCA). The cross-national dataset is an unbalanced panel including 127 world economies in 2007, 2009, 2011, 2013 and 2015. The variables are operationalized using indicators available in World Bank Development and Governance Dataset, World Economic Forum's Tourism and Travel Industry Competitiveness and Global Competitiveness Dataset, Database of Political Institutions, Transparency International's

Perception of Corruption, Quality of Governance, the Heritage Foundation and World Press Freedom Dataset. To further explore relations within the veto points group and between the dependent variables, I use graphical modelling. Through directed graphical models, I also assess the suitability of a parsimonious tourism sustainability model, including only crucial BVP and PVP variables.

#### 1.6.2 Qualitative analysis

Qualitatively, I apply the principles of Mill's method of difference and research two most similar cases in a comparative case study analysis (George and Bennett 2004; Flyvbjerg 2006). I use a case study comparison to demonstrate in depth how BVPs and PVPs develop and how my argument handles the complex context of the two cases. To answer the research questions and test the hypotheses, I focus on countries with significant shares of tourism in GDP and rapid sectoral growth, considered as triggers behind tourism expansion. However, I exclude microstates and small island economies from the sample since they often have no other choice for development (Brown 1998).

The two selected countries are Croatia and Montenegro. Tourism makes more than 20% of the GDP in both countries. The two cases also share the socialist history, war effects and transition to democracy and market economy. In attracting tourists, both countries rely on their natural resources and pristine environments, but Croatia has been far more successful in preventing resource rent-grabbing and misuse.

The comparative case study analysis has two components. I first historically trace and analyse the coevolutionary development of the BVPs and PVPs. To map out the historical relationship between politics, bureaucracy and economic development, I complemented the available secondary data, such as academic articles, reports, spatial plans and archival materials, with interviews. I gained valuable insight on how BVPs and PVPs developed through 57

interviews conducted between 2013 and 2016. I talked with national and sub-national level public employees, NGO representatives, experts, journalists, tourism investors and politicians.

Secondly, land urbanization and tourism related corruption, of essential importance in the dissertation, are not well documented in the existing data sources. Spatial planning is a complex area, understandable to architects and civil engineers specialising in urbanism and planning studies. In addition, there are no readily available indicators for illegalities in the tourism sector, neither for Croatia and Montenegro nor for any other country. To be able to systematically analyse and understand the nature and the effect of the Veto Points in the tourism sector, I compile a Tourism Projects Dataset. The dataset catalogues 179 tourism projects in Croatia and Montenegro and encompasses the entire universe of tourism investments in the two countries between 2000 and 2016.

The dataset includes all *important* projects which have been conceived, implemented, adapted or blocked in the coastal counties and municipalities of the two countries. The importance criterion corresponds to development salience. I include tourism projects represented by media and political elites as strategic for the economic development, labour market and tourism diversification of region or country. For each tourism project, I acquire a basic description of the project and information on land urbanization, corruption schemes and type of resource use. Then I collect data on the main variables of this study: how spatial planning organization and regulations influenced the project, as well as whether there were turnovers in power, vertical cohabitation, or involvement of the prosecution, civil society, media or an interaction of various BVPs and PVPs. Based on this dataset, I analyse the individual effect of the BVPs, PVPs and their interaction effect on the dependent variables.

### **1.7 Outline**

The dissertation aims to research the differences in rent-grabbing and resource use through a novel political and bureaucratic veto points framework. I argue that rent-grabbing and resource misuse in tourism can be defined through a combination of PVPs and BVPs, where both have an individual and joint effect. The thesis is structured as follows.

Chapter 2 introduces three important debates on the bivariate relationship between political institutions, bureaucracy and economic development. I suggest that to explain and understand divergence in rent-grabbing and resource use outcomes in the tourism sector, a coevolutionary approach might better serve than prevalent pairwise frameworks. I argue that there is a partial exogeneity of bureaucratic capacity within a coevolution of political institutions, bureaucracy and economic development. I then critically review the existing resource curse, tourism, corruption and veto points literature and use it as building blocks for the Bureaucratic and Political Veto Points theoretical framework. Within this innovative framework, BVPs and PVPs create a window of opportunity for rent-grabbing which then defines whether resource use will be sustainable or not. Moreover, I hypothesise that besides individual effects of BVPs and PVPs, their interaction has a significant and measurable effect. It either prevents corruption and ensures sustainable resource use when BVPs and PVPs are present or ensures a vicious circle of rent-grabbing and resource abuse in their absence.

Chapter 3 explores the effects of the BVPs and PVPs on the resource use and rent-grabbing through a panel data analysis and graphical modelling. I research two main aspects of the relationship between the predictor and dependent variables. First, the individual effect of each bureaucratic and political veto point, and second, the relationship between the two dependent variables. My results confirm the importance of individual BVP and PVP variables, both in the panel and cross-sectional analyses. The relationship between the dependent variables is researched through a two-stage least squares (2SLS) analysis, where rent-grabbing is

operationalized through BVP and PVP variables and their principal components (PCA). The results confirm that BVPs and PVPs have a direct effect on rent-grabbing, which then defines outcomes on the tourism sustainability variable.

Subsequently, I use graphical modelling to improve our understanding of the relationships between BVP and PVP variables. An undirected model for PVPs clearly shows the importance of judiciary as a channel for the engagement of the civil society, but also as a mediator preventing corruption affairs' spillover effects on the resource use. This was not visible from the panel and cross-sectional data analysis. The graphical model for BVPs identifies associations between the indicator of bureaucratic capacity and environmental stringency. Moreover, BVP variables define a window of opportunity for corruption, which then, either prevents or incentivises resource misuse. Through the directed acyclical graphical models, I also build a version of a most parsimonious model of BVPs and PVPs and test their effect on the rent-grabbing and resource use, showing there is a difference between high and lower income countries.

In Chapter 4 and 5, I explain the relevance of qualitative in-depth case study analysis in complementing the results from the regressions and graphical models. Chapter 4 introduces the two comparative case studies of Croatia and Montenegro. Through pairwise comparison, I explain how the two countries have similarities regarding important alternative explanations and how they differ on the outcome on dependent variables. I show that both countries rely on the tourism sector, but there is rampant rent-grabbing and resource misuse in Montenegro. Croatia has managed to largely prevent land speculations and shield its natural resources.

The chapter then outlines the historical development of BVPs and PVPs in Croatia and Montenegro by focusing on the importance of the political competition, economic pressures

and bureaucratic expertise as crucial for defining the system of BVPs and PVPs. I show how the socialist system, whereby, the state was both protector of the resources and investor in the tourism sector, discouraged rent-grabbing and preserved resources. Moreover, spatial planning traditions developed significantly during this period in Croatia, while Montenegro failed to develop domestic capacities, merely benefitting from the Yugoslav-wide planning initiatives. This turns out to be crucial for the different outcome on the dependent variables. Corruptive behaviour spread during the turbulent transition years, but the Yugoslav wars decreased tourism interest and partially shielded the sector from the resource misuse. During this period, Croatia developed a decentralized spatial planning system as an unintended consequence of its state and identity-building efforts. With the end of the violence, tourism rebounded and led to widespread rent-grabbing in both countries.

Chapter 5 explains how a competitive bipartisan system, along with the existence of an autonomous and competent Ministry in charge of spatial planning in Croatia jointly led to the establishment of stringent legislation and to a politics of non-interference into sub-national spatial planning. In contrast, in Montenegro, a partitocratic regime under the control of DPS<sup>3</sup>, the hegemonic successor of the communist party, led to the removal of spatial planning veto points and to the concentration of decisions in the hands of the Prime Minister and his cabinet. The Ministry in charge of spatial planning, tightly under DPS' control, mechanically approved projects of the favoured elites and partially implemented spatial planning regulations for those without ties to the political leadership. Based on the historical analysis I highlight partial bureaucratic exogeneity and the elements of the coevolutionary relationship between politics, bureaucracy and economic development.

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<sup>3</sup> Democratic Party of Socialists (Demokratska Partija Socijalista)



Chapter 6 investigates the effects of the BVPs on resource use and rent allocation in tourism in Croatia and Montenegro. The chapter shows based on original data – Tourism Projects Dataset – how the stringency of environmental regulations and decentralized spatial planning act as veto points against rent-grabbing on aggregate, national level. I research in detail several tourism projects in each country which clearly outline how decentralized spatial planning and stringent legislation influence the dependent variables. The analysis disproves the mainstream hypothesis that complexity of procedures negatively influences developmental potential.

The role of the Political Veto Points is researched in Chapter seven. In Croatia, the development of a bipartisan system where two political camps exchange power has led to the establishment of a sustainable “rent-sharing” system. The chapter builds on the tourism projects case studies from both economies that illustrate the effect of the vertical cohabitation, turnover in power and judiciary on resource use and rent-grabbing. I also outline that there is a difference in the type and strength of the civil society and the media in two countries. In Croatia, polycentric civil society imbued with expertise managed to overcome collective action problems and is more successful in monitoring and minimising rent-grabbing and resource misuse. In Montenegro, civil society lacks coordination and expert groups are disengaged which makes collective action aimed at protecting resources less likely. From the Tourism Projects Dataset, I select and analyse cases which exemplify how even in the hegemonic party system civil society can ensure victories against rent-grabbing and resource mismanagement.

Chapter 8 inquires into the interaction of BVPs and PVPs. I research cases where the joint engagement of the environmental stringency and decentralization, along with the PVPs has prevented rent-grabbing and non-sustainable resource management. Six types of an interaction effect between PVPs and BVPs are defined. For five types, I outline Croatian tourism projects

in which PVP and BVP synergy led to identifiable improvement in prevention of rent-grabbing and resource misuse. Finally, for the sixth interaction type, I illustrate a Montenegrin project in which interaction effect ensured protection against rent-grabbing even when the overall system incentivised corruption and provided close to no protection for the resources.

In the final chapter, I discuss the implications of the findings presented in this dissertation and their implications for theoretical and empirical developments. I suggest that the thesis contributes to the tourism, natural resource use, corruption and veto points scholarship by identifying specific roles bureaucratic and political controls play in rent-grabbing prevention and sustainable resource management. The dissertation suggests bureaucracy is of great importance for preventing rent-grabbing and ensuring sustainable resource use, which is an updating of the mainstream literature in which bureaucracy was so far side-lined. I argue, contrary to the literature, that the complexity of bureaucratic procedures can assist not only in resource preservation, but also in the control of rent-grabbing. Moreover, I provide a deeper insight into the relationship between political and bureaucratic institutions and development. Methodologically, the dissertation contributes by offering a new approach for analysing sensitive topics and by applying graphical modelling to political economy scholarship.

# 2

## THEORETICAL FRAMEWORK

### Bringing Back the Bureaucracy

**T**ourism is one of the largest and most profitable sectors in the world which in 2015 provided more than 284 million jobs, representing 10 per cent of global employment (World Travel & Tourism Council 2016). It requires both high and low-skilled labour, provides direct jobs for disadvantaged groups such as youth, women and migrants and is thus advocated as a pro-poor developmental strategy. Tourism is also considered as an environmentally friendly economic activity relying on existing natural and cultural resources. It provides developmental opportunities without a need for immediate technological capital or infrastructural upgrade (Roe et al. 2004; Ashley, Boyd, and Goodwin 2001).

On the one hand, tourism development impacts environment, (e.g. changing landscape, noise, air and water pollution) and over-utilises natural resources. On the other hand, preserved environment is a key part of its product, making tourism highly dependent on environmental quality (Tisdell 1987; Pintassilgo and Silva 2007). Numerous studies focus on the issue of sustainable use of resources, but despite the diffusion of the concept of tourism sustainability

among scholars and stakeholders, the environmental impacts of tourism continue to grow (C. M. Hall 2011). The management of tourism resources is characterized by the political elites' preference for short-term benefits of environment exploitation as compared to the long-term sustainable development from which they personally will not benefit (Dodds and Butler 2010). The development of tourism often takes the form of minimal investments with the expectation of maximal revenues as output (Petric 2007).

## **2.1 A Brief Overview**

In this section, I provide a brief overview of the dense theoretical framework that will be developed in detail in the remainder of this chapter. This dissertation approaches the divergence in rent-grabbing and resource use from the perspective of institutions and economic development. I bring to the forefront the role of the bureaucracy, which has recently returned to the developmental debates, but has not been widely used in explaining outcomes of resource abundance (For exceptions see Besley and Persson 2010; Ross 2015). I overview three overarching debates on the relationships between political institutions, bureaucracy and development.

First, I overview the literature on the relationship between bureaucracy and development. Many authors have researched whether good political institutions are needed to achieve growth or whether growth follows once good political institutions are established. Others have asserted that bureaucratic capacity is the prerequisite for development, but were challenged by those who suggest that Weberian institutions follow the development of states and markets. The latest theories suggest that the relationship between bureaucratic capacity and economic development is, in fact, coevolutionary.

Second, numerous contributions have been made to a particularly flourishing debate on the relationship between political institutions and development. Many authors have argued that

good political institutions are needed to achieve growth, but also that good institutions follow once economic development has been achieved.

The relationship between political institutions and development on the one hand and bureaucratic institutions and development on the other hand, are among most researched in the field of political economy. Closely related, the third stream of literature has sprung up around the relationship between political and bureaucratic institutions. It has been argued that the bureaucracy due to its knowledge about technical processes controls the policy-making process and in the implementation of the legislation deviates from the legislative intent. Yet others, within the same body of literature, have suggested that political institutions, such as the executive branch and incumbent political parties, control the public administration apparatus and engineer policy slippage.

The explicit assumption that institutions, whether political or bureaucratic, have a coevolutionary relationship with development has not been explicitly applied or tested within the resource abundance framework. I show that the coevolutionary approach is particularly suitable for the research of tourism sector where resource protection and limited growth would be considered a success story. Many of the existing analyses have considered growth and development as an extension of either good political or bureaucratic institutions. However, the analysis of the tourism sector provides a different view as growth at the expense of resource sustainability represents a negative outcome.

Therefore, inquiring into the logics and mechanisms defining outcomes in tourism sector avoids collinearity other studies face as most of the developed countries boast good quality political and bureaucratic institutions. The analysis of the relationship between political and

bureaucratic institutions and economic development in tourism sectors allows discerning how political and bureaucratic institutions influence each other and shape developmental outcomes.

The literature has predominantly argued that political institutions influence bureaucracies and have a dominant role in influencing development outcomes. However, I argue that there is a degree of exogeneity bureaucratic institutions have from the politics of the day. Finally, I suggest that immediate developmental needs (such as the need for investments during a resource busts push for re-defining of the extent of political institutions' influence on the bureaucratic institutions. The framework is outlined in Figure 2-1.

Figure 2-1 Coevolutionary framework with rent-grabbing and resource misuse

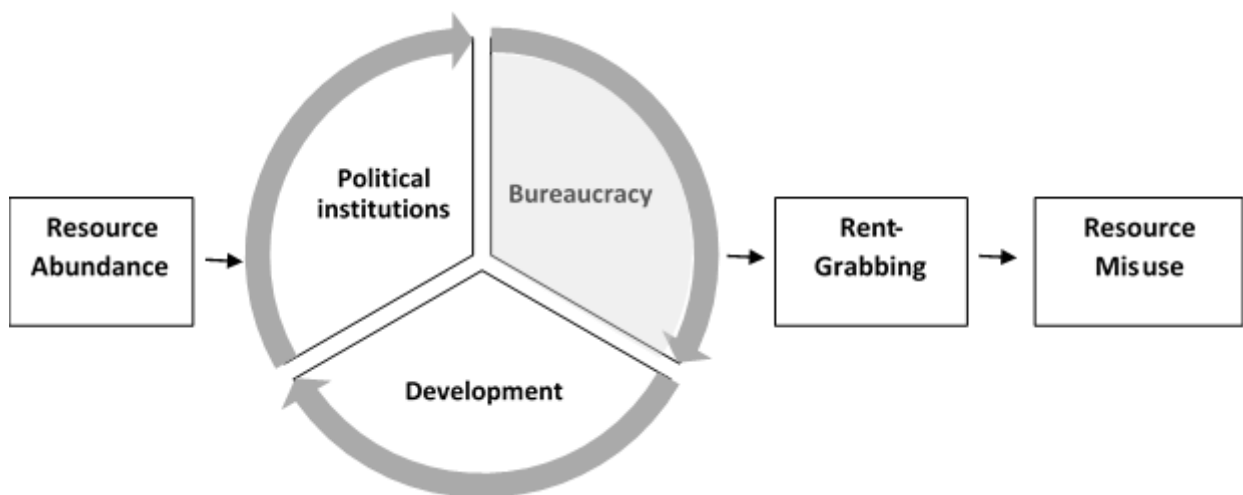


Figure 2-1 shows that once a resource boom provides an input in the system, political institutions, bureaucracy and development continuously coevolve as each influences the two other elements. However, the light grey field of bureaucracy symbolically suggests that bureaucratic expertise and capacity are partially exogenous from the politics of the day and from the levels of economic development. The equilibrium established through coevolution of the three elements defines a window of opportunity for rent-grabbing. In a grabbing equilibrium, corruption and illegalities pay off better than productive activities. Monitoring and sanction devices are ineffective as the actors are demotivated to enforce them. Tourism

corruption then leads to resource misuse. To define specific bureaucratic and political mechanisms which can monitor rent-grabbing and prevent resource misuse, I rely on four strands of literature: resource curse, tourism sustainability, corruption and veto players literature.

The overview of the tourism sustainability scholarship shows the literature has not widely dealt with the mechanisms of governance, such as political and bureaucratic institutions, influencing rent-grabbing and resource management. The literature focusing specifically on tourism investigates numerous cases of resource mismanagement, but largely takes neither political nor bureaucratic institutions as key variables to explain outcomes. Many authors have argued that local community's role is crucial for ensuring sustainability of the resource. Others have identified illegal practices as an issue in the tourism sector, but have not explicitly dealt with the effect it has on resource management. A third, relatively small strand of literature suggests a causal relationship between rent-grabbing and resource mismanagement, but lacks a coherent theoretical framework and an in-depth understanding of the specific mechanisms governing outcome divergence.

The resource curse literature focuses on the transparency and monitoring institutional mechanisms, such as parliamentary and media supervision, decentralization and self-regulation. In addition to the mechanisms already identified in the resource curse literature, corruption research investigated the role of the judiciary, civil society and the media. Veto points and decentralization scholarship suggest that increase in a number and vertical hierarchy of controls influences corruption. However, these strands of literature provide fragmented guidance on what the specific mechanisms preventing rent-grabbing and resource mismanagement are. Thus, the existing literature has so far not explained which mechanisms veto rent-grabbing and

resource mismanagement, how the protective mechanisms were developed and how they change over time.

To fill this gap and explain pathologies of tourism development, I develop a new theoretical framework focused on a broad concept of veto points that place constraints on rents and environmental deterioration. I argue that the abundance of resources, in the tourism context – cultural heritage and natural beauties – incentivizes corruption and can lead to developmental pathologies, especially in the absence of protective institutions. This mechanism is an application of the natural resource curse literature to the so far unexplored tourism sector.

I argue that a set of bureaucratic and political veto points have a joint role in preventing and containing rent-grabbing in tourism. Bureaucratic veto points (BVPs) include technical and administrative expertise that shapes the design and implementation of stringent environmental regulation, as well as a decentralized system of spatial planning that can block or minimize direct political interference. Politics has a role in adopting legislation, but bureaucracy, through its expertise, autonomy and capacity shapes and implements the legislation. Therefore, stringency of legislation represents an interaction between politics and bureaucracy. Political veto points (PVPs) encompass the dynamic of vertical cohabitation at various levels of government, turnover in power and the role of the judiciary. While civil society and the media technically cannot veto legislation, they have a role of catalysts, through the judiciary. Visualisation of the argument was outlined in Figure 1-2 in Chapter 1.

The term *veto points* is used in the dissertation to ensure connection to the veto points theory, which has, besides policy making, also advanced research in corruption prevention. However, spatial planning decentralization, stringency of legislation, vertical cohabitation and turnover in power would de facto represent veto mechanisms, that rely on political and bureaucratic players.



The chapter has the following structure. In section two, I introduce the three existing debates on the relationships between political institutions, bureaucratic capacity and economic development. In section three, I review the literature on resource management, corruption and their relationship and explain why, because tourism-specific research is missing, I build the framework on the resource curse mechanisms. Section four analyses preventive mechanisms outlined by tourism, natural resource curse and corruption literature, including parliamentary, judiciary and media controls, decentralization and veto players. In section five, I clarify what I take from the existing approaches and what the scholarship has so far not considered. Based on these elements, I derive the mechanics and the structure of the Bureaucratic and Political Veto Points theory and outline the hypotheses.

## **2.2 Three Overarching Debates**

I now turn to the overview of the three overarching debates that have formulated much of the political economy research. These are the debates on the causality between political institution and development, political and bureaucratic institutions and finally, between bureaucratic institutions and development.

### 2.2.1 Bureaucracy and development

The developmental state literature argued that existence of Weberian bureaucracy must be ensured to pave the way for economic growth (Rhee 1994; Evans, Rueschemeyer, and Skocpol 1985). Such a bureaucracy complements market capitalism and is characterized by a division of public office and private interests, control of corruption, technocratic and meritocratic hiring and decision-making. The literature argued that developmental success stories such as Japan, South Korea, Taiwan and Singapore, relied on professional bureaucracy and control of petty corruption in achieving developmental leaps (Evans 1995; Rauch and Evans 2001). It, therefore, suggests that state capacity and embedded autonomy of bureaucracy

precede development. The seminal work of Acemoglu, Johnson and Robinson suggested that the quality of institutions, including Weberian bureaucracy is crucial for development, but that the “rules of the game” (North 1990) were rooted deeply in the history of each country (2000).

In this vein, Soifer argues that state-building was initiated in the Latin American countries when state leaders devised it as a strategy to instigate stability and order. He suggests that dominant urban centres in Peru, Mexico and Chile provided fertile ground for state-building efforts, while fragmented regionalism characteristic for Colombia induced rejection of state-building efforts. In cases where state-building ideas took hold, strategies of deploying state agents determined variation in success and failure. Successful state-building requires the deployment of outsiders, rather than delegating state policy to the local elites (Soifer 2015).

Theories of development suggested that the state apparatus must also mobilize the necessary resources instead of simply provide a suitable environment (Gerschenkron 1962). Evans argued that successful states pursue developmental goals and are rather embedded in the society than insulated. More precisely, transformative capacity requires internal coherence and external connectedness – which he coined embedded autonomy (Evans 1995).

Yet other authors have argued that the causality runs the other way around and have suggested that the Weberian bureaucracy comes as a result or a consequence of economic growth and development (Kurtz and Schrank 2007). The literature suggested that state capacity historically evolved as a response to war efforts as it incentivised leaders to build revenue raising capacities (Tilly 1991; Olson 1993). Besley and Persson's analysis suggests war and military spending represent an archetypical public good and a common interest for citizens, justifying its role in building state capacities (Besley and Persson 2009).

Ang argued that the relationship between bureaucracy and development is instead coevolutionary. Departing from conventional linear approaches to development, she applies a

coevolutionary approach to analyse how market and bureaucracies mutually and interchangeably developed across Chinese states. In contrast to the mainstream developmental literature, she demonstrates that growth in China was enabled by a corrupted, development oriented bureaucracy which differs from Weber's technocratic, specialized and impersonal ideal type. She further argues that while Weberian bureaucracy is necessary to maintain the already achieved development, modification of the pre-existing patrimonial institutions allowed an initial development of the market (Ang 2016). I now turn to the second important debate, on the relationship between bureaucracy and political institutions.

#### 2.2.2 Bureaucracy and politics

Despite considering bureaucracy essential in complex economic systems, Weber feared politicians and political actors could find themselves dependent on the bureaucracy. In the absence of checks, public organizations would fall prey to powerful private interests. "Bureaucratic power," he argued, could be checked by a strong parliament. Bureaucracy must be to some extent insulated from the demands of the surrounding society. It is *incompatible with the theocratic and patrimonial governments of Asia and of our own past, whose administrations operated in a patriarchal manner according to their own discretion and to inviolably sacred but irrational tradition* (Weber 1988, 1395).

The relationship between bureaucracy and policy-making has also been a subject of fierce debates. On the one hand, there are those who outline bureaucracies' potential to subvert democracy by shaping the direction of public policy (Krause and Meier 2006). This camp relied on the principal-agent framework to suggest that information asymmetries prevent politicians as principals to supervise the behaviour of bureaucrats as agents (see e.g. Bank and Weingast 1992). Further research suggests two additional reasons why bureaucracies can become autonomous in policy-making: first, executive and legislative body is indifferent towards the

bureaucratic policy domain and second, multiple principals supervise the agency, resulting in poor control (Hammond and Knott 1996).

The so-called bureaucratic drift theory seeks to explain the bureaucratic implementation of the legislation that deviates from the legislative intent. McCubbins et al. suggest that policy-making involves allocation of considerable political authority to non-elected bureaucrats (1987). Costly supervision allows a possibility that bureaucrats implement policies according to their preferences or interests (McCubbins, Noll, and Weingast 1987). Numerous studies confirm that bureaucratic preferences have a key role in defining outcomes of legislative oversight (Dessein 2002; Gailmard 2009; Bertelli and Feldmann 2007).

However, the literature also outlines diverging types of bureaucrats – from those inclined to pursue maximization of discretionary budgets (Niskanen 1975) to those highly valuing thoroughness and objectivity (Carpenter 2001). McNollgast famously noted that bureaucrats are motivated by *personal preferences, derived from some combination of private political values, personal career objectives, and, all else equal, an aversion to effort* (McCubbins, Noll, and Weingast 1987). Bureaucrats can follow the instructions as a means of career advancement or as part of “the revolving door of politics” strategy policy of intertwined careers in industry and regulatory bodies (McNollgast 1999). In addition to theories suggesting diverse types of bureaucratic organization within the same political system, McCubbins suggested that bureaucratic drift could also be a result of following the whims of the ministers or committees they actually report to (McCubbins 2014).

Opposite from this strand of the literature are works of the authors who suggest politicians control bureaucracy (see e.g. Weingast and Moran 1983; Carpenter 1996). Meier and O’Toole argued through the governance perspective that political institutions create bureaucracies and that *autonomous, out-of-control bureaucracies - is clearly a straw man*. They find that public

administration as part of complex intergovernmental and interorganizational networks constraints agencies role in implementing public policy (2006, 34). Among those who argue that politics controls bureaucracy, a strong scholarly debate has sprung over up over whether Congress, presidents or courts control bureaucracy (Meier and Krause 2003; Clinton, Lewis, and Selin 2012; Hammond 2003). I turn next to the literature on the relationship between political institutions and economic development.

### 2.2.3 Political institutions and development

Numerous studies have analysed the relationship between the political institutions, growth and economic development. Whether political institutions define developmental outcomes, or if economic growth defines political institutions is one of the most researched questions in the political economy discipline. Some have argued that institutions, such as property rights rooted in the history of the countries define developmental outcomes (Acemoglu, Johnson, and Robinson 2000). Rodrik and Subramanian suggested that institutions determinants overshadow geography and trade integration in defining economic development (Rodrik and Subramanian 2003). Gerring et al. suggest that democracies and autocracies leave distinctive marks on capital development. Democracies accumulate more physical, human, social and political capital, with better developmental outcomes in the long run (Gerring et al. 2005). Doucouliagos and Ulubaşoğlu engage in a meta-analysis of the relationship between democracy and economic development. They argue that democracies ensure economic freedom, political stability, higher levels of human capital and lower inflation, which jointly improve growth rates (Doucouliagos and Ulubaşoğlu 2008).

In contrast, others argued that higher growth rates and more human capital are a prerequisite for institutional improvements. They criticize the assumption that development comes from securing property rights, subsequently leading to democratization and constraints

on the government (Glaeser et al. 2004). Przeworski finds the quest for primacy in causality between political institutions and development futile and argues the relationship is characterized by endogeneity (Przeworski 2004). Beyond general debates on the relationships between political institutions and economic development, a more specific literature deals with the same debate the within resource curse literature.

#### *2.2.3.1 Political Institutions and Development in Resource Curse Scholarship*

Within the resource curse literature, there is an abundance of research on the exact role of political institutions in shaping developmental outcomes. Two broader groups of theories revolve around political institutions specifically as driving mechanisms. On the one hand, it has been argued that natural resource booms have a negative impact on the quality of the institutions (e.g. Bulte, Damania, and Deacon 2005; Sala-i-Martin and Subramanian 2003). On the other hand, numerous studies suggest that negative developmental aspects occur only in the cases of already existing poor institutions and low quality of governance (Glaeser et al. 2004; Dunning 2008; Lohmann 2003; Olson and Olson 1965; Luong and Weinthal 2010; Mazaheri 2016). I discuss below these contributions, arguing that natural resource abundance has a harmful impact on developmental outcomes in contexts characterized by bad institutions.

#### *2.2.3.2 How Resource Abundance Harms the Quality of the Political Institutions*

Numerous studies suggest that resource abundance harms the quality of institutions. There are three dominant theories through which resource abundance has been argued to cause institutional deterioration: first, its impact on taxation and governmental accountability, second, by increasing patronage; and third, by supporting rent-seeking. As taxation channel scholars suggest, natural resources deliver large rents over which governments are in a position to seize control. This has been argued to lead to the deterioration or dismantling of taxation structures, which leads to the so-called *no taxation, no representation* phenomenon (Ross 2004a; Moore 2004; Luciani 1987). The state-building literature has argued that the ability to tax plays a

central role in building and sustaining the power of the state in the area of social bargaining and provides institution building stimulus (Brautigam, Fjeldstad, and Moore 2008; Besley and Persson 2009; Chaudhry 1989).

Another channel through which high windfall revenues can lead to the decreased quality of institutions is patronage. It has been argued that politicians tend to use rents to ensure the support of key constituencies and instead of productive investments focus on buying political support. This has been recognized in the literature also under term “white elephant projects” or “cathedrals in the desert” which have socially undesirable consequences and pay off only in the sense of persuading specific groups of the electorate to vote for the incumbents. Robinson et al. develop a formal model which assumes that resource curse happens through political appointments in the public service which ensure re-election. To ensure control over windfall revenues, politicians channel more resources to staying in power (Robinson and Torvik 2005).

Rent-seeking is one of the most prominent explanations of how resource abundance harms the quality of institutions. Rents in this context are the surplus value after extraction costs and normal returns to capital are accounted for, typically high in the case of resource extraction (Kolstad & Wiig 2009). Rent-seeking models suggest that individuals choose between focusing on either extractive or productive rents. In the case of bureaucrats, instead of managing public administration according to Weberian principles, bureaucrats simply engage in corruption, i.e. acquiring for themselves and their organisations as large a share of resource rents as possible.

As wage labour which characterizes other sectors is far less attractive than rent-seeking in the natural resource extraction sectors, entrepreneurs compete for resource windfalls instead of starting up a business or searching for employment and profit in other sectors. This leads to the diversion of skilful talent away from business and administrative activities towards

unproductive rent-seeking, in turn harming institutions (Mehlum, Moene, and Torvik 2006a; Mehlum, Moene, and Torvik 2006b; Kolstad and Wiig 2009; Torvik 2002).<sup>4</sup>

Harmful effects of the resource abundance on the institutions have also been tested in the context of the logging sector, which engages resource depletability similar to the tourism sector. The literature suggests that timber investors use bribery, corruption and political influence to ensure a socially excessive amount of timber and lower than socially optimal environmental quality. Over the time as bureaucracy responds to corruption incentives, there is a production shift and an asymmetric decline in the bureaucratic capacity to deliver environmental quality (Magrath 2011, 178). Ross shows how timber booms encourage rent-seizing among state actors, incentivising them to dismantle protective bureaucratic institutions and centralize control over resource extraction. Thus, institutions can become endogenous to rent-seeking and deteriorate, which accounts for beyond-sustainable level logging in all three countries (Ross 2004b).

#### *2.2.3.3 How Quality of Institutions Defines Resource Abundance Outcomes*

In another family of studies that shares an emphasis on political institutions, natural resource abundance has been argued to lead to poor developmental outcomes only if the institutions present during resource discovery are not conducive to development. I now turn to this theoretical channel.

Lane and Tornell have argued that absence of strong legal and political institutions and the existence of very powerful groups in a society leads to the so-called voracity effect. The increase in resource windfalls motivates each powerful group to grab a share of the wealth by demanding more transfers from resource revenues. However, existing institutions are crucial as the voracity curse does not occur in societies with many small groups, where groups manage to

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<sup>4</sup> A well-developed body of literature attempts to explain the negative effect of the resource abundance on the development through the so-called Dutch Disease. Early contributions suggested that large inflows of capital promptly lead to loss of competitiveness through appreciation of the real exchange rate and deindustrialization of the economy. However, as I focus on the institutional mechanisms, Dutch Disease is not covered in the dissertation.



coordinate their actions or in cases when institutional structures disable powerful groups from extracting transfers arbitrarily from the rest of society (Lane and Tornell 1999).

In a similar way, Mehlum et al. test if natural resource based economies in which institutions are production friendly tend to develop a resource curse or not. They develop a model in which grabbing and production are on one hand complementary and on the other hand competitive activities. If grabber-friendly institutions are present, entrepreneurial resources are diverted towards unproductive activities such as patronage and bribery, while due to discretionary power and favouritism there are extra costs of productive activities. The authors argue that grabber-friendly institutions encompass weak rule of law and a high risk of expropriation, malfunctioning bureaucracy and corruption in the government (Mehlum, Moene, and Torvik 2006a).

Besides encouraging rent-seeking, bad institutions have also been argued to incentivise patronage. In the case of existing institutions of democratic accountability, favouring a group in the electorate over the public interests of the majority will be less attractive and opportune as a method of staying in power (Robinson, Torvik, and Verdier 2006). If the political appointment of key positions tends to be punished by removal from the office, such a strategy will not be used in future elections. Some authors have argued that lack of democracy does matter in explaining the occurrence of natural resource curse (Bulte and Damania 2008), but some have also argued that presidential regimes, even when democratic, tend to experience negative developmental outcomes curse due to the need to target powerful groups (Andersen and Aslaksen 2008).

In the previous three subsections, I have dealt with the literature on the bivariate relationships between economic development, political institutions and bureaucracy which

contributed to the understanding of what comes first, institutions or development, as well as the importance the literature has so far assigned to bureaucracy in comparison to politics. I argue that a coevolutionary approach including all three elements would better serve the quest for understanding rent-grabbing and resource management as developmental outcomes. Some authors argued that both political and bureaucratic institutions (such as capacity) are needed for reaching desirable policy outcomes (Rothstein 2011; Povitkina 2015). Yet others have suggested that besides characteristics of institutions, also political context matters in shaping the dominant change actor and defining kinds of strategies the agents pursues to induce change. They suggest that the characteristic of both political context and the institutions in question together determine the type of institutional change (Mahoney and Thelen 2010).

This echoes my argument, which has so far not been directly framed in the literature. I suggest that bureaucracy can be, to an extent exogenous from the economic development and the politics of the day, but that there is a coevolutionary relationship between economic development, political institutions and bureaucracy. This partial exogeneity of the bureaucracy in interaction with political institutions defines a window of opportunity for rent-grabbing and through it influences resource use. In the following section, I briefly overview tourism governance, corruption and resource misuse literature and explain why when lacking tourism specific theories of rent-grabbing I rely on resource curse mechanism.

### ***2.3 A Puzzling Feature of Tourism Resources***

Negative environmental externalities resulting from tourism specialization have been extensively analysed in the tourism literature (Budowski 1976; Manivong and Sipaaseuth 2007; Welsch 2004; D. Hall 2003; Bramwell and Lane 2011; Dodds and Butler 2010; Healy 1994; Pintassilgo and Silva 2007; Berno and Bricker 2001; Butler 2006). Numerous studies show that lucrative contracts resulted in the rapid, excessive or inappropriate development of the accommodation facilities along the Mediterranean coast which had a threatening impact on the

longer-term viability of the tourism industry (Barke and France 1996; Brotherton and Himmetoğlu 1997; Cockerell 1996; Leontidu 1998).

These studies demonstrate that despite high growth rates delivered by the tourism sector in the 1970s and 1980s, in the long run profit maximization and failure to plan and control the development of accommodation infrastructure led to the deterioration of several important tourist destinations and revealed challenges to the future growth and stability of the tourism sector (Swarbrooke 1999). As Dodds and Butler suggest, tourism destinations tend to copy developmental patterns of their competitors even if these are non-sustainable. Once the infrastructure is built, path-dependence locks inherited capacities into non-sustainable resource management (Dodds and Butler 2010).

There are three strands of literature important for the theoretical framework: first, the literature focusing on the governance mechanisms in tourism resource use, which ignores the issue of rent-grabbing; second, the literature dealing, even anecdotally with corruption in the tourism sector, but not considering how it affects resource use and third, the literature connecting rent-grabbing to resource management. In the next sub-section, I turn to discussing tourism governance literature.

#### 2.3.1 Governance mechanisms and sustainability

Seminal work of Dodds and Butler has focused on the governance mechanisms in analysing resource management sustainability (2010). Without discussing in details the implications, they criticise that the focus of the political and business community is not on the net benefits tourism brings to the community or to the destination, but rather on the number of tourist overnight stays and per diem expenditures. Their argument is that political governance's short-term focus on immediate results frequently sacrifices environmental and social concerns. The private sector is focused on return on investments which additionally feeds into this

negative loop. Four or five-year political mandates prevent implementation of sustainability objectives, typically requiring ten plus years at least.

They also suggest that support from the higher-level public administration is required in implementing sustainable policies and in correcting negative externalities, but is frequently lacking. For example, the public administration should respond when education drop-outs increase as the need for education in tourism is rather low, or when inefficiencies in the transportation connections require improvements. In addition, they emphasize that the lack of cooperation between ministries and various departments is often seen as problematic since all involved parties need to be aware of possible changes to be in a position to react and adapt their own responses (Dodds and Butler 2010). In the next subsection, I review the literature focusing on corruption in the tourism sector.

### 2.3.2 Corruption in Tourism Sector

While corruption as a phenomenon has been widely researched, corruption in tourism received limited attention. In tourism studies, research on illegal conversion of collective goods into private is anecdotal and based on individual cases studies, either as part of an inquiry into destination development or as part of a wider corruption-focused study of a specific economy. The cases of Belize, Egypt, Maldives and Turkey indicated that tourism rents incentivise patronage and corruption. Revenues from the resource use were hoarded by the colluding elites, harming in the process public interest.

In Maldives, for example, the tourism sector has been developed to favour a network of country's long-term president's Maumoon Abdul Gayoom's connected elites. A high percentage of Maldives' islands have been leased through personal acquaintances rather than based on the quality of concession offer. Rent-seeking kept potential political opposition-controlled, providing an explanation for President Gayoom's long mandate. Local population

or those not belonging to inner president's circle had a limited way of participating in tourism governance. The exclusion of wider business elites and the local community led to significant inequalities between the population of the main island Male and other peripheral islands (Mihdha 2008). The case of Maldives represents a case of perverse effects of rent-grabbing practices whereby sustainable resource management is nevertheless ensured. As a long-term president, it was in Gayoom's interest to ensure sustainable resource use and continuous windfall revenues. "Stationary bandit" (Olson 2000) theory explains why strict legislation is adopted and why in some cases rent-grabbing leads to the perverse paradox of resource preservation. This is an alternative explanation, but I suggest that primarily rent-grabbing leads to non-sustainable resource management.

Another example of rent-seeking and patronage through tourism rents was analysed by Richter and Steiner. They described how tourism rents partially replaced oil rents in Egypt's neo-patrimonial system. Selected domestic business elites got control and ownership over attractive tourism land in exchange for political support. Instead of focusing on destination development, tourism governance encouraged rent-seeking and enrichment of political elites through political patronage (T. Richter and Steiner 2007). Moreover, political elites used insider information to adapt investment strategies and as a result benefited from favourable tourism investment deals (Steiner 2011).

Mass-tourism development in Turkey, Cappadocia was also plagued by corruption and clientelism; credits and municipal facilities were distributed by the bureaucracy based on political partisanship and kinship and have nurtured particularistic rather than general interests. Loans and credits were given according to party ties or friendship rather than entrepreneurial capability. While local level bureaucracy tried, to an extent, to resist the demands of foreign business groups, it was pressured by the central government to respond effectively to their

interest. Significant resources have been either wasted in bad investments or have been subject to fraudulent money operations in which money was extracted although no tourism investments were made (Tosun 1998).

The studies focusing on rent-grabbing and corruption in the tourism sector have prevalently not identified that short-term profit maximization led to resource abuse. Only several studies, to which I turn now, have explicitly connected rent-grabbing patterns to non-sustainable outcomes. In this relatively small body of literature, the authors clearly showed that clientelism and collusion in tourism sector lead to non-sustainable resource use.

### 2.3.3 Connecting the dots – rent-grabbing and resource misuse in tourism

In the case study of Kusadasi in Turkey, clientelism reduced local service efficiency and in turn influenced the levels of trust in political institutions. Moreover, the authors suggest that clientelism and corruption had disruptive effects on tourism sustainability and development (F. Yuksel and Yuksel 2007; F. Yuksel and Yuksel 2008). Jimenez et al. recognize the role of the urbanization and corruptive schemes behind the construction frenzy on the island of Lanzarote (Jiménez et al., 2011, p. 1). The authors describe in detail how the public, influenced by a local NGOs, largely opposed the construction boom as a means of development, differentiating Lanzarote from the other Spanish coastal areas. As a result, the regional government adopted a construction moratorium in 2000, but the town councils of tourism oriented Yaiza and Teguise municipalities colluded with land developers, rebelled against it and appealed in court (García-Quesada, Jiménez, and Villoria 2014).

A similar scenario was reported to have occurred on the Canary Islands. Vested interests of colluding construction, political and tourism industry elites, could not be thwarted by the construction moratorium. Despite legal efforts aiming to control further development of tourism capacities, policy conversion to a more sustainable and diversified tourism practices has failed

(Bianchi 2004). In a similar vein, Jose et al. argue that colluding private and public actors allied with a focus on land urbanization, resulting in unstoppable construction frenzy in Spain. Because of short-term profit seeking Spain already has 500 dwellings per capita, which is more than any other country in Europe, but the construction in the coastal areas continues (José et al. 2010).

The literature which deals with governance mechanisms either from the perspective of the resource management, rent-grabbing or ties the two together, has not systematically analysed under which conditions rent-grabbing occurs, nor has it identified how it relates to resource management. Although some authors describe corruption and rent-grabbing in combination with the non-sustainable use of tourism resources, there is no clear linkage of the two phenomena.

While the literature focusing on tourism provides little guidance on the relationship between resource abundance and rent-grabbing, a significant body of work has researched it from the perspective of oil, gas, minerals or logging extraction. A complex theory of natural resource curse analyses why and how resource abundance leads to negative development, such as inequality, civil wars, educational attainment and environmental disasters (Auty 1993). I discuss the similarities between tourism and other natural resources in the next section.

#### 2.3.4 Similarities between tourism and other natural resources

Richter and Steiner theoretically developed and empirically tested the concept of tourism rent, as a variation of resource rent concept. Due to scarcity, low substitutability and sensitivity to price differentials, natural and historical wonders in tourism create an absolute resource rent, while a differential rent is created by a state's decision to lower the factor costs of a given product relative to the factor costs in other states. For example, absolute rent (from the use of a cultural resource such as the pyramids) and differential rent (from lowering the costs of the land

along the coast) incentivised the diversification of the rent sources in neopatrimonial Egypt and further supported the political patronage system (T. Richter and Steiner 2007). I argue that comparable to the resource extraction process in the resource curse literature, windfall revenues guaranteed from the tourism rents can incentivise corruptive behaviour. However, while the process of resource extraction in most cases requires limited effort and results in extraordinary revenues, in the case of tourism, natural beauties and cultural resource provide the so-called tourism rent, but human and physical capital investments are needed for development and upgrading of the sector. Therefore, in the dissertation, I focus on the process of the resource use (e.g. coastal land, unique cultural sites) which parallels the extraction of the resources.

Moreover, cultural and natural resources on which tourism is based on are, like oil, gas and minerals, limited in supply and can be depleted. For example, a construction boom in the coastal belt which degrades the landscape and pollutes the area has a negative impact on the longer-term viability of the tourism industry. Dodds and Butler argue that once the infrastructure is built, path-dependence locks inherited capacities into resource mismanagement (2010). However, tourism is largely a service sector, so it can be a long-term source of revenues if resources are not mismanaged. Instead, due to myopia and short-sightedness of the political elites, natural beauties tend to be overused and lack incentives for investments aimed at resource protection and productivity enhancement (Healy 1994; Pintassilgo and Silva 2007).

In comparison to oil and gas extraction process, tourism is mostly labour rather than a capital-intensive sector, although the jobs it provides are rather low-skilled, seasonal and part-time to an extent. This difference is important as it enables tourism to form easier forward and backward linkages with the rest of the economy than is the case in most of the classical resource extraction dependent countries (Morris, Kaplinsky, and Kaplan 2012). However, some extractive sectors, such minerals and logging also tend to be labour intensive and can form



easier forward and backward linkages. Tourism features many heterogeneous groups of actors, which makes the creation of linkages with the rest of the economy much easier, but also makes regulation and governance more difficult. Therefore, natural resource curse can only partially be applied to the tourism sector, but some characteristics, such as windfall revenues and depletable resources are comparable.

Although resource curse literature clearly showed that the quality of the institutions is the key variable explaining developmental outcomes, it has not clearly established which mechanisms help to prevent corruption and rent-seeking in resource rich countries. This has also been an issue in the broader corruption and rent-seeking literature. In contrast, the bulk of tourism literature focuses on the role of the local community in ensuring sustainable development. In the next section, I turn to the stakeholders in resource management and to the mechanisms for prevention of the corruption, rent-grabbing and resource misuse.

## **2.4 Tourism Industry, Veto Points and Resource Protection**

First, I review the existing depiction of the tourism industry in the literature. Second, I discuss classical mechanisms of checks and balances to executive power, legislation, opposition, judiciary, media and civil society. Third, I review scholarship on the role of bureaucracy, regulation, decentralization and veto players in preventing resource abundance pathologies.

### **2.4.1 Industry**

In the tourism studies, the industry as a set of private actors is prevalently associated with short-term profit orientation, as opposed to long-term sustainability and blamed for exploiting the environment and local populations (Dodds and Butler 2010). The industry shows little commitment to local sites and tends to move out with little forewarning if international trends which attracted them change. Foreign-led companies tend to promote low standards characteristic of mass tourism, while enhancing the country's negative image as a mass-market

destination (Swarbrooke 1999; UNCTAD 2008). Studies suggest that corporations ensure favourable land use conversions through political lobbying and direct negotiations with the municipal authorities. In turn, smallholders are helpless when the development of apartments for the market ignores planning documents and leads to irreparable damage and conversion to “unbalanced and chaotic territories” (Orueta and Loures 2006, 8).

Furthermore, when tourism largely regulates itself, it shows equal responsibility for its social and economic impacts as any other industry (Mason 2008). These empirical accounts are in line with Polanyi’s concerns on the consequences of self-regulating markets (Polanyi 2001, 76). He wrote:

*To allow the market mechanisms to be sole director of the fate of human beings and their natural environment, (...) nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted, the power to produce food and raw materials destroyed.*

Such negative externalities are the main reason why market failures are corrected with regulations and represent the guiding principle in analysing the role of control mechanisms in the existing literature. However, it is important to note that the investors are not a homogenous group (Leiper 2008). The literature clearly suggests there are differences in levels and types of corporate social responsibility adopted by the firms. For example, the differences in levels of adoption among firms are particularly striking regarding corporate environmental commitments (Bansal, Gao, and Qureshi 2014). However, some argue that the existing differences in corporate social and environmental performance are determined by the political, legal and labour market institutions of the country (Ioannou and Serafeim 2010). Similarly, signing and the value of the community benefits agreements between the investors and the local community is positively related to the strength of the property rights, administrative autonomy and capacity

for collective action in the signatory community (Dorobantu and Odziemkowska 2016).

To summarize, the industry is predominantly negatively described in the literature. However, some suggest there are differences among investors which depend on the politico-economic context, such as legal, labour and political institutions and community's capacity for collective action. In overall, the literature suggests that when the industry is unregulated, it creates negative environmental externalities. I turn next to the role of the parliamentary oversight in controlling the rent-grabbing and resource misuse.

#### 2.4.2 Parliamentary oversight

Political science literature suggested that legislatures in resource rich countries encounter difficulties in controlling the executive's role in the management of the resource sectors. In weaker democracies, national parliaments often merely approve the laws drafted by the executive without any discussion or changes to the legislative drafts. In many cases, the MPs are not autonomous from the ruling elites and focus on providing specific services for their clientelistic networks rather than dealing with policies relevant for the wider public (Ahmadov and Guliyev 2016). Political elites use electoral victory and distribution of resource rents to ensure the support of the electorate, business elites and personal enrichment. Such a scenario is particularly likely in cases when despite the existence of formal multiparty system and democracy, the rule of the law is not fully functional (Stokes 1999).

Others have suggested that parliaments frequently fail to control resource revenue rent-seeking as staff hired for the parliament is insufficiently trained to assist in overseeing the executive and resource sector. This can have considerable consequences on rent-seeking, inequality and environment. The research has shown that lack of parliamentary oversight over the executive management of the resources led to environmental damaging in the area of the resource extraction such as in the cases of the delta of river Niger in Nigeria (LeVan, Olayinka,

and Fashagba 2016).

However, research of African resource rich countries suggests that MPs in competitive multiparty systems are motivated to hold governments accountable as their electoral prospects benefit from delivering more transparency. Opposite, in cases where one party dominates the political system, MPs are reluctant to insist on resource management transparency as it could threaten their political careers (Mejía Acosta 2010). In competitive multiparty systems, MPs and parties tend to be more proactive and hold the executive more accountable than in systems with a dominant party (Ahmadov and Guliyev 2016). Nevertheless, only in exceptional cases, broad interest parties have ensured prudential governance (Dunning 2008; Eifert, Gelb, and Borje Tallroth 2002).

To summarise briefly, the literature suggests mixed results of parliamentary oversight as a means of controlling corruption and rent-seeking in the use of natural resources. Moreover, the existing scholarship has only dealt with static elements of the political competition, e.g. the role of the political opposition in curbing corruption and illegalities. Turnover in power or other dynamic controls were not discussed. Besides legislative power, the judiciary has traditionally been considered as part of the checks and balances system. In the next sub-section, I turn to the role of the judiciary in preventing corruption.

#### 2.4.3 Judiciary

There are two types of court systems, common and civil law. In the civil law systems, courts rely in their decisions on the comprehensive legal code, while in the common law judges shape judiciary framework through their decisions. Djankov et al. suggest there are significant differences in civil and common law countries regarding procedural formalism, whereby formalism was noted to be systematically lower in common law countries. Thus, common law countries face slower, more corrupt, less consistent, honest and fair judicial decisions than civil

law countries (Djankov et al. 2003).

Even though Djankov et al.'s work suggests court systems matter for corruption and fairness in judicial decisions, a more nuanced interpretation is needed when considering the role of the judiciary in spatial planning. The effect of the differences in types of court systems has not been widely discussed in relation to spatial planning. However, an overview of the role of the Greek, civil law system for the spatial planning suggested administrative courts create judicial standards for the interpretation of the legislation concerned with the sustainable development perspective. Even though Greece has a civil law system, administrative judges produce new norms and principles in the field of spatial planning (Polyinvest 2011). This would suggest that the differences in the court systems and their associations with corruption should be approached carefully as the administrative courts in their decisions regarding spatial planning can be compared to the common law systems.

The literature focusing on the paradox of plenty has not dealt explicitly with the role of the judiciary in preventing rent-seeking and resource curse. In the broader literature on governance and corruption, the judiciary is recognized as an integral part of the system of checks and balances and as a constraint on corruption, as well as the defence of citizens against transgressions by politicians. Alt and Lassen's paper on the effects of checks and balances on corruption suggest that judiciary can act as a veto point against corruption, even in systems where one party controls both the executive and legislation (Alt and Lassen 2008).

Although judicial institutions are crucial for addressing corruption and are indispensable for development, these institutions are also susceptible to corruption (Gloppen 2013). Della Porta extensively analyses the role of the judiciary in controlling and punishing corruption in Italy. She describes the collusion of the judges, mafia and corrupt political elites. However, she

suggests that a segment of judges attempts to ensure “equity” through their mandate and perceived their role as a civic one geared towards society and community rather than to the state (Della Porta 2001, 16). She proposes that institutional autonomy is insufficient to ensure the success of corruption investigations as it involves collusion rather than extortion and makes neither bribee nor briber interested in denouncing the deal. She further argues that taxpayers who bear the costs of the corrupt exchanges by paying more for poorer services, usually know nothing of the exchanges and cannot reveal the deals (Della Porta, 2001, p. 14).

To summarise, the literature suggests that the judiciary can help in corruption sanctioning, but also that it can itself become corrupted. Moreover, research suggests that court system types influence speed and quality of contract enforcement, but there has been no research on the role of the judiciary in assessing the legality of the spatial planning process. Until now, the literature has not explored the role of the judiciary in preventing resource rent-grabbing. I turn next to the role of the media in preventing rent-grabbing and resource misuse.

#### 2.4.4 Media

Sustainable tourism literature suggests media has an important role in tourism management. Although media is characterized as one of the key players, there is little research on its role. Media is frequently seen as having a promotional and entertainment-oriented approach to tourism destinations, thus lacking critical perspective (Mason 2008). Even the inquiries into cases of “watchdog” television and radio programmes are mainly anecdotal; therefore, an encompassing analysis of the media in tourism studies is still missing. The literature on the relationship between media and environment protection suggests that media outlets are important for increasing awareness about environmental problems and for motivating governments to act. However, the media frequently marginalizes environmental reporting or fails to fully address the gravity of the situation. Journalists covering environmental

issues also face difficulties in accessing reliable sources of information, understanding the technical information and representing them further in layman terms (Driedger 2007).

The resource curse literature provides a limited insight into the role of free media in the process of control over the use of natural resources. While cross-sectional and panel data show that media is less free in oil-rich countries, a causal relationship between more transparency and developmental outcomes in resource rich countries has not firmly been established (Ahrend 2002; Brunetti and Weder 2003). Similarly, free media is less likely to develop in resource abundant economies. Media can help coordinate the efforts of the citizenry against the incumbent and a leader in a resource-rich country has less incentive to constrain the subordinates and bureaucracy through the use of media (Egorov, Guriev, and Sonin 2006).

The notion of media as a watchdog is not particularly new. The literature on corruption and media first suggested the media could act as a fourth part of the checks and balances system, but also that media owners have an agenda of their own and might not be interested only in delivering information to the public. Moreover, even if the media is a watchdog rather than “a lapdog or attack dog of power,” it remains unclear if a difference can be made when the political elites resist the change (Coronel 2009). The empirical evidence from Camaj's study suggested a strong positive association between media freedom and corruption in a cross-sectional sample. The results confirm previous studies emphasizing free media as a control of corruption, even when other determinants of accountability are controlled for (Camaj 2013).

However, from the overview of the literature, it remains unclear whether the media, after successfully unearthing a corruption scandal, permanently influences corruption levels or it merely creates a ripple in the vast corruption pool which eventually subsides without serious effects. Even in the cases in which media intervention leads to a judicial engagement, it depends

ultimately on the level of judicial independence how the cases are handled or whether one intervention can curb corruption. Moreover, there are no existing studies analysing the role of the media in either preventing rent-grabbing or ensuring sustainability in tourism specializing economies. In the next section, I turn to the role of the civil society in preventing corruption and ensuring sustainable resource use.

#### 2.4.5 Civil Society

Corruption literature prevalently argues that civil organization can help in increasing transparency which ensures accountability and sanctioning of corruption (Mungiu-Pippidi 2015; Fox 2007; Kolstad and Wiig 2009; Lindstedt and Naurin 2010). However, it has also been argued that NGO campaigns can also promote resignation rather than indignation. Bauhr and Grimes explore the principal-agent theories of accountability and suggest through the logic of collective action that exposure to endemic corruption may demobilize the public rather than enhance accountability (2014).

The importance of local or host communities has been widely researched in the tourism literature and advocated as crucial in ensuring the implementation of sustainable policies (Dodds and Butler 2010; Bramwell and Lane 2011). The engagement of the local community and NGOs has been seen as a possible substitution for the “inefficient and bureaucratic burden upon business,” a solution which goes hand in hand with the adoption of a set of free market-oriented policies (Burns and Novelli 2008). The dissertation follows Edwards’ approach on the civil society as a part of society distinct from the state and the markets (Edwards 2014) and particularly focuses on NGOs, expert groups and local communities concerned with the impact of tourism on resource use.

Some tourism case studies suggest that the level of residents’ engagement in tourism development is quite low (Presenza, Del Chiappa, and Sheehan 2013), but that the local



community recognizes the benefits tourism brings and would like to participate in its further development (Chiappa 2012). Others showed that locals tend to be impressed by developmental agendas and frequently have differing attitudes towards the use of land than environmentalists and planners. Ioannides argued that engagement of the local community depends on the perceived advantages and disadvantages that the proposed tourism development brings (Ioannides 1995).

Mowfort and Munt argue that *the debate is not one of whether local communities should be involved in the development of tourism to their areas, but how they should be involved and whether “involvement” means “control”* (Mowforth and Munt 1998). However, most of the tourism research on the effect and importance of the local community focuses on single case or comparisons through qualitative research (Buteau-Duitschaever et al. 2010; D’Angella, Carlo, and Sainaghi 2010; McLeod and Airey 2007; Pastras 2012; Zuffi 2011). As such, these cases do not advance our understanding of the importance of the local community in comparison to other actors. Moreover, tourism studies have so far not researched conditions in which the civil society can influence tourism development.

Political science literature provides a more nuanced understanding of the question. Bailer et al. suggest that the quality of political institutions is conducive to the development of the strong civil society (2012), suggesting that the civil society is endogenous to the rent-grabbing. Resource curse scholarship argues that civil society can help in assuring more accountability over resource management. Moreover, in some resource-rich economies, civil society partners with extractive industry companies and policymakers within a multi-sectoral framework called the Extractive Industries Transparency Initiative (EITI). The framework requires its members to publish payments and receipts and jointly evaluate resource management. EITI allows civil society to monitor government and business resource revenues. However, while governments

and industry appreciate the voluntary nature of EITI, NGOs would like to see more authority delegate through EITI (Aaronson 2011). Thus, despite EITI offering a formal opportunity for the civil society to engage, its role is still dependent on the willingness of the government to join EITI and comply with the requirements.

While the literature on social mobilization and contentious politics largely deals with protests in societies where civic engagement is legally allowed (see e.g. D. S. Meyer 2004; Brancati 2016), some authors discuss mobilization in non-democracies (Schock 2005; Krastev 2014). For example, Osa and Corduneanu Huci suggest that multiple links within communities and a feeling of group identity, as well as free and uncensored media, have the greatest potential for ensuring a successful transition to democracy (Osa and Corduneanu-Huci 2008).

To summarise, despite strong emphasis on the role of the local community, tourism studies have rather low expectation of civil societies' ability to engage and actively monitor and prevent corruption and resource misuse. Moreover, the literature largely assumes that the civil societies' ability to influence politics is endogenous to the quality of the political institutions. Others have argued that civil society can also mobilise in not fully democratized societies. In some cases, such as in Montenegro, despite hegemonic party system, openly pro-governmental media outlets and a smear campaign against the NGOs, the civil society has managed to occasionally prevent rent-grabbing and resource mismanagement in tourism. I now turn to the existing scholarship on the role of the bureaucracies and regulation in controlling corruption and ensuring sustainable resource management.

#### 2.4.6 Bureaucracy and regulation

Since the term bureaucracy was initially used, it had a negative connotation. Bureaucracy is frequently considered inefficient, inflexible, a potential source of corruption and a deterrent to investments (Bartlett et al. 2013). In the managerial theory, cutting the so-called red tape has

been frequently argued to have positive effects on improving the investment climate and reducing corruption (Tanzi and Davoodi 2000). Reforms oriented at increasing competitiveness and economic liberalization measures are believed to be necessary for reducing rent-seeking in developing economies (Trivunović 2007). It has been argued that complex legislation and multiple monitoring points have adverse impacts on investment flows as investors tend to choose countries offering simplified and streamlined procedures (Gereffi, Fernandez-Stark, and Psilos 2011).

#### *2.4.6.1 Cutting the red tape*

Seminal works of Knack and Keefer (1995) and Mauro (1995) argued that the more corrupted the country, the more burdensome the regulation. Based on country-level expert opinion data confirm the argument that high corruption goes hand in hand with burdensome regulation (Knack and Langbein 2010) and time-consuming procedures for registering a business (Djankov et al. 2002; Svensson 2005). Similarly, World Bank's Doing Business data suggest there is a positive association between corruption and the number of procedures required for starting a business (Madani and Licett 2010).

More regulatory discretion and red tape motivates corruption and pushes firms deeper into the unofficial economy (S. Johnson, Kaufmann, and Zoido-Lobaton 1998; Kaufmann and Wei 1999). Specifically, the grabbing hand of the bureaucracy causes the entrepreneurs to go “underground” and cheat on taxes, indicating that the red tape is the reason behind tax evasion (Friedman et al. 2000). Although the literature in the agreement with the so-called Washington consensus<sup>5</sup> is not as dominant as it used to be, the international organizations still bid countries

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<sup>5</sup> Washington Consensus is a term coined by John Williamson in 1989 to define a set of procedures international organizations advocated for jump-starting development in Latin America and in Eastern Europe. The list included: Fiscal Discipline, Reordering Public Expenditure Priorities, Tax Reform, Liberalizing Interest Rates, Competitive Exchange Rate, Trade Liberalization, Liberalization of Inward Foreign Direct Investment, Privatization, Deregulation and Property Rights. Immediately as the Washington Consensus was announced, critics attacked Williamson for advocating universal applicability of neoliberal policies.

against each other in cutting down various types of procedures, regarding them uniformly as a regulatory burden (Murgasova et al. 2015).

In the tourism scholarship, so far only a few studies have dealt with the role of the regulations and bureaucracy in relationship to sectoral development and corruption. However, Swarbrooke recognizes the role of bureaucracy in tourism planning and management. An autonomous bureaucracy is intended to be impartial and, in comparison to the private sector, oriented towards long-term development. However, he also suggests that tourism legislation rarely defines building controls, lacks legislation on socio-cultural, and environmental impacts of tourism, tourism carrying capacities, tourists behaviour and the wages and working conditions of tourism employees (Swarbrooke 1999).

Tourism sector includes a plethora of activities, such as development of accommodation capacities, transport, rental and hospitality service which aggravate controlling and monitoring of the industry (Janin, Frew, and Gharavi 2012). Most of the studies negatively perceive bureaucratic regulation. For example, Richter's analysis of tourism in Pakistan is in line with the mainstream assumption of bureaucracy as an obstacle to the investments. She negatively assesses that struggles with bureaucracy take years and flounder half-finished capital investments, but she simultaneously assesses that Pakistan was successful in avoiding mass tourism and resource degradation (L. Richter 1989, 147). Filipe employs the so-called "anti-commons" theoretical framework to show how complex bureaucracy creates a black hole of resource underutilization in which potential economic value disappears (Filipe 2014).

#### *2.4.6.2 Cautious approach to regulation*

While policy prescription of the international organizations and aid industry advocate cutting regulations for the sake of improving the business environment and curbing corruption, others suggest it should be taken cautiously. Rose-Ackerman suggests that liberalization

measures must be carried out with care. Deregulation in one area can increase corruption in neighbouring countries, while privatization can itself be corrupt (Rose-Ackerman 1997). More precisely, Blackburn and Forgues-Puccio argue that financial liberalisation can support growth when governance mechanisms are already in place, but can also hinder growth when the governance is compromised by corruption (Blackburn and Forgues-Puccio 2010). Economic liberalization in authoritarian developmental states with large domestic markets has also been argued to contribute to the increase of corruption (Boyd 2015). Mongay and Filipescu identify a high positive correlation between regulatory burden and corruption, but also identify specific cases, such as Thailand, in which favourable regulatory framework co-exists with high corruption prevalence score (Mongay and Filipescu 2012).

Some authors have argued that bureaucratic capacity, bureaucratic autonomy and degree of politicization helps to prevent corruption (Bersch, Praça, and Taylor 2017) and ensure environmental sustainability (Povitkina 2015). In this vein, planning studies with a focus on tourism suggest that regulation could be the key to sustainable tourism. Kranjčević has outlined the importance of the spatial planning and its procedures for the sustainable use of resources in the tourism sector (2015). Spatial planning regulations can protect valuable resources while allowing commercial use (Tisdell 1987; Mrak-Taritaš 2010).

The protective legislation was crucial for achieving a reduced rate of urbanization on the Canary Islands. (Bianchi 2004). Moreover, environmental studies literature suggests that stricter environmental policies do not punish economic growth rates, productivity, employment or international competitiveness (S. M. Meyer 1995; Dechezleprêtre and Sato 2014). Prior and Raemaekers note that the incentives to deregulate environmental planning, in the interest of improving competitiveness, frequently clash with the goal of protecting the natural heritage (Prior and Raemaekers 2006).

To summarize, developmental literature prevalently advises removal of the regulatory burden, while spatial literature suggests regulation and controls could be the key to ensuring resource protection. However, what is not widely discussed in existing literature is the role of the vertically vs. horizontally placed administrative bodies, which represent controls of other offices, agencies or levels of government. Moreover, the existing scholarship has not dealt with the particularities of the role of the protective and complex regulation in ensuring sustainability of the resource use. I now briefly turn to the veto players' literature.

#### 2.4.7 Veto points

Veto player or veto point framework considers the effect of including additional veto actors in the decision-making process. Originally, the literature defined as veto player an actor or a group without whose agreement a law cannot be passed. Tsebelis' seminal work developed the veto player framework which includes the political institutions of the legislatures, the executive and the judiciary. Multiple veto players allow policy stability and bureaucratic independence. While many veto players prevent the rule of the majority over minorities, numerous veto players inhibit major changes in the policy (Tsebelis 2002). Therefore, each veto point substantially increases the chances of blocking electoral fraud.

Collier applied the veto points framework in the resource curse literature. He researched the role of veto points in resource rich and resource poor economies, suggesting that the lack of veto points dramatically decreases chances of clean elections (Collier 2010). Cross-country regressions suggest that resource curse is more prominent in presidential systems, where the politics of the day can easier become "one man show" captured by special interests. Proportional representation, numerous political parties and the representation of various social and geographical groups on the national and sub-national levels, ensure a range of veto players which can curb favouritisms in public procurement and distribution of resource rents (Lane and Tornell 1999).

In developing countries, Olken and Pande found that additional levels of monitoring can decrease corruption, although they warned that monitoring must be set in such a way that those tasked with monitoring and punishments must not themselves be corruptible (2011). However, Ahmadov and Guliyev warned that an increase in the number of stakeholders does not necessarily hinder rent-seeking. Higher stakeholder participation is characteristic for well-functioning democracies, while elsewhere an increase in the number of stakeholders can be a result of rent-seeking, or might lead to more rent-seeking. Thus, increasing the number of stakeholders can also hinder development and existing democratic institutions (Ahmadov and Guliyev 2016) or have no effect on improving the resource management outcomes (P. W. Williams, Penrose, and Hawkes 1998).

Norway is one of the best examples of how a broad range of veto players is crucial in resisting attempts of resource grabbing by narrow interest groups. Since 1900, Norway increased its extraction of the natural resources, but simultaneously it has also increased political participation. The extension of voting rights and wide geographical and class representation in the political system created many veto players. When Norway discovered oil, it was well prepared for the resource wealth (Mehlum, Moene, and Torvik 2012).

A more nuanced argument suggests that an increase in the number of veto players has a different effect on various types of corruption. Having more veto players prevents bribing to influence drafting new laws. However, the number of veto players does not reduce bribing to affect the implementation of already existing rules (Bagashka 2014). Andrews and Montinola twist the veto player argument further and suggest that systems with multiple veto players have better rule of law. Political systems with fewer veto players (executive or legislative) have weaker rule of law than those with more veto players. Adding already one other veto player improves the rule of law in a country (Andrews and Montinola 2004).

The corruption literature suggests that a multiple veto power system prevents the centralized collection of bribes. In such a system, the bribee cannot deliver not because of unwillingness to cheat, but because there are multiple points at which a file can be stopped. However, such a veto system, designed to keep corrupt officials in check can also decrease efficiency and boost the rates of bribes. Free entry in the veto system allows "*overfishing*" *commons or the rental havens* (Bardhan 1997, 1325). This has been noted in situations when after bribing several agencies, a new bribe-monopolist requests a bribe for yet another permit necessary to get the goods or the services (Olken and Pande 2011; Banerjee 1997; Bardhan 1997). Therefore, Bardhan suggests that centralization of the system reduces the number of the veto powers, allows a "lump sum" corruption adhering to the leadership and prevents independent corruption rackets. The ability of the leadership to credibly commit to keeping the corruption contributions centralized is a characteristic of a "strong" state (Bardhan 1997).

To summarize, the veto points framework has been used to analyse the policy stability and recently, the effect on corruption. However, it has not been applied to the rent-grabbing and resource use research directly. In the next sub-section, I turn to the role of the decentralized governance in curbing corruption and preventing resource mismanagement.

#### 2.4.8 Decentralized governance

The effect of decentralized governance on tourism development has not so far been extensively researched with respect to sectoral rent-grabbing and environmental sustainability. On the one hand, it can be theoretically argued that local level authorities recognize better the local developmental needs compared to the central government. Since tourism is strongly tied to the local conditions of destination sites, the assumption is that central governments would not be able to optimally manage the complexities of the industry and its impact on the economic and social environment. Local governments have direct insight into opportunities and



challenges of the business community and are more likely to be able to respond in a timely manner to major changes or problems impacting the region (Bertucci 2002).

On the other hand, however, it was argued that tourism should not be developed as a final goal but rather as an integral part of a wider country-based developmental strategy. If the tourism sector calls for a greater involvement of the local units of self-governance, it might be directed to the short-term maximization of profits, which opposes the idea of tourism integration into broader economic development (Huybers 2007). In this sense, a centralized authority controlling tourism development might better serve the purpose. Centralized governance in poor and developing countries is potentially more effective than decentralized management. In poor countries, governments are unwilling to decentralise as the finances do not permit it and there are political reasons against it (A. Yuksel and Yuksel 2000). In countries where a strong, central government has a tradition of control and regulation in all sectors of the economy, the establishment of local government structures might be a prop without any relevance, or even a structure entrusted with responsibility it is not able to fulfil (Huybers 2007).

Yuksel, Bramwell and Yuksel research such case – Belek, Turkey where authority for tourism development has been delegated to the local level, but the municipality remained poorly funded. As a result, local authorities relied on the engagement of association of tourism investors, but also on one national level environmental NGO. The role of the NGO has been crucial in the development of the spatial plan, while municipal authorities relied on the tourism industry for funding and provision of the basic services, such as waste disposal, repaying the price through counter-favours (F. Yuksel, Bramwell, and Yuksel 2005).

The literature on the co-management of resources, referring mostly to logging, water and land use, suggested joint efforts of stakeholders on national and all sub-national levels of

government. Such co-management regimes, which include both sub-national and national governments must be differentiated from the community management which excludes the central state. Local communities, in comparison to the central government, have direct access to detailed information about the state of the resources, which allows immediate and cost-effective reaction. In turn, the central government is free from pressures exerted by individuals locally to ensure particularistic interests and has a better overview of wider ecological issues, as well as more sophisticated analytical tools than local communities. Success in co-managing resources depends on social capital between the members of the community and vertical social capital linking local communities and central government. In opposition to success stories, there are cases where co-management proves to be time-consuming, expensive and destructive of social capital, lead to illegitimate conflicts and compromises based on the lowest common denominator (Ballet, Koffi, and Komena 2009).

Political science literature provided a more nuanced analysis of the role of the decentralization on rent-grabbing and resource management. In Bolivia, local communities were also included in the consultations concerning resource extraction compensations. However, the process has stimulated rent-seeking by the leadership of the local communities, led to the dismantling of environmental monitoring, reduced the transparency of payments and negative environmental externalities (Haarstad 2014: 988). Entrenched organized interests can even be stronger than parties or governments. Their interference in the democratic process makes resource revenues management highly politicized (Eifert, Gelb, and Borje Tallroth 2002)

Numerous contributions outside the resource abundance context focus on the relationship between decentralization and corruption. The empirical research deals with fiscal, administrative and political decentralization and with types of interaction between these types. Cross-sectional studies largely suggest that fiscal decentralization, operationalized as a

subnational share of government expenditure, is associated with lower corruption levels (Fisman and Gatti 2000; de Mello and Barenstein 2001). Further research suggests that although fiscal decentralization decreases corruption, more government tiers increase corruption (Fan, Lin, and Treisman 2009). Pina-Sanchez' study finds no relationship between fiscal decentralization and corruption (Pina-Sánchez 2014). Spatial decentralization was argued to have no strong association with corruption (Freille, Haque, and Kneller 2010). Gurgur and Shah argued that sub-national share of government employment reduces corruption, while Fan et al. suggested that more public administration employment has no effect on corruption (Gurgur and Shah 2005; Fan, Lin, and Treisman 2009). Most of the literature on the effects of political decentralization suggests it results in higher corruption levels.

Research on the interaction between political and fiscal decentralization suggests no statistically significant results (Treisman 2000; Kyriacou and Roca-Sagalés 2011). Existing research arguing decentralized countries have lower corruption presumes the presence of institutions which provide citizens with information and allow action based on the received information. Karlstrom argues that decentralization does not have a positive effect on corruption in a context where no democratic institutions exist. Thus, decentralization is likely to reach its full effect in democracies where elections, free media and civil liberties promote government accountability (Karlström 2015).

The existing political science literature on corruption described and analysed the effects of various types of decentralization on curbing corruption. Recognizing the contributions of the literature, I suggest that it has not dealt with the role of combined political and administrative decentralization, such as multi-level spatial planning, nor has it inquired it in complex tourism contexts. In the next section, I define the gaps in the reviewed literature and suggest how I plan to address the outlined gaps.

### **2.5 Analysing Building Blocks**

So far, the chapter discussed different theoretical streams and fields of scholarship that this dissertation builds upon. These are tourism, resource curse, corruption and veto points. I overview their contributions on relevant control mechanisms and outline how I use each to forward understanding of the rent-grabbing and resource misuse in the tourism sector.

The literature on tourism sustainability and on the resource curse suggest that when unregulated, tourism industry, like any other, produces negative environmental externalities. It is further suggested that the willingness to cooperate with the local community and invest in corporate social responsibility vary depending on the collective action potential and the strength of the institutional framework. The tourism literature identifies resource management sustainability issues, but has not linked it to corruption. Moreover, it lacks systematic research on the role of stakeholders, institutions and mechanisms in determining rent-grabbing and resource management outcomes. Opposite from the tourism scholarship, in the natural resource curse literature, institutions are a driving force behind either a boon or a blessing in resource rich areas. However, the theory has so far not been applied to natural and cultural resources in tourism, and it remains unclear which *set of institutions* prevents rent-grabbing and corruption.

The corruption literature has extensively dealt with the preventive mechanisms and has analysed it in various case studies and across different sectors. However, most of the existing literature largely deals with corruption through cases studies and does not provide a systematic analysis of the phenomenon and its relationship with resource management. Quantitative cross-sectional studies are often plagued with inappropriate indicators and have thus far explained neither interactions between the mechanisms nor their origins. I now turn to the specific mechanism researched in the literature: parliamentary and judiciary oversight, civil society and bureaucracy.

The literature provides little assurance that classical legislative checks can provide controls of executive's management of the natural resources. The ability of the parliament to control the executive is reverse proportional to the dominance of the ruling party over the political system. So far, the scholarship has not considered the dynamic elements of the political competition, such as turnover in power or the vertical controls different political leadership can represent in multi-level decision-making. Regarding the role of the judiciary, the literature suggests it can represent both a veto against corruption, but also be the source of corruption. The existing literature has not dealt with the role of the judiciary in assessing the legality of the tourism project implementation, nor has it researched judiciary's role in preventing resource rent-grabbing.

Overview of the literature on the role of the civil society in preventing corruption and ensuring sustainable resource use suggests a complex picture. Tourism literature strongly advocates the role of the local communities in ensuring sustainable development. However, the existing scholarship has not explored under which conditions is civil society successful in influencing tourism development. Wider political science literature suggests civil society's strength depends on the quality of the political institutions. However, some argue that civil society can win battles also in not fully democratized societies. Similarly, the literature prevalently assumes the media can ensure transparency and assist in preventing corruption and environmental resource misuse. However, it is unclear whether media campaigns can have a long-term effect on reducing rent-seeking or just micro-effect on individual cases. Lack of studies analysing the role of the media in either preventing rent-grabbing or ensuring sustainability in tourism sector further encourages in-depth research of the issue.

Based on the literature review, I identify two approaches on the role of the regulation in preventing corruption and ensuring resource sustainability. Developmental literature suggests

cutting procedures which extend the project implementation horizon, suggesting that regulatory burden pushes investors to bribe, pressure and cheat on taxes. However, spatial planning literature argues against deregulation in tourism. I build on both bodies of literature and suggest neither has taken into account the role of the vertical administrative controls nor discussed the role of the complex regulation in ensuring resource sustainability.

The literature on the role of decentralization in tourism development suggests its effect depend on the governance traditions and the capacity of the local level to handle the delegated tasks. Wider political science literature discussed effects of fiscal, political and administrative decentralization in curbing corruption. However, it has not analysed the role of combined political and administrative decentralization, such as multi-level spatial planning, nor has it inquired it in a complex tourism contexts. Finally, while the concept and mechanism of veto points have been applied to corruption control, the literature has not considered bureaucratic expertise, spatial planning decentralization, nor dynamic political competition within veto points framework. An overview of the existing approaches to rent-grabbing and tourism sustainability is presented in Table 2-1.

Table 2-1 Overview of considered fields of scholarship

Scholarship and variables	Subject of analysis	What is not considered
<b>Tourism Sustainability and Governance</b>  Local community participation, characteristics of tourists	Normative assessments, sociological, economic and environmental sustainability, tourist-destination-business relations	Neglects institutional factors determining non-sustainable tourism development and the relationship with corruptive behaviour, assumes too much importance for the behaviour of tourists and is characterized by a binary understanding of business sector as profit maximizers vs. corporate social responsibility enlightened.
<b>Corruption in Tourism</b>  Informal networks, role of the state and government,	Case study analysis of tourism rent-seeking, speculations, patrimonialism, land urbanization	Fails to specify the relationship between corruption and resource use, the case studies only marginally deal with corruption as part of larger tourism analysis or fail to develop tourism specific mechanisms to explain why

development of the apartments for the market		and under which circumstances corruption occurs
<b>Resource curse</b>  Growth, inequality, conflicts, political institutions, resource abundance and dependence	Resource abundance leads to stagnation, inequality, conflicts, environmental disasters	Has not been applied to tourism sector, limited transfer of the theory to the renewables, fails to specify which specific mechanisms can prevent resource curse
<b>Corruption literature</b>  Types, actors, accountability mechanisms, various areas (health, education, political campaigns)	Researches corruption as a phenomenon, its influence on growth and development	Has not researched tourism rent-grabbing, lacks detailed research on the role of the veto points in general and specifically bureaucracy and regulation in preventing corruption.
<b>Decentralization and Corruption</b>  Fiscal, political, administrative decentralization, political institutions	Researches how fiscal, political and administrative decentralization affect corruption	Fails to make a conclusive statement on the effect of various types of decentralization on corruption, neglects decentralization as a variation of veto points system, has not analysed spatial planning context
<b>Veto Points</b>  Policy stability and change, political institutions and functioning	Increase in the number of veto points (legislative, executive and judicial branch of governance) stabilizes policy and prevents change	Does not handle other dependent variables well, only a few studies on the effects of corruption and resource abundance
<b>Bureaucracy and regulation</b>  Efficiency, insulation, embeddedness, patrimonialism, kinship, informal ties	Discusses the role of bureaucracy in supporting development, what kind of capacity should the public administration have, preventing and incentivising corruption	Inconclusive on the role of the bureaucracy in controlling corruption and lacks research on the role of bureaucracy in management of the natural resources, suggests cutting red tape and regulation to incentivise investments and competitiveness

## **2.6 Bureaucratic and Political Veto Points Framework**

As existing theoretical frameworks are not adequate to research rent-grabbing and resource management in the tourism sector, this dissertation puts forward a new theory. I argue that bureaucratic and political veto points shape the space for rent-grabbing and resource management in tourism.

### 2.6.1 Bureaucratic veto points

To disincentivise rent-grabbing and protect the resources, I argue that BVPs must include decentralized spatial planning. In a system of multi-level spatial planning, changes in the plans defining the use of tourism resources must be implemented on each sub-national level and approved by the national level bureaucratic body, such as a ministry in charge of spatial planning, resource protection or tourism. This means that plans regulating the use of resources are adopted by the sub-national (local, regional etc.) assemblies, but approved through administrative controls. I argue that an increase in the number of *vertical* veto points helps in avoiding the perils of the “weakest link” (Rose-Ackerman 1997). Vertical veto points are a system of rent-grabbing controls with the hierarchical component.

For example, to initiate changes within a municipal plan, changes must be made also within higher level plans, while all sub-national plans require the approval of national level bureaucracy in charge of spatial planning. In contrast, horizontal veto points represent multiplication of the institutions from which permits must be obtained from, as opposed to vertical veto points, resulting in what Bardhan described as “*overfishing*” the rental havens (Bardhan 1997)

*H1: Decentralization of the spatial planning system through bureaucratic controls prevents rent-grabbing and helps ensure sustainable resource management*



The argument opposes the existing accounts on the role of the bureaucracy and decentralization. I suggest that both sub-national and national level governments should jointly manage the resource, but that change on each level should be accompanied by bureaucratic control. This is a novel argument as spatial planning decentralization has both political and administrative elements. Moreover, it brings bureaucracy to the forefront, suggesting it has an important role in vetoing rent-grabbing and resource misuse.

#### 2.6.3 Political veto points

Although largely ignored in the tourism studies, I argue that political institutions have an important role in preventing corruption and ensuring sustainable resource management. The natural resource curse literature provides some guidance suggesting the importance of the political competitiveness and multiparty system. The resource curse framework, however, does not conclusively show that national parliaments, even if multiparty systems exist, can curb corruption and protect resources. Therefore, I suggest that subnational and national level turnover and vertical cohabitation are crucial aspects of competitiveness which aid decentralized spatial planning in preventing corruption.

##### *2.6.3.1 Turnover in power and vertical cohabitation*

By turnover, I refer to change in the political leadership, on both national and sub-national level. By vertical cohabitation, I refer to control over the national and various subnational levels by different political parties. As has been explained in the Introduction chapter, the term is used in distinction to the use of cohabitation in the literature. Cohabitation prevalently denotes executive power divided between a prime minister from one and a president from another party in the semi-presidential systems. My concept refers to cohabitation across levels of government and the effect it has on preventing rent-grabbing.

Vertical cohabitation can occur between national and sub-national (e.g. regional) level, but also between various sub-national levels. Therefore, any of the two types of vertical cohabitation can block tourism investments. Political actors from different parties on each level of government can engage in monitoring tourism projects on other levels. Moreover, in the case of turnover, newly elected political actors can represent an element of dynamic control of corruption and resource management.

*H2: Turnover and vertical cohabitation increase effectiveness of spatial planning and reduce rent-grabbing and resource misuse in tourism*

Vertical cohabitation and turnover in power provide a nuanced understanding of the political competition represented in the literature. Moreover, the novel framework also extends the research on political competition to a so far underresearched field of resource sustainability protection.

#### *2.6.3.2 Judiciary*

The judiciary as the third branch of government has been recognized as part of the system of checks and balances since the early days of democracy. In the dissertation, I research in depth how judiciary helps prevent corruption and ensures sustainable resource management in the tourism sector. I rely on the literature arguing that judiciary can ensure sanctioning of corruption. However, I suggest that in the specific case of the tourism-related illegalities, the judiciary will face issues in distinguishing benign speculations and corruptive, pre-arranged land urbanization cases. I also research how judiciary influences rent-seeking and resource use in cases of the biased and politically allied judiciary. Furthermore, I suggest that judiciary, if independent, enables the active role of the civil society and media in preventing rent-grabbing and non-sustainable resource use.

*H3: The more independent judiciary is, the lower the corruptions levels are and the more sustainable natural resource management in tourism is.*

*2.6.3.3 Catalysts: Civil society and the media*

Civil society's engagement is well analysed in the tourism literature and lauded as an important component in ensuring sustainable and long-term resource management. I define civil society as a part of society distinct from the state and the markets. In the dissertation, it includes "voluntary membership" associations between family and the state. However, I follow Edwards and exclude parties and political organizations, as well as profit-seeking activities by individual enterprises (M. Edwards 2014). I argue that NGOs and local community can prove effective against corruption and support sustainable resource management through two channels. First, through the dissemination of the information to the public, and second, by engaging judicial power. NGOs can investigate rent-grabbing in tourism and request prosecution to inquire if there are illegalities in the reported case. Similarly, NGOs and expert groups are frequently the only ones able to understand complex spatial planning materials.

Therefore, civil society can request an assessment of the legality of the planning documents and act as a catalyst, based on which courts can block non-sustainable tourism projects. Therefore, civil society catalyses the veto function of the judiciary. Civil society's capacity to act is associated with the quality of political institutions, but I follow the literature suggesting successful engagement of the civil society is possible also in the contexts where democracy is not fully functional. However, if the judiciary is not independent, then the civil society cannot use this channel and must rely on its own devices.

*H4: Civil society helps reduce corruption and protect resources in tourism*

In addition to the civil society, I argue that, even in resource abundant countries, media has a positive effect on reducing corruption. However, the role of the media is similar to the role of the civil society. To put it clearly, the media is *de facto* not a veto point as the projects can continue without the support from the media and civil society. The media, as well as the civil society, largely relies on the public and judiciary in dealing with problematic tourism projects. Furthermore, I suggest media cannot structurally influence neither system of rent-grabbing, nor resource management, but has a role of a catalyst in engaging the public.

*H5: Free media helps in curbing corruption and in ensuring more sustainable resource use in tourism*

#### 2.6.4 Interaction: Stringency of environmental legislation

I further argue that the system of decentralized spatial planning must rely on a set of strict legislative measures defining how natural and cultural resources can be used. Based on the coevolutionary framework theoretically developed in this chapter, I suggest that political institutions influence spatial planning organization and adopt legislation. However, technical and administrative expertise drafts and implements the legislation. The stringency of legislation, therefore, lies between bureaucratic and political mechanisms and represents an interaction between the bureaucracy and the politics. In turn, decentralized spatial planning ensures the implementation of the legislation.

*H6: Stringent legislation in the field of environment, land use and resource management provides necessary formal protection for natural resources and helps in offsetting rent-grabbing in tourism development.*

This argument relies on two strands of literature: one arguing that excessive regulatory burden should be cut and, the other suggesting that spatial planning regulation and controls are crucial for ensuring sustainable resource use. My framework suggests that procedures which

control sustainable resource use should not be eliminated and that the legislation should impose controls over the resource use.

#### 2.6.5 Research sub-questions

The theoretical framework is inspired by the three overarching debates on the relationship between political institutions, development and bureaucracy. Beyond testing the role of the individual BVPs and PVPs and their interaction in curbing rent-grabbing and resource mismanagement, I explore the process through which the BVPs and PVPs developed and to which extent are the variables exogenous from each other.

The literature has so far not elaborated how well-performing bureaucracies develop, or what is the influence of the politics and political institutions on the development of bureaucratic institutions. Therefore, I probe into the historical development of BVPs and political institutions for clues that might help in building an analysis of BVPs origins through the following sub-question.

*SQ1: How are decentralization of spatial planning and legislative controls (BVPs) developed? How do political institutions and economic development shape or influence bureaucratic veto points?*

The framework has the merit of jointly researching rent-grabbing and resource management in the tourism sector. As the research on the role of individual veto points is limited and theoretically disconnected, there is no clear understanding of the relationships between individual BVPs and PVPs. Additionally, the literature provides little guidance on the relative importance of each of the suggested variables. Therefore, I also research the following question:

*SQ2: How do individual BVP and PVP variables interact or influence one another?*

Bureaucratic and Political Veto Points framework suggested for the analysis of rent-grabbing and resource management in tourism represent a novel approach. Beyond exploring the role of each of the veto points, I am also interested in associations between the veto points and how they influence and interact with each other. As this theoretical contribution includes both theory building, exploration of argument generalizability and handling of a complex context, I choose to research it through a mixed methods approach.

Therefore, I first quantitatively analyse the presented hypotheses and inquire into sub-research questions. Second, to fully understand how BVPs and PVPs develop and to investigate bureaucratic exogeneity, I engage in a comparative historical analysis of Croatia and Montenegro. Third, to investigate the role of the BVPs and PVPs both on the aggregate and the project level and to get a deeper insight into the relationships between BVPs and PVPs, I analyse the Tourism Projects Dataset.

## **2.7 Summary**

In this chapter, I have developed a theoretical framework for understanding and analysing rent-grabbing and resource use in the tourism sector, which brings to the forefront the role of the bureaucracy. However, I also overview three important debates in political science dealing with the relationships between the political institutions, bureaucracy and economic development. Based on the existing literature, I suggest a coevolutionary relationship between the three variables, political and bureaucratic institutions and economic development, which define the window of opportunity for rent-grabbing and environmental resource use.

I rely on four strands of literature to define specific bureaucratic and political veto points and their role in preventing tourism resource use pathologies. BVPs encompass a decentralized system of spatial planning paired up with technical expertise and administrative capacity that formulate and implement spatial planning and environmental legislation. However, as the

politicians adopt legislation, stringency of legislation represents and interaction between politics and bureaucracy. Political veto points (PVPs) include the vertical cohabitation and turnover in power at national and sub-national government and the judiciary. Once the window of opportunity for rent-grabbing is opened, the judiciary can engage in prosecution and punishment. While civil society and the media cannot veto rent-grabbing themselves, they can catalyse the engagement of the judiciary and the public. In the next chapter, I quantitatively investigate the hypotheses through panel data analysis. To analyse the relationship between the BVPs and PVPs, I research the data through graphical modelling.

# 3

## GENERALIZING THE FRAMEWORK

### Rent-Grabbing and Resource Use in the Tourism Sector

In the theoretical chapter, I discussed theoretical frameworks from tourism studies and resource curse literature that attempt to explain rent-grabbing and the resource use in the tourism sector. The literature review suggests several mechanisms and stakeholders which have an important effect on the resource use and rent-grabbing. To test the generalizability of the presumed mechanisms, I test the importance of legislative stringency, political constraints, civil society and media in a large-N quantitative framework. All hypotheses related to the role of Political Veto Points are testable in a large-N quantitative framework:

*H2: Turnover and vertical cohabitation increase effectiveness of spatial planning and reduce rent-grabbing and resource misuse in tourism*

*H3: The more independent judiciary is, the lower the corruptions levels are and the more sustainable natural resource management in tourism is.*



*H4: Civil society helps in reducing corruption and in protecting resources in tourism*

*H5: Free media helps in curbing corruption and in ensuring more sustainable resource use in tourism*

Due to limitations regarding the lack of data operationalizing spatial planning decentralization on a large N sample, in this chapter I tests the following hypotheses relating to Bureaucratic Veto Points (BVPs):

*H6: Stringent legislation in the field of environment, land use and resource management provides necessary formal protection for natural resources and helps in offsetting rent-grabbing in tourism development.*

Firstly, I explore the role of each BVP and PVP indicator on both dependent variables, Rent-Grabbing and Resource Use. However, I suggest that BVPs and PVPs predominantly influence resource management through rent-grabbing. Secondly, to test this model and avoid issues related to errors in the dependent variables being correlated with the independent variables, I develop a two-stage least squares estimation model. Thirdly, as the thesis pioneers the research on BVPs and PVPs, each group has several variables. To avoid issues with the dimensionality of my data, while preventing loss of information, I transform variables operationalizing BVPs and PVPs into two principal components. I use the two principal components then to test their effect on rent-grabbing and resource management. Fourthly, principal components are used as instrumental variables in a two-stage least squares estimation model. To ensure the results are not registering serial auto-correlation and to test additional variables, I employ the same analysis on cross-sectional data for 2011.

Beyond exploring the relationship between BVPs and PVPs on rent-grabbing and resource management, the thesis sets to explore the relations within the two Veto Points groups. The aim is defined through the following research sub-question:

*SQ1: What is the relationship between BVP and PVP variables? How do individual variables interact or influence one another?*

I suggest exploring this questions through graphical modelling. After exploring the association and lack of associations between BVPs and PVPs, I construct and test most parsimonious veto points model.

The chapter is organized as follows. In section one, I discuss indicators used to proxy the dependent, independent and control variables and elaborate on the problems posed by the chosen operationalization. Section two justifies the selection and presents the results of the random and fixed effects panel data models, two-stage least squares (2SLS) instrumental variables regressions, principal component regressions and 2SLS PCA models in a panel setting. An analysis of cross-sectional data is also included. Section three analyses the data through undirected Gaussian graphical models, focusing on PVP, BVP and joint models. Section six provides a summary of the findings of the statistical analysis.

### **3.1 Data**

#### **3.1.1 Dependent variables**

The indicators for dependent variables, resource use and rent-grabbing, have been collected from several data sources. Resource use is operationalized through three variables. The first two are World Economic Forum's "Sustainability of Tourism and Travel Industry" and "Quality of Natural Environment" collected from the Tourism and Travel Industry Competitiveness Report. The data is obtained from executive opinion surveys where business executives were asked "How would you assess the effectiveness of your government's effort to

ensure that the Tourism and Travel sector is being developed in a sustainable way?” and “How would you assess the quality of the natural environment in your country?” For both variables, the values range from 1 to 7, where one is the poorest score and 7 the best score. The questions were asked in 2007, 2008, 2009, 2011, 2013 and 2015.

However, Resource Use or Resource Management as is defined in the dissertation would include characteristics from both variables. While Quality of Natural Environment does not focus on tourism specific environmental quality, Sustainability of Tourism and Travel Industry also includes other aspects of sustainability such as cultural and economic, not merely environmental. To ensure use of an indicator which would better approximate Resource Use as I define it in the dissertation, a composite indicator has been created by adding the two variables and dividing the score by two. The composite variable is based only on country and time observations where data for both Sustainability of Tourism and Travel Industry and Quality of Natural Environment existed. I titled it Resource Use and set to range from 1 to 7 where 7 is the best score.

The rent-grabbing variable is operationalized with Transparency International’s Corruption Perception Index. This measure focuses on corruption in the public sector, defined as the abuse of public office for private gain. The surveys used in compiling the Corruption Perception Index tend to ask questions in line with the misuse of public power for private benefit, with a focus, for example, on bribe-taking by public officials in public procurement. The indicator relates to perceptions of the degree of corruption perceived by businesses, risk analysts, and the general public. The proxy is a continuous variable and ranges between 0 and 100, where 0 is highly corrupted and 100 is highly clean (Transparency International 2015).

### 3.1.2 Predictor variables

In the dissertation, in order to test the theoretical hypotheses, I examine the effect of three groups of variables on the outcomes observed on the dependent variables. The first group are BVPs among which I include the complexity of procedures and bureaucratic capacity. The two components are operationalized as follows.

#### 3.1.2.1 *Bureaucratic Veto Points*

To operationalize Stringency of Regulation, I use World Economic Forum's Stringency of Environmental Regulations indicator. The data is obtained from Executive Opinion Survey where the following question was asked: "How would you assess the stringency of your country's environmental regulations?". The indicator is a continuous variable where 1 is very lax and 7 denotes the world's most stringent.

World Bank's Ease of doing business includes ten categories, from which I argue Dealing with Construction Permits would be an adequate operationalization for the Complexity of Procedures. According to the World Bank, a high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. Both indicators are continuous variables set from 1 to 100 where higher numbers represent proximity to the best score in the category. To ensure easier interpretation of the interaction variables, the indicator was rescaled, from 1 to 100 where results closer to 100 indicated longer procedures.

To measure the capacity of the bureaucracy to implement resource protection legislation I use World Economic Forum's Environmental Regulation Enforcement from Tourism and Travel Industry Competitiveness Report. The data is obtained from Executive Opinion Survey where the following question was asked: "How would you assess the enforcement of environmental regulations in your country?". Environmental Regulation Enforcement is a continuous variable ranging from 1 to 7 where lowest score equals to very lax and highest to very rigorous.

Development literature suggests state capacity can be measured as the ability of the state to ensure the protection of the private property and the ability of the state to tax. Property Rights indicator from Heritage Foundation's Index of Economic Freedom has been selected as an operationalization of the bureaucratic capacity. The property rights component is an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. It measures the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. The chosen indicator is a continuous variable ranging from 0 to 100 where 0 denotes outlaw of private property and 100 full protection (Heritage Foundation 2016). To operationalize the capacity of the state to tax I use World Bank's indicator Percentage of Tax Revenues in GDP (The World Bank 2016).

#### *3.1.2.2 Political Veto Points (PVPs)*

Vertical Cohabitation and Turnover as elements of political competition are operationalized as follows. Heinisz's Political Constraints Index measures the feasibility of policy change, i.e. the extent to which a change in the preferences of any one political actor may lead to a change in government policy. The index is composed of the following information: the number of independent branches of government with veto power over policy change, counting the executive and the presence of an effective lower and upper house in the legislature (more branches leading to more constraint); the extent of party alignment across branches of government, measured as the extent to which the same party or coalition of parties control each branch (decreasing the level of constraint); and the extent of preference heterogeneity within each legislative branch, measured as legislative fractionalization in the relevant house (increasing constraint for aligned executives, decreasing it for opposed executives). The index scores range from 0 to 1, with higher scores indicating more political constraint and thus less feasibility of policy change.

I now turn to the role of the judicial branch of governance, the role of the civil society and media in dealing with resource misuse and rent-grabbing. The independence of the judiciary is operationalized through World Economic Forum's Judicial independence which corresponds to answers collected in the Executive Opinion Survey. The question is: "To what extent is the judiciary in your country independent from influences of members of government, citizens and firms?". The indicator is a continuous variable ranking from 1 to 7 where 1 denotes heavily influenced and 7 entirely independent (World Economic Forum 2015).

To operationalize the civil society's role in curbing the resource misuse and rent-grabbing I use Freedom of the World (FW)'s Associational and Organizational Right indicator. It evaluates the freedom of assembly, demonstrations and open public discussion; the freedom for the nongovernmental organization; and the freedom for trade unions, peasant organizations and other professional and private organizations. The indicator is a categorical variable and countries are graded between 0, denoting worst score and 12 denoting best score. To operationalize the individual influence of the media I use Freedom House's Freedom of the Press indicator. The press freedom index is computed by adding four Freedom House component ratings: Laws and regulations, Political pressures and controls, Economic Influences and Repressive actions. The scale originally ranges from 0 to 100 where 0 is most free and 100 is least free. To simplify the interpretation of the results, the indicator has been rescaled so that 0 indicates lowest media freedoms and 100 highest media freedoms.

### 3.1.3 Control variables

There is little previous research on the relationship between BVPs and PVPs on one hand and rent-grabbing and resource misuse in tourism sector on the other hand. Hence, as control variables, I used variables from the resource curse, state capacity and development, and tourism studies literature. The resource curse literature assumes that higher income level citizens have stronger preferences for better governance (Serra 2006). Natural logarithm of World Bank's

GDP per capita, PPP in current international dollars is used in the panel setting. Natural logarithm of Gleditsch's Gross Domestic Product per Capita in current prices is used as a control for different levels of economic development in cross-sectional data analysis.

World Bank's GDP share of the natural resource exports is included as the literature suggests countries dependent on the resource exports have higher rates of corruption and frequently face environmental issues related to resource extraction process. The alternative control variable is World Bank's fuel exports as a percentage of merchandise exports as it is argued that particularly the so-called petro economies face endemic corruption and are exposed to increased risks of large-scale environmental disasters.

Another commonly used control variable in the state capacity and development literature is the Ethno-Linguistic Fragmentation. Measures of ethnic fractionalization are a standard control variable in comparative political economy, used as a control in explaining variation in levels of cross-national economic growth, corruption and quality of governance (Driessen 2008). Roeder's Ethnolinguistic Fractionalization 1985 indicator has been selected as operationalizing variable. It reflects the probability that two randomly selected people from a given country will not belong to the same ethnolinguistic group, where the latter is defined without collapsing any sub-groups in the sources (Roeder 2001).

Tourism studies literature focusing on the growth and development of tourism specializing countries suggests using coastal length, average temperature and number of UN World Heritage Sites to control for the natural capital a country is endowed with. University of Balearic Island's Coastal Length and Average Temperature Dataset was used to operationalize natural endowments. The Coastal Length is expressed in kilometres and temperatures in Celsius degrees. World Economic Forum's Number of World Heritage Natural Sites from Travel and

Tourism Competitiveness Report has been selected to operationalize this aspect of natural capital. The analysis has included only countries with more than half a million inhabitants. The criterium is included as the so-called small island states rarely have other developmental options besides tourism and face entirely different development pathologies (Brown 1998). The descriptive statistics for the dependent, independent and control variables are outlined in Table 3-1.

Table 3-1 Descriptive statistics

	Count	SD	Min	Max
Corruption Perception	2765	21.88	4.00	100.00
Tourism Sustainability	682	0.86	1.99	6.49
Resource Use	650	0.79	2.10	6.40
Quality of natural environment	654	0.95	1.39	6.75
Construction Permit	2022	17.27	5.54	100.00
Starting Business	2322	19.05	0.04	98.53
Regulation Enforcement	778	1.05	1.40	6.40
Environmental Stringency	778	1.08	1.50	6.70
Property Rights	3374	24.21	0.00	95.00
Tax revenues	2166	8.22	0.02	65.90
Judiciary Independence	1369	1.56	1.11	35.00
Press Freedom	4410	24.41	0.00	100.00
Political Constraints	3839	0.32	0.00	0.89
Associational Rights	1929	3.80	0.00	12.00
GDP cUSD	4968	1.05e+12	0.00	1.79e+13
Total Natural Resource Rents	5136	13.76	0.00	89.22
Fuel exports	3262	26.31	0.00	99.74
Ores exports	3375	13.69	0.00	88.81
Population	3969	120763.84	15.21	1330141.25
Observations	5784			

#### 3.1.4 Data and operationalization issues

Before I proceed with hypothesis testing I reflect on some of the issues with respect to the data operationalizing the researched concepts. Three problems are evident in the operationalization of the variables. First, there are few variables readily available for the study of resource use and rent-grabbing in the tourism sector. Hence, I rely on international organization's pre-existent ready-made indicators. Secondly, even general literature on rent-



grabbing and bureaucracy capacity lacks good cross-sectional and cross-time measures of the two concepts. Thirdly, some of the indicators used are based on the opinions and perceptions of the experts, executives and population, which can be contextual and subjective. Fourthly, variables such as corruption and state capacity are rarely-changing, which potentially represents an issue in panel data analysis.

Among the variables used in the data analysis, the rent-grabbing and state capacity indicators are not specific for the tourism sector. The selection of the indicator operationalizing Rent-Grabbing in the tourism sector is problematic as there are no cross-sectional or panel data measuring illegalities in the tourism sector. However, the selected indicator, Perception of Corruption, focuses on the misuse of public power for private benefit, including both the illegal and legal schemes, which is the definition of rent-grabbing and should also capture corruption in the tourism sector. Moreover, concepts such as rent-grabbing are operationalized through the use of aggregate indicators, which are based on a combination of sources which assess the prevalence of corruption practices. The issue with such data is that its perception of the population and of the experts can be influenced by media, suggesting the possibility of confounding effects and bias.

Similar issues arise with the measurements of BVPs. Bureaucratic capacity is frequently seen as one (or main) characteristics of state capacity and is widely analysed and discussed concept (Ang 2016; Acemoglu, Johnson, and Robinson 2000; Rauch and Evans 2001; Evans 1995). In the analysis, I use Property Rights and Tax Revenues as indicators of capacity which are not specific to tourism sustainability, but other measures of bureaucratic capacities are considered as controls. Alternative panel data measures of governance include Bertelsmann Transformation Index's Effective Power to Govern, which focuses on how effectively policymakers facilitate and steer development and transformation processes, the Political Risk

Service's Bureaucracy Quality and Bo Rothstein's Quality of Governance. However, Fukuyama criticized all three indicators as they rely on the experts' opinions. State capacity or governance are not well-established concepts and are therefore poorly suited for the time series and panel data based on expert opinion as different experts may intend different things when responding to the same survey question (Fukuyama 2013).

Two approaches for measurement of general state capacity stand out particularly. Besley argues that investments in state capacity that ensure property rights and fiscal capacities are a key aspect of development. Based on this argument property rights protection is a possible operationalization of the state capacity. Another approach is to look at the tax collection (Rodgers and Weller 2014). Such operationalization is frequently used as it engages with the state's ability to collect financial resources for coercive, extractive, control and legislative functions. Both are included in the analysis as they represent standards in the literature.

Resource Use in the tourism sector is measured through two indicators based on the executive surveys. In general expert surveys are seen in the literature as the second-best option for obtaining data on latent concepts, right after surveys. As surveys imply high costs for cross-sectional studies, expert surveys are a more pragmatic way of collecting quantitative data for cross-country comparisons. However, there is a difference between reliability and agreement where reliability is concerned with the equivalence of relative ratings of experts across items, whereas agreement refers to the absolute consensus among raters on one or more items (LeBreton and Senter, 2008, p. 816). For example, the mean of the expert placement in two countries could suggest moderate levels of quality of the natural environment. However, whereas experts in one country could strongly disagree about the quality of the environment, leading to a nearly bimodal distribution spanning the entire scale, experts in another country could agree on moderate levels of natural environment quality.

Moreover, as executives assess only those countries in which they do business there is an important aspect related to the impact of national culture, also addressed as the cultural bias that may impact interviewee responses. To prevent national bias, the partner institutes are reminded to complete the survey according to guidelines and to ask the respondents to answer the survey in view of the country they are assessing based on the international comparison (Browne et al. 2015).

Finally, a drawback of the existing operationalization is the use of variables what have very little within variance. This issue is well recognized in political science as analyses frequently include measurement of slowly changing institutions. Plumper and Troeger suggest estimation of low within variance can lead to highly unreliable point estimates and may thus cause wrong inferences (Plümper and Troeger 2007). Textbooks typically recommend the Hausman-Taylor procedure for panel data with time-invariant variables and correlated unit effects (Wooldridge 2009).

Although I am aware of these issues related to the data used for the quantitative analysis, to my knowledge, they are the best option for the testing of selected hypotheses in a cross-country setting. Despite the drawbacks of the data, when all the issues are accounted for, the analysis still provides answers to questions researched in the thesis. However, understanding the drawbacks of the data suggests the need for data triangulation, making the qualitative research thus even more necessary.

### **3.2 Findings**

Data have been analyzed through four different models, each of which on the panel and cross-sectional level. Panel data includes data across 127 countries across six time points, 2007, 2008, 2009, 2011, 2013 and 2015. The structure of the panel dataset analysed in this thesis

corresponds to a micro-panel for which the time dimension is dominated by the entity dimension.

The panel dataset follows a given sample of units of analysis over time and provides multiple observations on each unit in the sample. Literature recognizes both major benefits and weaknesses of panel data. There are several obvious advantages of panel data analysis. Panel sets provide a much larger data set with more variability and less collinearity among the variables, which frequently plagues cross-section or time-series data. Additional data provide more information and allow more reliable estimates and more sophisticated models with less restrictive assumptions. Panel data also help in control for unobserved individual heterogeneity and outperform in this aspect simple cross-sectional or time-series data. Specifically, panel data allows analysis of how relations between variables change over time (Baltagi 1998).

Limits of cross-country panel data are related to heterogeneity bias. The literature suggests biased results from pooled estimators when the estimated model is presumed dynamic and homogeneous while it is static and heterogeneous. Heterogeneous estimators for panels with large  $N$  and  $T$  are thus preferred to pooled estimators. Potential problems of the panel datasets include time effects, serial auto-correlation, cross-sectional dependence, and heteroskedasticity (Beck and Katz 1995). To avoid that the relationship between a variable and itself over various time intervals influences the standard errors due to autocorrelation, I analyse the data also in cross-sectional setting and confirm that the results hold.

### 3.2.1 Panel data analysis

Panel data are most often analysed through fixed and random effects models, a choice which has generated a considerable debate in the literature. The random and fixed effects models yield different estimation results, especially if  $T$  is small and  $N$  is large as is the case with the dataset used in this dissertation. As each entity potentially has individual characteristics

which can influence the independent variables, through fixed effects models we explore the relationship between independent and dependent variables within the entity. Unlike the fixed effects model, the variation across units of analysis is considered random and uncorrelated with the predictor or independent variables included in the random models. The error term is not correlated with the independent variables which allows the inclusion of time-invariant variables among independent variables. However, in random effects model, the individual characteristics that possibly influence the predictor variables must be specified (Baltagi 1998).

To summarize, if we assume there are no omitted variables or that the omitted variables are uncorrelated with the predictors, random effects model should be used as it will deliver unbiased estimates of the coefficients, use all the data available, and produce the smallest standard errors. If there are omitted variables and these variables are correlated with the variables in the model, then fixed effects models provide a means for controlling for omitted variable bias. A specification test based on the difference between estimation results of the panel and fixed effects was developed by Hausman. The null hypothesis of the Hausman test is that the individual and time effects are not correlated with the predictors, thus random effects model should be used. If the null hypothesis is rejected, fixed effects model is preferred. The rejection of the Hausman test suggests the use of fixed effects model. To decide whether fixed or random effects modelling should be applied, after developing each equation I applied Hausman test to choose the appropriate modelling (Berrington 2006; Wooldridge 2009).

I first apply panel data regression modelling to the problem. In this chapter, I want to test the role of the individual Bureaucratic and Political Veto Points identified by the theoretical framework. Panel data regressions allow me to check the role of the individual mechanisms. Table 3-2 reports the results of the regressions with Corruption Perception and Tourism Sustainability as dependent variables.

Table 3-2 Individual BVP and PVP effects on Corruption Perception and Tourism Sustainability

	Corruption Perception 1	Corruption Perception 2	Tourism Sustainability 1	Tourism Sustainability 2
Political Constraints	2.943* (1.459)	1.485 (1.657)	-0.121 (0.194)	-0.127 (0.157)
Judiciary Independence	3.927*** (0.487)	2.037*** (0.472)	0.210*** (0.051)	0.190*** (0.042)
Press Freedom	0.237*** (0.049)	0.105* (0.055)	-0.007 (0.004)	-0.006 (0.004)
Associational Rights	-0.797** (0.267)	1.929* (1.658)	0.000 (0.022)	0.002 (0.022)
Construction Permit	-0.049* (0.022)	-0.0292 (0.025)	0.001 (0.002)	0.001 (0.002)
Env. Stringency	3.068*** (0.568)	0.515 (0.652)	0.377*** (0.057)	0.173* (0.082)
Reg. Enforcement		1.938** (0.655)		0.274** (0.083)
Property Rights	0.295*** (0.036)		0.003 (0.003)	
Log GDP cUSD	1.083*** (0.305)	2.764* (1.068)	-0.076** (0.028)	-0.071* (0.028)
Constant	-31.188*** (6.830)	-42.657 (26.090)	4.458*** (0.640)	4.247*** (0.650)
N	461	470	352	358
VCE	Robust	Robust	Robust	Robust
Country RE	No	Yes	No	No
Year FE	Yes	Yes	Yes	Yes

Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ 

For each dependent variable, there are two models, differing only with regards to measurement of bureaucratic capacity. In model Corruption one I include Property Rights as a measurement of state and bureaucratic capacity and in model two I include Regulation Enforcement instead. Besides this difference, each model includes other BVP variables - Construction Permit, and Environmental Stringency and PVP variables - Political Constraints, Judicial Independence, Media Freedom and Associational Rights.

In the Corruption model 1, all BVPs and PVPs have a statistically significant effect. Judiciary Independence and Environmental Stringency have the strongest effect. A one point increase in Judiciary independence increases Corruption Perception score by 3.927, while Environmental Stringency increases it by 3.068. Political Constraints also have a positive a statistically significant effect as a one point increase in the variable increases Corruption Perception with 2.943. A Press Freedom point increase improves the Corruption score by 0.237. Surprisingly, improvement in Associational Rights, taken as a measure of civil society, decreases Corruption Perception score by 0.797. Somewhat expectedly, Construction Permit indicator also negatively affects Corruption Perception as it decreases it by 0.049. A one point increase in Property Rights increases Corruption Score by 0.295, while one point increase in Log of GDP improves Corruption Score by 1.083.

In the Corruption model 2, all BVPs and PVPs have a statistically significant effect. Judiciary Independence, Regulatory Environmental, Associational Rights and measurement of GDP have the strongest effect. A one point increase in Judiciary independence increases Corruption Perception score by 2.037, while Regulatory Enforcement increases it by 1.938. A one point increase in Log of GDP improves Corruption Score by 2.764. In this model, improvement in Associational Rights, taken as a measure of civil society, increases Corruption Perception score by 1.929. A Press Freedom point increase improves the Corruption score by 0.237. Political Constraints and Construction Permit do not have a statistically significant effect.

The Tourism Sustainability 1 model analyzes the effect of BVPs (bureaucratic capacity measured through property rights) and PVPs on Tourism Sustainability. The only variables which remain statistically significant are Judicial Independence, Environmental Stringency and GDP. A one point increase in Judicial Independence increases Tourism Sustainability by 0.210,

in Environmental Stringency by 0.377, while an increase in logged GDP has a statistically significant, but a negative effect. One point increase leads to a 0.076 decrease in Tourism Sustainability. The results of the two models suggest that the BVPs and PVPs have a statistical effect on Corruption variable, but not on Tourism Sustainability.

The Tourism Sustainability 2 model analyzes the effect of BVPs (bureaucratic capacity measured through Regulatory Enforcement) and PVPs on Tourism Sustainability. Besides Judicial Independence, Environmental Stringency and GDP, which were statistically significant also in the Tourism Sustainability 1, in this model also Regulatory Enforcement is significant. A one point increase in Regulatory Enforcement increases Corruption Perception score by 0.274. A one point increase in Judicial Independence increases Tourism Sustainability by 0.190, in Environmental Stringency by 0.173, while an increase in logged GDP again has a statistically significant, but a negative effect. One point increase leads to a 0.071 decrease in Tourism Sustainability. The results of the two models suggest that the BVPs and PVPs have a statistical effect on Corruption variable, but not on Tourism Sustainability. Before proceeding with the analysis, I turn to post estimation tests.

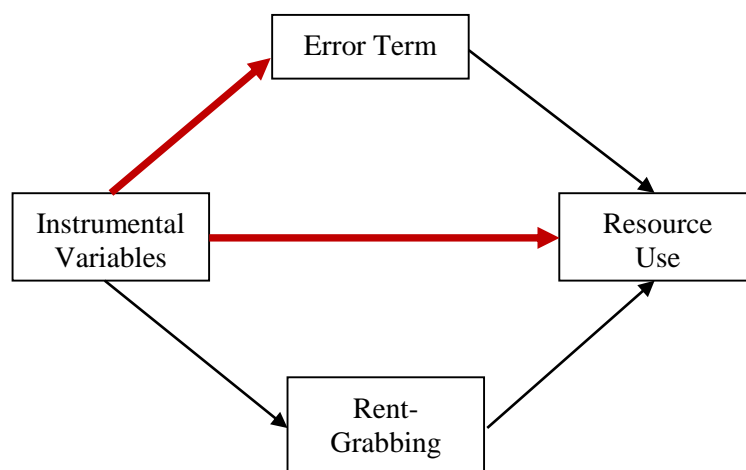
The Hausman test was administered for the four analyzed models where high p values ( $p > 0.05$ ) in three models (Corruption 1, Tourism Sustainability 1 and 2) suggested the use of Random Effects. High p values suggest unique errors are not correlated with the dependent variables, fortifying the decision to use random effects model. After each regression, I also tested if there was a need to use time fixed effects. The Prob>F was in all post-estimation tests larger than 0.05, so I fail to reject the null hypothesis that the coefficients for all years are jointly equal to zero and confirm that time fixed effects are not needed in each model. In all models, robust option was used to obtain heteroskedasticity robust standard errors.

To further the analysis and understanding of the effects of BVPs and PVPs for Rent-



Grabbing and Resource Use, I look at the partial correlation matrix which suggests a high correlation between two dependent variables, Corruption Perception and Resource Use. Table 3-7, Table 3-8, Table 3-9 outlining the correlation matrices are available in Appendix 3-1. The correlation matrix suggests a strong correlation between the Corruption Perception on one hand and Tourism Sustainability and Resource Use on the other. Based on the results of the random effects panel data analysis I suggest that the effects of the BVPs and PVPs influence Resource Use through Rent-Grabbing. To model such relationship, I use two-stage least squares (2SLS) regression analysis. Corruption Perception is the dependent or endogenous variable whose error term is correlated with the other dependent variable error term. Therefore, it is replaced with instrumental variables in the first stage of the analysis whose influence on Resource Use goes only through Corruption Perception variable.

Figure 3-1 Instrumental variable model



In regressions, there is an assumption that the value of the error terms is independent of dependent variables. In cases when two variables are endogenous, a secondary dependent variable correlated to the problematic dependent variable, but not with the error term, is used. First stage develops a set of IV estimates by using the instrument variables. In the second stage, the IV estimates from the first regression, are used in place of the actual values of the

problematic dependent variable (Wooldridge 2009). This is represented in Figure 3-1 where thick, red arrows represent associations which would violate the 2SLS model. Instrumental variables selected here are the BVPs and PVPs which are not highly correlated with the Resource Use. These are Judicial Independence, Civil Society, Media Freedom and Construction Permit score. The stringency of Environmental Regulation is highly correlated with Corruption Perception and is therefore included in the second stage. For this reason, instead of Regulatory Enforcement which is highly correlated with Corruption variable, I use Property Rights variable as a measure of state capacity. Table 3-3 provides results of two 2SLS models where control of corruption is instrumented with PVPs and BVPs.

Table 3-3 Panel data 2SLS model

	Resource use	Tourism Sustainability
Corruption Perception	0.047* (0.023)	0.076* (0.030)
Log GDP cUSD	-0.819*** (0.205)	-1.154*** (0.228)
Total natural resources rents	-0.023* (0.012)	-0.036** (0.011)
Env. Stringency	0.281** (0.098)	0.475*** (0.124)
N	107	107
VCE	Robust	Robust
SH	8.438	4.971
SH_p	0.208	0.548
Instrumented: Corruption Perception		
Included instruments: Log GDP cUSD, Natural Resource Rents, Env. Stringency		
Excluded instruments: Judicial Independence, Associational Rights, Media Freedom		
Political Constraints, Construction Permit score, Tax Revenues, Property Rights		
Standard errors in parentheses		
+ $p < 0.1$ , * $p < 0.05$ , ** $p < 0.01$ , *** $p < 0.001$		

Models differ only regarding the DV, where Model 1 uses Resource Use and Model 2 Tourism Sustainability. Instrumental variables are Media Freedom, Judicial Independence, Associational Rights, Construction Permit, Tax Revenues and Property Rights. Both models

include only countries with a population higher than half a million in which tourism contributes with more than 10% to the exports.

In the Resource Use Model, a one point increase in Corruption Perception leads to 0.047 increase in Resource Use. One point increase in Log of GDP decreases Resource Use by 0.819. The increase in percentage of Natural Resources in the export structure decreases Resource Use by 0.023. One point increase in Stringency of the Environmental Regulations, seen as operationalization of the joint effect of the BVPs and PVPs, has a positive effect and increases Resource Use score by 0.281. A high p-value of the Sargan-Hansen test (0.208) suggests the null hypothesis is not rejected, suggesting the validity of the instruments and the estimates.

In the Tourism Sustainability Model, a one point increase in Corruption Perception leads to 0.076 increase in Tourism Sustainability. One point increase in Log of GDP decreases Resource Use by 1.154. The increase in percentage of Natural Resources in the export structure decreases Resource Use by 0.036. One point increase in Stringency of the Environmental Regulations, seen as operationalization of the joint effect of the BVPs and PVPs, has a positive effect and increases Resource Use score by 0.475. High p-value of the Sargan-Hansen test (0.548) suggests the null hypothesis is not rejected, suggesting the validity of the instruments and the estimates. For both models, robust estimation was applied to ensure Sargan Hansen test reports an overidentification statistic that is robust to arbitrary heteroscedasticity.

To determine the relevant dimensions of BVPs and PVPs influencing resource use and rent-grabbing and to investigate the PVP and BVP grouping justification I turn next to principal component analysis. The reason why data is processed through PCA is condensing information from several BVPs and PVPs into two new variables without losing much information. Moreover, PCA allows teasing out important characteristics from the dataset. As some of the

variables are highly correlated, standard regression analysis can suggest confounding results. Correlation matrices are given in Table 3-7 to Table 3-9 in Appendix 3-1. Therefore, in cases when two or more variables are correlated, they represent the same information, which is included in the data multiple times. PCA allows reduction of the number of correlated variables, extraction of the principal components and subsequent replacement with a smaller set explaining largest proportion of the variance.

Low p values on Hausman test suggest the use of Fixed effects PCA model, while low values on the joint test if the dummies for all years are equal to 0 suggests the need for year effects as well. Table 3-4 outlines results of regressions where one principal component for BVPs and PVPs each has been estimated and included in the model. Principal component for BVPs has been estimated based on following variables: Construction Permit Score, Business Starting Score, Stringency of Environmental Regulation, Enforcement of Environmental Regulation, Tax Revenue and Property Rights. Kaiser-Meyer-Olkin measure of sampling adequacy is carried out as a measure of how suited the data is for PCA. The test measures sampling adequacy for each variable and for the complete model. KMO of 0.81 implies the variables are well suited. Principal component for PVPs has been estimated based on following variables: Judicial Independence, Associational Rights, Political Constraints and Media Freedom. KMO of 0.66 implies the variables are acceptable for principal component analysis. Three models are developed, each with different DV, two principal components and control variables.

The results (represented in Table 3-4) suggest BVPs have a statistically significant effect across all three models, while PVPs do not. However, PVPs' effect on Corruption Perception disappears only once robustness controls are added, implying that PVP effect on Resource Use

goes through Corruption Perception. Moreover, the analysis confirms the validity of variable grouping and analysis as BVPs and PVPs.

Table 3-4 Principal component models

2SLS Panel Data PCA (BVP&PVP) models

	Corruption Perception PC	Tourism Sustainability PC	Resource Use PC
BVP PC	1.821** (0.554)	0.383*** (0.079)	0.249** (0.077)
PVP PC	1.563 (0.966)	0.028 (0.096)	0.070 (0.108)
Log GDP cUSD	4.100** (1.298)	0.192 (0.164)	0.011 (0.120)
Total natural resource rents	-0.085+ (0.050)	-0.004 (0.005)	-0.011* (0.005)
Constant	-54.480+ (32.486)	-0.024 (4.136)	4.527 (3.040)
N	371	285	285
VCE	Cluster	Cluster	Cluster
Year FE	YES	YES	YES
Country FE	YES	YES	YES

Standard errors in parentheses

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

In the first model, in which DV is Corruption Score, a one point increase in BVP PC improves corruption score by 1.821. A one point increase in Logged GDP increases Corruption Perception by 4.1, while the increase in Natural Resource Rents decreases the Corruption Score by 0.085. In Tourism Sustainability model, a one point increase in BVP PCA variable increases Tourism Sustainability by 0.383. In Resource Use model, a one point increase in “Joint” PCA variable increases Tourism Sustainability by 0.249. One point increase in Natural Resource Rents decreases the Corruption Score by 0.011.

After each regression, I also tested if there was a need to use time fixed effects. The Prob>F was in all four post-estimation tests smaller than 0.05, so I rejected the null hypothesis

that the coefficients for all years are jointly equal to zero and confirmed that time fixed effects are needed in each model. In all three models, robustness test was used to obtain heteroskedasticity robust standard errors. However, after running modified Wald test for groupwise heteroskedasticity in fixed effect for the four models, low p-value on Chi Square test suggests the presence of heteroscedasticity.

To avoid inconsistent parameter estimation due to endogenous dependent variables, I turn to two-stage least squares model set with PVP and BVP principal components. The correlation matrix is given in Appendix 3-1 as Table 3-10. It suggests BVP PC and PVP PC variable are suited for 2SLS analysis as both are highly correlated with Corruption Variable, but not with Tourism Sustainability variable. The results of the regressions are presented in Table 3-5.

Table 3-5 Principal component 2SLS model

	Tourism Sustainability
Corruption Perception	0.155* (0.073)
Log GDP cUSD	-0.953*** (0.233)
Total natural resources rents (% of GDP)	-0.002 (0.010)
Fuel Exports	-0.001 (0.009)
N	255.000
VCE	
SH	2.815
SH_p	0.093
Instrumented: Corruption Perception	
Included instruments: Log GDP cUSD, Natural Resource Rent, Fuel Exports	
Excluded instruments: BVP PC, PVP PC	

Standard errors in parentheses

+  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

In the first model, Tourism Sustainability is dependent variable and a one point increase in Corruption Perception Score (instrumented with PC BVP and PC PVP) increases Tourism Sustainability by 0.135. In the second model Resource Use is DV and a one point increase in Corruption Perception Score (instrumented with PC BVP and PC PVP) increases Resource Use also by 0.104. One point increase in the logarithm of GDP decreases Tourism Sustainability by 0.965 and Resource Use by 0.643. Sargan Hansen test confirms the instruments are valid as the p values 0.070 and 0.340 respectively are higher than 0.05.

### 3.2.2 Cross-sectional data analysis

The same type of analysis has also been made on the cross-sectional data for years 2011, to include additional variables which are not available or suitable for panel format and to ensure the results are not registering serial auto-correlation. The results of the analysis are available in Appendix 3-2. Table 3-11 gives data summary for the year 2011. Two control variables, an indicator of Ethno-Linguistic Fragmentation and GDP per capita PPP for in 2011 USD are new variables included in the cross-sectional analysis. Table 3-12 represents results of OLS regression analysis on cross-sectional data. Also in the cross-sectional framework, Environmental Stringency, Judiciary Independence and Property Rights are statistically significant and have a positive effect on the Corruption Variable. The results support the findings from the panel data analysis suggesting the key importance of the BVPs in determining outcomes on the dependent variables. Postestimation tests, including heterogeneity test, Ramsey regression specification-error test for omitted variables, variance inflation factors for the independent variables and outliers Cook's D test, have been performed and the results revealed no violations.

The OLS regressions with instrumental variables and OLS regressions with PVP and BVP principal components suggest similar results as with panel data. To check the adequacy of the

model identified with panel data, I run a 2SLS model in which Corruption Perception is instrumentalized with BVP and PVP principal components. Table 3-6 reports the results of the 2SLS model testing whether the effect of the BVPs and PVPs on the Tourism Sustainability goes through the Rent-Grabbing.

Table 3-6 Cross-sectional data 2SLS PCA

	Tourism Sustainability	Resource Use
Corruption Perception	0.917*** (0.006)	1.014*** (0.005)
Log GDP cUSD	-0.234 (0.066)	-0.172 (0.055)
Total natural resources rents (% of GDP) WB	0.230 (0.026)	0.202 <sup>+</sup> (0.023)
Ethno-Ling Fragn.	0.107 (0.396)	-0.053 (0.341)
Sample Size	32	32
Endog	0.013	0.007
F-stat	76.747	76.747
Overid-stat	0.048	0.925
Instrumented: Corruption Perception		
Included instruments: Log GDP cUSD, Natural Resource Rent, Ethno-Ling Fragn.		
Excluded instruments: BVP PC, PVP PC		
Standardized beta coefficients; Standard errors in parentheses		
<sup>+</sup> $p < 0.1$ , * $p < 0.05$ , ** $p < 0.01$ , *** $p < 0.001$		

Similarly, as in the panel data based Table 3-5, high p values of the overidentifying restrictions test in Table 3-6 suggests the instruments are uncorrelated with the error term and none of the excluded exogenous variables should not be included in the structural equation. Low p values on endogeneity test suggest rejecting the null hypothesis that Corruption Perception is exogenous. High F statistic shows that exogenous excluded variables are correlated with Corruption Perception but uncorrelated with the error term. To summarize, the



result on the 2011 cross-sectional data give same results as the panel data analysis, rejecting autocorrelation inflated standard errors.

### **3.3 Graphical Modelling**

I now turn to graphical models to analyse associations and effects between the BVP and PVP variables that are of central importance in research of resource use and rent-grabbing. Moreover, through graphical models, I also assess the suitability of a parsimonious tourism sustainability model, including only crucial BVP and PVP variables. The following research question is directly addressed in this part:

*SQ1: What is the relationship between BVP and PVP variables? How do individual variables interact or influence one another?*

A graphical model is defined as a graph whose vertices correspond to the variables of interest, while conditional independence restrictions are represented with missing edges or arrows. Undirected graphical models are defined over a graph, whose vertices connect with lines (undirected edges), and can assist in analysing symmetric associations conditioned on all remaining variables. As opposed to directed graphical models, undirected models suggest all variables are “on an equal footing” (D. Edwards 2001). The choice to use undirected models is based on lack of research on the direction of the effects between the PVP and BVP.

Directed graphical models are illustrated with a graph whose vertices connect with arrows under the constraint that no directed cycles are present. Such models are used when representing relations of response and dependence. Graphical Models are analysed through Markov properties. Three types of Markov properties can be used to define undirected graphs: pairwise, local and global. Pairwise Markov property suggests that any two non-adjacent variables are conditionally independent given all other variables. The missing edge between the two variables

symbolizes non-adjacency. Local Markov property suggests conditional independence between all non-adjacent variables, given all neighbour variables. Global Markov property proposes how graphs including subsets of variables should be understood. It suggests that two subsets are conditionally independent of each other given the subset which separates them. A subset is said to separate if all paths between other subsets go through it. Markov property for Directed Acyclical Graphs without subsets is analogous to undirected local Markov property stating that a variable is conditionally independent of all nonadjacent variables, given all variables adjacent to it. In directed graphs, any component is conditionally independent of its non-descendant components (excluding its parent components), given its parent components.

The benefits of analysing the associations and effects through graphical models are two-fold. Firstly, I research the importance of variables which have been argued in the literature to influence the resource related rent-grabbing and sustainability patterns. Secondly, conditional independencies between the variables grouped as BVP and PVP have largely been ignored in the literature, as well as associations and effects between what are perceived as predictor and outcome variables. Graphical models offer visualisation and interpretable representation of the complex associations (Nemeth and Rudas 2013) and are thus a useful tool in bridging this gap in the literature.

Data used in GMs covers 124 world economies for the year 2011. Original cross-sectional dataset assembled for the analysis included 197 countries, but observations with too many missing data were omitted from the sample. For the analysis, I use packages `gRim`, `gRbase`, `Rgraphviz`, `qgraph`, `glasso`, `bnlearn`, `pcalg` and `ggm` packages in programme R. Two undirected graphical models are analysed in the chapter. The first model includes PVPs and rent-grabbing and resource use variables. The second model deals with BVPs and rent-grabbing and resource use variables.

### 3.3.1 PVP model

I first turn to the variables operationalizing PVPs, based on which I define undirected graphical model including PVPs and DVs and analyse conditional independences within the model. The variables included in the model are Political Constraints (PC), Media Freedom (MF), Judicial Independence (JI), Associational Rights (AR), Corruption Perception (CORR) and Tourism Sustainability (TS). The literature suggests political institutions matter in defining the outcomes of corruption and resource use in natural resource rich economies, the existing studies have failed to map out associations between various mechanisms defined as PVP group. Moreover, undirected graphical models can help in researching which of the PVP variables are crucial for curbing corruption and for ensuring sustainable tourism.

The key quantity in graphical models is the inverse of the covariance matrix. As concentrations depend on the scale on which the variables are measured, partial correlation matrix is more suitable (Højsgaard, Lauritzen, and Edwards 2012). Concentration and Partial Correlations matrices for the PVP graphical model, along with the list of the variables and used abbreviations are given in Appendix 3-3 in Table 3-13.

Three most commonly used methods for graphical model selection include stepwise selection (either backward or forward, based on AIC, BIC or significance criteria), convex optimization (based on a glasso algorithm) and thresholding procedure (D. Edwards 2001). Two models were considered for analysis of the PVP variables, both based on a stepwise backward method which considers all edges in the saturated model and deletes the edges per defined criteria. The likelihood ratio test statistic was used to test model fit of sparser model based on statistical significance in comparison to a more saturated stepwise model based on AIC criteria. The test is set up in such a way that large values of the statistic suggest rejection of the null hypothesis under which the simpler model is not fitting. In the case of the nested models

analysed here, likelihood ratio statistic, degrees of freedom and the p-value (0.081) suggest accepting the more parsimonious model selected through a stepwise backward method based on significance criteria (see Figure 3-2).

Figure 3-2 shows that edges between Tourism Sustainability (TS) and Association Rights (AR), Tourism Sustainability and Political Constraints (POLC) and Tourism Sustainability and Corruption Perception (CORR) were removed, which corresponds to the conditional independencies observed in the partial correlation matrix. Similarly, the edge between Corruption Perception and Associational Rights (AR) has also been removed.

Figure 3-2 PVP model found by stepwise selection

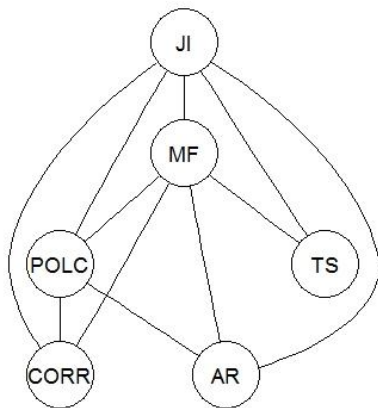
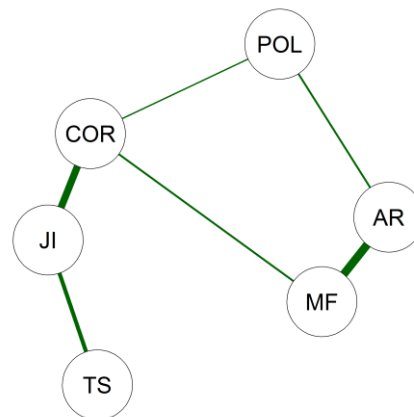


Figure 3-3 Strength of associations among PVPs



Local Markov property suggests Tourism Sustainability is conditionally independent of Associational Rights, Political Constraints and Corruption Perception given Judicial Independence and Press Freedom. The lack of relationship suggests an important role of the Judicial Independence and Press Freedom as variables which mediate between Corruption Perception and Tourism Sustainability. The model in Figure 3-2 clearly illustrates the relevance of the Judicial Independence and Media Freedom given which Tourism Sustainability is conditionally independent given all other variables. While literature assigns an important role to political checks, the model shows an association between Political Constraints and

Corruption, but the edge between Tourism Sustainability has been deleted, confirming the hypothesis that there is no association between Political Constraints and Tourism Sustainability. While the literature suggests the importance of the local community (AR) in ensuring sustainable tourism, based on Figure 1, I suggest that Tourism Sustainability is conditionally independent of Associational Rights given Media and Judiciary variables.

The analysis suggests the importance of Media Freedom as it is both associated with Tourism Sustainability and Corruption Perception. Moreover, Media Freedom is associated with all the BVP variables. This is surprising as the literature frequently excludes media from relevant variables. However, a more careful analysis of Figure 3-3 (see above) displaying the strength of the associations stronger than 0.15 in the partial correlation matrix, shows that the association between Tourism Sustainability and Media Freedom, although statistically, it is not as important in the PVP group model. Figure 3-3 was made in the qgraph package, where I expressed the strength of the association with thickness of the edges, have coloured positive correlations in green and specified weighted version of Fruchterman and Reingold algorithm to place strongly correlated nodes closer.

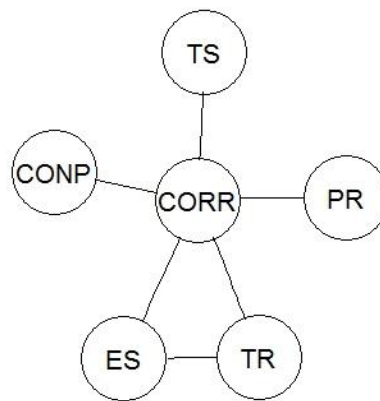
Figure 3-2 suggests that Corruption Perception is conditionally independent of Tourism Sustainability and Associational Rights given Media Freedom, Judicial Independence and Political Constraints. However, a detailed look at Figure 3-3 advises a more nuanced interpretation, where most of the PVP association (Associational Rights, Media Freedom, Political Constraints) “goes through” Corruption Perception and Judicial Independence.

### 3.3.2 BVP model

I now turn to graphical model over BVPs and DVs. The variables included in the model are Construction Permit (CONP), Environmental Stringency (ES), Property Rights (PR) and Tax Revenues (TR). Bureaucratic capacity as the ability of the bureaucracy to handle

administrative tasks is operationalized through PR and complexity of the procedures, as a veto against rent-grabbing through CONP. The stringency of Environment operationalizes a result of bureaucratic capacity and political constraints, while TR represents frequently used measures of state capacity in the literature. All the variables are continuous. Concentration and partial correlations matrix are given in Table 3-14 in Appendix 3-3. Model fit of the BVP undirected graphical model was assessed through likelihood ratio test where high p-value (0.136) suggests accepting a model based on backward stepwise model selection procedure using BIC criteria (see Figure 3-4).

Figure 3-4 BVP model found by backward stepwise selection using BIC criteria



The graph clearly shows the importance of Corruption – Tourism Sustainability association. Edges between Tourism Sustainability and following variables, Environment Stringency, Tax Revenues, Property Rights and Construction Permit, have all been deleted implying Tourism Sustainability is conditionally independent of all BVP variables given Corruption Perception. Construction Permit is conditionally independent of Property Rights given Corruption variable. Graphical model in Figure 3-4 also displays associations between Environment Sustainability, Tax Revenues and Corruption Perception, where Environmental Stringency is conditionally independent of Property Rights, Tourism Sustainability and Construction Permit given Tax Revenues and Corruption Perception.

### 3.3.3 Joint PVP and BVP model

The analysis of the panel and cross-sectional data regressions suggests the importance of Bureaucratic Capacity (BVPs), measured through Property Rights and Judicial Independence (PVPs) as key variables. The two variables are thus included in the most parsimonious model aimed at forwarding the analysis of how BVPs and PVPs intertwine and influence rent-grabbing and resource use. I also add Environment Stringency to this model as another key variable from regression analysis which operationalizes the joint outcome of BVPs (Bureaucratic Capacity) and PVPs (Political Constraints). To better understand the effects between the variables, joint PVP and BVP model is defined as directed graphical model. Based on the findings of previous research suggesting the importance of GDP as a control variable in regression analysis, I defined two models. Countries were split into two groups, first including 74 countries which World Bank classifies as the so-called High-Income Economies with GDP per capita (Atlas method, GDP per capita PPP) higher than 12,450 USD, and second with 50 countries where GDP is lower. Table 3-15 in Appendix 3-3 provides concentration and partial correlations matrix.

Two directed graphical models, presented in Figure 3-5 (Lower-Income Countries) and Figure 3-6 (Higher Income Countries), were defined to study asymmetric relations of response and dependence. Likelihood ratio test statistic and high p values of 0.833 for Lower-Income Countries and 0.247 for Higher Income Countries graphical model suggest model fit of the chosen models.

Based on Markov properties, Lower-Income Countries model yields that Tourism Sustainability is conditionally independent of Corruption and Property Rights given Environmental Stringency and Judicial Independence. Simultaneously, Higher Income Countries model suggests that Tourism Sustainability is conditionally independent of Property

Rights given Environmental Stringency, Judicial Independence and Corruption Perception. In both subsamples, the effect of the Property Rights as a measure of Bureaucratic Capacity is not direct on Tourism Sustainability, however, it can have an indirect effect through Corruption, Judicial Independence and Environmental Stringency. The model presented in Figure 3-5 for Lower-Income Countries also yields that Judicial Independence is conditionally independent of Environmental Sustainability given Property Rights and Corruption, while the model for Higher Income Countries given in Figure 3-6 suggests conditional independence between Judicial Independence and Property Rights given Corruption Perception. The conditional independencies are defined and written down as follows:

$$TS \perp CORR, PR \mid JI, ES$$

$$JI \perp ES \mid PR, CORR$$

$$TS \perp PR \mid JI, ES, CORR$$

$$JI \perp PR \mid CORR$$

Figure 3-5 Joint PVP and BVP LIC Model

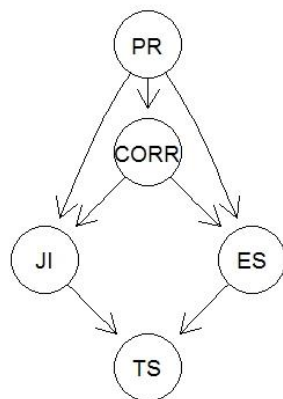
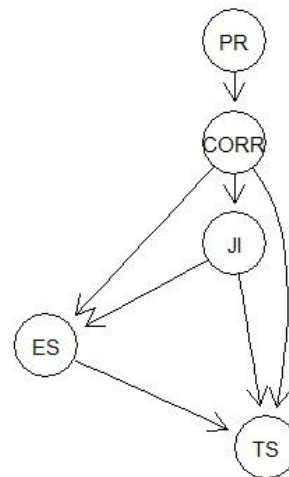


Figure 3-6 Joint PVPs and BVPs HIC Model



### 3.4 Summary

This chapter situates the study of rent-grabbing and of resource misuse in tourism sector within Bureaucratic and Political Veto Points. It inquires mechanisms which prevent corruption and assist sustainable resource use. Studying these relations is important as tourism represents a frequently targeted developmental tool. However, while existing research suggests that



tourism growth increases GDP, it also ensures enrichment of the elites at the expense of destroying natural resources.

The regressions suggest that variables identified as BVPs and PVPs influence Corruption Perception, which defines outcomes on Tourism Sustainability. PVPs' and BVPs' principal component Analysis suggests that BVP component has a statistically significant effect on Corruption Perception, Tourism Sustainability and Resource Use variables. The 2SLS model, in which Corruption Perception was instrumented with principal components of BVPs and PVPs, confirms that the association between BVPs, PVPs and Tourism Sustainability runs through Corruption Perception variable.

Through graphical modelling, I identified the most important associations and conditional independencies between and within Political and Bureaucratic Veto Points. The PVPs graphical model suggested conditional independence of Tourism Sustainability from Corruption and all PVP variables, given Judicial Independence and Media Freedom. While necessary for model fit, further analysis showed that the association between Tourism Sustainability and Media Freedom is relatively weak, further strengthening the assumption that Judiciary is the crucial component in ensuring Tourism Sustainability. Application of local Markov Property on BVP graphical model yielded Tourism Sustainability's conditional independence from all BVP variables, given Corruption Perception.

After analysing the associations within undirected models, I defined two directed graphical model of the most important PVP and BVP variables. By splitting the sample of countries to high- and lower-income economies, two sets of conditional independencies were defined. In both subsets, Property Rights (as operationalization of Bureaucratic Capacity) directly affected the Corruption variable. Corruption variable had in both models a direct effect

on Judicial Independence and Environmental Stringency. In Lower-Income Countries, Property Rights also had a direct effect on Environmental Stringency and Judiciary, suggesting that the capacity of bureaucracy can have a wider role than in more developed economies. Moreover, Judicial Independence and Environmental Stringency are particularly important in Lower-Income Countries, where the corruption variable does not have a direct effect on Tourism Sustainability.

The chapter allows generalization of the hypothesized influence of the BVPs and PVPs and gives some insight regarding the relationship between individual variables. However, in-depth qualitative cases study comparison is a more appropriate methodological approach to testing my hypotheses in a complex, real context. In the subsequent chapter, I use the cases of Croatia and Montenegro as two tourism-dependent countries to draw out the relationship between the BVP and PVP mechanisms. Particularly, I focus on the over-time relationships between political and bureaucratic institutions and development.

### Appendix 3-1 - Panel Data Analysis Tables

Table 3-7 Matrix of dependent variables

	Corruption Perception	Resource Use	Tourism Sustainability
Corruption Perception	1		
Resource Use	0.702***	1	
Tourism Sustainability	0.534***	0.860***	1

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 3-8 BVPs correlation matrix

	Corruption Perception	Tourism Sustainability	Property Rights	Construction Permit	Env. Stringency
Corruption Perception	1				
Tourism Sustainability	0.527***	1			
Property Rights	0.920***	0.505***	1		
Construction Permit	-0.486***	-0.329***	-0.444***	1	
Env. Stringency	0.808***	0.576***	0.753***	-0.445***	1

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 3-9 PVPs correlation matrix

	Corruption Perception	Tourism Sustainability	Press Freedom	Judiciary Independence	Associational Rights	Political Constraints
Corruption Perception	1					
Tourism Sustainability	0.520***	1				
Press Freedom	0.664***	0.224***	1			
Judiciary Independence	0.871***	0.650***	0.518***	1		
Associational Rights	0.506***	0.109*	0.911***	0.343***	1	
Political Constraints	0.493***	0.0889	0.684***	0.325***	0.689***	1

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 3-10 Principal component correlation matrix

	Corruption Perception	Resource Use	Tourism Sustainability	BVP PCA	PVP PCA
Corruption Perception	1				
Resource Use	0.704***	1			
Tourism Sustainability	0.478***	0.853***	1		
BVP PCA	0.924***	0.732***	0.516***	1	
PVP PCA	0.719***	0.429***	0.200***	0.688***	1

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

### **Appendix 3-2 - Cross-sectional data analysis**

Table 3-11 Cross-sectional data summary

	Count	SD	Min	Max
Corruption Perception	179	20.90	9.83	94.63
Sustainability of tourism and travel industry	139	0.85	2.06	6.25
Resource Use	139	0.82	2.40	6.40
Quality of natural environment	139	0.98	2.10	6.75
Construction Permit	183	17.05	6.02	100.00
Starting Business	183	18.67	0.05	96.44
Reg. Enforcement	139	1.08	1.80	6.40
Env. Stringency	139	1.07	1.90	6.60
Judiciary Independence	142	1.33	1.65	6.73
Press Freedom	197	23.77	3.00	90.00
Political Constraints	165	0.31	0.00	0.89
Associational Rights	193	3.81	0.00	12.00
Property Rights	179	23.79	5.00	95.00
Total natural resources rents	214	14.95	0.00	69.36
Population (log it)	215	1.29e+08	9844.00	1.34e+09
Tax revenue	127	6.96	0.02	45.34
GDPPC PPP 2011 USD	182	18963.77	617.15	134117.43
Etho-Ling Fragn.	143	0.28	0.00	0.98

Table 3-12 Cross sectional data OLS (2011)

	Corruption Perception	Tourism Sustainability
Env. Stringency	0.256*** (1.183)	0.535*** (0.117)
Construction Permit	-0.021 (0.065)	-0.154+ (0.005)
Press Freedom	0.039 (0.051)	-0.123 (0.005)
Judiciary Independence	0.139* (1.036)	0.284 (0.112)
Political Constraints	0.026 (3.036)	-0.115 (0.301)
Property Rights	0.468*** (0.081)	0.133 (0.008)
GDP per capita PPP	0.124** (0.000)	-0.250+ (0.000)
Ethno-Ling Fragn.	-0.026 (2.461)	0.078 (0.226)
N	102	102
VCE	robust	robust

Standardized beta coefficients; Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

**Appendix 3-3 - Graphical Models**

Table 3-13 Concentration matrix and partial correlations matrix

		Label	CORR	TS	JI	MF	POLC	AR
DVs	Corruption Perception	CORR	1/100	0	-15	0	-11	1
	Tourism Sustainability	TS	-2	258/100	-124	1	59	-1
PVPs	Judicial Independence	JI	74	43	316/100	-3	87	18
	Media Freedom	MF	24	-5	11	2/100	-5	-8
	Political Constraints	POLC	20	-7	-10	8	2492/100	-86
	Associational Rights	AR	-8	1	-14	84	23	57/100

Concentration Matrix is in the upper triangle and Partial Correlations Matrix in the lower triangle

Table 3-14 BVP model concentration matrix and partial correlations matrix

		Label	CORR	TS	CONP	ES	PR	TR
DVs	Corruption Perception	CORR	3/100	-10	0	-8	-2	0
	Tourism Sustainability	TS	35	310/100	0	-67	5	4
PVPs	Construction Permit	CONP	-17	-1	1/100	0	0	0
	Environmental Stringency	ES	24	19	2	417/100	-8	8
	Property Rights	PR	75	-19	-11	27	2/100	0
	Tax Revenues	TR	21	-14	25	-26	10	2/100

Concentration Matrix is in the upper triangle and Partial Correlations Matrix in the lower triangle

Table 3-15 Joint directed model concentration matrix and partial correlations matrix

	High-Income Countries (HIC)					Lower-Income Countries (LIC)				
Label	COR	TS	JI	ES	PR	COR	TS	JI	ES	PR
	R					R				
COR	5/100	0	-8	-18	-2	3/100	-2	-11	-10	-1
R										
TS	0	398/10	-116	-244	-2	9	266/10	-72	-48	1
		0					0			
JI	21	32	329/10	-103	3	40	26	285/10	-5	-3
			0					0		
ES	33	49	23	627/10	8	32	15	2	375/10	-4
				0					0	
PR	56	8	14	-24	2/10	65	-6	12	15	2/10
					0					0

Concentration Matrix is in the upper triangle and Partial Correlations Matrix in the lower triangle

# 4

## PARTIAL BUREAUCRATIC EXOGENEITY

### A Story of Coevolution in Croatia and Montenegro

One of the questions the thesis aims to answer is how bureaucratic and political institutions develop and how they influence each other over time (research sub-question 1). Moreover, I research how political and bureaucratic institutions handle economic changes, such as resource booms and busts. In-depth qualitative historical analysis helps discern the coevolutionary processes. Origins of the BVPs and PVPs are traced through historical analysis of spatial planning expertise and political competition in four time periods: socialist Yugoslavia (1960-1990), transition during Yugoslav wars (1991-2000), the tourism boom of the 2000s (2000-2010) and the economic crisis effect period (2010-2016).

I develop two arguments. Firstly, I show how Bureaucratic Veto Points (BVPs) are partially exogenous to the Political Veto Points (PVPs), updating the existing understanding of politics, bureaucratic capacity and their importance for the development. Secondly, I show how decentralized planning and stringent legislation, which are the key variables in preventing rent-grabbing and ensuring resource protection, developed in Croatia and not in Montenegro. The



chapter adds to the theoretical debate on the relationship between bureaucratic capacity and political competition by suggesting a coevolutionary pattern in which bureaucratic expertise develops mechanisms set to protect natural resources.

In this chapter, I explain the most similar cases selection in Mill's method of difference. Despite tourism dependence, reliance on natural resources, Yugoslav heritage, transition and war effects which the two countries share, they differ in rent-grabbing and resource misuse outcomes. To explain this divergence, I trace the development of BVPs and PVPs through four historical periods. As the historical analysis is partially informed by qualitative interviews. I explain my interviewing methodology in detail in this chapter.

Based on the analysis, I suggest that spatial planning legacy in Croatia was nurtured within Yugoslav planning traditions, while Montenegro developed close to none domestic expertise in urbanism and spatial planning. Moreover, at the beginning of the 1990s, Croatia was invested in the process of state-building which led to the adoption of a fragmented and decentralized system of governance, while Montenegro centralized resource management. This led to an institutional divergence in the spatial planning system, but the lack of economic incentives during the war-influenced transition ensured the preservation of the resources. This chapter covers these two periods of historical analysis, socialism and transition, in which coevolutionary development of the bureaucratic, political and market institutions led to differences in the quality of institutions, but has not yet resulted in significant differences in rent-grabbing and resource management.

The chapter is organized as follows. In section one, I show how I apply the principles of Mill's method of difference in the comparative analysis of historical paths of Croatia and Montenegro, as the two most similar cases. I argument why the two cases are suitable for extending resource curse theory to the tourism sector. In section two, I describe my interviewing

methodology. In section three, I explain how the system of spatial planning in combination with socialism influenced rent-grabbing and resource misuse. Section four investigates how the introduction of the market economy and democracy influenced spatial planning expertise and capacities. Section five summarises the chapter.

#### ***4.1 Comparative Case Study Analysis***

The qualitative analysis compares two most similar cases. For an in-depth analysis of the rent-grabbing and resource misuse in the tourism sector, I selected two case studies which have a significant share of tourism in GDP and boast rapid sectoral growth. Microstates and small island economies are excluded from the selection as they have limited alternative developmental options and face different developmental pathologies (Brown 1998). In 2011, Croatia had the second highest share of tourism in GDP in the world and its neighbour Montenegro had the fastest growing tourism sector in the world. In the period between 2000 and 2013 for which data is available for both countries, Croatia had, on average, 25 and Montenegro 16% tourism participation in GDP. Moreover, in the same period, Montenegrin tourism sector grew by an astonishing 96%, while Croatian tourism fell only slightly behind with a 71% growth.

In analysing the difference between the two countries and in collecting the data on specific tourism projects, the dissertation also relies on media accounts. A list of the media outlets used in this dissertation is provided in Appendix 4-1 in this chapter. In both countries, tourism is widely considered to be the most important economic sector. Beyond statistical indicators, this is also visible in everyday life as media, investors and political parties overstate the importance of tourism projects and represent each as the most luxurious, most prestigious and largest tourism investment (Plamenac 2014; Biznis Plus 2014; Fabrio 2011; Jutarnji List 2013; Luković and Babović 2014; Radić 2011; Portal Analitika 2014). The benefits of the projects

are frequently exaggerated, advertise thousands of jobs and guarantee diversification of the tourism offer (Lasić 2010).

Such emphasis on tourism and its importance for the local and national economy leads in turn to public criticising of each factor preventing immediate growth and development of the tourism industry. Bureaucracy is consistently portrayed in the media as corrupt and inefficient (see e.g. Poslovni.hr 2010; Business.hr 2010), while the political elites who do not unconditionally support investors are characterised as anti-development elements (Zemunović 2016; SEEbiz 2013b). The two countries share the common history in the pre-WWII Yugoslav states<sup>6</sup> and in the post-WWII socialist Yugoslavia, a simultaneous transition to market economy and have both been affected by the Yugoslav wars. This is important as socialism, the transition to democracy and market economy, as well as armed conflicts, have an influence on the development of spatial planning, political competitiveness and on the tourism sector.

Both countries primarily rely on abundant natural and cultural resources for attracting tourists. The natural, pristine environment is the greatest selling point for both economies, which can be traced back to the Yugoslav planning traditions (Kobašić 1987; Kobašić 1981; Travis 1980). “Mediterranean as it once was” was a well-known slogan which represented Croatia in international tourism marketing campaigns (CroatiaWeek 2014). It depicted Croatia as the last part of the Mediterranean Sea which has not been layered in concrete, covered in real estate apartments and environmentally compromised for the future generations. Similarly, Montenegrin advertising slogan at the same time promoted the “Wild Beauty,” suggesting that Montenegro boasts a similar wild, pristine nature. However, despite these similarities, Croatia

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<sup>6</sup> Kingdom of Serbs, Croats and Slovans (1918-1929) and Kingdom of Yugoslavia (1929-1945)

was more successful in preventing tourism rent-grabbing which in Montenegro led to widespread resource waste.

For Montenegro, Julian Braithwait, a member of the British diplomatic mission in Montenegro said: Every time I come to Montenegro, two things take my breath away: the fantastic beauty of the place and the fantastic pace of its destruction (Braithwait 2008).<sup>7</sup> His statement sums up well the outcomes of tourism development in Montenegro in the last decade and a half. Under the pretence of developing tourism, Montenegrin political elites have unfavourably traded valuable non-urban coastal land. The coastal belt was under tremendous pressure due to the fast pace of urbanization and development of various types of accommodation capacities, mostly apartments for the market. The urbanisation and development of tourism capacities are so widespread that Montenegrins colloquially say: *If you see a free spot, build a hotel* (Orešić 2011). The media, NGOs and foreign diplomatic missions further claimed the profits were distributed among members of the dominant party DPS and colluding businessmen and criminals (see e.g. M. Babović 2012; MANS 2013b; Plamenac 2014c; Plamenac 2016d).

In Croatia, the coast was better protected. In comparison to Montenegro, the media focuses on the phenomenon of apartmanisation – construction of blocks of hotels and apartments on the coastline (Borovečki 2008; Lasić 2010; Portal Oko 2012). However, instead of speculating about the negative effects of the rent-grabbing the media criticises the ruthless jaws of bureaucracy which prevent the realization of tourism projects that can save the local economy and provide thousands of jobs (Poslovni.hr 2010; Zemunović 2016; Banka.hr 2016; Filipović 2013; Business.hr 2010).

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<sup>7</sup> Montenegrin media have reported his statement in Montenegrin language as “Svaki put kada dođem u Crnu Goru, dvije stvari mi oduzmu dah. Fantastična ljepota mjesta i to kako se brzo uništava.”

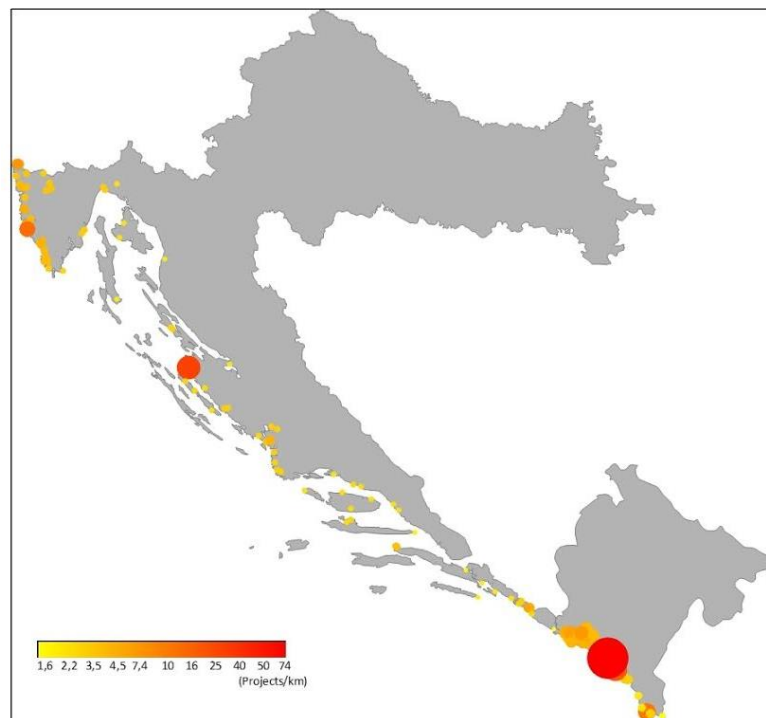
The differences between Croatia and Montenegro can also be expressed numerically. Despite similar starting points, Montenegro, particularly the coastal area, with the tourism capital in the Budva municipality, went through an urban expansion of tourism capacities. The analysis of the spatial plans and of the urbanization patterns from 2011 orthoimages indicates that the construction areas in Montenegro are extremely oversized in relation to the number of population and overall tourism demand. The share of construction areas of the six coastal municipalities is 15% in Montenegro, while the share of the construction areas in Croatian coastal counties, which have a similar population density, ranges between 4% (in Dubrovnik-Neretva county) to 7% (in Split-Dalmatia county) (Government of Montenegro 2014).

Even a superficial reading of Montenegrin daily newspapers and the comparison with Croatia gives an impression that land urbanisation in coastal areas in Montenegro is fuelled by rent-grabbing and vested interests. The differences between Croatia and Montenegro is further confirmed through interviews with experts who worked on tourism projects in both countries. One of the interviewees described this perspective by saying: *In Montenegro, in tourism, everything is corruption* (Interview 4).

This is particularly true for the area of the Budva municipality, which became a synonym for resource devastation and corruptive schemes and inspired a colloquial term *budvanizacija* – particularly concentrated and corruptive urbanization in the Budva area (CDM 2013). Along the narrow coastal belt, numerous construction projects rose without permits and in an obvious mismatch with the existing traditional architecture (Plamenac 2014a; Lajović 2014a; MANS 2012e). Dozens of land sale deals affected Budva, and in 2016 the entire leadership of the municipality was prosecuted for the organized crime and harming the local budget (Plamenac 2016d). Several large tourism projects, such as Luštica, led to the urbanization of large pristine landscapes across several Montenegrin coastal municipalities

(Vijesti Online 2013a; Luković and Babović 2014; MANS 2013e). Figure 4-1 represents the density of projects per kilometre across the Croatian and Montenegrin coast. Larger circles and darker colours represent higher density. It is visible that the area around Budva has much higher project density than any area on the Croatian coast, while the area of Boka bay can be compared to the area of Istria. Other parts of Croatia have a relatively low project density.

Figure 4-1 Tourism project density in Croatia and Montenegro



Source: Author, based on Tourism Project Dataset

More importantly, the density of the projects reflects how resources are misused. I now turn to other outcomes of the tourism development, which links tourism as a sector and the chosen cases to the paradox of plenty.

#### 4.1.1 A vicious circle of debts

Montenegrin tourism capital Budva has the largest municipal debt in Montenegro. In 2016, Budva had an EUR 66,7 million debt, namely almost a half of the EUR 143 million debt owed by all Montenegrin municipalities together (Government of Montenegro 2017). This level of

debt is surprising given that the municipality of Budva is amongst the wealthiest municipalities in the country. However, to ensure liquidity and salaries for the public employees, as well as enrichment of the chosen elites, its leadership continuously relies on tourism related incomes, such as the sales of land and communal infrastructure fees (Morrison 2011; CDM 2013).

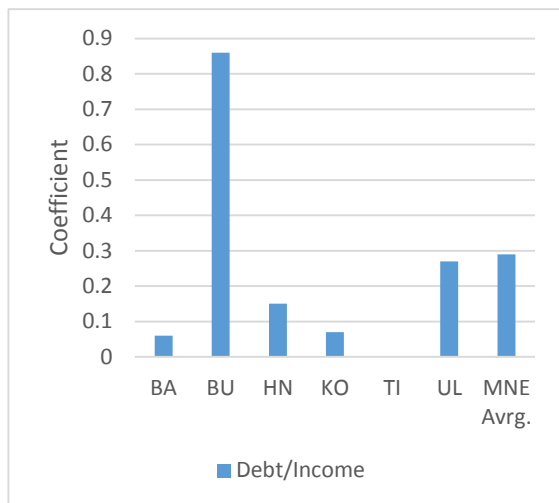
In line with natural resource curse paradigm, an area rich in natural beauties, instead of blossoming, paradoxically falls into a vicious circle of debts. This is the case of Montenegro. According to Organized Crime and Corruption Report Project (OCCRP), in the 2000s, the sales of the non-urban land began and the political leadership justified the sales with the need to pay debts and salaries to the municipal employees. However, after a spree of municipal-owned land sales, the municipality got more and more indebted as leadership engaged in corruptive schemes with the profits. For example, in the case of Topliš hill aqua park, the municipality agreed to serve as a guarantor for a tourism project which resulted in profits for the colluding elites. In the end, the project was never realized and was eventually harmful to the municipality and taxpayers who paid the bill (OCCRP/CIN 2012).

Three significant corruption affairs, Zavala, Košljun and Organized Crime Group Budva, occurred in Budva and were prosecuted by the Montenegrin legal system. All three affairs included insider information-based land sales of non-urban land and subsequent urbanization. Through such schemes, the leadership of Budva municipality used tourism for private enrichment at the expense of the municipal budget. The cases of Zavala and Organized Crime Group Budva will be analysed in detail in the judiciary section of Chapter 7.

Figure 4-2 plots the debt over income coefficient across six Montenegrin coastal municipalities in 2012. Budva stands out as the most indebted municipality, even when its high income is considered. With a debt to income ratio of 0.86, it surpasses the Montenegrin

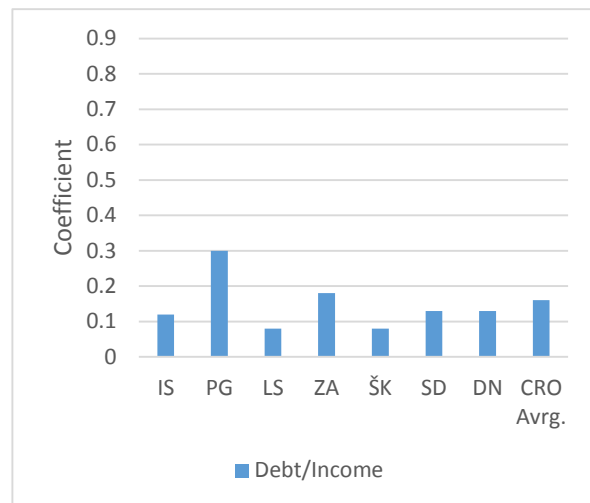
municipal average (0.29) by three times. I connect this outcome directly to the so-called paradox of plenty. All other coastal municipalities are under Montenegrin average, the closest to it being Ulcinj with 0.26. Herceg Novi's debt over income coefficient of 0.15 is twice under the national average, while Bar with 0.07 and Kotor with 0.07 have the lowest coefficients. Municipal abbreviations used in the figure are listed in Table 6-2 in Appendix 6-1.

Figure 4-2 Debt over income coefficients across Montenegrin coastal municipalities



Source: Author based on Moj Grad Dataset (Institut Alternativa 2017)

Figure 4-3 Debt over income coefficients across Croatian coastal counties



Source: (Institut za javne financije 2014)

Figure 4-3 shows that in 2013 on the same measurement scale all Croatian coastal counties had much lower debts over income ratio. Primorje-Gorski Kotar with a 0.3 coefficient and Zadar with a 0.18 coefficient stand out as being above the Croatian county average of 0.16. Split-Dalmatia and Dubrovnik-Neretva with 0.13 are under the average, as well as Istria with 0.12 debt to income ratio. The lowest coefficient of 0.08 is recorded in Lika-Senj county. Moreover, the most indebted counties are not the most touristified Istria and Dubrovnik-Neretva. County abbreviations used in the figure are listed in Table 6-1 in Appendix 6-1.

The comparison of the two countries shows that Montenegrin municipalities are significantly more indebted. Most indebted county, Primorje-Gorski Kotar has equal debt over



income coefficient as Montenegrin average and three times lower than Budva. I do not have all relevant control variables to establish causal inference between resource abundance, poor controls and debt levels. However, this causality will be further researched in the following chapters. Another resource curse mechanism is public employment, as one of the favourite ways to distribute rents (Robinson, Torvik, and Verdier 2006; Auty 2000). I now turn to this mechanism.

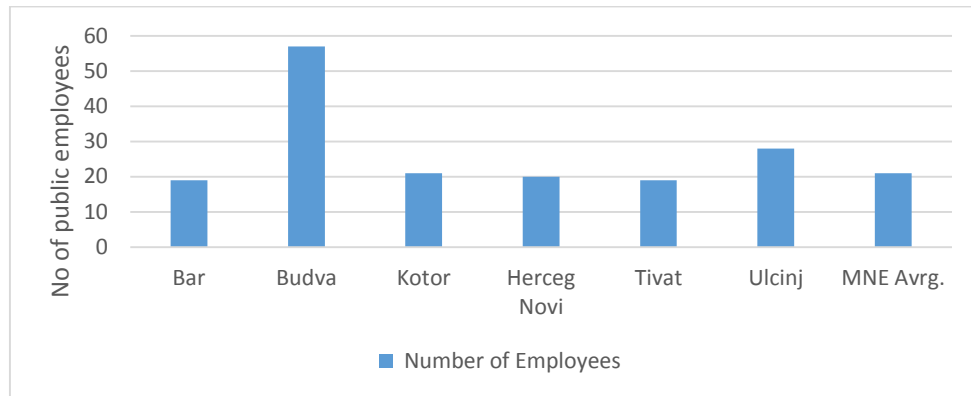
#### 4.1.2 Distributing rents through public employment

Media and NGOs in Montenegro clearly suggest that public employment is one of the mechanisms through which dominant party DPS rewards its members and ensures loyalty in the municipalities (Institut Alternativa 2014b; MANS 2016b). During my interviews in Montenegro, several of the interviewees suggested that despite corruption scandals DPS stays in power as in many families at least one member is employed in public offices (Interview 19, 22, 23, 36). To ensure the employment of their kin, people vote for DPS which has dominated public offices since the 1990s. Media and NGOs suggested that Svetozar Marović, until recently the second most powerful person in Montenegro, organized all the schemes through family and personal connections hired in Budva public offices. In 2015, during prosecution of the affair Organized Crime Group Budva, several members of Marović's family, as well as himself were arrested and charged with damaging the municipal budget. The case will be described in detail in Chapter 7 when describing the role of the judiciary in preventing rent-grabbing.

While hiring in public offices is a widespread strategy for ensuring political loyalty in the entire Montenegro, tourism capital Budva again surpasses even Montenegrin standards. Figure 4-4 outlines the number of municipal employees per one thousand inhabitants. Budva hires 57 municipal employees, almost three times more than the Montenegrin average of 21 employees per 1000 inhabitants. Besides Ulcinj, which hires 28 employees, other municipalities gravitate

to Montenegrin average with Kotor 21, Herceg Novi 20 and both Bar and Tivat 19 employees per 1000 inhabitants.

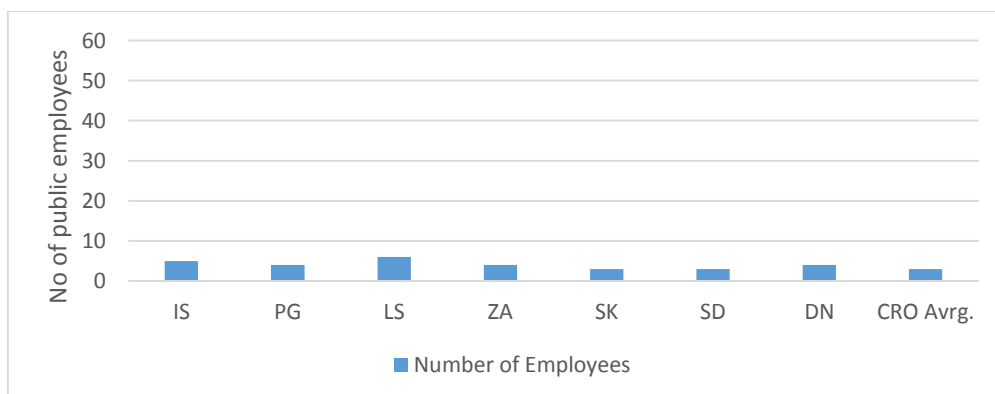
Figure 4-4 Number of municipal employees on 1000 inhabitants in Montenegro



Source: (Institut Alternativa 2014b)

In comparison, while certainly present, public employment is not the most appealing mechanism for ensuring loyalty in Croatia. Nevertheless, besides Šibenik-Knin and Split-Dalmatia, all coastal counties hire more public employees than the average number for Croatia. However, the number of employees per 1000 inhabitants in Croatian coastal municipalities does not come even near to Montenegrin statistics. Figure 4-5 represents the number of public employees per 1000 inhabitants on the same scale as represented for Montenegro.

Figure 4-5 Number of county employees on 1000 inhabitants in Croatia



Source: Author's calculation based on Ministry of Finance, Local Budgets Data (2016) and Croatian Bureau of Statistics (2012)

The number of public employees is the highest in Lika-Senj and Istria, at 6 and 5 per 1000 inhabitants. This is still much lower than Montenegrin average and ten times less than Budva. Zadar, Primorje-Gorski Kotar and Dubrovnik-Neretva with 4 employees per 1000 inhabitants are still above the Croatian average of 3 employees per 1000 inhabitants.

This statistic clearly indicates the difference between Croatian and Montenegrin tourism centres. Public employment is a widely-used mechanism for ensuring loyalty. Montenegrin tourism centre Budva has three times as many public employees as the Montenegrin average. In Croatia, most of the tourism projects were recorded in Istria. Even through public employment in Istria surpasses the national average, it is neither the highest among coastal municipalities nor can it be compared with the size of the public sector in Montenegro. To understand these diverging outcomes, I trace the historical developments of the bureaucratic and political veto points. However, to fully reconstruct the events and coevolution between bureaucracy, politics and economic development, I rely in part on qualitative interviews. In the following section, I discuss interviewing methodology and the use of data acquired through the interviews.

## **4.2 Interviews**

To understand the historical relationship between politics, bureaucracy and economic development, I complemented the available secondary data, such as archival materials, spatial plans, expert reviews and statistics, with qualitative interviews. Important findings of the dissertation are based on the collection of 57 interviews conducted between 2013 and 2016. The interviews were with local and national level spatial planning bureaucrats, businessmen, NGO representatives, spatial planning, environment protection and tourism experts, journalists, tourism managers and politicians. In this section, I outline the distribution of interviews and how I draw data from the interviews. All the interviews were conducted and transcribed in the

local language (Croatian, Montenegrin) by myself. The transcriptions were used for analysis of the exact syntax used by the interviewees not only in the moment when the interview took place, but also subsequently as I received new data from other sources.

Although I employ a comparative analysis of two cases in the dissertation, I have also conducted interviews in Slovenia that shed some light on the unequal distribution of spatial planning expertise across Yugoslav republics. Distribution of interviews across countries and institutional affiliation is given in Table 4-1.

Table 4-1 Distribution of interviews

<b>By Country</b>	<b>Number of interviews</b>
Croatia	19
Montenegro	23
Slovenia	15
<b>Total</b>	<b>57</b>

<b>By Affiliation</b>	<b>Number of interviews</b>
Central	15
Sub-national	12
Companies	4
NGOs	14
Experts	9
Media	3
<b>Total</b>	<b>57</b>

#### 4.2.1 Interview strategies

I arranged my interviews in three ways. First, the majority of the interviews were made possible through institutional contacts, mostly Institute for Tourism in Zagreb and Advanced School of Social Studies in Nova Gorica. Affiliation with these two institutions ensured an introduction to relevant experts which snowballed in further contacts in ministries, agencies and companies.

Second, in Montenegro, I had no official affiliation through which I could be introduced to public offices, experts and companies. Similarly, there were individuals and offices in Croatia

and Slovenia I wanted to talk to, but could not arrange a formal introduction through my institutional affiliations. Therefore, I devised a list of institutions and specific office holders I wanted to interview and tried to contact them through official contact channels, such as e-mail addresses and telephone numbers provided on websites. I have prepared a template explanation of my research, university affiliation and have requested a personal meeting, announcing the dates of my stay in the country. This has worked particularly well on the national government level, but poorly on the level of municipalities.

Third, I reached to a smaller share of my interviewees informally through a network of my acquaintances who either worked themselves or knew someone who worked in public administration, business sector or the media. Interviewees to whom I was recommended through personal connections tended to be more patient and explicit about rent-grabbing practices than interviewees I reached through official contact channels.

#### 4.2.2 Preparation and interviewing

The initial batch of interviews was conducted with tourism experts in which I learned more about the tourism sector and spatial planning. Through these interviews, I already began understanding how the perception of tourism and spatial planning experts differed from someone who received formal training in political economy. The focus of the tourism experts was on understating supply and demand factors, while I wanted to inquire the role of political institutions in the tourism sector. Based on these initial hunches, I arranged interviews with representatives of NGO sector who tended to approach the matter from a critical perspective. After forming initial hypotheses, before each interview, I prepared a set of open questions and topics I wanted to discuss with the interviewee. I had several sets of questions, depending on the position the interviewee occupied and particularities of the cases we discussed. If the topic of the interview was a specific tourism project and I wanted to collect specific information from

the conversation, I would send questions over e-mail in advance to allow the interviewee to prepare and remember the details of the case.

In cases when I was interested primarily in interviewees interpretation and understanding of the processes and events I would prepare topics of the interview, but would allow flexibility to cover topics which interviewees brought up themselves. During interviews, I refrained from displaying my normative bias on the topic and have tried to suggest to the interviewees that I do not judge their actions and opinion about the topics discussed.

#### 4.2.3 Transcription, analysis and citations

I personally transcribed all the interviews used for the thesis, especially taking care to write down the exact verbatim used by the interviewees. All but one interviewee allowed me to record the conversation, although I was not allowed to reveal the identity of some of the interviewees or quote parts of some interviews. During the interviews, I took notes to be able to reflect better on what the interviewee has shared and to facilitate transcribing and referencing later. I have extracted dominant patterns from interviews in a simple word document as the volume of the transcripts was not such that I required a software for the coding instrument.

As earlier noted, respondents outside of civil sector, predominantly requested to remain anonymous. This is important as during interviews some of the interviewees employed in public administration directly discussed aspects of rent-grabbing and resource mismanagement. Therefore, I identify the interviewees merely by a number assigned randomly to the interview. In such small countries, identifying interviewees by their affiliation or particular role in the certain project could reveal too much data and could jeopardize anonymity of the interviewees. I used names of the interviewees only in the cases when I got explicit approval to do so. When referring to the interviewees, I use indiscriminately he as a generic form for both men and woman.

I collected fragmentary data on historical relationship and development of bureaucratic and political veto points in the period of socialism and transition through interviews, but to trace how events unfolded I also relied on a number of primary and secondary sources. For example, during interviews with spatial planners from Croatia and Slovenia, I heard accounts of being sent to Montenegro to assist with development and implementation of spatial plans. But to map out the coevolution between political and bureaucratic institutions in the historical chapters, I consulted Yugoslav planning strategies and statistics on tourism development from Yugoslav, Croatian and Montenegrin yearbooks. Interviews with experts and bureaucrats on the more recent tourism boom of the 2000s and the crisis period provided detailed accounts on the insider perspective. However, to validate interview data, I cross-verified the information through analysis of the transcripts of parliamentary discussions and Parliamentary Committees' assessments of tourism-related legislation and when available, academic articles and books.

To summarize, Croatia and Montenegro represent the most similar case studies according to the Mills method of comparison. The two cases are both tourism-dependent countries with joint socialist history and involvement in the Yugoslav wars. However, Croatia is handling the rent-grabbing pressures better than Montenegro and has managed to preserve its natural resources, even at the expense of much-needed investments. In the following section, I focus on the first of the four researched historical periods (1960-1990) and I describe how spatial planning expertise and capacity developed in Yugoslavia. I show how state ownership of the land and over tourism capacities, along with spatial planning expertise, ensured resource preservation in the entire Yugoslavia. However, I also demonstrate that the spatial planning expertise and capacities were not equally distributed across Yugoslavia.

### ***4.3 Tourism and Planning Expertise in Socialism***

In socialist countries, tourism was initially a political tool for the regeneration of the workforce employed in the industrial production. The sector grew through investments in the company-owned recreation centres with heavily subsidized prices (A. M. Williams and Balaz 2000). In Yugoslavia, the role of the working collectives was particularly important for the development of domestic tourism as the collectives financially supported vacation of their workers. Commercial enterprises, such as hospitality and tourism organizations and providers of transport also offered arrangements for the domestic tourists for discounted prices (Kobašić 1987, 18).

In comparison to the other socialist countries, tourism had a particular role in Yugoslavia. As the leadership recognized its potential in providing much needed foreign currency, it became more than means for regeneration of the working force. In 1964, after 10 million foreign overnight stays, the official federal politics started supporting tourism development through favourable credit lines. International tourism development was first mentioned as a priority in the Social Plan for 1966-1970 (Kobašić 1987, 19).

Additionally, the development of tourism in Yugoslavia also had a political function. After Tito's split with Stalin in 1948, Yugoslavia chose a non-alignment approach between the West and the East. In contrast to the industrialization process which turned the country towards the East in the 1950s, tourism and opening to the foreign visitors were seen as a mechanism that assisted Yugoslav reorientation towards the West in the 1960s. Along with its financial benefits, the political importance of tourism for the non-aligned movement turned it into one of the Yugoslav strategic sectors (Poljanec-Borić as quoted in Matijević 2010).

Zingalen suggests that the spatial planners in Yugoslavia were well-connected with their colleagues in the West. The process of internalizing Western expertise was also facilitated



through engagement of the international planners and urbanists in the development of the spatial plans for the Yugoslav Adriatic (Zingalen as quoted in Simpraga 2015). One of the urbanism experts suggested in the interview that specific Yugoslav context in which tourism projects were funded by the state and both land and production factors were socially owned, jointly with strong spatial planning traditions in Yugoslavia ensured the sustainable use of land and nature (Interview 14). Zinaglen argued that the unique form of land ownership guaranteed unlimited access to the sea to everyone, while Yugoslav self-management gave local actors the opportunity to accept international trends in spatial planning (Zingalen as quoted in Simpraga 2015).

Areas for tourism development were carefully selected to ensure the maximal protection of the landscape, while still promoting tourism development. Counterintuitively for socialism, obligations to the preservation of the environment and the development of infrastructure for public use received preferential treatment. Although the exaggerated use of land as a natural resource and the degradation of the natural environment for tourism purposes happened in some places, such cases were an exception, rather than a rule (Kobašić 1987, 32).

In 1987, four years before the fall of Yugoslavia, tourism was equally well-developed on the Croatian and Montenegrin coast. The Croatian Northern Adriatic (Istria and Kvarner bay) had 175, Croatian Southern Adriatic (Dalmatia) 101 and Montenegrin Adriatic 158 beds in primary accommodation<sup>8</sup> on 1000 inhabitants (Kobašić 1987, 79). Kobašić also quotes two studies dealing with tourism development on the Yugoslav Adriatic from the 1980s which suggest that only 20% of spatial capacities for tourism development in Montenegro have been used. Similarly, in the Croatian Southern Adriatic (Dalmatia), less than 40% of the spatial

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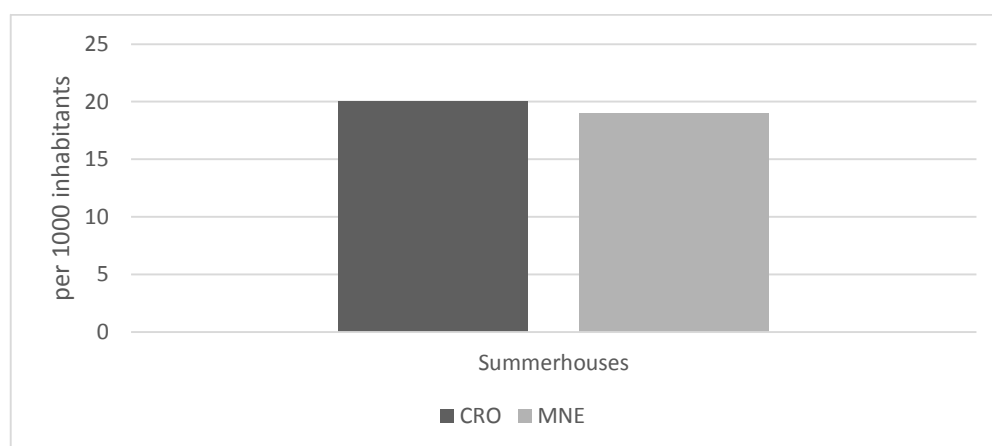
<sup>8</sup> Such as rooms in hotels, as opposed to privately owned apartments.

capacities for tourism development have been developed. The only area where Kobašić assessed space for tourism development has been almost fully utilized was the Croatian Northern Adriatic (Kobašić 1987, 105).

Urbanism experts confirm that spatial planning positively affected resource use in all republics, particularly as the coastal belt was planned on the level of Adriatic regions without reference to the republic borders (Interview 16 and 18). This is exemplified in the Adriatic spatial plans. Northern Adriatic plan included Slovenian and Northern Croatian coastal regions, while the Southern Adriatic plan included Southern Croatian and Montenegrin coastal regions (Rudež and Marić 2014). Resolutions regarding spatial planning were designed on the federal level and although each of the federal republics had its own legislation, general rules applied to the entire territory of Yugoslavia. As a result, during the period of socialism, both in terms of resource use and rent-grabbing, Croatia and Montenegro were on the same footing: the coast as the most valuable resource was well protected.

The implementation of tourism and spatial planning legislation was equally successful in all republics. In 1981, official Yugoslav statistic assessed there were 20 summerhouses per 1000 inhabitants Croatia. Out of the total number of summerhouses, 63% were in the coastal area. In Montenegro, there were 19 summerhouses per 1000 inhabitants, out of which 59% were in the coastal area. The data includes the so-called illegal summerhouses which the regime tolerated and has not penalised as well. The statistic suggests that implementation of the spatial planning was equal in both Yugoslav republics. This is illustrated in Figure 4-6.

Figure 4-6 Number of summerhouses per 1000 inhabitants in SR Croatia and SR Montenegro



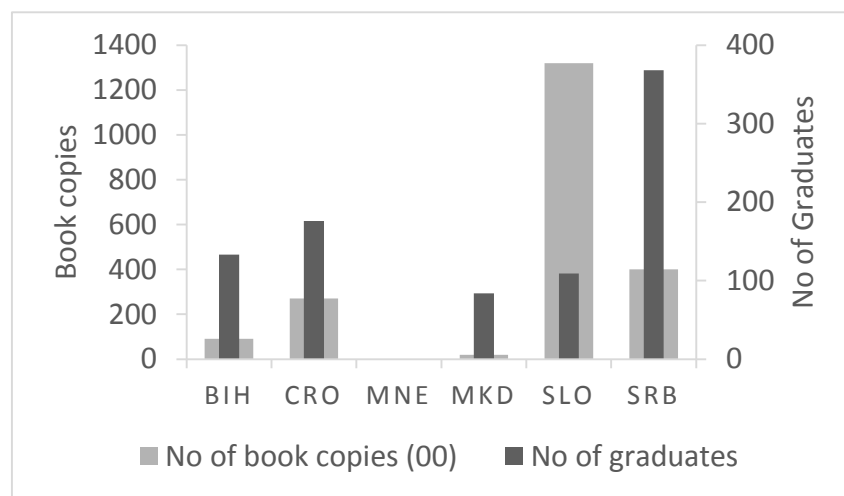
Source: Author's calculation based on data from Pepeonik (1983) and Montenegrin Statistical Yearbook (1986)

However, a comparison between the former republics reveals that the expertise and capacity in spatial planning were not equally distributed across Yugoslavia. Similar legislative solutions were adopted across Yugoslav republics and joint plans were made for the entire Yugoslav Adriatic coast, but some countries developed better planning and implementation capacities. Croatia, along with Slovenia and Serbia, was one of the centres for urbanism and spatial planning, while Montenegro had limited domestic expertise and capacities in spatial planning. In the interviews with senior level bureaucrats in Slovenia and Croatia, some of them mentioned they were sent to assist in plan development and implementation to Montenegro. Despite having enough employees, they suggest Montenegrin administration did not have the capacity or the expertise on the municipal level to implement the plans (Interview 16, 42, 51 and 52).

Besides on the individual experiences of the interviewed bureaucrats, unequal distribution of the bureaucratic expertise is visible from the numbers of graduates from civil engineering and architecture universities which educated spatial planners and urbanists. In 1974, there were 176 graduates in the field of civil engineering and architecture in Croatia. In comparison, as

Montenegro had no faculty for higher education in the field of civil engineering nor in architecture, there were no graduates in the field at all. Montenegrin students studied in other republics and presumably some would stay in Serbia or Croatia where there were likely more job opportunities. That Montenegro had a smaller expert community and demand for field-specific literature compared to Croatia is also visible from the numbers of books and copies in the field of urbanism and spatial planning. This is represented in Figure 4-7.

Figure 4-7 Concentration of urbanism expertise across Yugoslav Republics



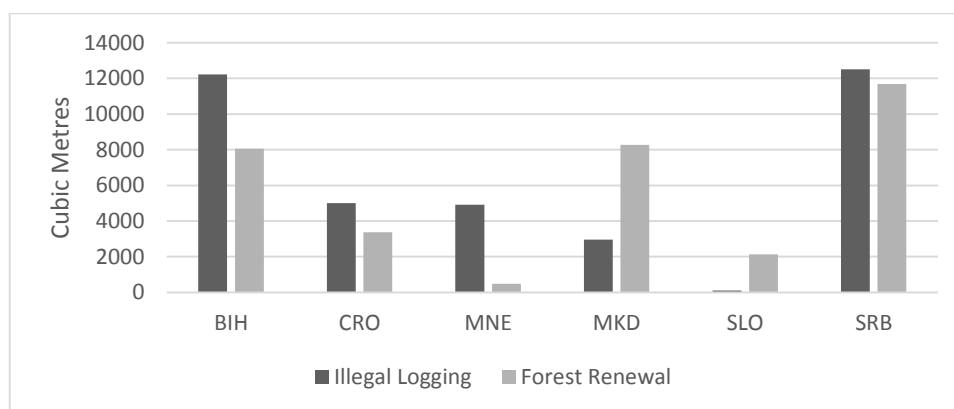
Source: Author based on (Savezni Zavod za Statistiku 1974)

In 1974, from the books in the field of urbanism and architecture, 8 out of 56 titles published in whole Yugoslavia were issued in Croatia. More specifically, 27,000 copies of books from the field were issued in Croatia. In comparison, zero books in the field of urbanism and architecture were issued in Montenegro. The statistics also suggest that the difference is not merely a reflection of the size or developmental level. In Slovenia, a much smaller republic, comparative in size to Montenegro, 132,000 books were issued, four times more than in Croatia. Both Bosnia and Herzegovina and Macedonia, as the two less developed republics issued 9,000 and 2,000 books respectively in the field of urbanism and architecture.

While in the implementation of the spatial planning Montenegro relied on the federal expertise, implementation of environmental protection legislation was handled on the republic

level. Thus, Montenegro was far less successful in it than Croatia. Figure 4-8 shows that illegal logging was almost of the same size in Croatia and in Montenegro, despite considerable differences in size. Similarly, although Bosnia and Herzegovina and Serbia<sup>9</sup> had issues in controlling illegal logging, all republics were more successful in the renewal of the forest base than Montenegro. As forestry policy implementation was not handled on the federal level, whereby Montenegro could free-ride on the Yugoslav capacities, it is a good indicator of the lacking in-house Montenegrin capacities for the resource protection.

Figure 4-8 Illegal logging and forest renewal across Yugoslav Republics

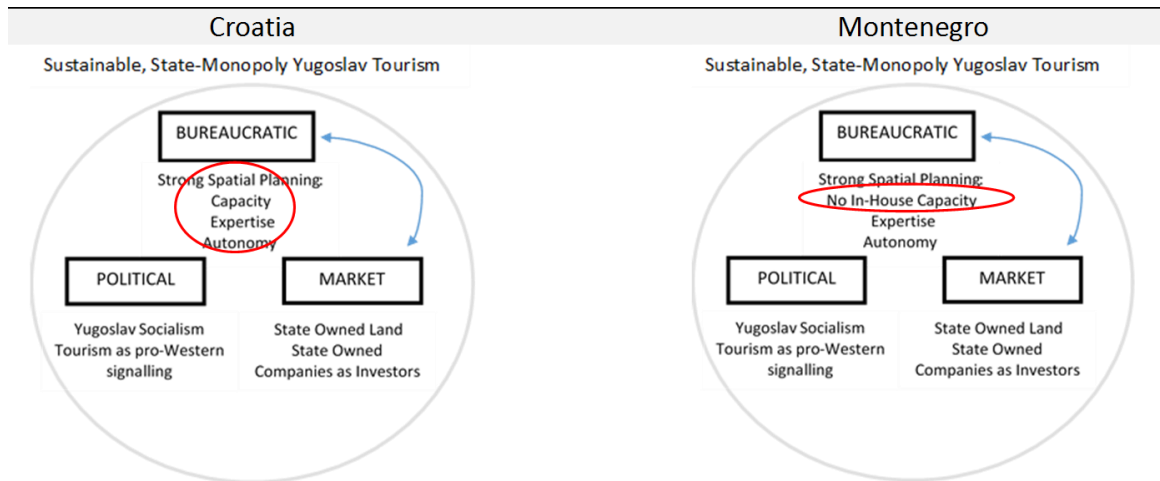


Source, Author based on (Savezni Zavod za Statistiku 1974)

Spatial planning regulations in Yugoslavia helped preserve tourism resources and joint plans for the Adriatic area positively influenced the use of land in all coastal areas. However, Montenegro, unlike Croatia, has not developed local capacity to implement regulations, nor has it developed bureaucratic capacity in spatial planning. A schematic overview of the coevolution between politics, development and bureaucracy during socialism is presented in Figure 4-9.

<sup>9</sup> Poor Serbian statistic is partially a result of aggregation for its three parts, SFR Serbia and Autonomous Regions Kosovo and Vojvodina. To be precise, 6150 cubic metres of forest were illegally cut in Serbia, only 377 in Vojvodina and remaining 5977 in Kosovo.

Figure 4-9 Coevolution during socialism



In the next section, I show how tourism incentivised rent-grabbing and resource misuse and how it led to a temporary reduction in bureaucratic spatial planning capacities.

#### 4.4 What Changed with Market Economy?

Early in the 1990s, the federal Yugoslav government introduced a privatization programme which was only partially implemented. The Croatian and Slovenian proclamation of independence in 1991 and the fall of Yugoslavia further accelerated economic reforms. The newly established independent countries introduced a market economy, which subsequently had an influence on the relationships between spatial planning and tourism, also influencing rent-grabbing and resource use.

The influence was two-fold: private ownership and investments increased incentives for rent-grabbing and the transition temporarily reduced the spatial planning capacities. First, in socialism, state and socially managed working collectives were the main investors in the tourism sector. With soft budget constraints (Kornai, Maskin, and Roland 2003) and its paternalistic role towards economic organizations and private firms, the federal government indirectly yet generously financed the communal infrastructure and resource protection. Rent-grabbing in the sense of controversial land use conversions was non-existent. The republics

owned both the land, so the tourism enterprises and the leadership could therefore not profit from land urbanization schemes. In addition to the abundant funding for tourism projects and communal infrastructure, Yugoslavia developed high planning standards which ensured that tourism projects were developed on the locations determined most suitable by the spatial planners.

After the introduction of the market economy, budget constraints ceased to be flexible. As private firms become main investors in the tourism, they also took over the funding of communal infrastructure, while trying to ensure highest possible return on investment. The newly introduced market economy thus provided incentives for land urbanization schemes, particularly as the newly independent states faced a transitional crisis.

Secondly, “old rules” were not applicable anymore, while the new rules of the game (North 1990) were not yet consolidated or fully implemented. According to one interviewee from public administration in Croatia, despite existing traditions in spatial planning which successfully protected resources in socialism, the administration in the newly established, war-torn countries was not up to the challenges brought by the transition. Spatial planners and architects employed on the projects began changing their standards towards the use of space as they stopped being part of the bureaucratic apparatus and become market actors (Interview 2).

In Croatia, the suboptimal functioning of the state administration combined with numerous social, political, economic and cultural changes led to a slower realization of planned development and to neglecting the common and long-term interests in the use of space (Ott and Kranjcevic 2005). While there is no data on the increase of illegal construction through the

period of transition, the Ministry in charge of spatial planning<sup>10</sup> assessed the number at 350,000 illegal objects in 2013 (Britvić Vetma 2013). The coastal area was particularly targeted due to its valuable natural resources, the potential for tourism, real estate development and profit-making (Kranjčević 2015)

Similar developments were noted in Montenegro as the state fought to ensure minimal standards of administrative functioning, but also as illegal activities, in the midst of the transition, international sanctions and prevalence of informal economy, were used to force desired outcomes in spatial planning (Interview 19). Linear urbanisation and illegal construction especially in the coastal belt, as well as within protected areas became a pressing issue. Illegal construction rapidly increased while land urbanization was not accompanied by a sufficient development of infrastructure for the waste disposal and treatment (Vojvodic 2011). The official statistics from 2011 state there were 30,000 illegal constructions (Doderović and Ivanović 2011), while Vojvodić suggests the number of around 100,000 illegal constructions, most of which were built in the 1990s (2011). In the interview, one employee in the Ministry in charge of spatial planning in Montenegro stated that their office barely managed to confirm all changes in the plans that retroactively urbanized already developed land (Interview 29).

To summarize, after the introduction of capitalism and economic reforms (privatization began in 1992 and stabilization programme was initiated in 1993), the investors' profit maximization started to have an influence on planning procedures. As a result, spatial plans, especially on the local level, neglected public interest and were seen merely as a formal step towards the desired land use (Kranjčević 2015). Spatial and urban planning under the newly

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<sup>10</sup> The name of the Ministry in charge of spatial planning changed several times in both Croatia and Montenegro as changes in the government led to inclusion or removal of departments. To avoid terminological confusion, I use the term Ministry in charge of spatial planning consistently throughout the dissertation. Similarly, at some point, Department in charge of environment protection in Croatia became a new ministry. Therefore, when referring to the issues of environment protection, I refer to ministry in generic term as Ministry in charge of environment protection.



introduced system of the market economy no longer represented an outcome of a process creating additional value from the use of the space (Rudež and Marić 2014, 157). Moreover, as spatial planning capacities reduced, the opportunities for rent-grabbing in tourism sector increased.

In the following section, I trace the development of BVPs and PVPs in Croatia and Montenegro in the period between 1990 and 2000. I describe and analyse how fall of Yugoslavia and transition to market economy differently influenced spatial planning in Croatia and in Montenegro. As a side-effect of state-building, Croatia “upgraded” its decentralized spatial planning system, while Montenegro kept the Yugoslav planning system, but without the expertise and capacity.

#### 4.4.1 State-building and the exogeneity of planning organizations from 1990-2000

The proclamation of independence in Croatia and Slovenia was followed by a brief ten-day war in Slovenia and a 1991 to 1995 war in Croatia. In the 1990s, the Croatian leadership under the newly established Croatian Democratic Union (HDZ) formed a semi-autocratic regime in which the leader of the party and first Croatian President Franjo Tuđman held significant authority in a semi-presidential system. His personal role in the war and in ensuring independence led to strong electoral support for him and HDZ, his party. Tuđman’s personal authority and the role of his party arose in the negation of the communist past, in ensuring the independence of Croatia, and in strengthening Croatian identity throughout the war time. The overwhelming support and the lack of oversight during the war period led to the creation of a system which favoured his party in the electoral process, in the allocation of legislative seats and in the control over the important state institutions. In the period from 1991 to 1999, HDZ had strong control over administration, legislative, executive and judicial branch (Jović 2009).

While the transition period in Croatia focused on state-building and strengthening national identity, Montenegro focused on Yugoslav continuity. In 1989, before the collapse of Yugoslavia, Montenegro faced protests due to declining economic conditions and dissatisfaction with the ruling political elites. The central communist authorities in Belgrade<sup>11</sup> offered support to the protestors<sup>12</sup> and the leadership of the Montenegrin communist party resigned. The newly appointed “beautiful, young and smart”<sup>13</sup> leadership of the Montenegrin Communist Party, thus advocated prolonging and protecting Yugoslavia. The communist party ensured, using hegemonic party infrastructure, media control, state institutions and financial resources a favourable environment to formally introduce a multiparty system which it de facto completely dominated. After an easy victory at the first elections, the communist party was renamed as the Democratic Party of Socialists (DPS).

Authoritarian regimes were established in both countries, but unlike in Montenegro where political forces ensured the continuity of the communist elites, the Croatian proclamation of the independence signalled an abrupt parting with communist past and Yugoslav legacies. Reinvigorating Croatian identity in opposition to everything Yugoslav was all-encompassing and visible in politics and rhetoric,<sup>14</sup> but also in the territorial reorganization of the country. The Croatian reform of the formal administrative organization, initiated after international recognition in 1992, also had an underlying state-building and identity strengthening function.

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<sup>11</sup> Yugoslavia was a federal state, with the seat of the government and other important institutions in the Serbian capital Belgrade.

<sup>12</sup> Political analysts suggest that street protests which led to change of Montenegrin leadership was actually a state coup orchestrated by Serbian leadership headed by Slobodan Milosevic. The intention was to turn Montenegro in Serbian feudal province (Vesti Online 2014).

<sup>13</sup> An expression used to describe the leadership of the protests which eventually won control over the communist party. In original “lijepi, mladi, pametni.”

<sup>14</sup> For example, during this period, Croatian President Franjo Tuđman rehabilitated condemned Ustaša movement - supporters of Croatian Nazi puppet state during the WWII. Đurašković argues that “Ustaša-nostalgia” does not stem from Tuđman’s support for fascism, but rather from the morphological gap occurring in Tuđman’s nation-building idea. Namely, Tuđman’s condemnation of the entire idea of Yugoslavism and Yugoslavia eventually brought about the perception that any historical agent advocating the idea of an independent Croatia is better than any form of Croatian Yugoslavism (Đurašković 2016).

In Yugoslavia, the territorial organization was in a constant state of flux, with frequent changes in the type, size and number of units. From 1962, the units of self-governance were municipalities, called *općine* or *opštine* (Žuljić 2001, 10). According to this system, Croatia had 104, and Montenegro 23 municipalities. Figure 4-10 shows the map of Croatia divided into 104 municipalities.

Figure 4-10 Territorial organisation with 104 municipalities in SR Croatia

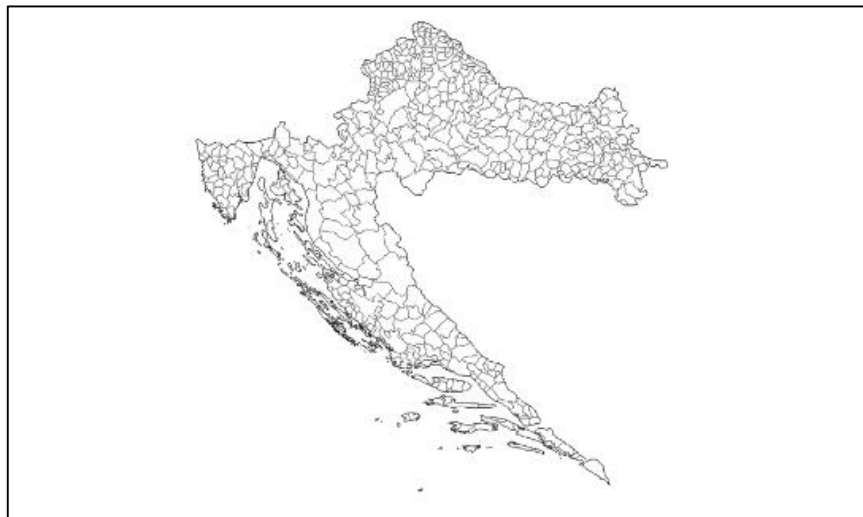


Source: Author based on (Žuljić 2001)

When a new law on territorial organisation was introduced in Croatia in 1993, during the war, it introduced twenty counties and 419 municipalities based on arbitrary, political criteria. While the previous Yugoslav territorial organization with relatively large municipalities was considered modern in comparison to other European countries, the new organization lacked such characteristics (Kregar 2011). Regional level units, the so-called *županije* partially reflected the historical administrative units which existed before the establishment of communist Yugoslavia. The separation from Yugoslavia and the return to historical Croatian identity were among the priorities of the first Croatian governments (Đulabić 2015).

The newly adopted territorial organization (see Figure 4-11 below) accommodated state-building and identity strengthening, rather than pursuing economically purposeful regional units. Đulabić notes that in search for a “historically appropriate” territorial organization, one Minister for Administration went so far to even suggest re-introduction of the administrative-territorial organization from 1886 while Croatia was a part of Austro-Hungarian Monarchy (Đulabić 2015).

Figure 4-11 Territorial organization with 419 municipalities and 70 cities in Croatia



Source: Author based on Global Administrative Areas Dataset

Territorial organization from 1993 allowed control over many powerful local warlords who were a direct threat to the authority of President Franjo Tuđman (Kregar 2011). In 1993, Croatia was still fighting a war and some of the local commanders had a significant influence on the local level, providing power structures parallel to the existing military ones. To keep them at bay, the country was fragmented and the counties were made reliant on the central level of governance through presidential approval of the heads of counties (Kregar 2011, 15). As a result, in the period from 1993 to 2000, the counties *de facto* supported the centralization of the state through the introduction of numerous county units and through the institution of the Head

of the County and County Offices. Heads of the counties had to be approved by the president, serving as tools of centralization<sup>15</sup> (Koprić 2010, 673).

The law on the territorial organization and the subsequent acts defining territorial organization failed to enshrine strict conditions for the establishment of lower level units - municipalities and cities. Because of unclear criteria for the establishment of the municipalities and cities, their number quadrupled as compared to socialist Croatia. Independent Croatia in 1993 had more than 419 municipalities and 70 towns, as compared to barely over 100 in Yugoslavia. Additionally, the territorial organization was not followed by fiscal decentralization and many of the newly established municipalities and towns, as the lowest level administrative units, had limited financial sources to meet their responsibilities.<sup>16</sup>

As the Yugoslav wars escalated, the Montenegrin experience was in striking opposition to the Croatian one. The Montenegrin political leadership sided with Serbia and became part of the Socialist Federative Republic Yugoslavia's successor state, Republic of Yugoslavia. The newly established Republic of Yugoslavia formally introduced democratic and market institutions. However, unlike in Croatia, where the war for independence necessitated state-building and rejection of all things related to Yugoslavia, the Montenegrin communist leadership stayed in power throughout the transition. Montenegro was the beneficiary of the Yugoslav budgetary transfer policy and as its leadership advocated Yugoslav continuity.

As a result, the existing territorial organization was not questioned. The municipalities adopted in 1962 were simply re-approved without introducing units of a higher administrative level such as counties or regions. This territorial organization was formally confirmed through

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<sup>15</sup> An illustrative example is President Tudman's refusal to approve four Heads of the County in Zagreb.

<sup>16</sup> Up to 2011 the number of the municipalities rose to 429 and the number of cities to 129. Almost half of the municipalities has less than 2,500 inhabitants, while additional 183 count less than 5,000.

the Law on Local Self-Government of 1993 which gave 23 municipalities the responsibility for spatial planning and for the implementation of spatial plans (1993). This territorial organization is illustrated in Figure 4-12.

Figure 4-12 Territorial organization with 23 municipalities



Source: Author based on Global Administrative Areas Dataset

#### Territorial organization and spatial planning organisation

Laws in both countries initially approved existing spatial planning traditions inherited from Yugoslavia. This meant that spatial planning was *de facto* decentralized as the local level units oversaw development of the plans. However, their authority was only partial as the lower plans (municipalities) were subordinated to higher level plans (in Croatia county and national, in Montenegro to national level plans). In both countries, in cases of discordance between plans, higher level plans were to be implemented. It was crucial that in both countries the laws also stipulated that the Ministry in charge of spatial planning was to monitor the plans before they can be adopted on the local level. During the phase of state-building and identity strengthening, Croatia adopted an additional second level of territorial organization (counties) and allowed the multiplication of the municipalities.

It is very important to note that counties were introduced as means of dismantling Yugoslav legacy and ensuring centralization, but for spatial planning, counties provided another

level of control over the spatial planning process. In contrast, Montenegro kept the Yugoslav system with municipalities and had one spatial planning level less than Croatia. The main difference is that Croatia compared to Montenegro had an additional level of planning and supervision. This is represented in Table 4-2.

Table 4-2 Hierarchy of spatial planning organization in Croatia and Montenegro

<b>Levels of planning system</b>	<b>Country</b>	<b>Administrative level</b>	<b>Number</b>
1 <sup>st</sup> Level	Both	National	1
2 <sup>nd</sup> Level	Both	Counties / Municipalities	21 (CRO) 23 (MNE)
<b>3<sup>rd</sup> Level</b>	only Croatia	Cities and Municipalities	128 cities and 428 municipalities

Source: Author

I emphasize that the foundations of the spatial planning systems were already set in both countries before the establishment of a competitive multiparty system and democratization in Croatia in 1999 and 2000. In 1993, Croatia introduced a three-level system and Montenegro a two-level system where the spatial plans of the county, city and municipality level, as well as urban plans needed to be approved by the Ministry in charge of spatial planning. In both countries, plans of the lower rank needed to be synchronized with higher-level plans.

In Croatia, this meant that changes on a municipal level first needed to be approved within county plans, municipal or town plans and then through detailed urban plans. In Montenegro, new developments on the municipal level needed to be included in the municipal plans and defined in detail through urban plans. Despite the similarities in the planning legislation, the territorial and administrative organization established after the collapse of Yugoslavia in Croatia laid foundations for differences in spatial planning and in tourism development between two countries. Croatia established both county and municipal controls, while the Montenegrin

system, partially due to the size of the country, maintained a two-level system where municipal plans controlled spatial planning.

In addition to the differences in the number of the planning (and monitoring points), differences in spatial planning also include bureaucratic expertise and capacity developed in Yugoslavia. In Croatia, spatial planning capacities and expertise were developed in Yugoslavia and despite a decrease in capacity to handle planning during the early years of transition to market economy, the employees had relative autonomy to implement the legislation and their dedication to the planning and professional standards prevented bureaucratic drift.

This was not the case in Montenegro where the bureaucrats have not developed capacities and expertise for spatial planning, nor did they have the autonomy to implement the Yugoslav planning standards. While the differences in the planning expertise and capacities did not result in visible rent-grabbing and resource mismanagement during the war-ridden 1990s, the difference became visible after the tourism boom started in the 2000s. In the following section, I turn to the transition and privatization process in the period from 1991 to 2000, with particular emphasis on the tourism sector.

#### 4.4.3 Transition to crony capitalism and Yugoslav wars

Despite the differences in their paths to power, the dominant parties in both countries were fully in charge of policy-making in the early years of transition. The immense power of HDZ in Croatia enabled the enrichment of those close to its leadership, and the profiteering of few at the expense of many, also aided by the foreshadowed collapse of the industrial giants. Crime and corruption were widespread, particularly in the process of the privatization which took a form of the so-called tycoonisation (Koyama 2003; Kusic 2007; Bičanić 1993; Horvat 1999).



Privatization processes in Croatia also included tourism sector and were by far most successful in the Istria county which was left untouched by wartime conflicts. Therefore, Istrian tourism companies formed the backbone of the future tourism sector (Poljanec-Borić 2004). The chaotic years of transition supported the development of new tourism conglomerates which managed to capitalize on the murky privatization. The new owners of the tourism giants were Croatian emigrants and managers of the Privatization Investment Funds (PIFs) who were able to use the voucher privatization and forced the state to replace worthless shares with valuable ones from the tourism sector (Nacional 2002). Valamar, Blue Sun and Lukšić Group still continue to dominate the tourism sector (Čorak et al. 2012, 10).

Even though state institutions were controlled by HDZ, the lack of a functional multiparty system had no significant influence on the resource use in the tourism sector. This was a direct consequence of low interest in the declining tourism industry in the midst of the Yugoslav wars. Demand for the land and cultural resources along the coast, which would soon become the most important resources, had not resurged yet. The violence and the conflicts have deterred foreign tourists for many years and ruined the Yugoslav “domestic” tourism market. In Croatia, the infrastructure was damaged both directly during the bombing and indirectly, through disuse and sheltering of war refugees in hotels (Ballinger 2003, 6).

Between 1990 when Croatia received 8,498,000 visitors, and 1995 when Dayton Peace Agreement was signed, ending the ethnic conflicts, the number of visitors dropped for 6 million (Ministry of Tourism Croatia 2013). Until 2000, it has almost reached its pre-war numbers, but the political isolation of Croatia and animosity towards foreign investors, along with Kosovo war from 1998 to 1999, have delayed foreign investors’ interest in the tourism sector in Croatia.

In Montenegro, similarly to the situation in Croatia, the initial period of the transition was characterized by the prevalence of criminal and corrupt activities. War did not take place on Montenegrin soil, but the whole Yugoslav area was considered unsafe and the numbers of tourists significantly fell as a result. In 1990, Montenegro recorded more than 10 million overnight stays. This number sharply fell to less than 3 million in 1995. By 1995 when Dayton Peace Agreements were signed more than 4 million overnight stays were registered, but the numbers have until 2010 not yet reached the statistics from 1990, the last pre-war year (see Table 5-7 in Appendix 5-2).

Montenegro, along with Serbia, was under an international trade embargo. As a result of war and economic crisis, the underworld organizations started to strengthen and intertwine with the formal political authorities (Trivunović 2007). For example, the Montenegrin long-term Prime Minister Milo Đukanović was suspected to have been a part of the cigarettes' smuggling scheme and his role in the chain was officially investigated by the Italian prosecution. He publicly stated that he participated in the activity, but explained that this was the only way of keeping the country economically afloat (Morrison 2009; Morrison 2011). The clientelistic privatization efforts were "crowned" with the sales of the Aluminium Plant Podgorica to the Russian oligarch Oleg Deripaska. The sales led to significant debt, which according to the privatization contract, fell on the taxpayers (MANS 2015d).

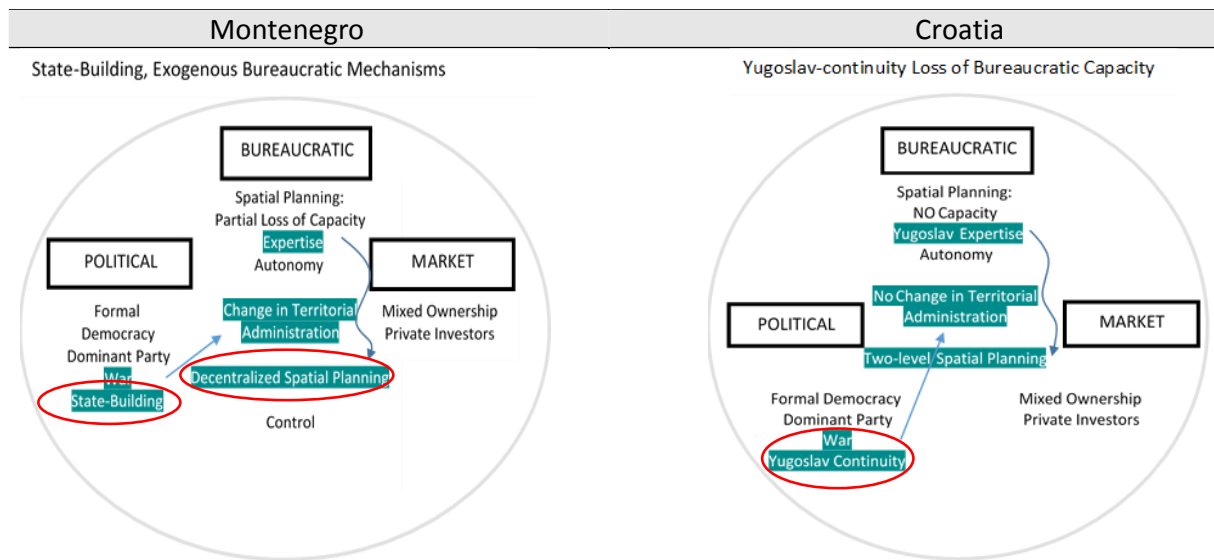
With regards to the tourism sector, Montenegro barely initiated its privatization until the early 2000s as the political leadership had limited interest in controlling insignificant revenues from tourism during the war years. However, once the process was initiated, the cases of privatization were largely characterized by suspicious contracts with the elites connected to DPS as the dominant party. For example, NGOs and critical media have extensively investigated and written about the controversial sales of tourism enterprises such as tourism

giant Boka (Perović-Korać and Tadić-Mijović 2011), Južni Jadran (MANS 2013d), hotel Avala (MANS 2012b) and saltpans Bajo Sekulić (MANS 2012b), all of which ended in the hands of the friends of the political leaders of DPS.

The privatization of the tourism sector in both countries did not significantly differ from the general privatization. However, as a result of abundant natural resources in tourism, in Croatia, PIFs' management of tourism enterprises did not result in shutdowns as was the case with companies in the other sectors. Domestic entrepreneurs who managed to gain control over important tourism companies continued expanding their control and formed oligopolistic markets. In Montenegro, tourism favoured elites close to the leadership of the DPS, which managed to keep control over the obtained assets with varying degrees of success in expanding the control across the Montenegrin coast.

During the early years of transition, the effects of war, criminal activities, privatization and widespread poverty were tied to the dominant parties, HDZ in Croatia and DPS in Montenegro. The fall of Yugoslavia and the subsequent decade of wars led to a plunge in the numbers of the visitors. The enrichment of a small segment of the population under the patronage of the state elites caused dissatisfaction with the two ruling parties among the electorate. Additionally, while Croatia won in the war, Montenegrin leadership was also criticized for the Montenegrin role in the war. In the following period, the disapproval of the electorate over the criminal and corrupt activities in the two countries led to the parting of the ways. Croatia ended its semi-autocracy, while Montenegro preserved its partitocratic regime. A schematic overview of the coevolution between politics, development and bureaucracy during the transition is presented in Figure 4-13.

Figure 4-13 Coevolution during the transition



#### 4.5 Summary

In this chapter, I have dealt with the question how bureaucratic and political veto points were developed in Croatia and Montenegro. I focus on two periods, socialist Yugoslavia (1960-1990) and transition to a market economy (1990-2000). In the existing literature, the predominant assumption is that bureaucratic institutions are endogenous to the politics. The chapter contributes to this debate by suggesting there is a partial exogeneity of bureaucratic institutions. I argued that partial exogeneity is derived from the bureaucratic expertise and state-building process.

More specifically, I have described how spatial planning developed during socialism in Yugoslavia and suggested that planning economy and social ownership over tourism projects supported strict resource protection legislation, but also unequal internalization of the planning expertise. The introduction of market institutions and authoritarian systems characterised by dominant parties has directly influenced bureaucratic institutions in both countries by, to an extent, reducing capacity to control resource management. This resulted in an increase in illegal

housing development, but due to lack of interest in tourism during a decade of Yugoslav wars, had no effect on rent-grabbing and resource management.

I then proceed to explain how the collapse of Yugoslavia and war led to unintended, exogenous from politics, system of decentralized spatial planning. The counties, introduced during the state-building process in Croatia, represent a foundation for partially exogenous BVPs. As a result of decentralized spatial planning, where counties played an important role, a new level of control emerged – to an extent independently from the politics of the day. In addition, expertise and capacity in spatial planning, developed in Croatia during Yugoslav socialisms, survived the autocratic usurpation of power and enabled resource protection once the interest in tourism resurged.

The chapter made two main points. Firstly, I argued that the role of BVPs in determining resource use and rent-grabbing is partially exogenous from the political competition. Political science literature prevalently suggests that politics tends to colonize bureaucracies, therefore rendering bureaucratic competence and autonomy endogenous to the political process. Secondly, my argument is nuanced. By focusing on the temporal sequencing of the BVPs' and politics in Croatia and Montenegro, the chapter shows the coevolutionary relationship between bureaucratic and political veto points

**Appendix 4-1**

The analysis of the role of the BVPs and PVPs is based on the information from the Tourism Projects Dataset. The dataset draws information from spatial plans, planning documents, academic journals, parliamentary meetings and various expert written reports. However, it also relies on a number of news published by Croatian, Montenegrin and regional daily newspapers and political magazines. The informations come from the following media outlets, published between 2000 and 2016. Table 4-3 provides the list of the media sources used to illustrate cases in the dissertation.

Table 4-3 Media sources used in dissertation

Aimpress.ch	Dubrovački vjesnik	Makarska danas	Radio Televizija
Balkans Al Jazeera	Dubrovnik.net	MANŠ	Crne Gore
Banka.hr	DuList.hr	Monitor	Regional Express
Biznis Plus	EU Inside	N1info	SEEBiz
Business.hr	EurActiv	Nacional 2002	Šibenski list
CDM	eZadar	Novi List	Zadarski List
Civic Rights	Glas Istre	Novosti	Slobodna Dalmacija
Defenders	Globus.hr	OCCRP/CIN	South-East European
Civil Alliance	H-Alter	PCNEN	Media Observatory
Croatia Week	Independent Balkan	Portal Analitika	Telegraf.rs
Croatian Helsinki	News Agency	Portal Novosti	Telegram
Committee for	Index.hr	Portal Oko	T-Portal
Human Rights	iPress	Poslovni.hr	Vesti Online
Dalje.com	Jutarnji.hr	Primorske Novine	Vijesti Online
Dan Online	Kurir	Radio Jadran	
	Limun	Radio Slobodna	
	Lupiga	Evropa	
		Radio Televizija	
		Budva	

# 5

## PATHS CROSSED AND PARTED

### Tourism Booms and Busts

**I**n the previous chapter, I have analysed how political and bureaucratic institutions intertwine with economic development and define outcomes in rent-grabbing and resource use in Croatia and Montenegro. I showed how spatial planning expertise and capacities developed asymmetrically across Yugoslavia and how state-building in Croatia unintentionally led to a further decentralization of spatial planning in Croatia. In this chapter, I continue with the historical analysis and move forward to the period of tourism boom from 2000 to 2010 and the period of economic crisis and tourism bust from 2010 to 2016.

In this chapter, I argue that the boom created an impetus for further coevolution of political systems and bureaucratic institutions controlling rent-grabbing and tourism sustainability. However, the coevolution further increased the gap between protective bureaucratic and political system in Croatia and porous controls in Montenegro. I suggest that the improved political competitiveness in Croatia led to the strengthening of the Yugoslav spatial planning traditions and adoption of the strict planning and environmental regulations. In the period of a

tourism boom, the Ministry in charge of spatial planning in Croatia had autonomy in decision-making and a strong resource protection agenda, which led to stringent tourism-related legislation. As a result, state-building and planning expertise created the space for meritocracy in spatial planning in Croatia, but not in Montenegro and built in a set of procedures that protected coastal belt. Simultaneously, tourism-induced growth in interaction with a dominant party led to the centralization of spatial planning and relaxation of the existing environmental legislation in Montenegro.

In the period from 2010 to 2016 economic crisis and perceived need for investments in Croatia opened a possibility for a more centralized spatial planning. The effects of the crisis and change in the spatial planning governance led to the partial dismantling of the protective system in Croatia, while Montenegro continued centralizing resource revenues. In Montenegro, monopolization of the resource rents, in combination with the fast pace of resource devastation, led to the further centralization of resource control. Moreover, spatial planning “carving” of the coast according to vested rather than public interest led to an asymmetric increase in the resource protection standards.

The chapter has the following structure. Section one describes the coevolution of the political and bureaucratic institutions in the period between 2000 and 2010. Section two analyzes how the economic crisis affected bureaucratic veto points (BVPs). Section three concludes by discussing the partial exogeneity of BVPs and emphasizing the sequencing and pacing of the BVPs, PVPs and economic development. I now turn to the period from 2000 to 2010.

### ***5.1 Sustainable vs. Non-Sustainable Rent-Sharing of the 2000s***

In this period, the differences in the in-house expertise and capacity in spatial planning in combination with the difference in political institutions, resulted in staggering divergence in



rent-grabbing and resource use in Croatia and Montenegro. Tourism boom of the 2000s provided an incentive for colonization of the tourism rents in both countries. However, in Croatia, turnover in power between the right and left political coalitions, along with the expertise and capacity of the bureaucrats in the Ministry in charge of spatial planning, ensured a sustainable rent-sharing or rent-cohabitation regime. Two within-DPS power centres, along with limited capacity and autonomy in spatial planning bureaucracy in Montenegro, in turn, led to a non-sustainable rent-sharing regime.

This section has four subsections. First subsection briefly introduces statistics and context in which the tourism boom of the 2000s occurred. In subsection two and three, I track differences in the development of political institutions – political competition on the national level and judiciary. Subsection four focuses on the effects of political institutions and tourism boom on the development of legislation and organization of spatial planning. In the following subsection, I describe the increase in tourism demand and its effect on the resource use.

#### 5.1.1 Tourism boom

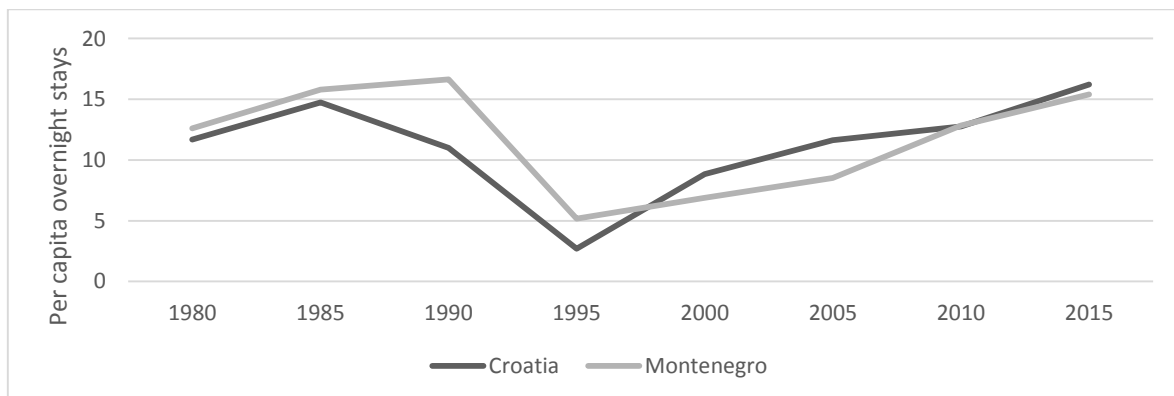
The stabilisation of the political situation by the end of the 1990s (end of conflicts in Croatia, Bosnia and Herzegovina and Kosovo) had a positive influence on the image of the region and both Croatian and Montenegrin tourism started booming. In Montenegro, the tourism sector in 2000 recorded 600,000 visitors yearly only to double the number to 1,3 million in 2010 (Statistical Office of Montenegro 2014). With the number of visitors in 2010, Montenegro almost reached the numbers recorded in 1987, the golden era of tourism in socialism. Croatia was visited by 7,1 million tourists in 2000 and, with 10,5 million of visitors, surpassed record from 1987 (Ministry of Tourism Croatia 2013). Fall of Yugoslavia has also influenced the structure of the tourists in two countries. Previously, both countries relied on the

guests from Yugoslavia which were defined as domestic guests and on a mix of foreign visitors. However, after the two countries became independent, the structure of the guests changed.

Croatia started relying on a mix of Western and Central-Eastern European visitors, while Slovenians remained the only former Yugoslav guests on the list of the top 10 contributors. Montenegro was far more successful in attracting Russian visitors which along with the visitors from the former Yugoslav countries, Serbia, Bosnia and Herzegovina and Macedonia dominate in the structure of foreign visitors. Croatia has largely kept the visitors who arrive using road transportation, while Montenegro re-oriented towards airline transport and continued to rely on ground transportation only in attracting visitors from the neighbouring countries. Table 5-5 in Appendix 5-2 outlines the structure of visitors in Croatia and Montenegro in 2010.

Despite the change in the structure of the guests, the pressure on the coast from the number of the visitors was almost identical in the two countries. Both countries had, when the population is considered, similar trends in numbers of overnight stays. There was a sharp decline from 1990 to 1995 after which overnight stays in both countries started to recover. Figure 5-1 outlines a comparison in overnight per capita stays in Croatia and Montenegro between 1980 and 2015.

Figure 5-1 Overnight stays per capita in Croatia and Montenegro (1980-2015)



Source: Author's calculations based on tourism data from SR Croatia Bureau for Statistics (1986), Ministry of Tourism (2014), as well as from Martinović's (2003) and Đuranović and Radunović's (2011) analyses. World Bank's Development Indicators (The World Bank 2016) were used as a source of population data.

The fall of Yugoslavia led to an increase in demand for summerhouses both in Croatia and in Montenegro. Some Croatian Serbs owned summer houses in Croatia and as the armed conflicts in Croatia froze in 1992, the sales of Serbian-owned real estates intensified. Croatian Serbs offered sale and substitution of houses in Western Slavonia and coastal Croatia. The houses were typically underpriced, as the owners wanted to leave Croatia, along with the property (Raseta 2008).

To substitute for properties Serbian citizens lost in Croatia, it is possible that demand for real estate in Montenegro also grew. However, media paid more attention to the noticeable increase in demand for summerhouses from Russian citizens, as a result of which Russian-speaking radio stations, agencies and even a class in a primary school emerged in Montenegro (Vukićević 2008; Rojec et al. 2007; Krcić 2013; Prekić 2014b). Data or studies analysing the effect of the Serbian and Russian demand for summerhouses in Montenegro are missing. Moreover, as Montenegro does not have an up-to-date cadastre it is hard to precisely measure the increase in demand.

Simultaneously, demand for real estates also grew in Croatia as it progressed on its path towards the EU membership. During its negotiations, Croatia has not negotiated a partial measurement prohibiting foreigners from owning land and real estate in Croatia which has led to increasing demand and foreign ownership of summerhouses (Mihaljek 2005; Mihaljek 2003). Additionally, owning a summer house in Croatia represented a status symbol already in Yugoslavia and market economy has only strengthened the trend (Taylor 2010). As a result, both legal and illegal construction rose in Croatia and Montenegro, having significant negative effect on the landscapes in the coastal areas.

I note there was an increase in demand for second homes in both countries, but the lack of data or research prohibits closer comparisons. However, the chapter focuses on rent-grabbing and resource use in important tourism projects as these have an influence on the development of tourism and their path through the system can be followed. Therefore, possible differences are not central to the dissertation.

Besides an interest in small-scale private tourism supply, interest for both greenfield and brownfield investments increased considerably as well, first in Croatia, but then also in Montenegro. However, the ways of dealing with the increase in demand and supply in the two countries differed significantly. After the period of early transition in which resource use and the rent-grabbing regimes had similar characteristics, the parting of the ways followed in the beginning of the 2000s. I now turn to the development of political competition in Croatia and continuation of DPS's domination in Montenegro.

#### 5.1.2 Political competition

Croatian President Franjo Tuđman died in 2000. Stipe Mesić, a member of the opposition Croatian People's Party – Liberal Democrats (HNS), was elected as his successor. As both Mesić and second-ranked presidential candidate, Dražen Budiša came from the opposition parties,<sup>17</sup> these elections were a clear sign that the electorate wanted changes and turned towards the HDZ's opposition (Koyama 2003).

In 2000, regularly scheduled parliamentary elections were held and HDZ as the dominant party was defeated by the unified centre-left coalition. A coalition government<sup>18</sup> led by the successor of the communist party, the Social Democratic Party (SDP), and the new President Stipe Mesić initiated constitutional changes which reduced the authority of the president and

<sup>17</sup> Dražen Budiša was a member of the Croatian Social-Liberal Party (HSLs)

<sup>18</sup> Coalition government included representatives of Social Democratic Party (SDP), Croatian Peoples' Party (HNS), Croatian Social-Liberal Party (HSLs), Croatian Peasant Party (HSS), Istrian Democratic Alliance (IDS) and Liberal Party (LS).

concluded the hybrid regime phase of transition. The formation of the coalition also meant that HDZ's control over the branches of government was weakened and political competition started to institutionalize (Jović 2009; Vuković 2014).

Besides reducing the powers of the president, the new government started working on the European integration process. The government established an office for combating corruption and organized crime, independent from the rest of the prosecution and also announced investigations of the corrupt privatization. Despite the initial success in undoing the effects of the early turbulent transition, SDP's Government suffered from coalition fragility and has fallen apart in 2003 over the issue of extradition of the Croatian war generals to the International Criminal Tribunal for the former Yugoslavia (ICTY). As a result, little was done to investigate the murky transition, but three and a half years in which Croatia had a centre-left government initiated the separation of powers in Croatia (Jović 2011).

In Montenegro, the dominant party DPS convincingly won the 1996 parliamentary elections by advocating the politics and policy of Yugoslav continuity. However, the long-term Prime Minister Milo Đukanović already started campaigning for faster economic reforms and deviation from the Serbian leadership under Slobodan Milošević. In his speeches, he publicly supported the opposition in Serbia which led to a first open rift between him and the President of Montenegro, Momir Bulatović. In July 1997, the Main Board of DPS removed President Bulatović from the position of the President of the Main Board of the party and decided that Milo Đukanović will be its candidate for the presidential elections which were to be held in October of the same year (Šćekić 2012).

Bulatović formed a new party and competed in the presidential elections in October 1997. In the first round of the elections, Bulatović won and was considered a safe winner in the second

round of elections. However, Šćekić emphasizes unclear circumstances under which Đukanović won with 5500 votes of difference in the second round (2012). Supporters of Bulatović left DPS after he was excluded from the party and formed Socialist People's Party (SNP). Svetozar Marović as the third member of the DPS "triumvirate" sided with Đukanović. As a result, the party leadership in the ruling DPS partially changed through the elections in 1997 and 1998, but its leadership concentrated around Đukanović and Marović still controlled the most important functions of the state and its channels of influence over the electorate (Morrison 2011). The within-party rift in Montenegro occurred while demand for tourism and for the land was low and did not have a direct influence on tourism legislation. However, it has enabled DPS to continue domination over branches of government and to concentrate power in the hands of its leadership. Judiciary remained firmly under the control of DPS and corruption of those close to the dominant party was not sanctioned.

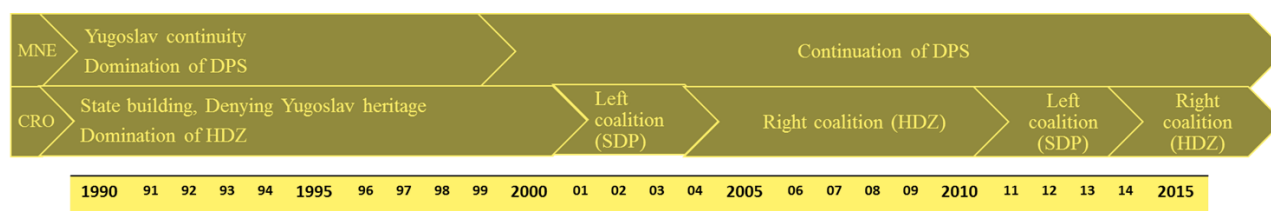
At the end of the 1990s, both countries went through a change in leadership, but in Croatia, the change led to a weakening of HDZ's influence over the state institutions and economy. To counteract the economic difficulties and political isolation, the electorate turned to the opposition centre-left parties which have initiated democratic reforms. In Montenegro, Milo Đukanović's deviation from the politics of Serbian leadership and the subsequent in-party rift in the ruling DPS enabled citizens to choose a change while continuing to support the incumbent party.

From this point, DPS firmly ruled over Montenegro and has not lost single presidential or parliamentary elections. Although ethnic Serbian parties frequently united against DPS, the rule of the incumbents was never jeopardized and political competition has not led to disbanding of the partitocratic regime. After the expulsion of Bulatović, two centres were formed in DPS, one around Đukanović and the other around Marović. When tourism started growing, the two

centres shared the resource rents, forming a non-sustainable rent-sharing or rent-cohabitation resource use regime.

In Croatia, during the parliamentary elections of 2003 HDZ won 66 out of 140 mandates and coalesced with centre parties HSLS, HSS, DC, HSU<sup>19</sup> and representatives of the minorities. After SDP's centre-left coalition broke HDZ's domination in Croatia in 2000, HDZ and the centre-left parties continued exchanging the control over the Parliament and over the function of the President of the Republic. This created an equilibrium of two political camps. The element of political competitiveness paired up with spatial planning expertise and capacity ensured a sustainable rent-cohabitation regime. A detailed overview of the national elections in Croatia and Montenegro is available in Annex 5-1. The timeline in Figure 5-2 outlines development of national level political competition in Croatia and Montenegro

Figure 5-2 Development of national level political competition in Croatia and Montenegro



Source: Author

### 5.1.3 Prosecution and judicial independence

I now turn to the judiciary, its relationship to political competition and influence on rent-grabbing prevention and protection against resource misuse. First, I show how the EU accession process incentivised development of the anti-corruption office and how the prosecution of corruption became an “unstoppable” process in Croatia. Second, I recount a similar story of EU

<sup>19</sup> Croatian Social-Liberal Party (HSLS), Croatian Peasant Party (HSS), Democratic Centre (DC) and Croatian Pensioners Party (HSU).

conditionality in Montenegro, but suggest that the judiciary is still controlled by the political elites.

#### *5.1.3.1 Towards independent judiciary – tying politicians' hands*

In Croatia, during Račan's 2000 to 2003 government, EU membership became the most important goal of the national-level politics. Fight against corruption and independent prosecution were among the most important criteria for accession to the EU. Therefore, in 2002, a first Anti-Corruption Action Programme was adopted by Ivica Račan's left coalition government which also founded a Bureau for Combating Corruption and Organized Crime (USKOK)<sup>20</sup> under the Public Prosecutor's Office. Overall improvements in the quality of governance led also to an improvement in the control of corruption score (World Bank 2015), but USKOK was not considered fully functional nor was the adopted Action Programme fulfilled. Failure to catch up with the Central and Eastern European countries in 2004 and 2007 accessions ensured that the fight against corruption, as one of the EU's requirements, remained among the priorities of following governments.

HDZ won parliamentary elections in 2003 and its reformed leadership confirmed EU accession as its main goal. Kuris argued that Ivo Sanader's government ensured progress in corruption control through three main steps. Firstly, through stricter and better-defined legislation in the areas of the electoral campaign and party funding, undue influence, conflict of interest and supervision of state-owned companies. Secondly, USKOK, as the body of the prosecution focused on corruption and crime, received more funding, hired more personnel and improved its capacities. Thirdly, in 2005 a new Head of USKOK, Dinko Cvitan, was recruited. Cvitan was considered to be an unbiased professional and the literature suggests that he ensured the independent functioning of the prosecution unit in charge of organized crime and corruption.

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<sup>20</sup> Bureau for Combating Corruption and Organized Crime (Ured za suzbijanje korupcije i organiziranog kriminala)



His initial step was hiring prosecutors with specific competencies and ability to withstand pressures of the fight against corruption (Kuris 2012). Increased financial autonomy of USKOK, improved staff capacities in asset-tracing and surveillance methods, and institutionalized cooperation between USKOK, police and court snowballed into visible results, such as success in the “Maestro”<sup>21</sup> and “Indeks”<sup>22</sup> affairs (Kuris 2012).

The adopted measures were seen as concessions to the EU accession process, but despite the increased independence of USKOK and the success in Maestro and Indeks, the underlying assumption was that certain individuals were still above the law. The EU remained unconvinced that Croatia managed to build prosecution institutions of sufficient quality (European Commission 2009). The efforts of Račan’s government (2000-2003), Sanader’s two governments (2003-2007 and 2007-2009 and Jadranka Kosor’s successor government (2009-2011) were directed towards EU membership and the insufficient prosecution of large-scale corruption remained one of the chief obstacles. While state attorney and prosecution institutions became much more independent than in Tuđman’s era, only former Prime Minister Ivo Sanader’s prosecution and arrest for corruption enabled a convincing proof of the efforts to ensure the rule of law. Secondary sources suggest that years of data collection and Sanader’s leave from the position of the Prime Minister enabled USKOK to indict him, members of his cabinet and of HDZ party for corruption and undue influence in several affairs such as sales of state-owned oil company, party funding and affairs with Hypo Bank (Kuris 2012).

Vladimir Šeks, one of the most prominent members of the HDZ party since its founding, stated that before his arrest Ivo Sanader attempted to dismantle the anti-corruption efforts by

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<sup>21</sup> Maestro targeted corruption activities of the Croatian Privatisation Fond which requested bribes for its decisions in privatization deals.

<sup>22</sup> Indeks targeted Croatian universities and the praxis of offering or requesting money, services or goods to the faculty members in exchange for better grades or for a pass.

trying to sack the State Attorney. However, at that point, his successor, Prime Minister Jadranka Kosor, along with the HDZ's membership behind her, were pressured to stay aside as the investigations became *an unstoppable process* (as quoted in Kuris 2012). Austrian prosecution bodies (through investigation of the Hype Alpe Adria Bank affairs – including affairs Barbariga and Dragonera – analysed in detail in Chapter 7) already had evidence of Sanader's graft activities beyond Croatian borders. Therefore, Sanader and the party membership behind him were sacrificed to convince the EU of the quality of Croatian institutions (Kuris 2012). Sanader's arrest and trials persuaded the EU that impunity was not ensured even for the highest officials and that institutions of rule of law were established and functioning in Croatia. However, the development of the independent prosecution and judiciary also allowed NGOs to seek judicial assessment of illegalities in the tourism project. Subsequently, the judiciary became the channel through which the NGOs in Croatia could prevent rent-grabbing. I will analyse this channel in depth in Chapter 7.

#### 5.1.3.2 Politicized prosecution and the sacrifices at the altar of anti-corruption

In Montenegro, the fight against corruption and independent prosecution were, like in Croatia, primarily motivated by the EU accession process. The Montenegrin status of EU candidacy was approved in December 2010. Although perceived as a relative laggard in the race to the EU accession, the absence of sensitive political issues other countries were laden with (Gotev 2013), ensured remarkably fast progress. The official EU negotiations began in June 2012 and the control of corruption, the prosecution of crimes, the independence of the judiciary and environmental regulation have been identified as the largest setbacks (DG Enlargement European Commission 2014). After Montenegro officially started negotiations, it started to eagerly adopt the *acquis* and reforms were initiated in the areas which did not tackle the partitocratic character of the regime. The interviewees suggest that the leverage of the EU

membership gave EU a great influence over both domestic and foreign affairs, allowing, for example, greater civic participation (Interviews 19 and 36).

As Montenegro adopted EU *acquis* and regulations stipulated in the negotiation chapters, the issue of corruption and organized crime remained the most often quoted obstacle to the Montenegrin EU accession by the European Commission. The EU delegation in Montenegro regularly criticized the government for the failure to combat corruption, especially among high-level political elites (Balkans Al Jazeera 2012). The interviewees from the NGOs and the critical media frequently described the lack of independent prosecution and judiciary as key issues (Interviews 22, 23, 24 and 36). The main argument was that in cases where political and business elites close to the leadership of the DPS were considered, the prosecution bodies failed to intervene and to start the investigation (Civic Alliance 2014). An example where the prosecution failed to act is the “Tape recording affair,”<sup>23</sup> which implicated DPS with electoral frauds. However, in cases when the NGOs and media critical of the work of the government were at stake, the prosecution promptly responded with investigations and charges (see e.g. CDM 2014a; CDM 2014b).

Since the collapse of Yugoslavia, Montenegrin dominant party DPS has not lost single presidential or parliamentary elections since 1990 and has succeeded, through in-party conflicts, to convince its electorate and foreign actors that they are still the best choice out there. EU membership is Montenegrin strategic goal, supported by the majority of parliamentary parties, is EU membership. To achieve this goal, DPS has allowed prosecution of its members to offer evidence of fight against corruption. Radulović argues that the

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<sup>23</sup> Media outlet *Dan* reported the so-called “Tape recording” or “Snimak” affair where recordings from DPS inner party meetings suggested the incumbent party is trying to secure jobs for party loyalists, close a trade union led by the opposition Democratic Front and buy votes for the subsequent elections (Freedom House 2014)

prosecution of the affairs Zavala and Organized Crime Group Budva, including highly ranked DPS members, can be perceived as a sacrifice at the altar of anti-corruption (Radulović 2015). In the interviews, NGOs, experts and the media representatives have identified prosecution's engagement as DPS' strategy to document institutional reforms and confront problematic membership rather than a sign of progress towards independent prosecution (Interview 19, 22, 23, 25, 26 and 36).

DPS's reign over Montenegro and collusion of the political and criminal elites has effectively prevented the development of an independent judiciary that, as such, would combat impunity from punishment of DPS' leadership. Despite numerous reports of NGOs about tourism and land use illegalities supported by abundant evidence (see a list of cases MANS investigated, available in NGOs section of Chapter 7), the prosecution has failed to respond. Prosecution bodies have so far acted against DPS only in cases of already signed-off, undesirable associates, such as Marović and his Organized Crime Group Budva. While turnover in power combined with the EU accession process led to better functioning of the judiciary in Croatia, the dominant party prevented such development in Montenegro. As a result, civil society cannot rely on prosecution and the judiciary as a channel for protection against rent-grabbing. This will be analysed in-depth in Chapter 7. I now turn to the development of the regulation in the field of spatial planning. I show that in Croatia protective legislation emerged partially independent from the politics of the day, based on the Yugoslav planning expertise and capacity. In Montenegro, lack of political competition and planning expertise, capacity and autonomy led to disbanding of the decentralized planning system inherited from Yugoslavia.

#### 5.1.4 Legislation and bureaucratic practices

During Sanader's government from 2004 to 2007, the growing interest for natural resources in Croatia was controlled through the laws which curbed the volume of the potential

land conversions from agricultural and forest to urban land, particularly within the coastal belt. The recovery of the tourism sector led to controversial buying of agricultural non-urban land from the local population or municipalities for low prices. Through pre-arranged agreements or by exerting informal pressure on the local politicians to urbanize the land, the investors would ensure a high profit margin. In 2003, Marina Matulović-Dropulić became the Minister for the protection of the environment, spatial planning and construction, and under her first mandate stricter legislation was introduced for the attractive coastal belt.

An interviewee employed at the Ministry confirmed that Matulović-Dropulić came up with a programme of strengthening spatial planning and the protection of the land as a resource (Interview 16). The decree introduced when Matulović-Dropulić became Minister ensured the protection for the area of all islands and mainland within 1000 meters from the coastal line on the land and 300 meters in the sea within which construction was limited and controlled (Decree on Use and Protection of the Protected Coastal Belt 2004).

In parallel, Montenegro already started to break down the decentralized planning system which delegated the planning responsibility within the coastal zone to the local municipality. Legislation adopted after the fall of Yugoslavia largely copied the existing solutions by delegating spatial planning to the local level, under the supervision of the national-level ministry. The process of spatial planning included two levels of control and monitoring, national and the local level spatial and urban plans. The municipalities were in charge of developing municipal plans which then had to be approved by the Ministry.

However, the legislative change in 2005 entrusted the responsibility for spatial planning within the coastal area to the Montenegrin Parliament. The 2005 Law on physical planning and development introduced the so-called State Location Study (SLS) and Local Study of Location

(LSL) among the spatial plans (2005). I particularly emphasize the SLS, as a document of the highest, national level spatial rank. This is important as the most attractive coastal belt was now planned through the SLS, rather than through municipal and detailed urban plans. As a result of the legislative changes, SLS excluded municipalities from the process of the spatial planning in the coastal belt and assigned this task to the Parliament.

As most of the large tourism greenfield projects are placed within the coastal zone or within protected nature areas, the State Location Study began to define what and in which manner will be developed. This process effectively reduced the importance of decentralization of the planning system. In order to plan a new tourism project, the spatial plans of the municipalities did not have to be adopted and approved by the municipalities to allow land use conversion for tourism projects. It also meant that the municipality and the elected representatives on the municipal level lost influence on the final outcome in terms of spatial planning within the most valuable land on its territory. The process became shorter time-wise and did not offer much of a chance for NGO activism or media engagement.

The streamlining of the process, initiated through the introduction of SLS in 2005, continued in 2008 with the adoption of the new Law on Spatial Development and Construction of Structures. Article 47 prescribed that State Location Study and detailed spatial plan required the adoption by the Government and not by the Parliament as in 2005 law (Montenegrin Government 2008). The SLS required the approval of the Ministry in charge of spatial planning, but the Parliament and the municipal assemblies on the territory of which the investment is planned had no means of participating in the process. This meant that in the case of tenders led by the Government, both the municipalities and the Parliament lost even the possibility of being included in the planning process. SLS directly defined how the area will be used and the government directly negotiated the conditions of the investment.

In comparison, in Croatia, the system of decentralized, three-level spatial planning remained intact. In 2007, after a tight electoral victory and better coalition making skills, HDZ reinsured its majority in the national parliament. Minister Marina Matulović-Dropulić, who was lauded both by fellow urbanists (Interview 2) and journalists (e.g. Krasnec 2011) as a planning expert, had significant authority in Sanader's government, stayed in charge of the Ministry of environment protection, spatial planning and construction. In 2007, a new Physical Planning and Building Act (2007) was adopted with the aim of providing better protection against the usurpation of the land in the tourism zones.

The law defined tourism zones as areas up to 15 hectares<sup>24</sup> outside the inhabited, urban land, selected for the tourism and hospitality land use purpose. Zones were planned in the county level spatial plans, which were then implemented in the city and municipal plans. While tourism capacities could also be constructed within the mixed-use zones, larger complexes had to be planned within tourism zones. These zones were defined as areas of lower nature and landscape value where the density of beds could not surpass 120 bed per hectare of land. The law also stated that new tourism zones could be opened only if the existing ones in the county were already 80% used, while the area for tourism use must be reduced to 70% of its size if the existing zones were used less than 50% (2007). As the return on investments in tourism is relatively low and requires several years to pay off, the development of apartments and villas for the market and the concept of the so-called condo<sup>25</sup> hotels became increasingly popular. Legislation from 2007 prevented the development of accommodation units for sales on the market within the tourism zones (Krasnec 2011).

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<sup>24</sup> Hectare is a land parcel measurement unit used in Croatia and Montenegro for the land surface. One hectare has 10,000 square metres.

<sup>25</sup> Condo accommodation units are sold on the market with a contract specifying that the property will be rented out for a specific time period each year. However, these capacities are frequently not rented out so they have a residential rather than a tourism function.

To this end, the Physical Planning and Building Act (2007) reduced interest in real estate development under tourism disguise and imposed tighter controls on land urbanization. Additionally, all spatial plans governing the use of land within Protected Coastal Belt (PCB)<sup>26</sup> since 2004 required the Ministry's approval. The planning process kept the three-tier structure where municipal and city level spatial plans needed to be in accordance with the county and national level plans (such as plans defining land use within protected areas). Most of the tourism projects also required more detailed Urban Development Plan (UPU) or Detailed Urban Plan (DPU) governing the use of the land outside of the inhabited settlements which are not defined in the municipal or town plans.

Simultaneously, interest for golf development surged in this period. However, many potential golf projects faced problems as the planned terrains included forest land. Based on the Law on Forests from 2006, forest land in the ownership of the Croatian state had to be expropriated from the so-called forest basis to allow golf development. To shorten the lengthy procedures, the Parliament adopted the Law on Golf Terrains in 2008. However, the law was not suggested by the Ministry in charge of spatial planning, but by the Tourism Ministry. Oraić and Pisk suggest that this law was an example of legislation that endangered the protection of the natural resources for the purpose of developing golf and supposedly tourism. At its core, it was contradicting the protection invoked by the Physical Planning and Building Act. This law ensured a privileged treatment for golf investors in comparison to the other sectors, but also provided grounds for the expropriation of forest land and the development of apartments for sales on the real estate market under the disguise of golf tourism (Oraić and Pisk 2012).

The law stated that *building golf terrains represents the specific interest for Republic of Croatia*, and allowed *the segregation of forests from the forest basis, for the purpose of building*

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<sup>26</sup> Protected Coastal Belt (Zaštićeni Obalni Pojas)



*quality Mediterranean and European destination for golf* (2008).<sup>27</sup> Although the protection and preservation of forests are based on the Croatian Constitution, the Law on golf terrains created a loophole by placing golf as a more important strategic interest. Additionally, the law allowed condominium ownership on non-urban land up to 25% of the planned surface of the golf terrain. As condominium ownership was at that time not allowed in tourism zones, the law imposed legal grounds for real estate apartments disguised as a special strategic interest of Croatia (Croatian Helsinki Committee for Human Rights 2013; Oraić and Pisk 2012).

Simultaneously, another law was prepared and adopted that raised civil society's interest in the protection of the natural resources. The Parliament adopted the Law on Agricultural Land and prescribed that the conversion of agricultural land units into golf terrains on state-owned land does not require the payment of a fee as a form of compensation for the destruction of agricultural land. Simultaneously the same fee applied to other types of construction sites with a long-term effect on the environment, placing golf in a privileged position even at the expense of harming public interest (Oraić and Pisk 2012). Agricultural land urbanization fee was set to 50% of the value of the land after urbanization, or 100% of the value in the case of the especially valuable arable land. As these fees are an important mechanism against corruptive land urbanisation this law had a mixed effect on the control of rent-grabbing and resource misuse.

The Law on Golf Terrains also prescribed that in the cases where the ownership of the land planned for golf development is not private, i.e. the owner is either the state or the local unit of self-governance, the land must be sold *for the market price* to the investor without a public tender. For the privately owned agricultural land on which a golf terrain was planned in

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<sup>27</sup> Forests in question are property of Republic of Croatia with 91% of the total surface used for economic purposes, 7% for protective purposes and 2% for special purposes<sup>27</sup> (Hrvatske Šume 2008).

the spatial documents, the law also suggested the expropriation mechanism, as the owners would be forced to sell the land at the market price (Oraić and Pisk 2012).

However, even though the law opened a wide window of opportunity for resource misuse, no problematic projects came out of it. The Ministry in charge of spatial planning acted as the interpreter of the regulation and according to an interviewee from the Ministry, declined support for the projects where investors wanted to initiate the project with the development of the apartments for market without building tourism capacities, such as for example hotels (Interview 7). In 2011, the law was revoked under pressure from NGOs and the political opposition, but also due to integrity and corruption issues in the ruling HDZ (Coalition of NGOs 2011).

In the period from 2000 to 2010 numerous laws in Croatia imposed contradictory solutions for resource use. As a result, rent-grabbing was not completely disincentivized. Despite significant interest for investments in tourism, few projects approached realization. Two interviewees suggested that many of the investors supposedly interested in tourism were actually interested in land speculations and development of real estate apartments (Interview 7 and 16). Both interviewees used the expression land speculation to refer to land urbanization schemes capitalizing on reselling newly urbanized land or on the development of the real estates for the market. However, bureaucratic capacities and the legislation managed to block corruptive projects.

Three aspects of the spatial planning system can be outlined as the most important for controlling rent-grabbing and minimising resource misuse. Firstly, multi-level system of spatial planning provided strong oversight mechanisms through control of local, regional and national planning offices. Secondly, expertise in spatial planning, inherited from Yugoslavia, protected the coastal belt. Even in cases of golf legislation which incentivised land urbanization schemes,

the capacity, expertise and autonomy of the Ministry in charge of spatial planning prevented projects which only aimed at short-term profit. Thirdly, legislation from 2004 and 2007 limited construction and expansion of tourism zones until already selected zones were efficiently used. Table 5-1 summarizes legislation brought in the period from 2000 to 2010 relevant for resource protection.

Table 5-1 Legislation and its influence on DVs in Croatia (2000-2010)

<b>Political Competition</b>	<b>Legislation</b>	<b>Type of influence on DVs</b>	<b>Description</b>
HDZ (preceded by left coalition, first mandate 2003 - 2007)	Decree on Planning and Protection of the Protected Coastal Area (PCA), 2004 <sup>28</sup>	PROTECTIVE	Within PCB limited extension of construction with the use of existing zones.
HDZ (preceded by left coalition, first mandate 2003 - 2007)	Law on forests, 2006	PROTECTIVE	Complex procedures for sport (golf) development within forest land
HDZ (second mandate in a row, 2007 - 2009)	Physical Planning and Building Act, 2007	PROTECTIVE	Banned construction of apartments for market in tourism designated areas and additional controls
HDZ (second mandate in a row, 2007 - 2009)	Law on Golf Terrains, 2008	INDUCIVE	Allowed apartments within golf projects and attempted to speed up the process of forest land expropriation
HDZ (second mandate in a row, 2007 - 2009)	Law on Agricultural Land, 2008	INDUCIVE	Annulled urbanization fees for use of agricultural land for golf terrains
		PROTECTIVE	Urbanization fees for valuable agricultural land 100 and 50% of the market value

Source: Author

In the meanwhile, in Montenegro, the deregulated transition led to poor resource protection. A law passed in 2008 reduced the communal fee obligations for the investors, adding to the issue of resource misuse. The article 66 of the Law on Spatial Development and

<sup>28</sup> The protected coastal area encompasses all islands, the coastal belt stretching up to 1000 meters from the coastline and the sea belt stretching up to 300 m from the coastline.

Construction of Structures stated that investors in high-level categories of tourism do not have to pay fees for the communal infrastructure. However, the category was relatively wide and included hotels and condo hotels with five and four stars, as well as hotels with at least 120 rooms and eco-lodges (2008). This is problematic as the communal fees of each project are also used for continuous maintenance and updating of the existing infrastructure to enable sustainable resource use. The already precarious situation in terms of communal infrastructure was additionally aggravated by this regulation (NALAS 2011).

Before the introduction of this law, the communal fees were used to support the financing of the infrastructural maintenance for the local level communities. However, with the exemption of tourism capacities from the obligation to participate in funding the communal equipping, the government suggested that it was the decision of the investor if they wanted to finance communal infrastructure for the project or not. The government has announced the plan to fully abolish the communal fees and the municipalities were advised to raise real estate taxes to close the budget holes (NALAS 2011).

According to the report prepared by the Union of Municipalities, real estate tax is primarily paid by the citizens of Montenegro, so citizens will be responsible for paying the bill for ensuring a better investment climate. To quote the report: *The waste treatment, water, roads and electricity in Montenegro already represent an issue and transferring the burden of financing on the citizens will likely lead to further deterioration of the environment and the quality of basic infrastructure* (Zajednica opština Crne Gore 2013).

Finally, Law on State Property prescribed that state-owned land can be sold only at the suggestion of the Ministry of Finance and requires government's consent. (2009b). Before 2009 municipalities were selling state-owned land with no supervision of the Government. Such an arrangement prevented property rights conflicts between the municipalities and the state, but

also allowed municipalities to sell valuable land at will. Property rights issues are explained in detail in Legal Glossary in Annex 6-1. After a spree of land sales on the municipal level, the government has tightened the control over the land sales (Rašković 2015). The law was introduced to limit profiteering of the municipal elites from the sales of the valuable land and has simultaneously ensured governmental control over who can benefit from the land sales (NALAS 2011). Table 5-2 lists relevant legislation introduced from 2000-2010.

Table 5-2 Legislation and its influence on DVs in Montenegro (2000-2010)

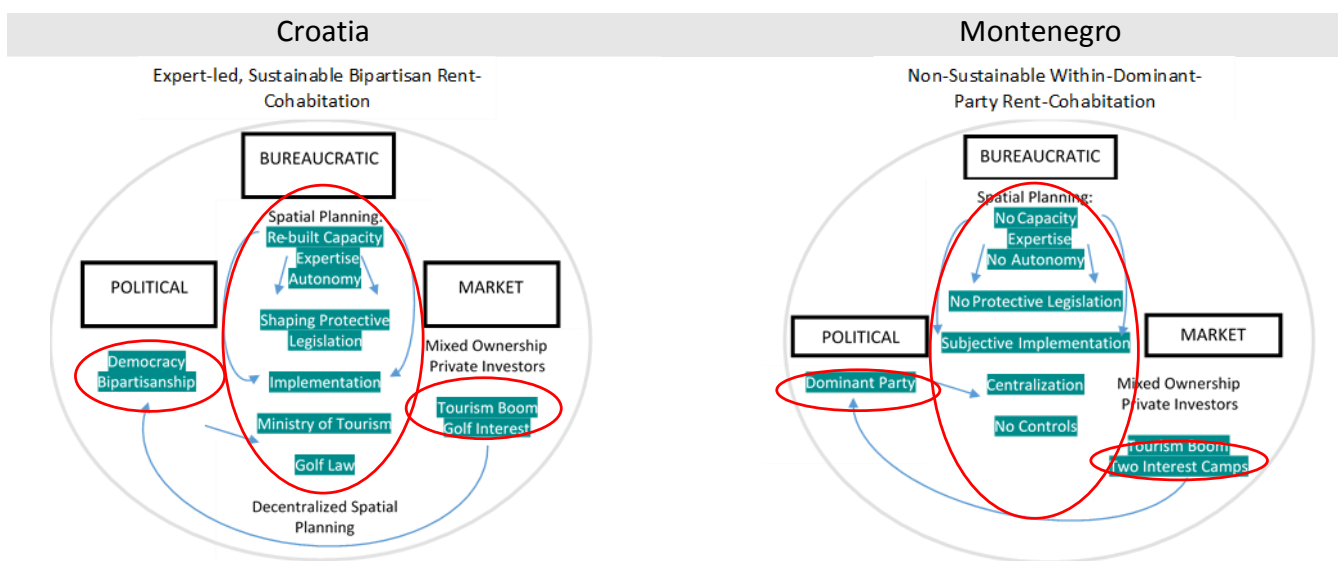
<b>Political Competition</b>	<b>Legislation</b>	<b>Type of influence on DVs</b>	<b>Description</b>
DPS	Law on spatial planning and development, 2005	INDUCIVE	Authority over planning in most valuable coastal belt has been transferred through SLS from municipal assemblies to the national parliament
DPS	Law on planning of space and object construction, 2008	INDUCIVE	Planning in the most valuable coastal belt has been further centralized by transferring the adoption of the SLS from the Parliament on the government
		INDUCIVE	Removal of communal fee obligation that supported deteriorating resource use and increased incentives for land use conversion rent-grabbing
DPS	Law on State Property, 2009	MIXED	Control over land sales became contingent upon governmental approval, but still supported resource misuse and rent-grabbing

Source: Author

In the period between 2000 and 2010, interest for tourism increased sharply in Montenegro. The legislative solutions streamlined the existing procedures by removing the municipal supervision over the planning process and placing them tightly in the hands of DPS' Government elites. This meant that through the institution of the SLS, the government controlled most interesting locations within the coastal belt and municipalities had limited oversight. Moreover, the Montenegrin legislation has not set up any limitation on the land

urbanization in the coastal municipalities, inspiring rent-grabbing through land urbanization. This allowed municipalities to sell and expand construction areas as the legislation has not explicitly forbidden it. Furthermore, although infrastructure is poorly developed in Montenegro, to attract investors the regulation risks further deterioration. A schematic overview of the coevolution between politics, development and bureaucracy during the transition is presented in Figure 5-3.

Figure 5-3 Coevolution during the tourism boom in the 2000s



To summarize, in the 2000s, spatial planning expertise and capacity, combined with the competitive bipartisan system, prevented illegal land urbanization along the coast and ensured sustainable resource management in Croatia. Simultaneously, lack of in-house planning capacities and rent-grabbing efforts of the two centres of power led to a non-sustainable resource management and fast pace of coastal destruction in Montenegro. This is illustrated in Figure 5-3.

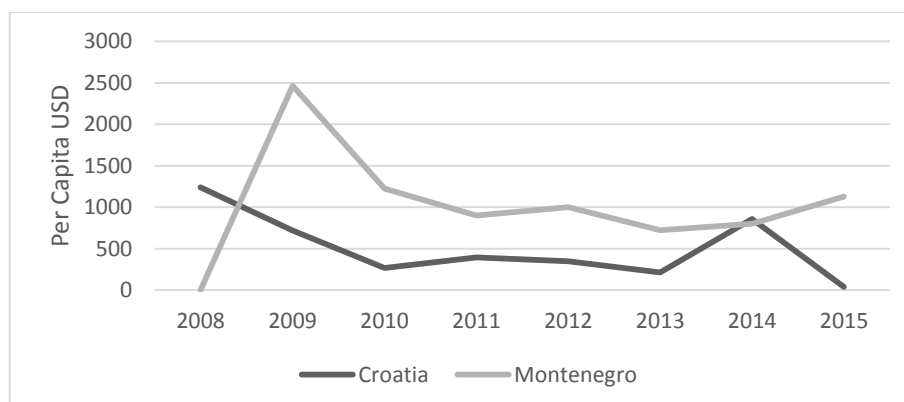
In the following section, I turn to the period of the financial crisis and analyse its effects on rent-grabbing and resource use. I focus on the effects of the bust on the politicians and subsequently, politicians influence on bureaucracy and regulation. In Croatia, the crisis forced

the elites to streamline the regulations and strip away parts of decentralized veto system. In Montenegro, the realization that resources are irreversibly destroyed by numerous grabbing hands led to the development of a new centralization tool – coastal regional plan. However, I argue that despite the emphasis on sustainability, it provides an asymmetric protection that still ensures windfall revenues for the privileged elites.

## **5.2 The 2008 Financial Crisis and Its Aftermath**

The 2008 financial and economic crisis had a strong and lingering impact on the tourism sector. Not only were fewer tourists able to travel, but the investment bubble burst resulted in a decrease of interests for tourism investments as well. While both Croatia and Montenegro had a noticeable drop in FDI inflow, the Montenegrin per capital level remained significantly higher than in Croatia. This is visible from the Figure 5-4. Full data on FDI in millions of USD are available in Table 5-8 in Appendix 5-2.

Figure 5-4 FDI inflow in Croatia and Montenegro



Source: Author's calculations based on UNCTAD's FDI Inflow Tables and World Bank population statistic

As it is visible from the figure above, since 2009, Montenegro received significantly more per capita FDI inflow than Croatia. The only year in which Croatia received more per capita investments than Montenegro is 2014. However, this is misleading as in 2014 there were no larger foreign investments registered in Croatia that could explain the sudden increase. From

FDI inflow tables published by the Croatian National Bank (CNB), it is visible that USD 1,49 billion registered in 2014 is the so-called “round tripping.” Local investors channel local funds abroad and subsequently return the same funds to the local economy in the form of direct foreign investment. These transactions increase the net acquisition of financial assets and the net incurrence of liabilities by the same amount. Literature colloquially calls such investments “Lazy Susans” and ties them to tax evasion and money laundering. Therefore, the extremely low values recorded in Croatia in 2015, in comparison to Montenegrin values for the same year, are a more accurate representation of FDI inflows.

The low level of investments became an important political issue in Croatia, where complex bureaucratic procedures were blamed for the lack of realized projects. Due to the effects of the crisis, the legislation in the period from 2011 to 2015 tried to attract investors by simplifying procedures and removing some of the protection mechanisms. In the same time in Montenegro, the pre-existing flexible legislation lessened the effects of the financial crisis, although several important investments were halted due to the effects of the bubble burst.

In Croatia, the Physical Planning and Building Act which in 2007 prohibited private ownership in the tourism zones was amended in June 2011. The amendments were adopted during the electoral campaign for the parliamentary elections and the last months of the Prime Minister Jadranka Kosor’s HDZ government. In 2011, when Kosor formed her government, Minister Matulović-Dropulić was not part of the cabinet. The changes in the law on spatial planning annulled the early efforts of Minister Matulović-Dropulić and allowed the sales of the apartments within tourism zones in buildings with no other contents besides accommodation units.

When asked to explain how the new law was brought, one of the interviewees argued that from the law itself it was unclear when the sale of residential units was allowed within tourism



zones. Thus the 2011 legislation merely clarified under which conditions sales would be allowed (Interview 7). However, another interviewee suggests that the appointment of the new Minister Branko Bačić, who had far less authority in the government than Minister Matulović-Dropulić, better explains the change (Interview 16).

During the parliamentary elections of November 2011, the centre-left opposition won and the so-called “Kukuriku” coalition ensured a majority in the national parliament. The coalition government, with Minister Anka Mrak Taritaš from HNS, one of the coalition parties, maintained basic measures of protection, such as controls over the expansion of construction areas, but otherwise made the legislation much more flexible. In 2013, a new version of the spatial planning legislation was adopted which allowed deurbanization of the areas designated for construction in the spatial plans if no communal infrastructure was built or no UPU plan was adopted in the period of five years.

This measure allows greater flexibility in the development of tourism zones as there are some areas which have been urbanised for years, but the owners of the land merely wait for a price hike to sell the land. However, it also problematizes the selection of areas designated for urbanization. The current law prohibits the expansion of construction areas until the existing areas are at least 80% utilized. As tourism zones were previously defined as places which experts assigned as optimal for development of tourism, new areas could not be easily introduced. This law allowed a streamlined procedure to drop the non-utilized areas designated for construction. In this case, bureaucratic expertise is crucial in recognizing which areas should become tourism zones.

Another important change in 2013 legislation was the introduction of the Urban Development Plan of State Significance (UDPSS), as detailed plan of state level importance.

In the Draft of the legislative act, it was explained that the changes in the existing legislation were initiated as *the Strategy and Programme of spatial development for Croatia, through which use of space of the national significance was planned, were not appropriate for the implementation* (Ministry of Construction and Spatial Planning 2013). The project implementation required changes in multiple sub-national plans. The draft further suggests that currently there is no subject which would coordinate planning and investments on the national level and as a result investment opportunities were either missed or insufficiently used (ibid).

The UDPSS partially reminds of SLS, introduced in Montenegro in 2008, particularly as the government is in charge of adopting it. The 2013 spatial planning legislation theoretically allows bypassing counties and municipalities in planning areas of strategic importance. According to the law, the UDPSS plans would need the approval from the Ministry, but would be adopted by the government. The procedure avoids local and county assemblies' adoption of the plans, reduces the number of monitoring levels and opens the space for rent-grabbing and misuse. However, so far only two such plans have been adopted, both for the area of the nature park Medvednica, in the vicinity of Zagreb.

In addition to the Law on Spatial Planning a new Law on Forest Land was brought in 2014. It was adopted to circumvent forest land expropriation issues. The act stipulated that the forest land does not have to be expropriated and remains under the ownership of the Croatian State and under the management of the state-owned company Croatian Forests<sup>29</sup> in cases where planned construction includes golf courses or camps. In cases where spatial plans change the land purpose from forest to urban land for construction, a fee must be paid for the right to construction (2014a).

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<sup>29</sup> Croatian Forests (Hrvatske Šume) is a state-owned company that manages and protects the forests in the ownership of the Republic of Croatia.

Among the legislation that tried to address administrative and procedural issues during the crisis is also the Law on Management of the State Property. Issues concerning unsolved property rights frequently represented a burden in the implementation of the projects. For example, municipality sells land or property to an investor. State Attorney then advocates that the sold land was state owned and sues the municipality, halting the implementation of the project. Changes to the Law on Management of the State Property were introduced to facilitate investments in cases of property rights disputes between public administration offices. In 2013, Article 78 allowed the investor to carry on with the investment in case the land or property bought from the municipality in good faith falls under an ownership dispute with the state (2013). Property rights issues between state and municipalities are described in detail in Annex 6-2 Legal Glossary in Annex 6-2. Table 5-3 provides an overview of legislation in Croatia and a description on how it influenced resource use and rent-grabbing.

Table 5-3 Legislation and its influence on DVs in Croatia (2010-2015)

Political Competition	Legislation	Type of influence on DVs	Description
HDZ (second mandate in a row, 2009 - 2011)	Physical Planning and Building Act, 2011	INDUCIVE	Apartments for market were allowed within tourism zones
SDP (preceded by HDZ, 2011 - 2015)	Law on Agricultural Land, 2013	PROTECTIVE	Stricter rules for sales of the state-owned land
SDP (preceded by HDZ, 2011 - 2015)	Physical Planning Act 2013	INDUCIVE	Allows greater flexibility in changing tourism zones and allows changes in the lowest level plans without changes in the county plans.
SDP (preceded by HDZ, 2011 - 2015)	Law on Forests, 2014	INDUCIVE	Forest land use for golf was simplified

Source: Author

However, at the moment of finalizing the dissertation, none of the above-listed measures has resulted in an increase of rent-grabbing nor has it led to visible resource mismanagement.

This would suggest that the expertise and capacity in the Ministry in charge of spatial planning, inherited from Yugoslavia, still ensures that procedure-cutting legislation has no additional negative effect on the use of resources. However, at the time of the dissertation writing, it was too early to divulge and analyse the effects of the legislation.

In comparison to Croatia, Montenegro has dealt much better with the effects of the crisis in terms of attracting investors, but not in terms of scrutinizing projects and protecting the resources. Its flexible legislation attracted much more investments in the pre-crisis period than in Croatia and has continued to cater to the investors' needs in the protracted crisis period.

The most important process which took place in this phase in Montenegro was the development of the Spatial Plan of Special Purpose for the Coastal Zone (SPSPCZ). The DPS government decided to develop the plan in 2011, but the plan was publicly presented only in 2016. The plan represents a missing link between state and municipal level plans and has been pitched by the Ministry in charge of spatial planning as an instrument for the protection of coastal resources. It suggests the reduction of construction areas from 15.5 to 10% and for the first time introduces controls of construction within 100 metres from the seashore. It further specifies that within 1000 metres from seashore only the development of tourism and entrepreneurial units is allowed, while it prohibits residential units.

After it became public, the plan caused a massive opposition of urbanism and environmental associations, as well as of corruption watchdogs. 37 expert groups and NGOs opposed the draft and suggested a total moratorium on construction until a solution protecting the coast appropriately would be found. The associations argued that the plan failed to harmonise the developmental plans on the national and local level, prioritized the interests of

investors over the public interest, while NATURA 2000<sup>30</sup> areas have not been mapped out. The plan additionally suggests large scale construction and tourism activity in sensitive and protected areas such as Ada Bojana, Velija Plaža, Solana, Šaško lake, Jaz and Buljarica. Furthermore, the carrying capacity of the space or critical areas during summer season have not been defined in the plan. NGOs and experts further suggest that the effects of tourism peak on the surrounding areas have not been taken into account and the plan generally prioritizes tourism, at the expense of other sectors and the environment. Moreover, eco-corridors have not been established, nor have rising sea levels and seismic activity been considered (Ozon 2016).

One expert with whom I talked about SPSPCZ additionally suggests that the study of cultural heritage which is a legal prerequisite for such a plan has not been made. Moreover, organized public discussions simulated the inclusion of the public in the process, but neither experts nor public could process lengthy plan for the coastal area in the short time between its publishing and organized discussions (Interview 19). Two experts noted that the plan further centralized the spatial planning decision-making process in the hands of DPS elites as it disregarded the planned use of land defined through municipal plans (Interview 17 and 19). One expert noted that the draft of the plan favours large investors and develops large, until now pristine areas, such as island Sveti Nikola, Buljarica and Solana. The interviewee noted that the definition of residential vs. tourism units also tends to be very fluid in Montenegro:

*Apart hotels or condo hotels, not to mention categories such as “hotel & resort”, “tourism settlement” and “apartment block” in Montenegro, almost by definition contain a certain percentage of apartments for the market.*

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<sup>30</sup> Natura 2000 is a network which protects 18% of the territory of the European Union. The network includes both terrestrial and marine sites. Each country submits a list of best preserved wildlife areas and submits it to European Commission, for an EU level evaluation and selection process.

In this vein, the interviewee suggested it was important to note that the draft of the plan is in accordance with the existing environment in which the government supports fiscally and administratively large investors allowing large profit margins through the development of real-estate apartments for the market (Interview 17).

The political situation must also be taken into account in the analysis of the plan for the coastal municipalities. In the period from 2000 to 2010, tourism boom in Montenegro allowed unearned rents also for Budva DPS circle of power. As a result, large strips of previously pristine land were urbanized with apartments for market and condo hotels. Budva area went through a massive construction wave, permanently damaging the environment and the coastal outline. The development of SPSPCZ was initiated after urban devastation became widespread, but during the making of the plan three high-level political affairs were prosecuted in Budva. Interviews with the critical media and NGOs suggested two of the affairs, Zavala and Košljun, could be easily found anywhere along the coast and were obviously politically motivated and executed (Interview 23 and 26). Moreover, the media and NGOs extensively investigated and published about the various illegalities and schemes that finally led to the prosecution and arrest of Svetozar Marović and the so-called Organized Crime Group Budva (CDM 2015; Lajović 2014d; Rašković 2015). However, despite abundant evidence, there were no investigations until the prosecution of Marović's circle was politically arranged (Plamenac 2016d).

Plamenac (2016d) and Radulović (2015) argued that Marović was sacrificed to prove adoption and internalization of the EU's rule of the law requirements. The overall context implies that Montenegrin judiciary is not independent, which will be in details elaborated in Chapter 7 focusing on the role of the judiciary. However, once Marović and his Budva DPS circle of power were eliminated, the new plan for the coastal municipalities haphazardly carved

out and de-urbanized large strips of the land previously controlled by the circle related to Budva DPS.

A possible explanation is that the sudden turn towards asymmetric sustainability efforts can be linked to complete monopoly over rents DPS Government circle ensured over the resources in Montenegro. In the new equilibrium, fast depletion of the resources is not in the interest of the narrow DPS' leadership. However, this can only be a matter of speculation as the effects of the plan, which has yet to be adopted, cannot possibly be guessed. Table 5-4 overviews the measures introduced in the period between 2000 and 2015 and their influence on rent-grabbing and resource use in Montenegro.

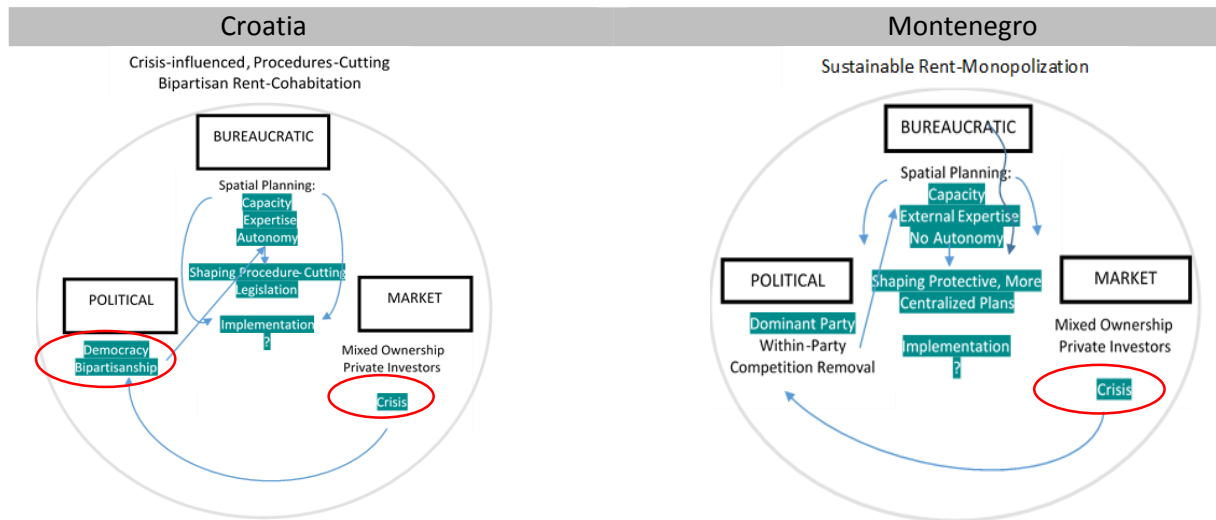
Table 5-4 Measures introduced in Montenegro from 2010 and 2015

<b>Political Competition</b>	<b>Legislation</b>	<b>Type of influence on DVs</b>	<b>Description</b>
DPS	Draft of the Special Purpose Spatial Plan for the Coastal Zone	MIXED	Restricts expansion of construction-designated areas by simultaneously favouring large investors and urbanising large, untouched areas.

Source: Author

A schematic overview of the coevolution between politics, development and bureaucracy during the transition is presented in Figure 5-5.

Figure 5-5 Coevolution during the economic crisis



### 5.3 Summary

The chapter followed the historical development of the political and bureaucratic veto points in Croatia and Montenegro. I focused on the relationship between political, bureaucratic and market institutions and have shown that bureaucratic institutions are to an extent exogenous from the politics of the day and developmental pressures of the resource booms and busts.

Planning expertise and capacities acquired by Croatian bureaucrats in Yugoslavia proved resilient to the tourism boom of the 2000s and were crucial for ensuring a sustainable resource management. Building on the expertise and capacities of the spatial planning bureaucrats and on the decentralized, multi-level planning organization, the two HDZ governments and Minister Matulović-Dropulić supported the adoption of two crucial acts which improved the resource protection. The laws prohibited the introduction of new tourism zones in cases when the existing zones in the county were not used above 80% threshold and set the limits when the number of tourism zones must be decreased. Construction within protected coastal belt has been prohibited as a means of protecting against the linear urbanisation of the coastline.

The effects of the 2008 financial crisis increased the importance of investments, particularly in tourism as one of the most important sectors of the economy. First, privately



owned units were allowed within tourism zones in 2011. Second, the introduction of the National Detailed Plans and deurbanization of non-used construction areas in 2013 simplified the investment process and opened a possibility for centralization of the resource management. Third, changes in the Law on Forest Land circumvented the previous obstacles for golf and camp investments on the forest land. The measures introduced during the 2000s in Croatia curbed rent-grabbing and protected resource use, while the effects of the newer legislation cannot yet be analysed.

In Montenegro, the planning system was colonized by politics as the institutionalization of SLS partially in 2005 and then fully in 2008 removed the authority of the municipalities over valuable strips of land in the coastal belt. Lack of controls led to a construction boom of condo hotels, illegal construction and rent-grabbing at the expense of the public interest. Moreover, the sale of the state-owned land was centralized after several affairs involving corruptive state-owned land sales. In 2011, the government initiated the development of SPSPCZ that would impose controls against uncontrolled construction, but would simultaneously infringe upon the authority of the municipalities. This coincided with the political fall, prosecution and incarceration of the Budva DPS leadership.

### ***Annex 5-1 National Level Political Competition – Details on Divergence of Paths***

After DPS expelled Bulatović in 1997, he was followed by 17 MPs. Đukanović's DPS had only 28 out of 71 representatives left in the Parliament and needed to form a coalition government to stay in power. The coalition agreement was made with small Albanian parties, the Montenegrin People's Party (NS CG) and the Social Democratic Party (SDP) which jointly ensured a majority in the Parliament. On the following parliamentary elections held in 1998, DPS formed a coalition and successfully won a safe majority that ensured the continuation of control over the state institutions and administration through political patronage.

SDP became a prominent ally of the DPS. After the first coalition in 1997, DPS frequently entered coalitions with SDP, both on the municipal and national level. During the 1998 parliamentary elections, DPS and SDP, supported by Albanian and Croatian ethnical parties, won 50.5% of the votes and formed a new majority in the Parliament. Newly founded Bulatović's SNP was relatively successful with 29 seats in the Parliament, but in the long run, it has failed to establish itself as a credible opponent to the dominant DPS. DPS's Filip Vujanović became the Prime Minister, but Đukanović remained the undisputed leader of DPS. He carefully continued his politics of alienation from Serbia and towards Montenegrin independence. However, a large percentage of the population, mostly of Serbian ethnicity, still supported the common state with Serbia. Therefore, Đukanović slowly changed his politics and adapted the rhetoric to the specificities of each municipality (Šćekić 2012).

During the following parliamentary elections in 2001, DPS and SDP again formed a coalition and won 33 seats. The opposition under a slogan "Together for Yugoslavia" also won 33 seats, while the Liberal alliance of Montenegro (LSCG) won 6 seats. DPS-SDP coalition joined forces with LSCG and formed a government, but after one year LSCG left the coalition. Due to the inability to organize a new government, the elections were repeated in 2002 and the coalition European Montenegro (DPS-SDP) won 39 seats. The opposition (including SNP-SNS-NS) regrouped but was less successful than in the 2001 elections, winning only 30 seats. LSCG won four and the Albanian coalition two seats. DPS and its junior partner SDP had a majority to form a new government and Milo Đukanović returned to the position of the Prime Minister. On the presidential elections held in December 2002 DPS' Filip Vujanović, previously the Prime Minister, won the elections with 86% of the votes. Due to the low turnout, the elections were declared void and repeated twice, first in February 2003 and then in May

2003. Vujanović won all three elections in 2002 and 2003 and maintained the function of the President after the turnout threshold was abolished.

At the same time in 2003, in Croatia, the centre-left government of Ivo Račan fell apart and new parliamentary elections were held. A year before the elections were held, in 2002, Ivo Sanader emerged victorious in the inner-party HDZ elections. He reformed the party by orienting it towards the EU accession and by marginalizing its extreme right wing (Jović 2011). On the parliamentary elections in 2003, HDZ won 66 out of 140 mandates and coalesced with HSLS, HSS, DC, HSU and representatives of the minorities. The issue of cooperation with the ICTY on which Račan's government failed, was solved without damaging the support of the electorate. EU's request to curb the corruption was also acknowledged as the office for the fight against corruption and organized crime received more autonomy and funding. However, it remained an unwritten rule that the ruling elites were not to be touched (Kuris 2012).

While the highest political goal in Croatia was entering EU, the agenda in Montenegro slowly became dominated by Montenegrin independence. Initially, the support of the international community for Đukanović and Montenegrin independence was a result of the efforts to neutralize Slobodan Milošević. Although Montenegro under Đukanović's leadership still had the support of the EU and the US, there was little support for the creation of a new independent state in the unstable Balkans. To pacify the spirits in Serbia and Montenegro, a compromise solution was reached with the foundation of a State Union of Serbia and Montenegro in 2002 (Morrison 2009, 184). In return for signing the agreement, Đukanović maintained the support of the international community, particularly of the EU and the US, on whose aid it still depended. Most significantly, he secured the scheduling of the independence referendum three years after its foundation, which set up a very specific expiration date for the newly formed state union.

In the period of three years between the signing of the Belgrade Agreement, which founded the State union of Serbia and Montenegro, and the independence referendum, the issue remained on the top of the political agenda. The referendum was held in May 2006 and 55.5% of the voters supported Montenegrin independence. Đukanović's European coalition with SDP won the parliamentary elections in the aftermath of the referendum with 41 seats, Serbian list got 11, a coalition of SNP-NS-DSS 11 and a new party Movement for Changes (PzP) also 11. The coalition of liberals and Bosniaks won three seats. Three seats for the Albanian minorities

were equally distributed among coalition Democratic League in Montenegro,<sup>31</sup> Democratic Union of Albanians (DUA)<sup>32</sup> and Albanian Alternative (AA).<sup>33</sup>

In Croatia, in the wake of 2007 parliamentary elections, Sanader's HDZ remained powerful, but the death of SDP's iconic leader Ivo Račan in April increased the support for the SDP, strongest opposition party. Zoran Milanović, a relatively new face in Croatian politics became the leader of SDP which also inspired left-oriented voters to support SDP in the November 2007 parliamentary elections. HDZ ensured 66 seats, the same number as in the previous elections, but SDP rose to 56 seats. Sanadar's negotiation skills and better set of incentives brought HSLS, HSS, HSU and minorities to his side and he managed to form the government again.

Despite the start of the economic and financial crisis in 2008, HDZ still had relatively strong support among the electorate. Therefore, Ivo Sanader's resignation from the position of Prime Minister came completely unexpected. His resignation was publicly announced on 1<sup>st</sup> of July 2009 and HDZ member and Jadranka Kosor, Vice President of the Government, succeeded him in the place of the Prime Minister. Kosor continued negotiations on the border dispute with Slovenia and successfully concluded the accession negotiations with the EU. In January 2010, Sanader attempted to reactivate his mandate in the Parliament and stage a political comeback within HDZ, but was unceremoniously deleted from the list of the party members.

In December 2010 the prosecution office indicated him for the leading role in corruption affairs involving also HDZ as a party (Marini 2014). Court verdict was a formal confirmation that HDZ as a party was part of a corruption scheme and has led to a significant loss of reputation among the electorate. As a result, the voters once again turned to the opposition; SDP won the parliamentary elections in 2011 and Zoran Milanović with Kukuriku coalition<sup>34</sup> partners formed a Government.

In Montenegro, on the 2008 presidential elections DPS' candidate Filip Vujanović easily won with 51,89% of the votes in the first round against three opposition candidates. Andrija

<sup>31</sup> The Democratic League in Montenegro (Demokratski Savez u Crnoj Gori)

<sup>32</sup> Democratic Union of Albanians (Demokratska Unija Albanaca)

<sup>33</sup> Albanian Alternative (Albanska Alternativa)

<sup>34</sup> Kukuriku coalition was formed in 2010 and has included Social Democratic Party of Croatia (SDP), Croatian People's Party – Liberal Democrats (HNS), Istrian Democratic Assembly (IDS) and Croatian Party of Pensioners (HSU).

Mandić (Serb List)<sup>35</sup> won 19,55%, Nebojša Medojević (PzP) 16,64% and Srđan Milić (SNP) 11.92% of the votes. Controversially, the Parliament decided in January 2009 to shorten its four-year term and the parliamentary elections were held in March 2009. On these elections, the Coalition for European Montenegro (DPS-SDP) again secured a majority with 48 seats. From the opposition parties, SNP got 16 seats, New Serb Democracy (NOVA) 8 and PzP 5. Unlike in Croatia, whereupon incrimination of the ruling party the electorate turned to the opposition parties, in a similar situation the electorate did not abandon DPS in Montenegro.

The prosecution opened the so-called “Zavala” case in 2010 in which it arrested Ratko Kuljača, DPS’ Mayor of Budva and Dragan Marović, also DPS’ employee in Budva machinery and brother of Svetozar Marović, one of the most powerful people in Montenegro. Along with other suspects, they were arrested under the charges for frauds, illegal construction and damage to the budget of Budva municipality. Kuljača and Marović were both members of DPS, as well as the other officials arrested as part of the case. Despite the arrests and the implications of DPS involvement in the case, the party not only won the next municipal elections, but also DPS on the national level felt no consequence for such high-level corruption involvement.

After Đukanović briefly stepped away from the function of the Prime Minister in 2010, he successfully won 2012 parliamentary elections and again ensured the position of the Prime Minister. His DPS-SDP coalition secured 39 seats, while Democratic Front (DF)<sup>36</sup> which unified the PzP and New Serb Democracy (NOVA)<sup>37</sup> won 20 seats. SNP won 9 seats and Positive Montenegro (PCG) 7 seats. Bosniak Party (BS)<sup>38</sup> ensured two seats and Croatian Civic Initiative (HGI)<sup>39</sup> got one seat. The Bosniak and Croatian ethnic parties joined forces with the European coalition and formed a government with Milo Đukanović as Prime Minister.

In the presidential elections in 2013, Miodrag Lekić was as a common candidate endorsed by all the opposition parties, while DPS nominated the incumbent Filip Vujanović. The elections were controversial as Vujanović’s candidacy could lead to a third mandate while the constitution explicitly allowed only two terms in a lifetime. However, the Constitutional Court approved his candidacy noting that his mandate from 2003-2008 counted as presidential in the

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<sup>35</sup> Serbian List (Srpska Lista)

<sup>36</sup> Democratic Front (Demokratski Front)

<sup>37</sup> New Serb Democracy (Nova Srpska Demokratija)

<sup>38</sup> Bosniak Party (Bošnjačka Stranka)

<sup>39</sup> Croatian Civic Initiative (Hrvatska Građanska Inicijativa)

state union with Serbia. His mandate from 2008-2013 was deemed his first term in independent Montenegro, allowing him to run again for the function in 2013. He narrowly won against Lekić in the second round with 51.21% of the votes.

In Croatia, fragmented HDZ used Milanović government's mandate for restructuring and the results were visible already in the presidential elections held in December 2014. HDZ's Kolinda Grabar Kitarović defeated incumbent Ivo Josipović with 1.39% of the difference in votes in the presidential elections. She became the first right-wing candidate to win presidential elections after Franjo Tuđman. However, her victory over favoured incumbent Josipović also indicated HDZ's recovery from the loss in the 2011 elections.

The revival of HDZ was further demonstrated in the parliamentary elections a year later, in 2016. The incompetence of the SDP's coalition government and the effects of the crisis incentivised the electorate to seek out the so-called "third choice." HDZ and SDP with their coalition partners and the votes of the diaspora received almost equal support; coalition "Croatia is growing" led by SDP ensured 56 seats, while "Patriotic Coalition" headed by the recovered HDZ, won 56 seats, plus all three seats of the Croatian diaspora. Including the seats of IDS and minorities' representatives, SDP led "Croatia is growing" lacked 9 seats to form a majority, while Patriotic Coalition needed 17 seats. However, newly formed party Bridge of Independent Lists (Most)<sup>40</sup> emerged as the true winner of the elections. With 19 mandates, it had a decisive government making potential for either "Croatia is Growing" or "Patriotic Coalition." After more than two months of negotiations, MOST formed a government with the "Patriotic Coalition," leading to turnover in power in Croatia.

On the parliamentary elections held in Montenegro in October 2016, DPS won a majority of the votes, but Milo Đukanović proposed his deputy, Duško Marković as the new Prime Minister. Marković assembled a coalition government with HGI and SDP. Since the mid-1990 DPS has under the leadership of Milo Đukanović showed incredible adaptability and resilience offering the change of course to satisfy the demands of the electorate and support of the international community.

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<sup>40</sup> Bridge of Independent Lists (Most Nezavisnih Lista)

## **Appendix 5-2 - Various Tables**

Table 5-5 Structure of visitors in Croatia and Montenegro

Croatia				Montenegro			
Country of residence	of	Tourists in 1000	%	Country of residence	of	Tourists in 1000	%
Germany		11,476	20.3	Serbia		314,8	24.93
Slovenia		5,885	10.4	Russia		150,2	11.89
Italy		4,732	8.4	Bosnia and Herzegovina		103,0	8.15
Austria		4,420	7.8	France		42,1	3.33
Czech Republic		4,170	7.4	Italy		39.9	3.16
Poland		2,895	5.1	Albania		37,6	2.98
Netherlands		2,245	4.0	Hungary		28,8	2.28
Slovakia		2,084	3.7	Germany		25,4	2.01
Hungary		1,605	2.8	Macedonia		24,4	1.93
France		1,464	2.6	Czech Republic		24,1	1.90
Total foreign		50,992	90.4	Total foreign		1087,8	86.13
Domestic		5,424	9.6	Domestic		175,2	13.87
Total				Total		1262,9	100

Source: Author compiled based on (Monstat 2014), (Ministry of Tourism Croatia 2013)

**Table 5-6 Basic indicators of tourism development in Croatia (in 000)**

	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>
Tourist Arrivals	7,929	10,125	8,498	2,438	7,136	9,995	10,604	14,343
Overnight stays	53,600	67,665	52,523	12,885	39,183	51,421	56,416	71,605
Stays per Capita	11.68	14.75	10.99	2.70	8.85	11.62	12.77	16.21

Source: (Ministry of Tourism Croatia 2014)

**Table 5-7 Basic indicators of tourism development in Montenegro (in 000)**

	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>
Tourist Arrivals			808	616	374	820	1,263	1713
Overnight stays	7,299	9,147	10,226	3,185	4,216	5,211	7,965	9,554
Stays per Capita	12.61	15.80	16.63	5.18	6.90	8.53	12.85	15.41

Source: compiled by author from (Republički zavod za statistiku 1986; Martinović 2003; Đuranović and Radunović 2011)

**Table 5-8 FDI Inflow in Croatia and Montenegro (2008-2015)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Croatia (Million USD)</b>	5311	3079	1153	1692	1493	922	3678	174
<b>Croatia (Per Capita)</b>	1240	719	269	395	349	215	859	41
<b>Montenegro (Million USD)</b>	960	1527	760	558	620	447	497	699
<b>Montenegro (Per Capita)</b>	620 1548	2463	1226	900	1000	721	802	1127

Source: Author's calculations based on UNCTAD's FDI Inflow Tables



# 6

## AN UNLIKELY ALLY

### Bureaucratic Veto Points in Croatia and Montenegro

**I**n this chapter, I analyse how bureaucratic veto points (BVPs), whose historical development I tracked in the previous chapters (Chapter 4 and Chapter 5), influence rent-grabbing and resource misuse in two most similar cases studies, Croatia and Montenegro. BVPs include spatial planning organization and expertise-based stringency of legislation. I argue that decentralized organization of spatial planning is particularly beneficial. Changes in spatial plans on each of the sub-national levels of government must be approved by the Ministry in charge of spatial planning. Such system allows multiple, vertically placed veto points which diminish the opportunity for rent-grabbing and resource misuse.

Stringency of legislation lays between bureaucracy and politics. Strict legislation places caps on the resource use and defines how much of the resource can be consumed to ensure environmental sustainability. Public administration drafts the legislation, but legislators adopt the laws and can also influence its content. However, bureaucracy implements the legislation

and has an opportunity, through its expertise and capacity, to fend off the rent-grabbing and resource misuse.

To systematically capture rent-grabbing and resource misuse in the tourism sector, I catalogued and coded accordingly a whole universe of planned, currently in implementation, already realized and blocked tourism projects in Croatia and Montenegro. For each project, I coded whether BVPs and PVPs were present, their influence on the project and the outcome. I coded changes in the spatial plans, instances of land urbanization, illegalities and resource misuse. This is an innovative approach to corruption research which has so far predominantly relied on anecdotal case study analyses or problematic cross-sectional indicators.

I show how decentralized spatial planning and strict legislation prevented rent-grabbing and resource misuse on the aggregate level in Croatia. However, I also show that the system of BVPs allows investment flexibility if the effects of the projects are environmentally acceptable. I identify property rights issues as a key obstacle to faster project implementation in both Croatia and Montenegro and suggest that bureaucracy was wrongly accused of delaying and blocking projects. I choose three cases in Croatia that can help illustrate these arguments, Santa Marina, Kalebova Luka and Srebreno.

Analysis of the aggregate statistics for the Montenegrin projects suggests many cases of rent-grabbing and resource misuse could have been prevented if decision-making was not as centralized and if there were legislative controls of resource use in place. I analyse in depth the role of BVPs in Montenegro on the cases introduced in the RTCG documentary. The cases suggest collusive elites benefited from cheap sales of non-urban land only to ensure extraordinary profit margins as the land was immediately urbanized.

The chapter has the following structure. Section one introduces the Tourism Projects Dataset which I assembled to systematically research rent-grabbing and resource misuse.

Section two provides descriptive statistics on the role of BVPs and its effectiveness in preventing rent-grabbing and resource misuse. Section three describes specific tourism cases representative of the BVP effects in Croatia. Section four contrasts those cases with the urbanization mechanisms in Montenegro. Section five summarizes the findings and announces the next chapter.

### **6.1 Tourism Projects Dataset: Content and Development**

Numerous studies analyse corruption and rent-seeking across sectors, countries and time. However, most of the research relies either on anecdotal case study analyses which cannot test the prevalence of corruption, or rely on inadequate indicators developed to compare corruption cross-sectionally. After selecting Croatia and Montenegro for an in-depth comparative analysis, I faced an issue of how to avoid anecdotal analysis of rent-grabbing. To systematically research the phenomenon of rent-grabbing and the hypothesized link to resource misuse, I assembled a dataset of the tourism investments in Croatia and Montenegro. I catalogued 88 tourism projects across seven coastal counties in Croatia and 71 projects across six coastal municipalities in Montenegro.

#### 6.1.1 Selection Criteria

Tourism has a status of a strategic sector in both economies. Therefore, the criteria for inclusion of the projects was the media salience. I included cases advertised as the strategic investments for the tourism development either on national or on the sub-national level.

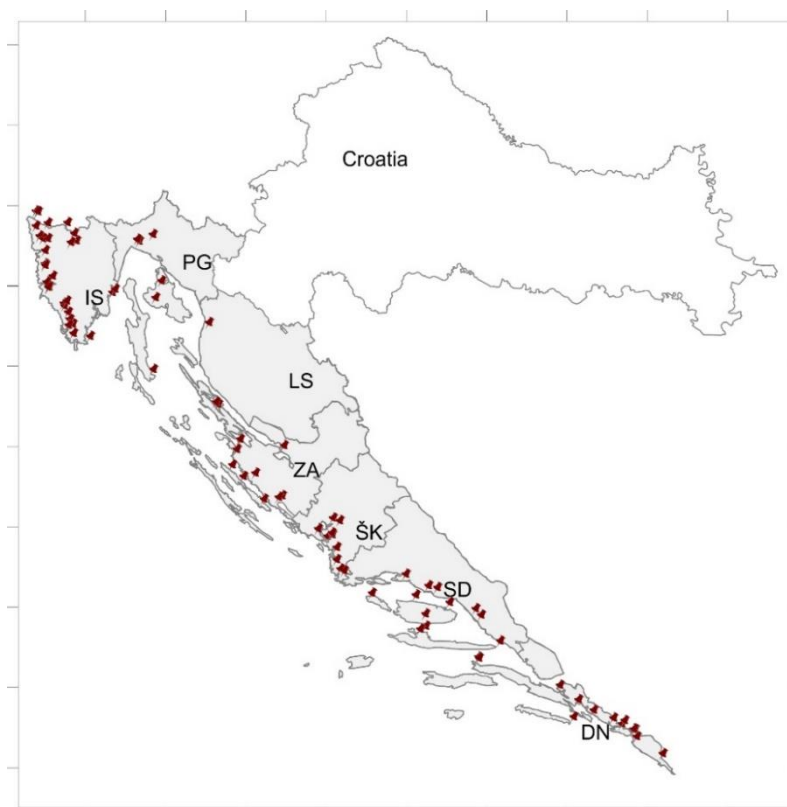
Therefore, projects such as family hotels with less than twenty accommodation capacities, rural resorts or diffused hotels were not included in the dataset even if they were included in the municipal media announcements. Family hotels and rural resorts have a significantly smaller influence on the tourism development of the locality, as they do not contribute to the

off-the-season offer of the tourism activities. Diffused hotels are a result of the unification of already existing, privately owned accommodation capacities under the management of one business centre. Thus, they do not go through the same planning procedure as investments with concentrated hundreds of accommodation units and cannot meaningfully be compared to hotel and resort developments. Based on these criteria, important investments were selected because of their role in tourism development and job generation, as well as because such investments allow investors to control tourism offer in their locations.

To ensure that tourism projects selection does not bias my analysis, I included the whole universe of cases, including four categories: first, projects that were already realized; second, projects in process of implementation; third, projects blocked through the BVPs and PVPs and fourth, projects that lack funding. The majority of the projects were greenfield investments, where changes in planning documents and adoption of detailed plans were required for the project implementation, but important brownfield investment projects were also included. The list of the projects was compiled from the business journals *Lemon.hr* and *Bankar.me* that regularly report on the new investments in the tourism sector.

Figure 6-1 represents a visual representation of all the Croatian tourism projects included in the dataset. County abbreviations used on the map are listed in Table 6-1 in Appendix 6-1.

Figure 6-1 Tourism projects in Croatia



Source: Author based on Tourism Projects Dataset

#### 6.1.2 Compiling Tourism Projects Dataset

The list of Croatian projects was compiled from the business journal Lemon.hr which offers most updated and thorough financial information among any Croatian business portals. The portal publishes articles written for the websites poslovni.hr, www.hrportfolio.com, www.bank.hr, www.srebrozlato.com, Svijet osiguranja and Poslovni Puls. As such, it fully covers news about investments in the field of tourism in Croatia which were announced as strategic or important at national or sub-national level. The web portal limun.hr was developed in 2007, but has also included news on the status of the projects started earlier than 2007, allowing to retroactively include such projects as well.

Upon compiling the list of names of the projects from the portal limun.hr, I used several Croatian media outlets to assemble descriptive information about each tourism project. I consulted outlets with the largest circulation on the national level, Jutarnji list and Večernji list,

as well as regional outlets such as Glas Istre (IS), Novi List (PG), Slobodna Dalmacija (SD), Zadarski List (ZD), Šibenski List (ŠK), Dubrovački vijesnik and Dubrovački list (DN).<sup>41</sup> I additionally consulted local media outlets for in-depth reports on projects of the county or local importance. To include information on the projects that the county authorities have singled out as strategic I also consulted official county websites for materials on the largest investments. For the tourism projects handled by the Ministry in charge of tourism directly, I used data published on the Ministry's official website. Additionally, the Croatian Chamber of Commerce has a list of tourism investments, which I have also used for information on the projects and their current stage of development.

For Montenegro, I used the web portal Bankar.me which reports on investments in the country and has a particular focus on the tourism sector. The web portal Bankar.me was developed in 2011, but has also included news on the status of the projects started or planned before 2011. To ensure the inclusion of all strategic tourism projects, for both Croatia and Montenegro, I used the snowballing method and have also included and researched projects mentioned, but not fully described in the articles.

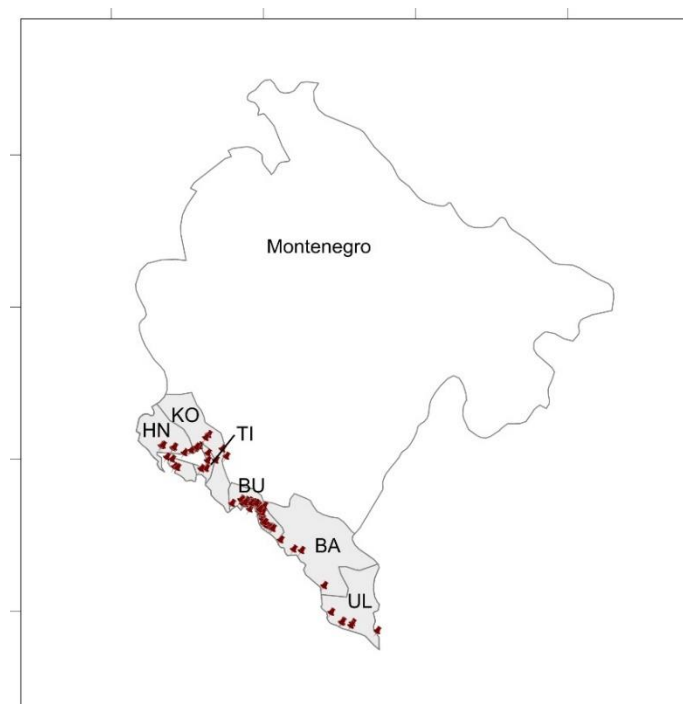
After compiling a list of the most important projects, I consulted other media outlets to ensure full information on each project. Media outlets Pobjeda, Dan and Vijesti were primarily consulted as the ones with the highest circulation in Montenegro. Moreover, as Pobjeda is pro-government, while Dan and Vijesti belong to critical media outlets, such selection provides a view from both political perspectives. Additionally, I used the web portals Monitor, Cafe del Montenegro, Seebiz.eu and Portal Analitika. For projects that are important on a municipal level, I also consulted the web portal of Radio Jadran. Finally, I also consulted data published by the Ministry in charge of tourism, the Montenegrin Investment Promotion Agency and the

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<sup>41</sup> In the brackets are abbreviations of the county names. Abbreviations for the coastal counties are explained in Table 6-1 and Table 6-2 in Appendix 6-1.

investment databases compiled by the municipalities. The databases for both countries were continuously updated until June 2016. Figure 6-2 represents a visualisation of the Montenegrin projects included in the dataset. Abbreviations for the coastal counties are explained in Table 6-2 in Appendix 6-1.

Figure 6-2 Tourism projects in Montenegro



Source: Author based on Tourism Projects Dataset

#### 6.1.3 Data Sources

To verify the information from the media outlets on the type and the dimensions of the projects I searched for and analysed information published by the investors and investment agencies and chamber of commerce. To assess the BVPs, I consulted county, municipal and detailed plans and Environmental Impact Assessments (EIAs) and Strategic Environmental Impact Assessments (SEIAs), approvals or corrections requested by the Ministry and by the other bodies relevant for the process, such as Conservation Department.

To analyse PVPs, I searched for the transcripts of parliamentary, county and municipal assembly or council meetings on the decision-making related to the tourism projects. I also

researched patterns of vertical cohabitation and turnover in power on the national, county and municipal level for each unit in which tourism projects took place. For this I used, when possible, official election results and when these were not available, I used analyses provided in the secondary sources, such as academic articles. If necessary, I also contacted directly municipalities and counties for missing data.

For the assessment of the engagement of NGOs, I have relied on the materials available on the websites of the NGOs and have contacted them directly to request specific information on their role. For the cases in which NGOs engagement has resulted in action influencing the tourism projects, I have also conducted interviews with their employees and activists. Similarly, I gathered data on the engagement of the expert groups largely through interviews, but also through the materials published on their websites. The engagement of the local community was assessed, when possible, through interviews with the locals who publicly disputed the investments or indirectly through the media reports and accounts available on social networks such as Facebook.

For information on criminal and illegal elements, I relied on the court reports and materials published by the office of the State Attorney. Additionally, when possible I collected data also through semi-structured interviews with administrative employees on municipal, county and ministerial level in the period between July 2013 and June 2016. Finally, for the cases for which academic articles were available, these were also consulted as a source of data.

In total, the dataset includes 171 pages of data (45,107 words) on 159 projects. Key cases analysed in empirical chapters have been fully fleshed out with thick descriptions including information from interviews, spanning over dozens of pages. However, for all cases, sufficient details have been collected on the presence of BVPs, PVPs and their influence on rent-grabbing



and resource management. A full list of tourism projects included in the dataset is available in Table 6-4 and Table 6-5 in Appendix 6-1.

#### 6.1.4 Coding and aggregate statistic

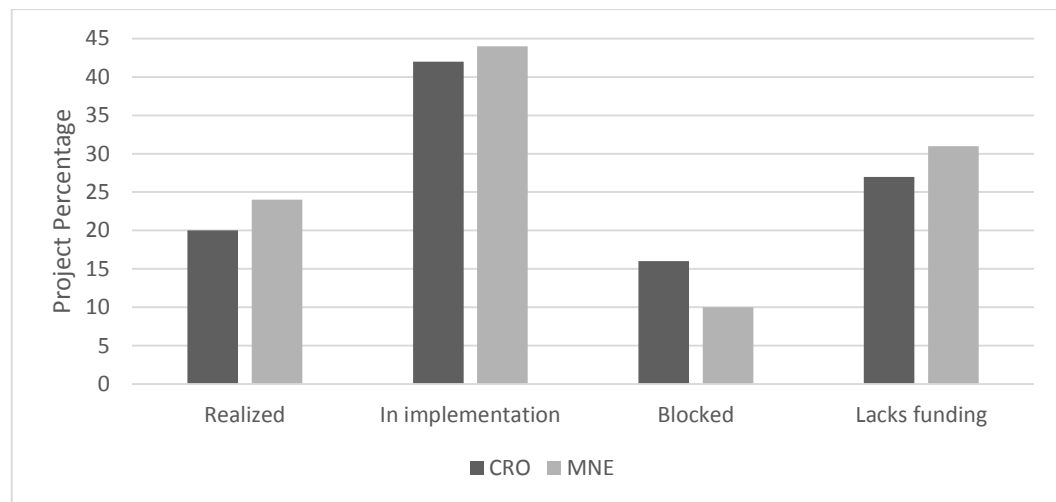
The data collected in the Tourism Projects Dataset was coded with the emphasis on the project implementation status and two groups of variables, independent and dependent. In the next subsection, I focus on the implementation status of projects, discuss the coding instrument and provide aggregate statistics.

##### 6.1.4.1 Implementation status

Project implementation status includes four categories: first, projects that were already realized; second, projects in process of implementation; third, blocked through the BVPs and PVPs and fourth, projects that lacked funding. Within the fourth category, I also include cases for which data suggests were rejected by the Ministry in a very early phase as unrealistic or a money laundering schemes.

A highly-ranked employee in the Ministry in charge of spatial planning in Croatia said in the interview that many of the tourism projects advertised in the media as strategic were in violation of regulations. However, these projects would otherwise not be financially attractive for the investors. Once the Ministry would reject such projects due to non-compliance with the rules in a very initial phase, the investors frequently dropped the project. Moreover, in some cases investors were interested in laundering dirty money by purchasing land or insolvent tourism enterprises, hoping to resell the property and clean the money (Interview 7). Such cases were all grouped as lack of funding as investment agencies and media frequently categorised them as such. Figure 6-3 represents the distribution of the tourism projects according to their implementation status.

Figure 6-3 Status of tourism projects



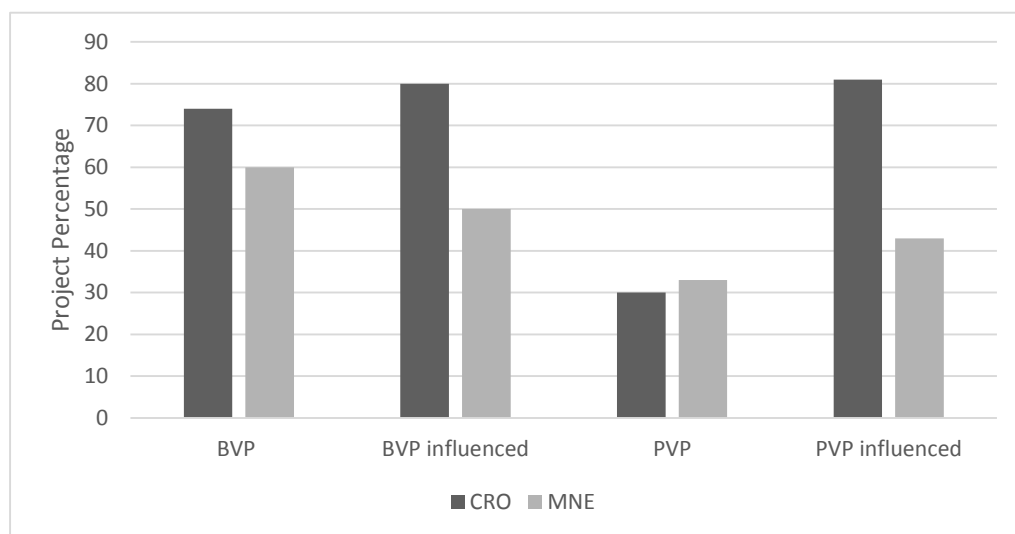
Source: Author based on Tourism Project Dataset

In Croatia, 18 out of 88, or 20% of the projects were realized until June 2016 when I stopped updating the dataset systematically. There were additional 35 projects or 40% currently in the process of implementation. Similarly, 17 out of 71 projects were completed in Montenegro, while additional 29 projects or 41% was being in the process of implementation. The main difference is a higher percentage of projects blocked in Croatia than in Montenegro. In Croatia, 16% of the projects is blocked and in Montenegro 10%. This is expected concerning our hypothesis that BVPs and PVPs prevent rent-grabbing. However, lack of funding or interest in investment has been noted in 24 projects or 27% in Croatia and in 22 projects or 31% in Montenegro. I now turn to coding BVPs and PVPs.

#### 6.1.4.2 Coding BVPs and PVPs

I code BVPs and PVPs on two levels. First, I show in how many projects were BVPs and PVPs registered. Then I proceed to analyse the exact BVP's and PVP's effect on the projects in the cases where they existed. Basic descriptive statistics about BVPs and PVPs from the Tourism Projects Dataset are given in Figure 6-4 below.

Figure 6-4 BVPs and PVPs in Croatia and Montenegro



Source: Author based on Tourism Projects Dataset

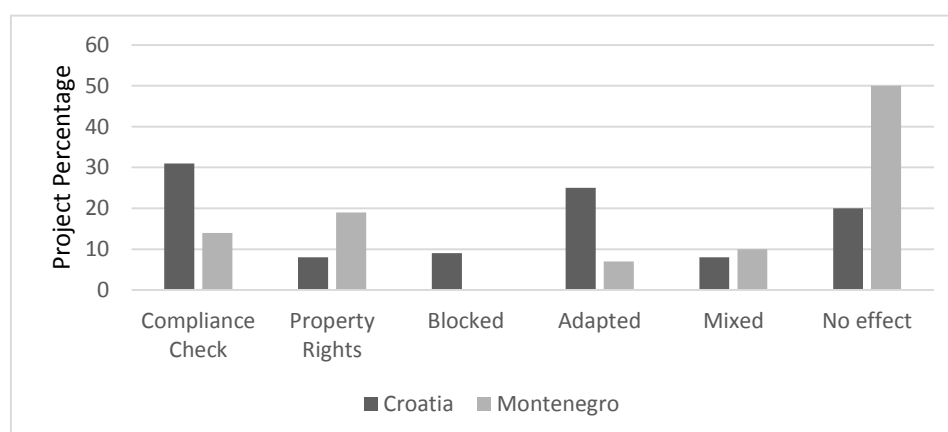
BVPs were recorded in 74% of all projects in Croatia and in 59% of projects in Montenegro. However, the system of BVPs influenced rent-grabbing and resource misuse in 80% of the cases, and only 50% of the cases in Montenegro. Seemingly PVPs were slightly more represented in Montenegro than in Croatia. PVPs were coded in 30% of the projects in Croatia and 33% of the projects in Montenegro. However, the effectiveness statistics tells a different story. PVPs were effective in 81% of the cases in Croatia and in only 43% of the projects in Montenegro.

However, the effects on BVPs and PVPs also differ across two countries in type. It is important to note that from conceptualisation to implementation, each tourism project has several phases. In some cases, the role of the BVPs and PVPs was not consistent throughout all phases. I start with the role of BVPs. For example, as laws strictly prohibit urbanization of the environmentally protected areas, I would code in such cases that BVPs existed, but were ineffective. However, if in the next phase of the same project the Ministry rejects the detailed plan because of too dense construction, I would code it as effective BVPs. I coded BVP effect in such cases as mixed. Similarly, some cases also included instances where property rights

disputes, in combination with BVPs, jointly halted a project. Such cases were also coded as mixed BVP effect. Property rights issues are described in detail in Legal Glossary in Annex 6-2.

In cases where a single type of BVP effect could be identified, four categories were coded. In the first category, BVPs merely acted as a compliance check, inspecting if the project was in accordance with the rules and regulations. If the project was not modified or blocked, but public administration checked if it conformed to the rules, I coded it as compliance check. In the second category, for the cases where compliance check discovered the projects were ill-suited to the rules and regulations, BVPs additionally made sure corrections were made to adapt the project to the laws. In the third category, when compliance check signaled issues which the investors could not or would not want to fix, I coded such projects as blocked. In the fourth category, I verified that a BVP was present, but also that it had not affected the project by running a compliance check, by adapting it to the laws or by blocking it. As a fifth category, I coded cases in which property rights disputes were identified. Figure 6-5 outlines the BVP effect descriptive statistics.

Figure 6-5 Type of BVP influence: descriptive statistics in Croatia and Montenegro



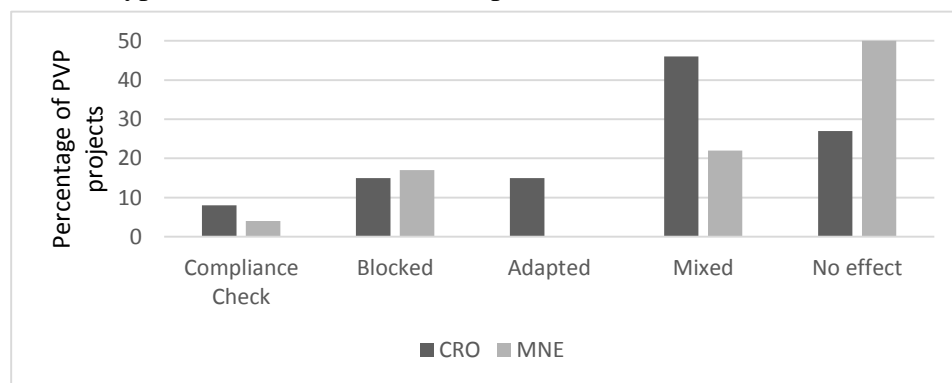
Source: Author based on Tourism Projects Dataset

Figure 6-5 suggests that BVPs ensured compliance check in 31% of the cases in Croatia and 14% of the cases in Montenegro. In some cases, compliance check meant slowing down

the implementation to collect additional documentation and confirm or ensure project adheres to the regulations and rules. 25% of the projects in Croatia and 7% of the projects in Montenegro were adapted to the regulations. Finally, 9% in Croatia and 0% in Montenegro were blocked because of BVPs. As expected, the encompassing system of BVPs ensured adherence to the rules and regulations more in Croatia than in Montenegro. The strict rules and decentralized system, in turn, helped prevent rent-grabbing and ensured the protection of the land resource.

I coded a mixed effect in 8% of the cases in Croatia and 10% of the cases in Montenegro. Property rights were an issue in 10% of the projects in Croatia and in 19% of the projects in Montenegro. I coded no effect in cases when BVPs existed, in 20% of the projects in Croatia and in 50% of the projects in Montenegro. This difference confirms that the more encompassing BVPs established in Croatia were also more effective in preventing rent-grabbing and resource misuse than in Montenegro. Breaking down the category of the BVP influence gives an important insight into the effects of the BVPs. While coding PVPs, I applied the same coding scheme including, compliance check, blocked, adapted and no effect categories. Property rights were coded not included in coding PVP effects. Figure 6-6 outlines the descriptive statistics on the aggregate effects of the PVPs.

Figure 6-6 Type of PVP influence: descriptive statistics in Croatia and Montenegro



Source: Author based on Tourism Projects Dataset

Figure 6-6 shows the distribution of the BVPs effects in the cases where BVPs were noted. PVPs ensured compliance check in 10% of the cases in Croatia and 4% of the cases in Montenegro. 19% of the projects in Croatia, but none in Montenegro were adapted to the regulations. Finally, 19% in Croatia and 17% in Montenegro were blocked because of PVPs. I coded a mixed effect in 46% of the cases in Croatia and 57% of the cases in Montenegro. I now turn to explaining how I coded land urbanization, illegalities and the grey are in between.

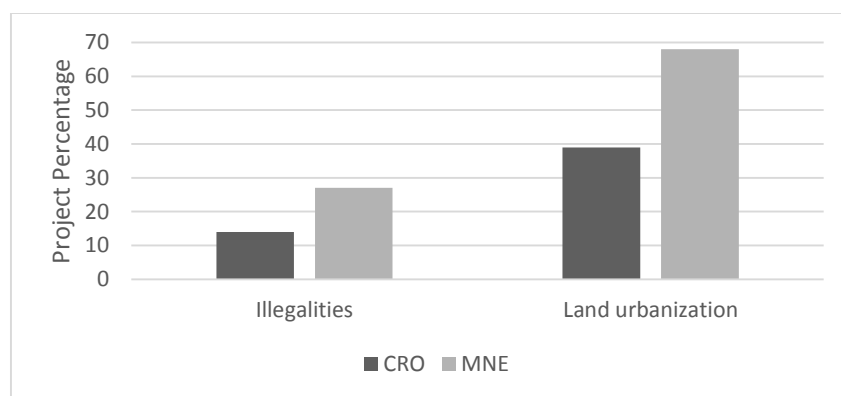
#### *6.1.4.3 Land urbanization and illegalities*

To understand the effects of the BVPs and PVPs, for each project, I collected information on illegalities such as corruption, undue influence and use of insider information. Moreover, to research the grey area between benign speculations and illegalities with outcomes in resource use, I researched and coded instances of large urbanization of pristine coastal land, development of apartments for the market within tourism projects and linear urbanization of the coastline. I also tried to get data on the profit margins these urbanizations ensured for the investors.

As explained in the Introduction chapter, land urbanization is the conversion of non-urban land, such as agricultural or forest land to construction or urban land. Cases of land urbanization for which I had reliable information about bribery, undue influence or insider information were coded as illegalities. Cases in which land was purchased and was immediately urbanized, but without publicly known illegalities are simply referred to as land urbanizations. However, once defined as a construction land, the value of the land increases ten-fold, which enables a solid profit margin if it is then resold or if the apartments for the market are built and subsequently sold. As I will show in this chapter, the profit margins range from 50 to 90% – whereby lowest values are still at least twice higher than in comparable sectors, such as in real estate development, hotel or investments management. This speaks most directly to my rent-grabbing argument.

The descriptive statistics from the Tourism Projects Dataset suggest that land urbanization featured in 39% of the cases in Croatia and 68% of the cases in Montenegro. I coded illegalities in 12% of the cases in Croatia and 27% of cases in Montenegro. The two statistics jointly suggest that rent-grabbing through land urbanization and illegalities was significantly more widespread in Montenegro than in Croatia. This is illustrated in Figure 6-7

Figure 6-7 Percentage of land urbanisations and illegalities in the tourism projects



Source: Author based on Tourism Project Dataset

While this difference is already indicative, the size of the projects should also be considered. In Croatia, for example, large greenfield investments are downsized as the law mandates a ceiling on the maximum size of the tourism zone. The Ministry in charge of spatial planning does not give its approval to the oversized projects on pristine land. For example, Hrvatski San, one of the largest Croatian projects (which is still in the phase of adapting to environmental regulations), was reduced to a total of 260 hectares as the Ministry refused to approve a large-scale use of pristine land. Specifically, the investor requested a tourism zone of 90 hectares within the project, but his request was denied and a tourism zone of no more than 45 urban hectares was allowed.

In contrast, in Montenegro, no regulation regarding the number or the size of the tourism projects exists. Luštica Bay, the largest Montenegrin project which is essentially a self-

sufficient town, spreads on 660 hectares of pristine and previously non-urban coastal land. It is already in the process of construction, and the first apartments have already been sold on the market. The Montenegrin coast is also much smaller in size than Croatian, suggesting that the land urbanization of Montenegro is happening in a more concentrated area.

## **6.2 Analysing the Role of the BVPs**

The analysis of the cases from the Tourism Projects Dataset suggests there are numerous cases in Montenegro where BVPs, if set as in Croatia, could ensure projects are either blocked or adapted to prevent rent-grabbing. Such cases are for example Kraljičina plaža (BU), Krstac, Kuljače, Rusko selo, Skočidjevojka, Mamula, Trsteno, Luštica and Valdanos. For example, Croatia established controls on land urbanization which would prevent or minimize cases like Krstac, Kuljače, Skočidjevojka and Trsteno. However, in Montenegro, lack of BVPs enabled rent-grabbing and resource misuse. In the above-named projects, the pattern of rent-grabbing was the following. Investor purchases non-urban land from the municipality at public tenders on which only two other bidders participate. The price increases by 10% above the initial quote and is sold to an interested company. Subsequently, the land is urbanized and its real price increases up to ten-fold (Rašković 2015). The investor can then either wait to sell the land to a third party for a much higher price or develop apartments for the market and profit from their sales.

The other cases have specific individual characteristics. In the case of Kraljičina plaža, Montenegrin Ministry in charge of tourism and sustainable development planned the construction of residential villas in the Miločer park which is classified as a cultural and natural good of national interest. Luštica Bay develops essentially a new town and tourism resort for 20,000 people on a pristine land. Finally, in the case of Valdanos, the government agreed to allow the removal and replanting of a hundred years old olive grove which is a protected cultural good for the purpose of developing mixed tourism and residential capacities. As these



are all cultural and natural resources that enjoy some level of formal protection, the decentralized planning system and stricter regulations in Croatia could increase the chances that the projects are blocked.

An analysis of the descriptive statistics of the Tourism Projects Dataset shows that BVPs in Croatia were more widespread and influential in preventing resource misuse and rent-grabbing. However, in the dataset, there are also cases where BVPs had no effect. These are cases where investors purchased non-urban land and initiated changes in the spatial plans (Prtlog, Negrin) or succeeded in urbanizing the land (Barbariga, Dragonera, Šimuni, Ključna, Sućuraj and Pučišća). Barbariga, Dragonera and Šimuni were three rent-grabbing cases in which Hypo Bank funded the purchase of non-urban land and, through connections with local and state level politicians, ensured urbanization. The cases of Barbariga and Dragonera were prosecuted in Croatia, and all three cases led to trials in Austria. The system of decentralized spatial planning provides multiple points in which rent-grabbing through land urbanization can be prevented. However, tourism dependence motivates sub-national level authorities to support projects in which investors capitalize on land urbanization. However, the stringent regulations ensure that even in such cases the final project is implemented in accordance with regulations.

Furthermore, there are several cases which illustrate the importance of the Conservation Departments. I outline here four such cases. In the Barbariga and Dragonera cases, the Conservation Department prevented construction on the location as the area was defined as an archaeological site. Similarly, Sveta Katarina and Hidrobaza obtained a status of protected cultural goods, even though the investors' plans for tourism valorisation would have been easier to implement without the protection status. In the case of renewal of Hotel Revija in Šibenik, the Conservation Department ensured that the final outline of the project is in accordance with the strict guidelines.

In opposition to cases where land urbanization favoured investor's interests, there are several cases where the urbanization was blocked. In the case of the Frašker island, investors were not able to proceed with construction as the island is uninhabited and defined as non-urban land in the spatial plans. Golf terrains on Oštrica and tourism resort Santa Marina are examples where despite the pressure of the investors to change spatial plans, authorities decided not to do so. Jadranka group obtained the right to change the county spatial plans for the construction of a golf terrain, but to even initiate changes it must prepare various studies to prove that Punta Križa, their preferred investment location, is suitable for golf development.

In the mixed-effects category, there are cases where the property rights disputes in interaction with other BVPs delayed the realization of the project, or where the effect of the BVPs differed across phases. For example, in the case of Romana hotel, the investor faced a civil lawsuit from the claimants of the land which was nationalized during Yugoslavia, while adapting the project to the spatial planning regulations regarding the use of the maritime belt (Makarska danas 2012).

Finally, in the media, slow project implementation is often simplistically subscribed to inefficiencies in the bureaucratic system (Poslovni.hr 2010; see e.g. Business.hr 2010; Fabrio 2011). However, systematic data collection and analysis identified property rights disputes as an important obstacle to streamlined project implementation. The issues originate mostly from the transition to the market economy and from restitution of the property expropriated by the previous regimes. Implementation of tourism projects can be delayed as it is unclear who owns land parcels or whether the investor has the so-called right to use or ownership right. Property rights issues are elaborated in-depth in Legal Glossary in Annex 6-2.

For example, in the Srebreno case, the investor privatized hotel Mlini, but ownership over the cadastral parcels was not clear and has slowed down the realization of the project. In the

case of Karigador, the Church has sold state-owned land, but the state has forgone its ownership rights as it requested the return of the land under dispute too late. Maistra experienced problems while developing the Lone Hotel on a land acquired during privatization as some parcels belonged to the Croatian Privatization Fund. In the case of the Martinis Marchi castle, the project was already realized when Croatian Forests requested the return of 10,000 square meters of forest land. Finally, in the case of Mljet, the municipality sold state-owned land and the investment was blocked as a result of the dispute. In the following section, I provide an in-depth analysis of the cases that particularly clearly illustrate how the role of the BVPs differed in Croatia and in Montenegro.

### **6.3 Selected Tourism Projects**

In this section, I describe and provide an in-depth analysis of the cases where BVPs (or lack thereof) were crucial in shaping resource use in Croatia and Montenegro. The essential difference between the two countries is that in Croatia the legislation, decentralized spatial planning and complex procedures ensured better resource protection and safeguards against rent-grabbing. In Montenegro, a self-proclaimed environmental state, land urbanizations are easy to implement and enable high-profit margins through the development of tourism and residential capacities. In the following section, I introduce two cases representative of the role of the BVPs in Croatia.

I first illustrate how decentralized spatial planning and stringent regulation prevented rent-grabbing in Santa Marina project. I then describe the case of Kalebova Luka which, suggests that if resource protection is ensured, BVP system allows investment flexibility and changes of the spatial plans. The media and even the scholarly literature frequently suggests that slow, unresponsive bureaucracy is the reason behind low project completion rates. The case of Srebreno is representative of numerous cases in which it was property rights disputes that

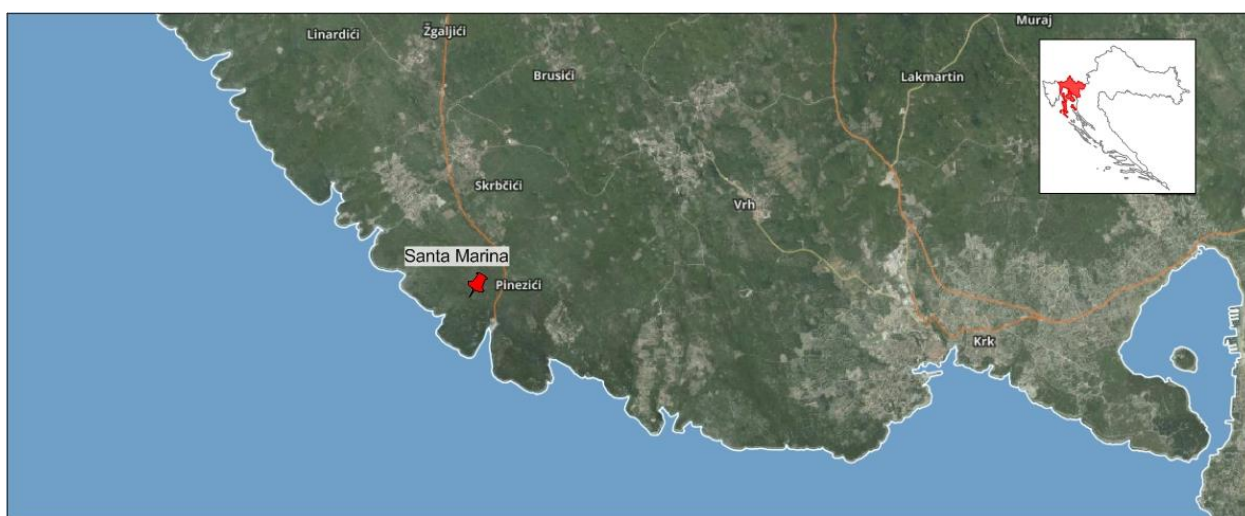
prolonged project implementation process. It illustrates how property rights issues complicate the implementation of the projects, but also that investors and the municipality can resolve the dispute when well-conceived projects are at stake.

## 6.4 Widespread BVPs in Croatia

### 6.4.1 Santa Marina: The role of decentralized spatial planning

The Santa Marina project is located in the Primorje-Gorski Kotar county. From 2006 onward, the Santa Marina company started buying agricultural, non-urban land in Sveta Fuška, between ferry port Valbiska and settlement Pinezići. The website of the company stated that tourism development plans on more than one million square meters (Hoto Group 2016). Location of the Santa Marina project is represented in Figure 6-8.

Figure 6-8 Location of Santa Marina project



Source: Author, using Geoportal.hr and Surfer

The spatial plan for the Krk municipality was adopted in 2007 and included two tourism zones, Glavotok and Torkul. After the spatial plan was adopted, the investor expressed intention to develop a large tourism project in Sveta Fuška. The council of the Krk municipality positively assessed the Santa Marina project, but the existing tourism zones were not used up to 80%. As this is a legal stipulation for opening new tourism zones, the project was declined.

Upon the decision of the Primorje-Gorski Kotar county to adopt changes to the spatial plan in 2011, the investor requested at the county level the introduction of a new 45-hectare large tourism zone accompanied by a golf terrain area. In August 2012, the Minister for tourism Ranko Ostojić, a member of the IDS party, sent a letter of support to the Krk municipality and Primorje-Gorski Kotar county for the Sveta Fuška project (Benčić 2012). As the introduction of a tourism zone would require changes in the spatial plan of the city of Krk, the county of Primorje-Gorski Kotar requested the city councillors' opinion. The representatives of the city of Krk, who have once already declined the project, have not offered a clear answer and have delegated the decision about the changes of the spatial plan to the county level. However, they requested that the number of allowed tourism capacities for tourism not be increased. Such a formulation allowed the replacement of one of the existing tourism zones as the only option in the case that Sveta Fuška would be introduced as a tourism zone (Otok-krk.org 2011).

Zlatko Komadina, a member of SDP and the Head of the Primorje-Gorski Kotar county, stated in an interview that the investor exerted no pressures to adopt changes for Sveta Fuška in the spatial plan. Although he agreed with the assessment of Minister Ostojić that the Santa Marina project is well conceptualized, he argued that the changes would not be adopted until clear guarantees are given regarding the nature of the project and job providing opportunities (Otok-krk.org 2011). In the adopted plan of the Primorje-Gorski Kotar county, Sveta Fuška was not introduced as a tourism zone.

Although the BVPs (no introduction of new tourism zones unless the existing ones are up to 80% used) could have been overruled through changes in the spatial plan of the county, the representatives on both municipal and county level were hesitant to initiate changes that would favour a project without clear benefits for the local community and the county. An interviewee also stated that the Mayor of the city of Krk was a “specific and independent” person, who

would not be interested in a project if it had rent-grabbing characteristics (Interview 16). I now turn to Kalebova Luka project which illustrates how the system of BVPs in Croatia allows investment flexibility alongside with protection of the resources.

#### 6.4.2 Kalebova Luka: Flexibility alongside protection

Kalebova Luka is located in Rogoznica, Šibenik-Knin county. The area is widely known as a summer house area and was one of the locations on which the Ministry in charge of spatial planning demolished private summer houses that had no construction permits in 2006 and in 2012 (Vedrana Stočić 2017). The investor, the Estonian Trigon Fund bought 300,000 square meters of non-urban land in the Luka bay in 2006. In 2012, the Šibenik-Knin county introduced tourism zone Kalebova Luka in its spatial plan. This was possible after unused tourism zone Zečevo was deleted from the plan and the Kanica tourism zone reduced by 4 hectares (Stočić 2012). Figure 6-9 represents the location of the Kalebova Luka project.

Figure 6-9 Location of Kalebova Luka project



Source: Author, using Geoportal.hr and Surfer

In May 2013, the changes were also adopted in the Rogoznica spatial plan (Općina Rogoznica 2013). In April 2014, the investor requested Ministry to decide whether EIA was necessary for the project (Urbing 2014). In July 2014, the Ministry in charge of environment

protection<sup>42</sup> reviewed the request and decided that EIA was not necessary. The decision was based on none or minimal project impact on the environment, particularly as the project is not located directly on the coastline, does not include valuable agricultural or forest land parcels, and will use the existing sewer and waste disposal system in Rogoznica (Ministarstvo zaštite okoliša i prirode 2014). In March 2013, the municipality decided to initiate the development of a detailed UPU plan for the project (Općina Rogoznica 2013). The plan was adopted in the Rogoznica municipal council in February 2014 and defined hotels on 9 hectares and villas on 5 hectares (Općina Rogoznica 2015). The zone is 19 hectares large and the development of 1500 accommodation units is allowed. Trigon's website specifies the resort will have both classical hotel and residential units (Trigon 2016).

In 2014, the administrative office of Šibenik-Knin county was managing the widening of the county road Podorljak-Dvornice for the infrastructural needs of the project, and the municipality initiated the extension of the sewer and water supply system to Kalebova Luka. The water supply system is funded by the municipality and the investor is co-funding the sewer system (Stočić 2014). As the investors bought non-urban land that was urbanized after the changes in the spatial plans, the case shows the system is flexible to ensure changes when more suitable locations than those designated in the plans exist. The new tourism zone Kalebova Luka already had access to infrastructure and is moreover not directly located on the coastal belt, offering a viable zone for tourism development. As one of the interviewees stated, *spatial plans are not written in stone, never to change. But when they change, we should have a good*

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<sup>42</sup> The name of the Ministry in charge of environment protection changed several times throughout the period researched in the dissertation. To avoid terminological confusion, I refer to it as Ministry in charge of environment protection.

*reason for it and not merely favour vested interests* (Interviewee 16). The following project represents a case in which property rights and planning regulations jointly delayed the project.

#### 6.4.3 Srebreno: Unresolved property rights

The case of Srebreno is located in the Župa Dubrovačka municipality, Dubrovnik-Neretva county. In 2004, company HUP offered HRK 33 million for 66.3% of shares for Hotels Srebreno, in addition to a future investment worth HRK 166 million until 31<sup>st</sup> of December 2007. The investor increased his shares in 2006 when hotels debts were converted into ownership shares. Despite the privatization contract, until 2012 the investment in the hotel could not be realized due to the lack of adequate spatial planning and unresolved property rights issues (Pavlović 2011). Location of the Srebreno project is represented in Figure 6-10.

Figure 6-10 Location of Srebreno project



Source: Author, using Geoportal.hr and Surfer

The investor said in an interview with Liderpress that in 2006 the GUP for Dubrovnik area was not finalized, nor were the detailed plans developed (Crnjak 2012). Thus, they could not progress with the investment. Regarding spatial plans, Silvio Nardelli, the Head of the municipality Župa Dubrovačka, disagreed, as the plan based on which investor's offer was selected following the privatization tender did not request changes in the spatial plans. The investor preferred changes in the plan to increase the size of the hotel and ensure a higher



categorisation Nardelli furthermore argued that the investor has not expressed interest in initiating changes in spatial documents which constrained the project (Pavlović 2011).

The situation was even more complex regarding unresolved property rights. Before privatization, HTP Mlina was separated into Hotels Srebreno, privatized to the HUP, and another company Mlina, which later came into the ownership of the Župa Dubrovačka municipality. Most of the Hotel Srebreno's assets were not comprehensively recorded in the cadastre. Some land parcels were privately owned, some were recorded in cadastre as ownership of other companies or as the property of the Mlina company. The investor specified that the ownership over the land parcels in Srebreno was not exhaustively recorded in cadastre and that some parcels in the ownership of the investor were public areas (such as roads and coastal belt). The investors confirmed that they were aware of the situation when purchasing the hotels, but hoped that the issues with the property rights could be resolved faster (Pavlović 2011).

Starting in December 2009, the municipality and HUP negotiated a solution for the property rights and spatial planning issues which resulted in a 2011 agreement. The tripartite agreement between the municipality, Srebreno Hotels and the Mlina company solved the property rights dispute and governed the adoption of the planning documents. According to the agreement, the municipality became the owner of the parcels including roads and pedestrian areas, and the investor agreed to develop an underground garage with 95 parking places opened the entire year bellow the business centre constructed in the municipality centre. The agreement defined the responsibility of the municipality to adopt changes in the municipal spatial plan and the detailed plan UPU Srebreno according to the project Master plan already developed by investors (Gustin Čuljak 2011). Changes in the spatial plan of the municipality were adopted in 2011 (Općina Župa Dubrovačka 2011). The UP Srebreno 1 was adopted in September 2012

(Općina Župa Dubrovačka 2012) and targeted changes in December 2013 (Općina Župa Dubrovačka 2013). The construction of the hotel started in 2014 and was formally opened in August 2015.

The three projects illustrate the variety of cases in Croatian tourism development and mechanisms used to prevent resource misuse and profit grabbing. I described how decentralized spatial planning affected investment in Santa Marina project. Moreover, I showed the adaptability of BVPs to allow changes of the plans when the alternatives are suitable for tourism development in the case of Kalebova Luka. The case Srebreno illustrated how property rights issues complicate the implementation of the projects. It also suggests that investors and the municipality can resolve the disputes when well-conceived projects are at stake. The following section introduces cases representatives of the effect BVPs have on the Montenegrin tourism development.

### ***6.5 Insufficient BVPs in Montenegro***

For Montenegro, I introduce and analyse three cases where the lack of BVPs led to rent-grabbing and resource misuse. First, I illustrate the Grad Kula or Budva Skyscrapers. It encompasses several tourism projects which were possible as there were no limits to urbanization imposed in the regulatory framework. Grad Kula also shows how rules were broken to accommodate investors with political ties. Next, I describe the cases analysed by documentary series “Mehanizam” and elaborate how land urbanization allowed high-profit margins to colluding elites. Finally, in the case of Jadran Perast, I show that when existent, BVPs were successful in preventing resource misuse.

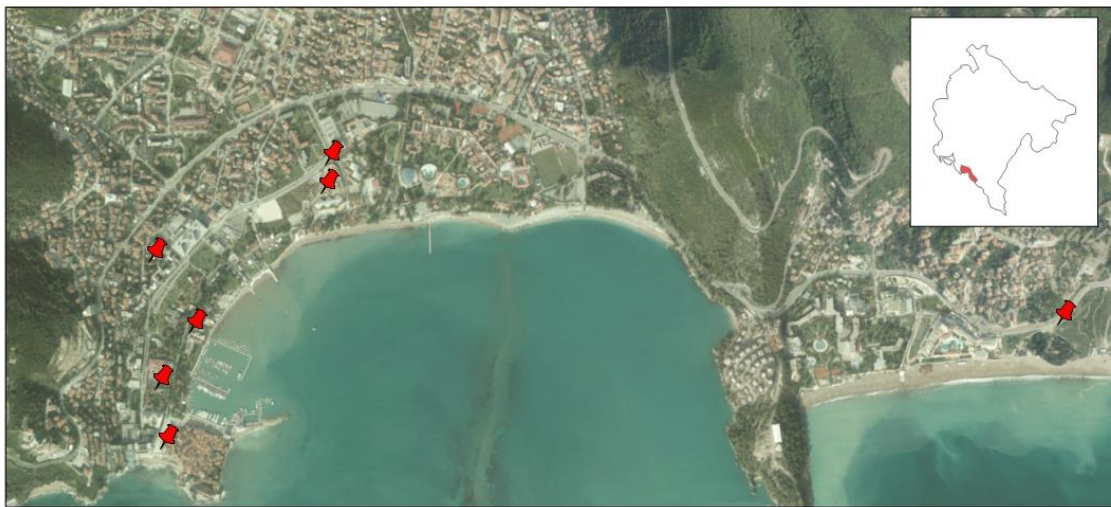
#### **6.5.1 Grad Kula**

In Montenegrin language, “Grad Kula” means the city of skyscrapers – a reference used by the media to describe Budva after the adoption of the changes in DUP Budva Centar in 2011.

In an article for the weekly magazine Monitor, journalist Branka Plamenac mocked the development concept of Budva, as the Canadian city of Vancouver was chosen as a role model, a city with three times the Montenegrin population (Zanoni 2011). The Budva Centar Plan DUP was adopted in 2008 and changes to it were adopted in December 2011 (Opština Budva 2011).

The changes of 2011 included the construction of 22 skyscrapers of up to twenty stories, allegedly as means of protecting the remaining green surfaces and developing the tourism sector. However, the Budva skyscrapers failed to protect tourism as all the newly built towers are condo hotels or apartments for market while green areas became even scarcer (M. Babović 2012). Several of the projects analysed as Grad Kula are represented in Figure 6-11.

Figure 6-11 Location of the Grad Kula projects



Source: Author, using Geoportal.hr and Surfer

As a result, Budva, Montenegrin capital of tourism, was overdeveloped through linear urbanization, illegal construction and skyscrapers (Prekic 2014a; Plamenac 2014c; M. Babović 2012). In Montenegro, the term *budvanizacija* is colloquially used to describe the short-term use of coastal land for the development of apartments and weekend houses in complete disregard for principles of sustainable land use, resulting in the waste of resources and chaotic

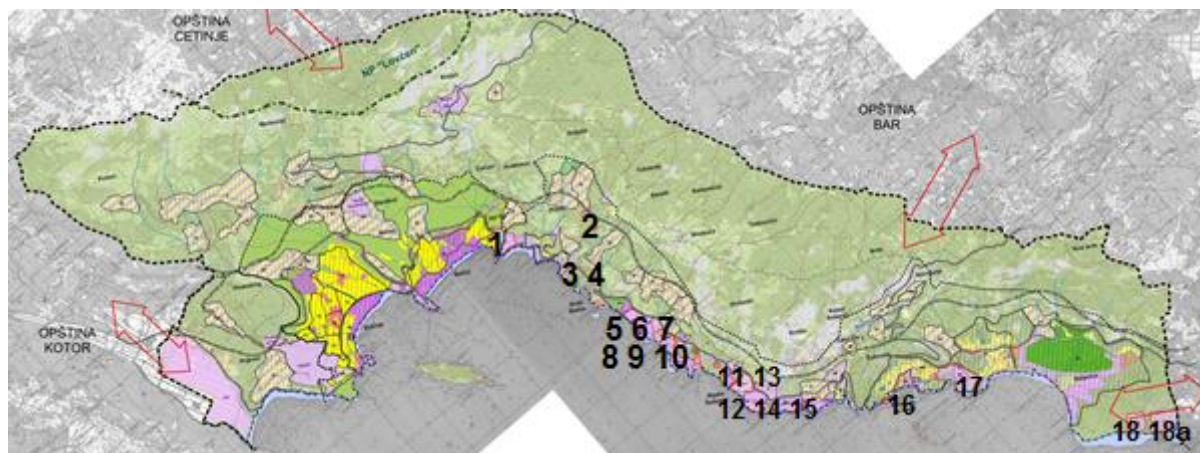
use of space (Daliborka Uljarević as quoted in CDM 2013). Moreover, in most of the cases, Plamenac argued, the investors were connected to the leadership of the ruling party and the allowed dimensions of the skyscrapers were increased in order to maximize profits from sales of apartments on the market (see e.g. Plamenac 2012a; Plamenac 2014b; Plamenac 2014a).

Fast urbanization through changes in planning documents allowed the development of more than twenty skyscrapers in a city with 17,000 inhabitants and linear spreading of construction along the coast. In some cases, original plans allowed not more than five storey buildings, but fast changes in the plans ensured doubling and quadrupling in the size (Plamenac 2012a; Lajović 2014a; Administrative Court 2011)

NGOs investigated and reported to prosecution office multiple cases of illegal construction, where permits were lacking (Radio Televizija Budva 2015), inspection seals were broken and construction continued (MANS 2012e). Some of the skyscrapers got permits despite the disregard of spatial plans and other regulations. The opposition of the local population in several cases of illegal or controversial construction had no effect in terms of preventing colluding elites from proceeding with construction plans (Lajović 2014f; Primorske Novine 2013a; Lajović 2014e; Primorske Novine 2013b).

Beyond controversial skyscraper development within Budva centre, the Budva municipal plan in 2009 urbanized more than 200 hectares of land directly on the coastline. This is visible in the graphic representation of the plan where new land urbanization is coloured in light pink (see Figure 6-12 below). I have additionally marked the newly urbanized areas with numbers from 1 to 18a, each designating a tourism project. Land urbanization covers 19 locations and encompasses 211.12 hectares, directly on the coastal line (enumerated in Table 6-3 in Appendix 6-1).

Figure 6-12 Planned land use, 2009 spatial plan of Budva municipality



Source: Adapted from (Opština Budva 2009)

Until 2009 the municipalities could sell state-owned land without national level authorities' consent. This led to numerous sales of non-urban land, followed by prompt urbanization which favoured the condo hotels and residential villas. Although Croatian regulations are not bulletproof protection against collusive land sales and subsequent urbanizations, the issue with Montenegrin regulations is that there were no legally prescribed caps. Therefore, the authorities in the Ministry of Finance and the Ministry in charge of spatial planning could only agree to the suggested sales and urbanizations as no regulations or laws were violated. Additionally, the analysis of the tourism projects compiled for the dissertation indicates that the urbanization of the sold land was implemented without any spatial planning, safety, or environmental protection assessment. I now turn to the mechanism of rent-grabbing illustrated in the cases of RTCG Mehanizam.

#### 6.5.2 RTCG Mehanizam: The mechanism of rent-grabbing explained

In 2015, Radio Television of Montenegro<sup>43</sup> (RTCG) broadcasted “Mehanizam,” a four-episode documentary series, which dealt with the mechanisms through which a handful of controversial businessmen tied to political elites managed to immensely profit from

<sup>43</sup> Radio Televizija Crne Gore, Montenegrin national service

Montenegrin natural resources.<sup>44</sup> Documentary series analysed numerous Montenegrin cases in which local authorities sold non-urban land to controversial investors during formal public auctions (Rašković 2015). The land was subsequently urbanized and its price increased from 100 to 900%, suggesting investors were assured beforehand about the profitability of the investment.

It includes several Budva cases, such as land urbanizations in the case of Prijevor-Crvena Glavica, Krstac, Košljun, Bečići, Bijeli Rt, Drobni Pijesak, Kuljače and Jadranski Sajam, but also in other municipalities such as Tršteno in Kotor. The documentary examines in detail to whom and for which price a square meter of non-urban land was sold in each location, what the prices for land sold nearby were, how the public auction was organized and when was the land urbanized as tourism zone following changes in spatial planning (Rašković 2015).

Out of the cases analysed in the documentary, I describe in more details Bijeli rt project to illustrate the mechanism of rent-grabbing and resource misuse. The municipality of Budva opened a public tender for the sales of 53,990 square metres of non-urban municipal land in Bijeli rt with the starting price of EUR 85 per square meter (Lajović 2014d; also in Lajović 2012a; Lajović 2012b). During the auction for the land, the price reached EUR 90 per square meter, symptomatic as the cases included in the RTCG's documentary series showed that municipal auctions prevalently achieved up to a 10% increase from an initial price.

Therefore, the authors of the investigative series argued that the auctions were staged between business partners to satisfy the formal, minimal criteria, simultaneously ensuring the

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<sup>44</sup> The series was published under the name *Mehanizam Obećana Zemlja*, which literally translates as Mechanism: Promised Land. All four sequels are available in Montenegrin language on YouTube.

First part (available with English subtitles), <https://www.youtube.com/watch?v=yh9YkWMjgm0>

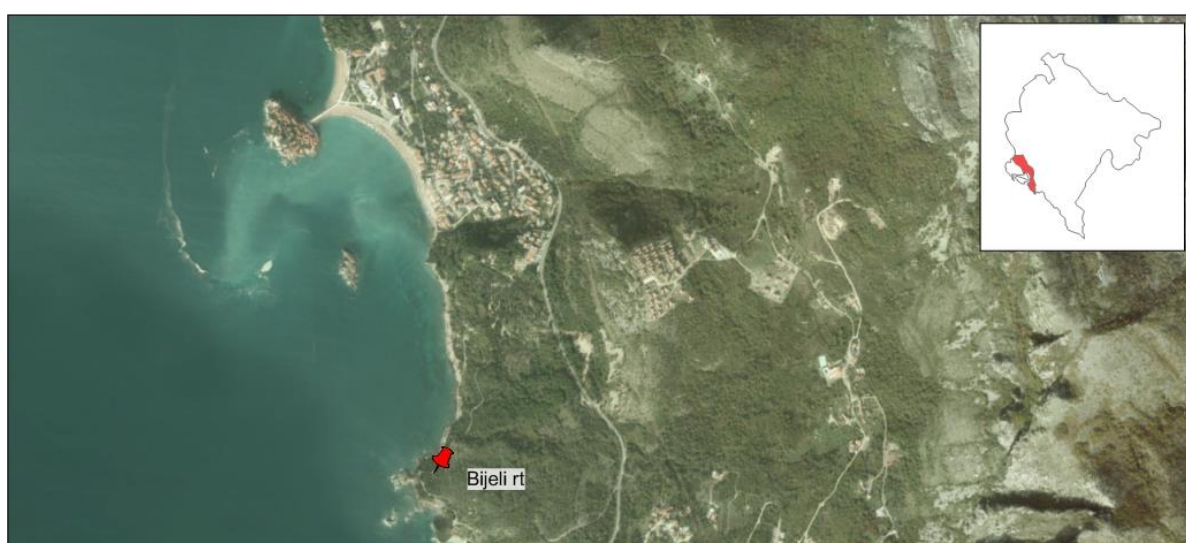
Second part, <https://www.youtube.com/watch?v=y7eY31raiFI>

Third part, <https://www.youtube.com/watch?v=F0oogFvbCno>

Fourth part, <https://www.youtube.com/watch?v=8gb6MKNWo4M>

cheap sales of the land to the investor (Rašković 2015). Additionally, the cases researched by “Mehanizam,” all analysed together, also confirmed what media speculated, namely that land urbanizations in Budva municipality favoured a group of controversial businessmen tied to the Budva DPS elites (Rašković 2015). Location of the Bijeli Rt project is represented in Figure 6-13.

Figure 6-13 Location of Bijeli Rt project



Source: Author, using Geoportal.hr and Surfer

After the sales, the land in Bijeli Rt, along with numerous other areas bought by the controversial investors as non-urban land, was urbanized through changes of the spatial plan of Budva in 2009. Such rapid land urbanization of the coastal belt ensured significant profit to the investors who bought the land while it was recreational, green, forest or agricultural land. In the case of Bijeli rt, the value of the land planned for the construction of luxurious tourism capacities expanded significantly. The investor assessed the land to EUR 900 per square meter, a ten-fold increase from the price for which the land was bought from the municipality and a five-fold increase from the price paid to the local population (Rašković 2015).

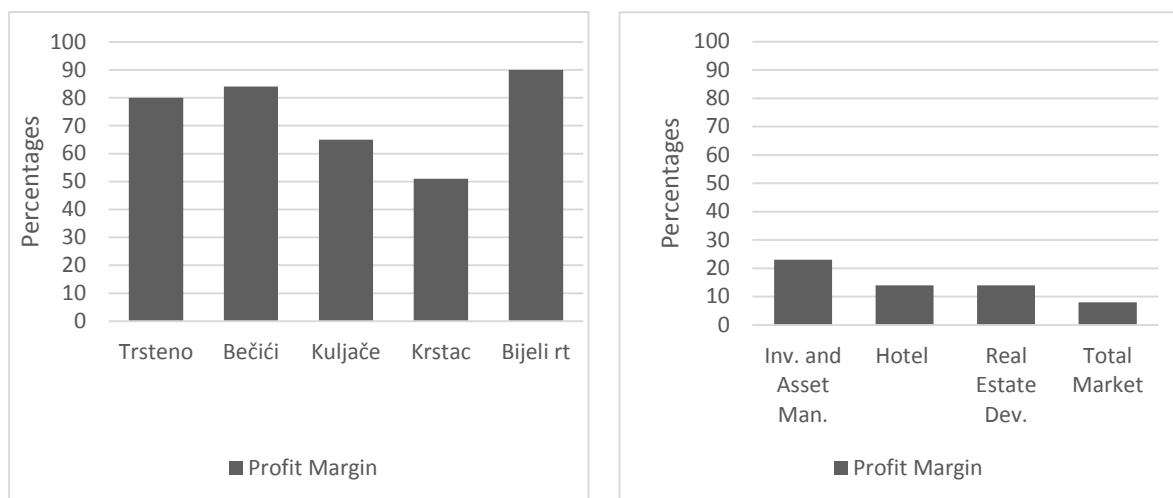
Similar mechanism was also be found in the cases of Trsteno (Portal Analitika 2013; CDM 2016; Komnenić and Milić 2012; Krcić 2016), Bečići Capital Estate (Plamenac 2016a; Dan Online 2016), Kuljače (Lajović 2011), Krstac (MANS 2012d), Rusko Selo (CDM 2015), Crvena Glavica Immobilia (Rašković 2015) and Prijevor (Lajović 2014b; Lajović 2015c). In all these cases, the investors purchased cheap, non-urban land, the value of which significantly grew in the immediately following urbanization.

The documentary also investigated the price difference before and after the land urbanisation. In 2004, in the Trsteno case, the non-urban land was sold for EUR 9 per square meter, while in 2006, after the adoption of the detailed plan, the price increased to EUR 45 per square meter. In 2014, the Kotor municipality sold land in the same location for EUR 87 per square meter, although there was no increase in demand which could justify the higher price in comparison to 2006. This is corroborated by the sales of the similar land parcels in the vicinity. In Bečići, in 2006, Budva municipality sold the prime property on the sea front to Capital Estate for EUR 230, while the land on the same location was resold for EUR 1000-1400 per square meter in 2010 (Rašković 2015).

Non-urban land in Kuljače was sold for EUR 35 per square metre, while the land on the same location included in the detailed plan reached a price between EUR 75-100 per square metre. In Krstic, Budva sold non-urban land for EUR 59 per square metre and then changed the spatial plan to allow construction of residential villas, which increased the value to EUR 120 per square metre (ibid). Figure 6-14 represents the profit margins and percentage change in the price of the land before and after urbanization. It also shows the 2016 net profit margins in tourism comparable and relevant sectors for emerging economies.



Figure 6-14 Profit margins for selected tourism projects and relevant industry comparison



Source: Author's calculation based on Tourism Projects Dataset

Source: Author based on Aswath Damodaran's Profit Margins for Emerging Markets Dataset (2017)

As Figure 6-14 suggests, profit margins among selected Montenegrin projects ranged from 51% in the case of Krstac to 90% in the case of Bijeli rt. However, in the hotel industry in the emerging markets, the net profit margin was 14%, almost four times less than the lowest margin for the selected cases. Recognizing that urbanization of the land has certain similarities with the real estate development and investment and asset management, I also compare the profit margins with these sectors. Profit Margin in real estate development is also 14%, while Investment and Asset Management have much higher profit margin of 23%. All three sectors surpass the total market net profit margin which was 8%. As the profit margins in land urbanization schemes are much higher than in comparable sectors, this is a clear indicator of the size of the resource rent.

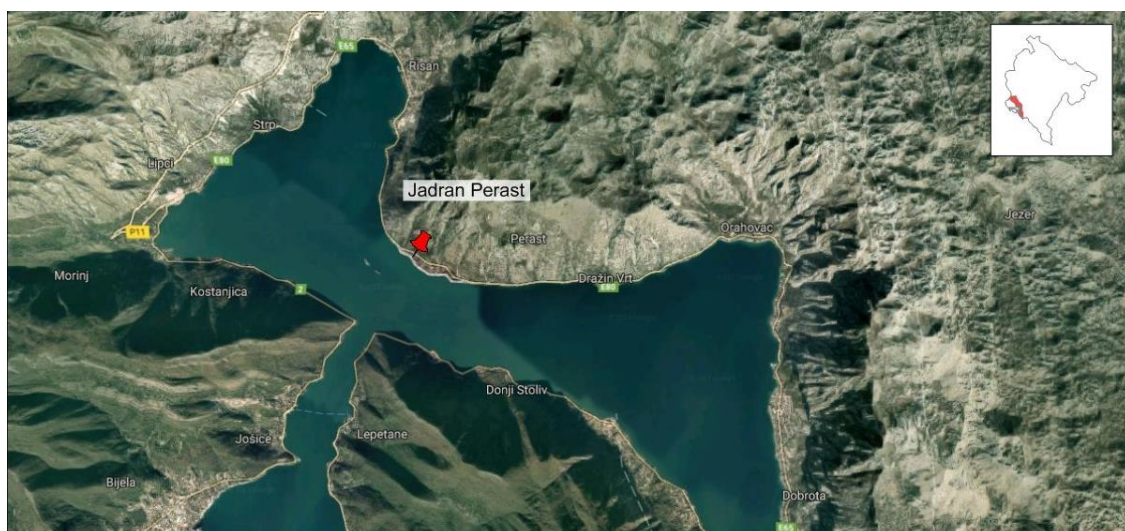
The "Mehanizam" series also covered the system through which the land was sold, emphasizing that during each public auction only three companies participated, and each auction had only three rounds at the end of which the price would only increase by 10% from the initial price. The documentary also analysed how the businessmen participating in the

auctions were connected (Rašković 2015), showing also through this channel the collusion between political and business elites which was also emphasized in the articles of other journalists (see e.g. Lajović 2015a; Lajović 2014c; Plamenac 2016a; Plamenac 2012a; Plamenac 2010; Plamenac 2012b; Plamenac 2014c; SEEbiz 2011; Radulović 2015). I now turn to the case of Jadran Perast, which shows that a system of regulations and bureaucratic controls can be effective when the BVP framework exists.

#### 6.5.4 Case Study 4: Jadran Perast

The Jadran Perast company was founded in 1924 in the old town of Perast, in Kotor municipality. Until insolvency in 1997 it has functioned as a textile factory, and in 2006, 74.97% of its shares were sold to Immobilia, a Budva based company (Savjet za privatizaciju 2006). The intention of the investors has been to renovate the historical buildings (an old palace where the factory was located and Smekija, a palace adjacent to Jadran), and convert them into tourism capacities (Radio Jadran 2012). Location of the Jadran Perast project is represented in Figure 6-15.

Figure 6-15 Location of Jadran Perast project



Source: Author, using Geoportal.hr and Surfer

After taking over the management of the AD Jadran, the investor opened a call for the conceptual design of Jadran hotel and received ten offers from various architectural firms. All the received designs were sent to the Regional Bureau for Protection of the Culture Monuments (RZZSK)<sup>45</sup> in Kotor, but were refused as unacceptable without a detailed plan and conservation conditions. Perast is an old town with numerous palaces which required specific attention regarding potential use, conservation, renovation and development.

Because of the requirements to conserve the old town, it took a long time for the detailed plan UP Grad Perast to be developed. The procedure initiated in 2002 and the plan was adopted in April 2012. Palata Smekija, as part of the investment, received urban technical conditions from the Ministry in 2014. The continuation of the project for the renovation of the Jadran building was delayed as the conservation conditions and archaeological research were only completed in February 2014 (Lajović 2015b).

The case shows that the existence of BVPs, such as regulations guaranteeing preservation of the valuable historical core of the Past city have ensured that the projects complied with conservation regulations. However, one of the interviewees offered a different understanding of the role of the heritage protection offices. Public administration forced compliance with the rules only in cases where the investors were not politically connected (Interview 18). The influence of the colluding elites will be discussed in the PVP chapter.

## **6.6 Summary**

In this chapter, I have argued that BVPs (or lack thereof) are an important variable in explaining outcomes in resource use and rent-grabbing. The analysis showed that in most of the tourism projects the existence of the BVPs determined the outcome on resource use and rent-

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<sup>45</sup> Regional Bureau for Protection of the Culture Monuments (Regionalni zavod za zaštitu spomenika kulture)

grabbing variables. In Croatia, megaprojects were downsized and adapted to environmental regulations. The Santa Marina project showed that despite pressures from the investors, municipal and county authorities have adhered to already determined tourism zones rather than initiating changes that would potentially lead to rent-grabbing and resource misuse.

The analysis also indicated that well-prepared projects faced no obstacles from the bureaucracy. Moreover, the case of Kalebova Luka showed that once resource protection is guaranteed, the rigorous system of BVPs allows investment flexibility. Despite an encompassing system of BVPs, which many accuse of halting much needed investments, fewer projects were blocked and slowed down without adaptation in Croatia than in Montenegro. The dataset also helps in divulging the effects of the property rights disputes on project implementation. I suggest that property rights disputes contributed to the myth of inefficient bureaucracy.

In contrast, in Montenegro, the lack of formal and functioning BVPs led to unchecked construction expansion. The sheer number of large tourism projects testifies to the effect of lacking controls against rent-grabbing and resource misuse. Tourism has been a mantra of the local and national level politicians which marketed each investment as the largest, the most luxurious and the most prestigious. Projects were also lauded for their tourism product diversification and job creation capacity.

However, the analysis of the tourism projects showed that, on the contrary, a large majority could barely be defined as tourism projects. The focus was on a hybrid between the real estate and tourism sectors, such as apartments for the market and the so-called condo hotels and villas. The rents were hoarded by a mixture of controversial business and political elites and the resources were openly misused in the name of tourism development. By comparing the

profit margins ensured through land urbanization with the ones that accrue in the comparable sectors, I also quantitatively express the size of the resource rents.

BVPs as obstacles to rent-grabbing were rather exceptions, such as in the case of conservation requirements for the investments in the palaces of the old town of Perast. The cases where BVPs did not exist as the projects were regulated either by national level State Location Studies or through planning documentation of lower level were by far the largest category in Montenegro. In this category, I included the cases in which the plans were developed on the national level and avoided, through a streamlined procedure, the “hassle” of spatial planning by directly satisfying investors’ interests.

To sum up, the analysis of Croatian tourism projects showed that BVPs such as the number of required planning documents, decentralized planning and strict legislative acts ensure that the majority of the investments do not pose threats to sustainable resource use. Moreover, such system of BVPs also guaranteed that most of the projects did not provide rents to investors by damaging municipal and national budgets. Tourism projects had to develop over longer periods of time during which all levels of control and all bureaucratic procedures ensured a match with tourism development goals. Additionally, the duration and complexity of bureaucratic procedures also provided a window of opportunity for the engagement of the NGOs. As a result, Croatian tourism development resulted in a more sustainable resource use than in Montenegro. Most of the profits were distributed among tourism entrepreneurs rather than land use profiteers who in Montenegro often capitalized on illegal land urbanizations.

The importance of (lacking) BVPs is clearly visible in Montenegro. The devastation of the coast and selective enrichment of the elites were largely a result of lacking formal controls such as regulations governing the use of resources. However, use of spatial planning as a tool

for satisfying investors' interests further aggravated the situation. As elaborated in the historical chapters, Montenegrin political elites streamlined bureaucratic procedures. As a result, Montenegrin system had too few levels of monitoring that could prevent rent-grabbing and resource misuse. These characteristics jointly led to a wide misuse of resources and distribution of profits to the private pockets of elites in collusion with the ruling party. The cases in which BVPs were identified and effective in Montenegro were rather few. However, the analysis of this cases demonstrated the importance of strict, even if complex, procedures and necessity to complete all the planning procedures.

**Appendix 6-1 Tables accompanying Bureaucratic Veto Points chapter**

Table 6-1 List of Croatian coastal county abbreviations and names in English and in original

<b>Abbreviation</b>	<b>English</b>	<b>Croatian</b>
IS	Istria	Istarska županija
PG	Primorje-Gorski Kotar	Primorsko-Goranska županija
LS	Lika-Senj	Ličko-Senjska županija
ZA	Zadar	Zadarska županija
ŠK	Šibenik-Knin	Šibensko-Kninska županija
SD	Split-Dalmatia	Splitsko-Dalmatinska županija
DN	Dubrovnik-Neretva	Dubrovačko-Neretvanska županija

Table 6-2 List of Montenegrin coastal municipality abbreviations and names

<b>Abbreviation</b>	<b>Montenegrin</b>
UL	Ulcinj
BA	Bar
BU	Budva
KO	Kotor
TI	Tivat
HN	Herceg Novi

Table 6-3 Locations encompassed with changes of the spatial plan of Budva in 2009

<b>No.</b>	<b>Name of the location</b>	<b>Ha</b>	<b>No.</b>	<b>Name of the location</b>	<b>Ha</b>
01	Đevištenje	10.07	11	Bare	1.18
02	Slanjina	1.81	12	Pod Branicom	9.65
03	Mirište	0.18	13	Rijeka Reževići	13.98
04	Radovića Laz	0.77	14	Skočidjevojka	20.51
05	Pasja Jama	15.79	15	Smokvica 2	22.77
06	Bijeli Rt Galiје	12.44	16	Zakolač	0.62
07	Bijeli Rt Buvači	6.87	17	Lučice	24.75
08	Debeli Rat	11	18	Dubovica	23.5
09	Slana Luka - Žukov Rat	15.07	18a	Dubovica	14.86
10	Drobni Pijesak	5.3			
<b>TOTAL</b>					<b>211.12</b>

Table 6-4 List of Croatian tourism projects across counties

IS (32)		PG (6)	LS (1)	ZA (13)	SK (1)	SD (12)	DN (14)
·Barbariga	·Vrnjak golf	·Santa	·Veladrión	·Nauta	·Oštrica	·Trstenik	·Saplunara
·Karigador	·Stancija	Marina -	Zubak	Lamjane	·Zablaće	·Ključna	·Duba
·Kamp	Grande	Sveta		·Južni	·Marina	·Sućuraj	Malostonska
·Pineta	Maistra	Fuška		Pašman	Lučica	PPK	·Hrvatski
·Polo	·Oprtalj	·Haludovo		·Paška Rebra	·Prukljan	·Dugi	San
·Motovun	·Marlera	·Kostabela		·Baštijunski	golf	Rat	·Čemprijesi,
·Stancija	·Prtlog	·Rivijera		brig	·Jolly	·Tučepi	Šipan
Grande	·Negrin,	Centar		·Hypo Šimuni	hotel	·Supetrus	·Bat, Zaton
Umag	Gajana	·Punta		·Diadora	·D-Resort	·Martinis	·Aman
·Terra	·Aquapark	Križa		Falkensteiner	·Hotel	Marchi	Resorts
Istria	·Istralandia	Matalda		·Hotel Iadera	Revija	·Hotel	Cavtat
·Dragonera	·Hotel	golf		Falkensteiner	·Medine	Romana	·Kupari
·Sveta	Rovinj	·Golf		·Apartments	·Ivanal	·Medical	·Srđ
Katarina	·Hotel Lone	Jelenje		Senia	Plaza	City	·Canavia
Monumenti	·Hotel	Dubina		·Posedarje	·Kalebova	Brač	·Česminovo
·Hidrobaza	Monte			Rivijera	Luka	·Kabal	·Marina
·Frašker	Mulini			·Ninsko Blato		Arqaam	Komolac
·Larun	·Hotel			·Tustic		Capital	·Hotel Mlini
·Plava	Amarin			·Sukošanska		·Pučišća	·Sheraton
Zelena	·Hotel Park			rivijera		Luka	Dubrovnik
laguna	Maistra			·Mirnovac		·Garma	Riviera
·Stancija	·Aquacolors			park		Ravnice	Hotel
Markocija	·Istra			·Mačjak			·Bili Dvori
·Crveni Vrh	Fortuna						
·Brkač	·Kempinski						
·Muzil	Hotel						
·Praščarija	Adriatic						
golf							



Table 6-5 List of Montenegrin tourism projects across municipalities

BA (4)	BU (37)	HN (14)	KO (4)	TI (5)	UL (7)	
· Papan Resort	· Nivel Luzitanos	· Kuljače Megapromet	· Hotel Delfin	· Trsteno · Glavati	· Luštica Bay · Montepranzo	· Solana Bajo
· Maljevik	· Aqua Park Crvena	· Hotel Park Bijela	· Jadran &	· Bokaproduct · Porto	· Sekulić · Valdanos	
· Wind Rose	· Topliš Aquaterra	· Hotel Žager	· Smekija · Fjord	· Montenegro · Sveti Marko	· Galeb Rokšped	
· Kraljičina plaža Dubovica	· Solutions Bečići Capital Estate · Crvena Glavica Capital Estate · Crvena Glavica The royal's village · Crystal Rivijera · Devin condo hotel · Dom XXI · Hotel Avala · Hotel Blue Star · Hotel Montenegro Beach Resort · ICL injženjering · Košljun · Krstac	· Mirište Rusko Selo · Skočidjevojka · Splendid · Sveti Nikola Island · Tre Canne · Hotel Kraljičina Plaža Budva · Porto · Sveti Stefan · Vile Oliva · Zavala · Zetogradnja Ljetopis · As, Perazića Do · Golf Spas · Bijeli rt · Drobni pijesak · Jadranski Sajam · Recreatours Kamenovo · TN Smokvica	· Meljine Vojna Bolnica · Portonovi · Vektra Boka · Verige · Institut Simo Milošević Igalo · Mamula · Lazure · Baošići · Monterose · Arza · Rt Mimoza	· Plavi · Horizonti	· Lido Capital Estate · Hotel Mediteran · Jadran Suka · Aquapark Štoj	

**Annex 6-2 Legal Glossary**

## 6-2.1 Ownership right, right to use and privatization

Transition from socialism to market economy had a complex effect on the property rights of urban and non-urban land. In Croatia, during the transition, all socially-owned companies were re-structured as state-owned joint stock companies. In the privatization, the ownership rights were transferred to the investor who purchased the joint-stock company. However, the land was an exception and its value was frequently not assessed during the process of privatization, nor included in the purchased capital. As a result, there were numerous cases in which state-owned companies were cheaply privatized and the new owners attempted to sell the valuable land in the coastal areas. However, during socialism, the socially-owned companies had only the so-called right of use over the land, which is a separate entitlement from the right of disposal or sale. This created a legal vacuum in which courts arbitrarily decided whether the companies also privatized this non-assessed land or not. As a solution, in 2006, the Constitutional Court decided that the property that has not been assessed during privatization remains state-owned (Vaić and Dvorničić 2014).

This was particularly important for 100,000,000 square metres of non-assessed or partially assessed tourism land. In 2010, the Act on the Tourist and Other Construction Land Not Assessed During the Transition and Privatisation Process defined the ownership status of various types of non-assessed property (2010). It prescribed that non-assessed camping land is state-owned and the joint-stock companies can obtain a concession over it. Partially-assessed camping land is jointly owned by the privatized joint-stock company and the state, in proportion to the ratio of assessed and non-assessed land. Land under the hotels and other tourism capacities is owned by the privatized joint-stock company, while surrounding is municipal-owned. In cases where private owners have assets on the land surrounding tourism capacities, they have the right of use of the objects, but not the ownership rights (Vaić and Dvorničić 2014).

In Montenegro, in 2009, the Law on Proprietary and Ownership Rights asserted that the holder of the right to use the land gained the ownership right over the same land (2009a). Exceptions are the cases in which a market compensation was not paid for during privatization process or bankruptcy sale. In such cases, the land remains state-owned and the owners of buildings on the land have a pre-emptive right to buy or to lease the land in question. Privatisation Council of the Montenegrin Government decides whether the market compensation was paid during privatization, with the exception of bankruptcy cases for which Commercial Courts make decisions (2009a). Some accounts suggest that the approval of the Privatisation Council was not requested when companies were privatised through the sales of shares (D. Babović 2013).

#### 6-2.2 Cadaster and property restitution

Not up-to-date cadastre and land registry represent another issue as difficulties arise when determining ownership over land parcels (Ott and Kranjcevic 2005). This is particularly an issue due to the small size of the land parcels and the equal inheritance practices where the land was divided among all descendants (Svržnjak 2006).

Denationalisation or return of the property nationalized by the communist authorities represents another issue. In Croatia, the Law on Restitution enables restitution or compensation of the same value to claimants whose property was nationalised and expropriated during socialism (2002). However, in many cases, the return of the disputed property requires a lengthy procedure involving proofs of ownership and assessment of changes in the current value of the property compared to its value when it was expropriated (see e.g. WJRO 2014; Ljubičić 2015). Proving ownership can be burdensome as there are differences between the entries in cadastre and land registry which in addition, often differ from the factual situation.

Outdated cadastre and land registry represent also an issue in the cases where the individuals do not have title to the land, but claim property rights through adverse possession. For example, claimants argue that their ancestors farmed or harvested the land, or used it for some other purposes, giving them therefore the right to claim titles through adverse possession. This is particularly common in the coastal areas where shrubland and maquis, not farmed in decades, recently become valuable tourism land.

The Law on Ownership and Other Real Property Rights (2014b) prescribes that it is possible to acquire property by adverse possession if the land has been used uninterruptedly for either ten or twenty years by the claimant. To acquire property by adverse possession and ensure the ownership rights, if the land is defined as municipally-owned agricultural or forest land, the claimants must sue the municipality. If the land is already urbanized, the claimant must sue the state, which is then represented by municipal State Attorney Office. Such cases were noted in Srđ and Sućuraj projects (Kukec 2014; Kalajdžić 2011).

Another issue are the disputes between the municipality and the state regarding ownership over the previously socially-owned land to which municipalities had the right of use during socialism. After the transition, all land defined in cadastre and spatial plans as forest is state-owned and managed by the state-owned company Croatian Forests. However, agricultural land and other types of land use, are municipal-owned. However, as the cadastre and land registry are not consolidated, property right disputes frequently occur also between the state and municipal authorities.

Montenegrin Law of Rights of Restitution and Compensation (2004) guarantees return of the original property or same-value compensation, but amendments from 2007 denied the right to restitution and compensation to those who received rightful compensation from Yugoslavia after 1968. However, the process is perceived as time consuming, as cadastre and land registry

*When Bureaucrats Constrain the Grabbing Hand*

are not up-to-date (Vijesti Online 2013b). Similar issues due to not up-to-date cadastre and land registry are faced in Montenegro.

# 7

## POLITICAL VETO POINTS AND CATALYSTS

### Preventing Rent-Grabbing and Resource Misuse

The chapter analyses how political veto points (PVPs) influence rent-grabbing and resource use in two tourism-dependent countries, Croatia and Montenegro. Based on the four strands of the literature – resource curse, tourism, corruption and veto points – I suggest that PVPs assist in curbing rent-grabbing and preventing resource mismanagement. As political veto points, I consider vertical cohabitation, turnover in power and judiciary.

In an attempt to situate the research terminologically within the existing literature I use the term *veto points*. Drawing on existing literature, I use the term political *veto points* throughout this thesis. However, as used here, the term refers to *veto mechanisms* - specifically vertical cohabitation and turnover in power - which rely on *veto points* (political actors on national, sub-national governing levels). While I still rely on the veto points logic, I shift the focus from the static (actors/points) to the dynamic dimension of the mechanism. In addition, I research the role of the media and civil society as catalysts which can affect dependent variables through the judiciary.

Vertical cohabitation and turnover in power are two types of dynamic political competition. I have coined the term vertical cohabitation for situations in which different political parties and coalitions hold power at different levels of government (national and sub-national). Turnover in power is a change of political party or coalition governing on the national and sub-national level. Both vertical cohabitation and turnover in power enable monitoring of projects agreed upon by competing political parties. In addition to the mechanisms of political competition, I include independent judiciary among the political veto points. I follow Tsebelis in including judiciary among the political veto points due to its role in providing constitutional checks and balances. Civil society and the media have a role of catalysts. Although they cannot block rent-grabbing and resource mismanagement in tourism projects on their own, they rely on the independent judiciary or on the public pressure directed at politicians.

### **7.0 Brief Overview**

I show that turnover in power between HDZ and SDP-led coalitions, combined with vertical cohabitation between national and county level, had a role in preventing rent-grabbing and resource misuse in Croatia. This is illustrated by the Brijuni Rivijera tourism project. The dominance of DPS on the national level and centralization of the spatial planning in the hands of the Montenegrin Government prevented the effect vertical cohabitation had in Croatia. I show this in the case of Mamula.

Analysis of the role of the judiciary in Croatia helps to understand why it is difficult to outright distinguish between benign speculations and illegalities in tourism projects. This is represented in the cases of Barbariga and Dragonera. I introduce the case of Brkač to describe how NGOs in Croatia successfully influence rent-grabbing and resource use through the judiciary. In contrast, the judiciary in Montenegro is not independent and does not provide a channel for the engagement of the civil society. Two tourism projects, Zavala and Organized

Crime Group Budva show how judiciary was used for political, in-party conflicts and for reassuring the EU that the rule of law institutions are in place. Through targeted prosecution of the members of one of the two power centres within the dominant party DPS, the judiciary has facilitated the transition from resource rent-sharing to rent monopolisation.

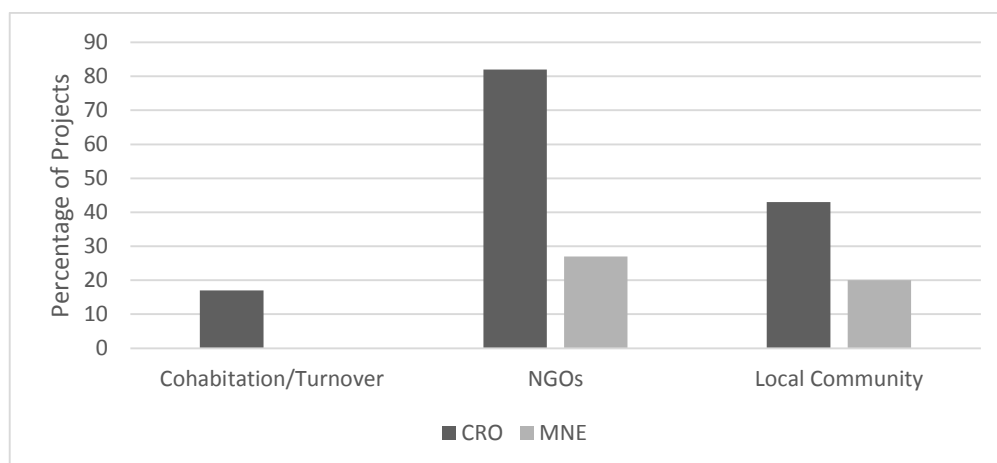
From the dataset, I also observe the relationships between the structure and type of the civil society and its role in influencing resource preservation in Croatia and Montenegro. This is particularly important as local community engagement has a key role in the tourism scholarship. I suggest that polycentric structure of the expertise-rich civil society in Croatia enables engagement of the local community through civic initiatives. Subsequently, it allows more success in raising awareness about land urbanization illegalities. This opens opportunities for collective action solutions to ensure resource protection.

I demonstrate that the NGO network in Montenegro is weakly connected and focuses primarily on developing catch-all strategies targeted at “repairing” the heterogeneous negative consequences of the partitocratic regime. However, the engagement of the experts, such as associations of the architects, against fast urbanization and devastation of the coastal landscapes is sporadic at best. Widespread acceptance of the corruption prevents collective action solutions. Finally, media analysis across two countries offers paradoxical results. Croatia has better media freedom score than Montenegro, but in-depth analysis of the Tourism Projects Dataset suggests that the critical media in Montenegro are far more engaged in investigating crimes and corruption than the media in Croatia.

In overall, political vetos mechanisms are more effective in Croatia than in Montenegro. However, the NGOs, media and the local community have a surprisingly strong role in Montenegro, given the partitocratic regime type. Figure 7-1 Overviews effectiveness of various PVPs in Croatia and Montenegro.



Figure 7-1 Effectiveness of different types of PVPs



Source: Author based on Tourism Projects Dataset

Cohabitation was effective in 17% of 88 projects in Croatia, but had no effect in Montenegro. In Croatia, NGOs were particularly effective, managing to influence rent-grabbing and resource misuse in 82% of the 11 analysed cases. Civil society in Montenegro has managed to influence the outcome in only 3 projects and was effective in 27% of the cases it intervened in. The local community was successful in influencing 3 projects or 43% of the cases in which it engaged in Croatia. In Montenegro, it effectively influenced only 1 out of 5 projects or 20% of the cases it tried to influence.

The chapter has the following structure. Section one briefly recounts the development of political competition on a national and county level and shows how it influenced rent-grabbing and resource sustainability in the tourism sector. Section two overviews the development of the judiciary and outlines cases in both countries which help clarifying its role in ensuring sustainable resource use in tourism. Section three analyzes the role of the civil society, with a focus on NGOs, expert groups and civic initiatives. Section four introduces media outlets and explores their role in tourism resource use and rent-grabbing. I now turn to a closer overview of the turnover in power and vertical cohabitation on the national and sub-national level.

### ***7.1 Dynamic Political Competition***

Previous research argues that political competition influences bureaucratic capacity and autonomy. Geddes investigates what motivates politicians to reform an unprofessional bureaucracy that ensures short-term gains and re-election, into an insulated public administration that promotes long-term development. She suggests that politicians will support reforms of the civil service only if there is relative parity among the parties and if competing parties would also lose patronage opportunities (Geddes 1994). Grzymala-Busse similarly argued that the distribution of party power in parliament, including turnover and fragmentation, defines the extent of state politicization (Grzymala-Busse 1998). However, the existing research does not directly speak about the type of political competition described in this dissertation, which I termed vertical cohabitation.

Vertical cohabitation refers to a context in which different political parties control national and sub-national levels of governance. This is of great importance when changes require approval on the sub-national and national level. To be more specific, if tourism projects require changes in the spatial plan on the lowest level, this must first be enacted in the higher-level spatial plans and the Ministry in charge of spatial planning must confirm the changes are in accordance with the higher level spatial plans. Only then, the sub-national level can adopt new planning acts. Therefore, vertical cohabitation and turnover in power can ensure a more thorough control of the changes in the spatial plans and in such way, prevent rent-grabbing and resource misuse.

I show how turnover in power on the national and sub-national level in Croatia ensured numerous vertical cohabitation settings, while domination of the DPS on a national level, reduced the occurrence of the vertical cohabitation in Montenegro. I now turn to the overview of the turnover in power on the national level of government.

7.1.1 Turnover in power: National and sub-national level

In the historical chapter (Chapter 5), I have shown how political competition developed in Croatia, where a multiparty competitive system has allowed regular turnover in power on the national level elections. In contrast, in Montenegro, DPS has ensured a status of dominant party and no occurrence of national level turnover was recorded. HDZ's loss on elections in 2000 introduced competition to the Croatian political system. The electorate turned to opposition parties when unsatisfied with the incumbents (see Table 7-1). However, this was possible only because HDZ never managed to ensure the position of a dominant party after Tuđman's death. This pattern has led to changes among the ruling elites on the national level and has also ensured an independent judiciary.

Table 7-1 Overview of elections and party power in Croatia

Year	Elections	Party	Name of the functionary
1990	Parliamentary	HDZ	Stipe Mesić
1992	Presidential	HDZ	Franjo Tuđman
1992	Parliamentary	HDZ	Hrvoje Šarinić
1995	Parliamentary	HDZ	Zlatko Mateša
1997	Presidential	HDZ	Franjo Tuđman
1999	Presidential	HNS	Stipe Mesić
2000	Parliamentary	SDP	Ivica Račan
2003	Parliamentary	HDZ	Ivo Sanader
2005	Presidential	HNS	Stipe Mesić
2007	Parliamentary	HDZ	Ivo Sanader
2009/10	Presidential	SDP	Ivo Josipović
2011	Parliamentary	SDP	Zoran Milanović
2014	Presidential	HDZ	Kolinda Grabar Kitarović
2015	Parliamentary	HDZ-Most	Tihomir Orešković
2016	Parliamentary	HDZ-Most	Andrej Plenković

Source: Author based on izbori.hr

In Montenegro, DPS ensured victory in all the presidential and parliamentary elections since the fall of Yugoslavia. The murky transition could have cost DPS its status of a hegemonic

party. Nevertheless, an in-party rift allowed DPS to stay in power, while simultaneously distancing itself from Serbia. This approach was applied in DPS's transformation from a pro-Yugoslav party to an advocate of Montenegrin independence (Balkans Al Jazeera 2012). Overview of the results of the national elections in Montenegro is provided in Table 7-2.

Table 7-2 Overview of elections and party power in Montenegro

Year	Election	Party	Functionary
1990	Parliamentary	League of Communists	Milo Đukanović
1990	Presidential	League of Communists	Momir Bulatović
1992	Parliamentary	DPS	Milo Đukanović
1992	Presidential	DPS	Momir Bulatović
1996	Parliamentary	DPS	Milo Đukanović
1997	Presidential	DPS	Milo Đukanović
1998	Parliamentary	DPS-SDP	Filip Vujanović
2001	Parliamentary	DPS-SDP	Milo Đukanović
2002	Parliamentary	DPS-SDP	Milo Đukanović
2002	Presidential	DPS	Filip Vujanović
2003 (Feb)	Presidential	DPS	Filip Vujanović
2003 (May)	Presidential	DPS	Filip Vujanović
2006	Parliamentary	DPS-SDP	Željko Šturanović
2008	Presidential	DPS	Filip Vujanović
2009	Parliamentary	DPS-SDP	Milo Đukanović / Igor Lukšić
2012	Parliamentary	DPS-SDP	Milo Đukanović
2013	Presidential	DPS	Filip Vujanović
2016	Parliamentary	DPS	Dušan Marković

Source: Author based on Montenegrin Statistical Yearbooks (Monstat 2010; Monstat 2006; Monstat 2014)

The undisputed rule of DPS allowed the ruling elites not only to take control over the tourism capital Budva, but also ensured control over the most valuable segments of the coastal belt. As described in the historical chapter (Chapter 5), this was ensured in 2005 through the State Location Study (SLS). Removal of parliamentary controls over this planning instrument in 2008 placed all power in the hands of a small circle of DPS elites in government. I now turn

to sub-national level political competition and the vertical cohabitation between the national and sub-national level.

#### 7.1.2 Vertical cohabitation: National-county level

There are two sub-national levels of government in Croatia, county and municipal. In Montenegro, there is one, municipal, sub-national level of government. I proceed by outlining the dynamics of political competition at the county level in Croatia and municipal level in Montenegro. In Croatia, HDZ and the centre-left parties clearly divided the coastal municipalities between themselves, while in Montenegro DPS controlled most of the coastal municipalities except for the most Southern and the most Northern municipalities of Ulcinj and Herceg Novi.

More precisely, in Croatia, HDZ largely controlled the Southern Adriatic counties. Since 1993 HDZ and its local level coalition parties never lost county elections in Lika-Senj, Zadar, Šibenik-Knin and Split-Dalmatia counties. For most of the period between 1993 and 2016, HDZ and centre-left coalition also had control over the Dubrovnik-Neretva Assembly. However, during the elections of 2001, SDP and its coalition parties formed a majority in the Dubrovnik-Neretva Assembly. Following the local elections of 2005, HDZ regained the majority in the Dubrovnik-Neretva Assembly, only to lose it for a brief period as one of the councillors defected to the centre-left, forming a new majority and leading to a political crisis. Left wing parties traditionally ensured power in the Northern Adriatic counties. IDS controlled Istria county uninterruptedly since 1993. Similarly, a wide coalition of left and centre parties, frequently led by SDP, has been controlling the Primorje-Gorski Kotar county.

Table 7-3 overviews parties and coalitions in power in Croatian coastal counties between 1993 and 2013. The centre-right coalitions led by HDZ are coloured in dark blue and the centre-left coalitions led by SDP in light red. Between 2005 and 2009, the Dubrovnik-Neretva county

has featured a mixed pattern as the ruling coalition changed during the mandate. A plus sign denotes pre-electoral coalition and a hyphen denotes post-electoral coalition. Abbreviations for the coastal counties are explained in Table 6-1 in Appendix 6-1.

Table 7-3 Overview of county elections results across Croatian coastal counties

Year	IS	PG	LS	ZD	ŠK	SD	DN
1993	IDS	SDP -HSLs- HNS+RDS-IDS	HDZ	HDZ	HDZ	HDZ	HDZ
1997	IDS	SDP +HSLs	HDZ	HDZ	HDZ	HDZ	HDZ
2001	IDS	SDP -HSS-HSLs- HSU + PGS- IDS	HDZ +HSP	HDZ+HSLs	HDZ	HDZ	SDP +HSS+HSLs
2005	IDS	SDP -HNS-IDS- HSS-HSU-LS- ARS-SDA	HDZ -DC	HDZ -HSLs	HDZ	HDZ	HDZ -DC+HSP+HSLs/SDP- HSS-HNS-LS+NŽL+NL
2009	IDS +SDP+HNS	HNS -HSU-IDS- HSLs-ARS- SDA-ZELENI	HDZ -HSS- HSP- HSLs	HDZ -HSS-HSLs- HSP-HSU	HDZ -HSS	HDZ -HSS-HSLs	HDZ -HSS-HSLs-HSU
2013	IDS -HNS- ZELENI	SDP -HNS-HSU- IDS-ZELENI- ARS	HDZ -HSS- HSP-HSP AS-HSU	HDZ -HSS-HČSP-HSP AS-HSU	HDZ -HSP- HČSP	HDZ -HČSP- HSP AS- HSLs- HDS-BUZ	HDZ -HSU-HSLs-HSP AS

Source: Author based on izbori.hr

The coalitions in power in coastal counties have, apart from Dubrovnik, been relatively stable. However, on the national level, two blocks (left SDP-led and right HDZ-led) have continuously changed. This resulted in patterns of vertical cohabitation where the national and county-level leadership had incentives to keep each other in check and would have stronger incentives to veto projects advocated by the competition parties. Table 7-4 (below) shows the periods of vertical cohabitation on the national and the county level in dark red colour. Periods when the same party or coalition ruled both the national and the county level are marked in light green.

Table 7-4 Vertical cohabitation between national and county level in Croatia

Year	1990s	2000s	2010s
IS			
PG			
LS			
ZD			
ŠK			
SD			
DN			

Source: Author based on izbori.hr

In contrast, in Montenegro, DPS largely controlled most of the six coastal municipalities. There were two exceptions, Herceg Novi and Ulcinj, where ethnic Albanian and Serbian parties traditionally formed a majority in local government. Serbian ethnic parties controlled Herceg Novi from 2000 to 2015 when DPS entered into an agreement with newly formed party Izbor and finally regained power in this municipality as well. Ulcinj is another municipality where DPS spent time largely in the opposition, managing to form a majority with Democratic Union of Albanians (DUA) only between 2006 and 2010. In Tivat, Kotor, Bar and Budva, DPS was prevalently in control of the local assemblies. In Tivat, DPS never lost local elections. In the remaining coastal municipalities, Bar, Budva and Kotor, DPS was defeated only once in the period between 1990 and 2016; in Bar on the first elections in 1990, in Budva for the period from 2002 to 2005, and in Kotor between 2002 and 2004. A detailed overview of electoral results, distribution of mandates and graphical representation of political controls in coastal municipalities in Montenegro is available in the Annex 7-2.

Table 7-5 provides an overview of all local level election results across Montenegrin coastal municipalities. The time periods in which DPS was in power are coloured in dark blue and in which the so-called Serbian ethnic parties were in power is coloured red. The Albanian parties' rule in Ulcinj is coloured green, while the period in which DPS formed a coalition with

Albanian parties takes a striped pattern in green-blue colours. A plus sign denotes pre-electoral coalition and a hyphen denotes post-electoral coalition.

Table 7-5 Overview of municipal elections results across Montenegrin coastal counties

Year	Bar	Budva	Kotor	Herceg Novi	Tivat	Ulcinj
1990	SRSJ	SKCG	SKCG	SKCG	SKCG	DC
1992	DPS	DPS	DPS	DPS		DSCG
1996	DPS	DPS	DPS	DPS	DPS	DSCG+DUA
1998	DPS	DPS	DPS	DPS	DPS+SDP	DUA+DSCG
2000	DPS	DPS	DPS	SNP		
2002	DPS	SNP-NS-SNS	SNP-NS-SNS-LSCG		DPS-SDP+HGI	DUA+DSCG
2004 <sup>46</sup>			DPS+HGI	SNP-SNS-SRS	DPS-SDP+HGI	
2005 <sup>47</sup>		DPS-SDP				
2006	DPS-SDP					DPS-SDP-DUA
2008 <sup>48</sup>			DPS	SNP	DPS+SDP+HGI	
2010	DPS+SDP	DPS				Forca+DUA+SDP
2012			DPS+SDP	SNP+Nova+PzP+Serbian coalition	DPS+SDP	
2014	DPS+SDP	DPS				Forca+PCG+ZBU
2015				DPS+Izbor		
2016					DPS	

Source: Author (Monstat 2010; Monstat 2006; Monstat 2014)

Table 7-6 provides an overview of vertical cohabitation of leading parties on the national and municipal level in Montenegro. Periods of vertical cohabitation are coloured in dark red and periods in which DPS controlled both national and sub-national level in light green. The table clearly shows DPS' domination on both national and municipal level. On the national level, DPS has never lost a single election, and on the municipal level, it has slowly gained control over most of the coastal area. However, since 2000 when tourism started recovering from the effects of the Yugoslav wars, there has been a period of vertical cohabitation in four

<sup>46</sup> Early elections for members of Municipal Assembly in Herceg Novi, Kotor and Tivat

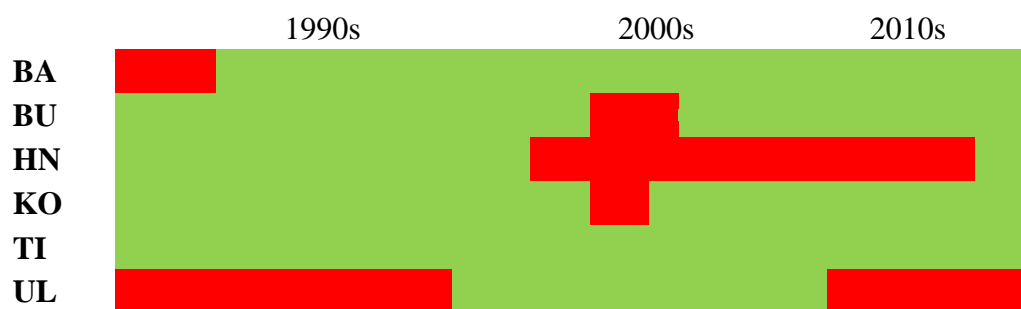
<sup>47</sup> Early elections for members of Municipal Assembly in Budva

<sup>48</sup> Early elections for members of Municipal Assembly in Herceg Novi, Kotor and Tivat



out of six municipalities. Therefore, competing parties on national and sub-national level could veto harmful tourism projects.

Table 7-6 Vertical cohabitation between national and municipal level in Montenegro



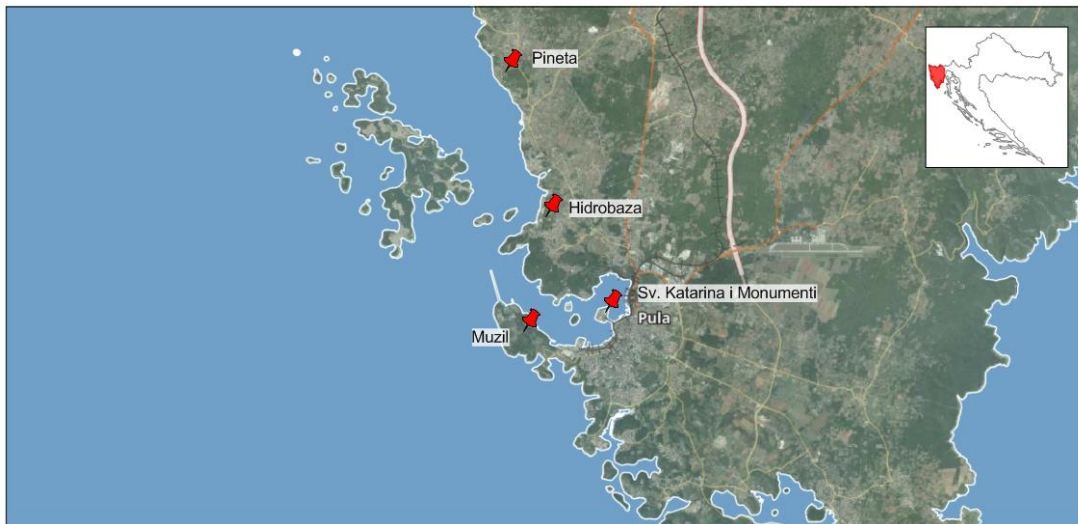
Source: Author (Monstat 2010; Monstat 2006; Monstat 2014)

The political turnover at the national and county/municipal level could provide checks against rent-grabbing and non-sustainable resource use as a newly elected group of politicians can control the agreements made by the replaced political leadership. However, it is visible that parties in most of the counties/municipalities stay in power for consecutive mandates. Therefore, the vertical cohabitation between county/municipal and national level authorities is more likely to act as a veto point against non-sustainable resource use and rent-grabbing. The role of the Ministry in charge of spatial planning is to assess the conformity of county and municipal level plans and changes in these plans with laws and higher level plans. As employees of the ministries in charge of spatial planning are not changed with each new government, the decisions of the Ministry are not simply a reflection of the interest of the ruling party. However, if the Ministry is controlled by one party and the county or the municipality by other, chances are higher that an objective assessment will be made. I now turn to Croatian tourism project Brijuni Rivijera which shows how vertical cohabitation ensures control over rent-grabbing and resource mismanagement. In Montenegro, I illustrate how vertical cohabitation could not veto Mamula project as control over the island was through SLS centralized in the hands of the government.

## 7.1.3 Brijuni Rivijera: Vertical cohabitation in action

In Croatia, Brijuni Rivijera project illustrates how vertical cohabitation on the national and county level controlled resource misuse and blocked tourism project implementation. In the Istria county, project Brijuni Rivijera was conceived during Račan's centre-left government (2000-2003). One of the parties forming the coalition on the national level was IDS, regional Istrian ruling party. In May 2003, Croatian Government and the Istria County Assembly agreed to found Brijuni Rivijera as a joint project of the county and the government. Locations of the projects included in Brijuni Rivijera is represented in Figure 7-2.

Figure 7-2 Locations of Brijuni Rivijera projects



Source: Author, based on Geoportal.hr

However, during the following parliamentary elections in November 2003, HDZ won a majority in the Parliament and Ivo Sanader became the Prime Minister. This introduced vertical cohabitation as HDZ had control on the national level and IDS, an opposition party, on the county level. Initially, during a meeting with the leadership of the Istria county in February 2004, Prime Minister Sanader formally supported the Brijuni Rivijera project (Pulska Grupa 2013).

However, Government's Council for Spatial Planning refused the Strategy for the Development of the chosen locations, which Račan's government commissioned from the

company Horwath Consulting. The Council argued the Strategy failed to introduce new tourism products and instead suggested apartments and villas for the real estate market (Pulska Grupa 2013). Apartments for sale have been a topic of a long-standing debate in Croatia. The experts strongly opposed real estate tourism as it does not help in extending short tourism season beyond the summer months or in diversifying the tourism offer (Ministry of Tourism 2003; Čorak et al. 2012).

The Council argued in a similar vein that the Strategy Brijuni Rivijera offered no insight on how to prolong the short summer season and instead, suggests linear urbanisation without using the depth of the space or integrating existing urban zones. Tensions between the county authorities and the Government escalated during the meeting of the Council for Spatial Planning in October 2005. The Ministers of tourism and culture opposed the ideas formulated by the Istria county leadership. Additionally, the funding for the Brijuni Rivijera was revoked (Pulska Grupa 2013).

In July 2011, four months before the parliamentary elections, HDZ's Prime Minister Jadranka Kosor signed the Brijuni Rivijera Contract for Implementation. However, Zoran Milanović, leader of the opposition SDP, publicly stated that she used the contract signing as part of her electoral campaign. According to Milanović, HDZ has stalled the project for eight years and has decided to declaratively support it before the elections, although no funds were ensured for it in the budget (T-portal 2011). In this case, vertical cohabitation on county and national level led to the freezing of the project on the side of the HDZ's government. I now turn to the case of Mamula which explains why vertical cohabitation has not prevented rent-grabbing in Montenegro.

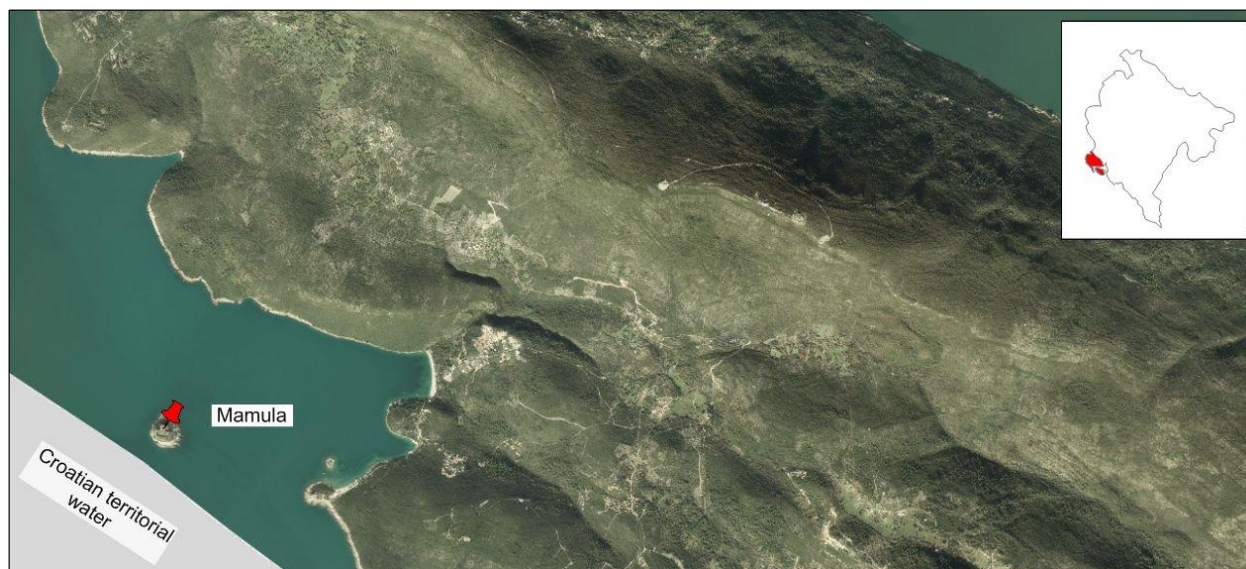
## 7.1.4 Mamula: Centralization and nullification of the vertical cohabitation

Although there are cases in Montenegro where vertical cohabitation between municipal and national level authorities could have resulted in better control of land use, the centralization of the planning process has largely cancelled out this potential check. As I explained in Chapter 5, Montenegrin Government directly controls the use of land in the narrow coastal belt through State Location Studies. As a result, the Ministry in charge of spatial planning, controlled by DPS, approves the projects which the party leadership favours, even if the municipal authorities oppose it.

In the case of Mamula, the Government supported the project, while the municipality of Herceg Novi opposed it. However, despite the vertical cohabitation, the municipality had no formal instruments to oppose the Government's plans. Mamula is a circular Austro-Hungarian fortress on a small island Lastavica, located at the entrance of the Boka Kotorska bay, in Herceg Novi municipality. It was built in 1853 to prevent naval attacks on Boka Kotorska bay, but has also served as a concentration camp during WWII.

In 2013, Montenegrin Government opened a concession tender for the tourism use of the island and of the fortress, to which two companies applied, Orascom Development and Vos Investments group. The tender committee decided that the offer of the Vos group has failed to satisfy the criteria and Orascom Development, in the ownership of Egyptian millionaire Samir Saviris, won the tender. Orascom Development also invested in the Luštica Bay project developing a new city in the pristine area of the Luštica peninsula. Location of the project Mamula is represented in Figure 7-3.

Figure 7-3 Location of the Mamula project



Source: Author, based on Geoportal.hr

Based on the tender offer, Mamula would be leased for a ten-year period for EUR 7.5 million, while the overall investment was assessed to be worth EUR 15 million. The concession was signed between the government and the Orascom Group in February 2015 and approved in the second vote by the Montenegrin Parliament in November 2015. During the first vote, DPS' coalition partner SDP declined to support the contract and the necessary majority was not ensured. During the second vote, the Positive Montenegro (PCG)<sup>49</sup> party voted for the contract and enabled its adoption.

One of the interviewees stated that the SNP municipal leadership opposed the tender for leasing the island and the fortress. However, as the island is in a zone covered through SLS, the plan for the area was adopted by the government without municipal approval. Although SNP's leadership protested, they had no formal way of preventing the government to continue with its plans (Interview 31). The local population also disagreed with the idea of converting this area

<sup>49</sup> PCG (Pozitivna Crna Gora) was founded in May 2012. The party is led by ecology activist Darko Pejović and became opposition party with seven seats in 2012 parliamentary elections. In January 2015 its representatives helped DPS to form a new parliamentary majority after SDP left the government due to allegations of electoral fraud and political corruption.

into a luxurious leisure facility, especially as the prison cells would become hotel rooms, with only one cell openly available to the public (Al Jazeera 2014).

A citizens' initiative under the name "Nek' se čuje krik za spas Mamule" (Let the scream for the salvation of Mamula be heard) was formed and has mobilized citizens opposing the government's efforts towards a concession. The organizer of the protest, Mirko Lazarević, said that the reason behind the protests were modifications that were needed due to the change of fort's function, privatization of the public monument and inappropriate use of the previous concentration camp for a luxury resort. The protesters disagreed with the development of a swimming pool within a former concentration camp and transformation of the fort into an exclusive hotel to which local population would have limited access. However, Lazarević said that the petition was invalidated as the formal procedure regarding signatures collection was not satisfied (Interview 32).

Beyond debate and protests in Montenegro, the project also received international attention. In an open letter to the Montenegrin MPs, Boutros Boutros-Ghali, former UN Secretary General, Federico Mayor, former UNESCO Director-General, Ashok Khosla, former President of the Council of the International Union for Conservation of Nature, Roberto Savio, President Emeritus Inter Press Service and Maurice F. Strong, former United National Environment Protection Executive President warned against *commodification and turning into a "5 star hotel resort" – a resort bound to be limited and catering to a high-rolling clientele*. They proposed *that a decision on the Long-Term Lease Agreement be postponed sine die, pending an in-depth overview, discussion and study of other possible solutions, including fund-raising approaches for a proper rehabilitation of Fort Mamula and Lastavica Island and their corresponding adaptation for the functions decided upon. The ultimate aim should be to agree*

*to a solution with a vision that would enjoy wide-ranging public support and consensus“ (Savio 2016)*

The case of Mamula illustrates how centralization of the spatial planning in Montenegro nullified the effect vertical cohabitation had in Croatia. There was a lack of channels through which municipality could influence the plans for tourism and cultural resources. Therefore, cohabitation has not been successful in blocking resource misuse and rent-grabbing in the case of Montenegro. As the government adopted the State Location Study and announced the tender, involvement opportunities for either municipal representatives or the NGOs have been limited. The case also pointed out to the strength of DPS as it managed to adopt the contract even as its coalition partner SDP left the government and refused to support the agreement.

In Croatia, another level of vertical competition is possible as spatial planning is organized on three levels: national, county and municipal. The effect of the municipal level competition will be discussed in Chapter 8 on the joint BVP and PVP effects. In the following section, I turn to the role of the judiciary in preventing rent-grabbing and ensuring sustainable resource use.

## **7.2 The Role of Judiciary**

In the quantitative chapter (Chapter 3), I have tested and confirmed the importance of the independent judiciary for control of rent-grabbing and ensuring resource sustainability. Moreover, in the historical chapters, I dealt with the exogeneity of bureaucracy (Chapter 4) and coevolution of political institutions (Chapter 5), bureaucracy and economic development. I showed how judiciary developed in Croatia and in Montenegro. To progress in the EU accession negotiations both countries had to ensure success in the fight against corruption. In the case of Croatia, a combination of the EU accession incentives and turnover in power were key ingredients in ensuring functionality and independence of the judiciary. In this chapter, I

show that the prosecution faced difficulties in identifying illegalities in land urbanization schemes. However, it also suggests that independent judiciary enabled the engagement of NGOs, particularly in the cases of golf course projects.

As elaborated in the historical chapters, there were two in-party DPS centres of power that largely benefited from resource rents in Montenegro. Answering the EU's remarks on the impunity for the highly ranked DPS elites, the media suggest that the Budva centre of power was "sacrificed at the altar of anti-corruption" (Radulović 2015). The EU remained unconvinced by the prosecution of the affairs Zavala and Košljun. Therefore, interviewees suggest that Budva DPS and Svetozar Marović, the second most powerful person in Montenegro, were sacrificed to ensure progress in negotiations (Interviews 20 and 36). The way in which the Organized Crime Group Budva was prosecuted suggests that judiciary is under the control of DPS' Government and was used as a political tool (Interview 36). Plamenac argued that a low prison sentence and a failure to open 27 other affairs involving Marović are a clear sign of political games behind the trial (Plamenac 2016c). NGOs have reported numerous cases of illegalities to the prosecution, but the authorities have rejected them as unfounded (MANS 2016c; Civic Alliance 2014). Unlike in Croatia where the judiciary provides a point of entry for the engagement of the NGOs, the NGOs could not rely on it in Montenegro.

To gain a deeper insight into the role of judiciary I identify and analyse several relevant projects from the Tourism Projects Dataset. This is important as the use of resources and rent-grabbing from natural beauties in tourism sector represent a specific case – land use changes can include illegal activities that are difficult to investigate and prove. In the case of tourism and spatial planning, the role of the judiciary is particularly prominent for two reasons. Firstly, risk-averse investments can rely on undue influence, bribery or insider information. In such cases prosecution engages to investigate. This is the ex-ante veto role of the judiciary. If there

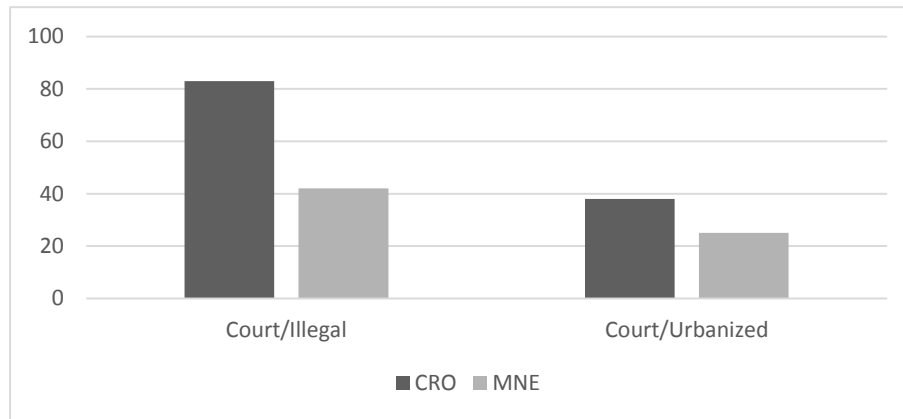


are illegalities, prosecution acts pre-emptively to prevent harming public interest and resource misuse. However, it can be difficult to track when politicians make changes in the spatial plans for developmental purposes and when to favour private interests.

Secondly, it allows an entry point for the engagement of the civil society and the media. Representatives of the civil society and journalists can request an investigation of potential illegalities and the judiciary then assesses the legality of the spatial plans, of budgetary allocation, administrative approvals or other aspects of the project. Depending on the type of the court system, the decisions of the judges can, as in the common law system, create precedents and thereby influence future judgements or interpret the laws as in civil law systems. However, the existing accounts suggest that also civil law judges, when deciding on the legality of spatial planning documents, to an extent, create precedents which then shape future verdicts.

Tourism studies literature emphasizes local community engagement as an important factor in shaping tourism development. However, the literature neglects the context of the developing economies in which local communities frequently lack the opportunities to engage in the tourism decision-making or cases in which the policy preferences of the local population or the NGOs are simply ignored. Furthermore, in an environment with high unemployment and the dire need for the investment, business and political elites can disguise vested interests under the amorphous umbrella of community interest. Although NGOs have no formal authority to influence the planning process, they are important as their expertise in environmental and planning legislation can identify issues with projects that average members of the local community are not. Figure 7-4 provides descriptive statistics regarding tourism cases which have reached the courts, such as the occurrence of illegalities and land urbanization.

Figure 7-4 Court involvement: Illegalities and land urbanizations in tourism projects



Source: Author

In Croatia, out of 12 cases in which illegalities were coded, the courts were engaged in 10 or in 83% of the cases. Illegalities were prosecuted in fewer cases in Montenegro. Out of 19 cases in which I coded illegalities, the court engaged in only 8, or in 42% of the cases. Out of 34 cases coded as land urbanization in Croatia, the court handled 13 or 38%. In Montenegro, out of 48 cases coded as land urbanisation, the court was included in 12 or 48% of the cases. The aggregate statistics suggest that the court prosecuted a higher percentage of illegalities in the tourism sector in Croatia than in Montenegro. Moreover, the court intervened in more cases of land urbanization in Croatia than in Montenegro. I now turn to the projects Barbariga and Dragonera which illustrate how judiciary had difficulties in distinguishing illegalities from speculations in Croatia.

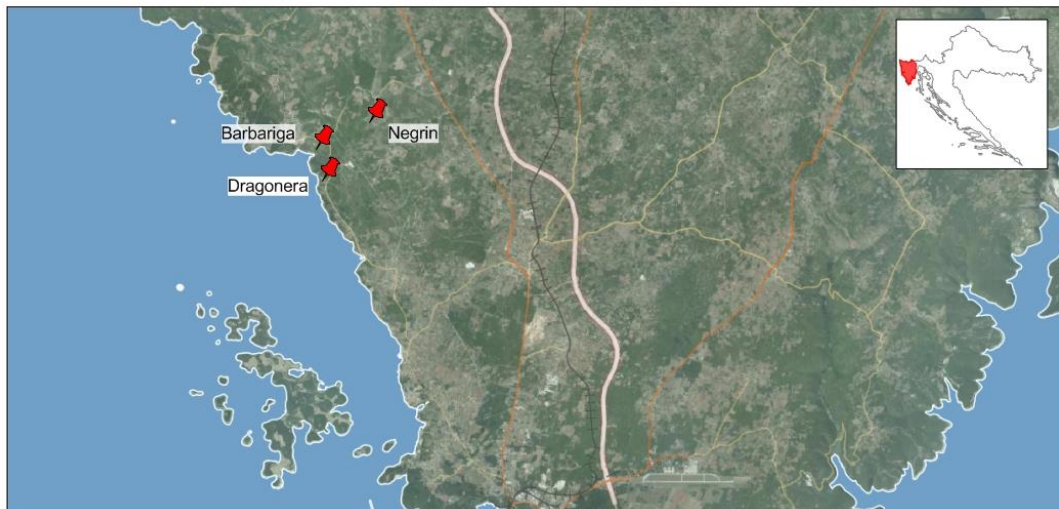
#### 7.2.1 Barbariga and Dragonera: How to distinguish speculation from illegality?

The best-known tourism cases of State Attorney involvement concerns sales and urbanization of the land in Vodnjan. In the case of Barbariga and Dragonera, the lack of political veto points in the initial phase of the project led to what I defined as land urbanization with illegalities. It also illustrates why it is difficult to differentiate between land speculations and outright corruption. In these two cases, the investors purchased non-urban land owned by the city of Vodnjan which was immediately urbanized. However, the prosecution assumed the political elites promised urbanization of the land before the transaction was completed.

Therefore, the investment was risk-free for the investors who purchased the land cheaply and resold it for ten times higher price, damaging in the process the budget of the city of Vodnjan.

Location of the projects Barbariga and Dragonera are outlined in Figure 7-5.

Figure 7-5 Location of Projects Barbariga and Dragonera



Source: Author, based on Geoportal.hr

The court decided that the only responsible person for the sales and conversion of land was Lidija Delton, the Head of the city of Vodnjan. However, the verdict clearly stated that Delton could not change the plans singlehandedly as the decision on land urbanisation must be brought both on the county and municipal level. Employees of the Hypo Alpe Adria Bank stated for Glas Istre media outlet that they were promised the land conversion by the political leadership of the county before the sale was even made (Majić 2004). Although the leadership of the IDS was investigated by the Austrian prosecution for the Hypo Bank case (iPress 2014), Croatian authorities have not raised charges against the county leadership in the case of Barbariga and Dragonera.

In this case, the prosecution was not able to prove the exact mechanism through which investors ensured urbanization of the land in Barbariga and Dragonera. One of the interviewees suggested based on his personal experience that it is hard to provide evidence of illegalities in

land urbanization. He suggested that the prosecution lacks expertise in a very technical field such as spatial planning (Interview 16). However, in several cases, the role of the judiciary in Croatia was important in deciding about the legality of planning acts and EIA studies. One of the most public cases is the Brkač project High Administrative Court's assessment of the legality of Ministry of Environmental Protection acceptance of the EIA for Brkač golf in the Istria county, the municipality of Motovun.

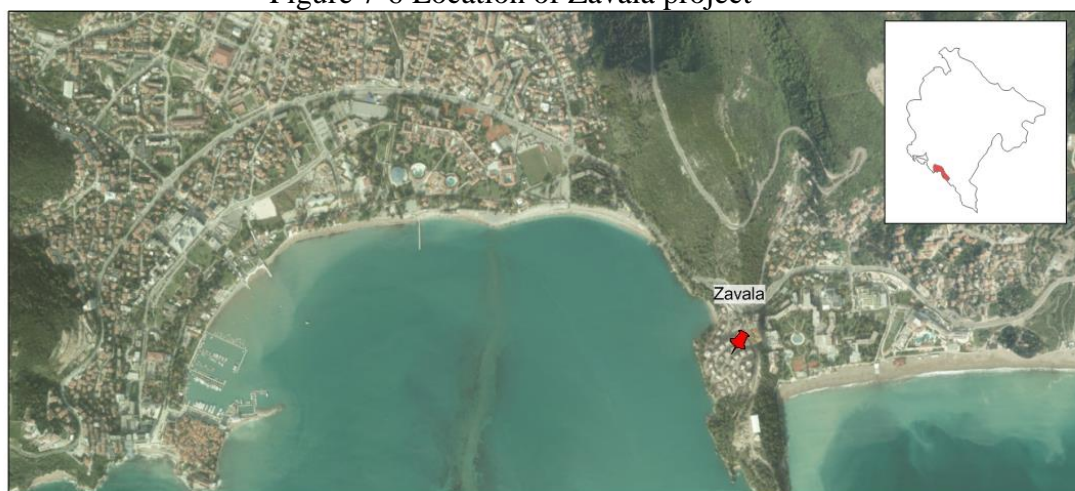
In the case of the Brkač golf, the NGOs Zelena Akcija and Zelena Istra requested the assessment of the legality of the Ministry of Environmental Protection, Spatial Planning and Construction's decision to accept, on two occasions, the EIA for the Brkač golf project. The Court decided on both occasions that the Ministry should not have accepted the EIA as the environmental regulations have not been adequately addressed. The case shows how NGOs catalysed engagement of the judiciary and prevented projects that would have harm the resources. However, as the case relies on interaction with BVPs, I will describe it in detail in the following chapter (Chapter 8) which investigates the synergies of BVPs and PVPs.

In the following sub-section, I introduce two Montenegrin cases, Zavala and Organized Crime Group Budva, in which prosecution raised charges for illegal tourism projects. The cases are particularly illustrative of DPS' ambition to display institutional reforms to the EU rather than a sign of progress regarding independent prosecution. Moreover, they provide a good illustration of how prosecuting Budva DPS tourism affairs was also used to overpower the in-party competition and monopolize the resource rents. The main goal of both cases was to persuade the EU of the prevalent rule of law institutions, but Organized Crime Group Budva prosecuted and sentenced the second strongest politician in the country.

### 7.2.3 Zavala: How far could DPS Budva go?

The Zavala affair was one of the (in)famous tourism corruption court cases in Montenegro. NGO MANS, had an important role in investigating Zavala affair, however, its effort to catalyse judiciary were not successful. The Mirax company, a Russian investor, through its daughter company Slav-Inn, acquired a share in the land on cape Zavala for EUR 20 million. The land was the property of company Moninvest owned by Dragan Sekulić and Svetozar Marović, described in the general urban plan (GUP) Budva-Bečići as forest and park land (OCCRP/CIN 2012). When sold to Mirax group, the land on cape Zavala was planned as “green zone of the city (OCCRP/CIN 2012). The location of the project is represented in Figure 7-6.

Figure 7-6 Location of Zavala project



Source: Author, based on Geoportal.me

The GUP of the Budva-Bečići region was subject to changes and a public discussion was held between 12<sup>th</sup> of April 2007 to 12<sup>th</sup> of May 2007. No changes in the status of cape Zavala were suggested (MANS 2011b). The municipality of Budva issued a report incorporating the suggestions from public discussion, where none of the 89 objections to the spatial plan dealt with cape Zavala. Upon the completion of public consultations, the Budva Assembly was presented with a final draft of the GUP which greatly differed from the one presented in the

public discussion. The new version introduced a change in land use for cape Zavala, which was converted into a “space for tourism capacities of high category” (MANS 2011b).

The Organized Crime and Corruption Reporting Project (OCCRP) and Centre for Investigative Journalism (CIN) evidenced that the ESCROW contract signed on 25<sup>th</sup> of June 2007 between Moninvest, Slav-Inn and the First Bank guaranteed that EUR 20 million paid for the land on cape Zavala will be transferred to the account of Moninvest only after the land urbanisation (OCCRP/CIN 2012). The contract between Moninvest and Slav-Inn stated that the Budva municipality shall open a tender for selection of a partner through which Moninvest with connections in Budva municipalities would ensure its daughter company of Slav-Inn and Moninvest to be selected as the best offer. The municipality of Budva participated with municipality-owned land and would be entitled to 15% of profit (OCCRP/CIN 2012).

The Mayor of Budva, Rajko Kuljača, formally decided to commission the development of a detailed plan for the project “Tourist complex Zavala” on 30<sup>th</sup> of November (MANS 2011b). The project was advertised as an investment which would place Budva on all tourism maps of the world. Its main selling point was a luxurious landmark Sail hotel, mimicking Dubai's Burj Al Arab complex. The company selected for the development of the UP Zavala “Zavod za izgradnju Budva” subcontracted “Montenegro Projekt” on 27<sup>th</sup> of February 2008. “Montenegro Projekt” subsequently used for the development of the UP Zavala the original project plans developed by “Zavala Invest” investors. Not only were investors’ original project plans used for drafting the detailed spatial plan UP Zavala, but the construction has already started at the end of 2007, three months before the UP plan was initiated (MANS 2011b).

Although it became publicly known that the construction on Zavala was progressing without construction permits, sanctions did not follow. The authorized inspection closed and sealed the site on 23<sup>rd</sup> of March 2008. However, the investors disregarded several decisions of

local inspectors which prohibited the project and continued with the construction work. The Minister in charge of tourism, spatial planning and construction, Branimir Gvozdenović of DPS, was informed about the breach of the inspection seal, but the institutions reacted only by setting an EUR 220 fee to Zavala Invest for construction without a permit (MANS 2011b). NGO MANS filed a criminal charge on 3<sup>rd</sup> of April 2008 to the Supreme State Prosecutor against those they identified as the key actors in the illegal land urbanization and construction soon to become known as the “Zavala” Affair. Only a couple days later, on the 9<sup>th</sup> of April, Svetozar Marović, then one of the most powerful people in Montenegro and second in charge in DPS, sold his share in the “Moninvest” company.

To eliminate the costs of the communal fees for infrastructure which Zavala Invest owed to the municipality Budva, investors were tasked with constructing a desalinization complex in Budva. However, the costs of the subcontracted companies were EUR 3.5 million, while investors submitted a receipt for EUR 4.5 million to the municipality. The intention was to cancel out the debt of the investors to the municipality, while in fact ensuring almost EUR 1 million of financial benefits to investors and harm the Budva local budget (MANS 2011b). The facility practically never functioned in its full capacity (Lajović 2016).

In 2010, Rajko Kuljača, the Mayor of Budva and Dragan Marović, Secretary for Investments and brother of Svetozar Marović, and a group of local politicians were arrested for abuse of office, unfair advantage to “Zavala Invest” and harm to the local budget in the amount of EUR 800,000 (Prekic 2014a). The judicial process was completed during 2012 and the municipal officials received a total of 30 years in prison, where Rajko Kuljača and Dragan Marović, as the highest positioned culprits, received respectively five and four years of imprisonment. However, the trial verdict was overturned by the Appeal Court since it was

unclear which law was applied for their sentences. In a repeated trial, their sentences were confirmed.

After the corruption scandal and insolvency, the Zavala project was taken over by the American company Monterra and by the association of buyers who already paid for their apartments. The 27-floor landmark hotel “Sail” for which Montenegro was supposed to attain world fame was not constructed (Lajović 2013). All residential capacities, namely 35 villas with 6 to 8 apartments for the real estate market, have been completed and sold on the market, without having any connection to luxury tourism.

Although Zavala is one of the largest corruption affairs in Montenegro, Vanja Čalović, the executive director of NGO MANS, has argued it was used as a theatre show in which DPS dealt with in-party dissent (Dan Online 2013). In the interviews, representatives of the NGOs and of international organizations suggested Budva DPS was simultaneously sacrificed to prove EU there is no impunity in Montenegro (Interview 22 and 36). I turn next to the case of Organized Crime Group Budva which illustrates how Budva DPS used its power to ensure private gain at the cost of the municipal budget and landscape devastation. Through this case, I also suggest that judiciary in Montenegro is not independent and is used as a tool for handling in-party DPS conflicts.

#### 7.2.4 Organized Crime Group Budva: Monopolizing the resource rents?

In August 2015, special prosecutor Milivoj Katnić requested the arrest of thirteen individuals charged for Jaz Plateau, TQ Plaza and Prijevor affairs. The first wave of arrests included Lazar Rađenović, the Mayor of the Budva municipality, Milena Marović Bogdanović, the city manager (and Svetozar Marović’s daughter), Rajko Kuljača, former President and Vice-President of the Budva municipality, Dragan Marović, former Vice President of Budva municipality, as well as Aleksandar Tičić, manager of the Budva city. Other individuals such



as the acting director of the state-owned company Vodovod Budva Milenko Medigović, Miodrag Samardžić, Dragica Popović and Miloška Kovačević were also arrested (Đukanović 2015).

The Special Prosecutor gave the arrest orders due to allegations that the suspects have abused official positions and executed crimes in an organized manner. It was suggested that the suspects were members of a criminal group with the goal of acquiring illegal power and profit and that the activities of the criminal group were premeditated and that the actions followed rules with precisely defined roles and assignments (Đukanović 2015). Further arrests in November and December 2015 have included Miloš Marović, Svetozar Marović's son and Marko Vujović, Svetozar Marović's godfather, Mirjana Marović, former director of cadastre office Budva, and real estate evaluators Marko Radunović, Milka Lazarević and Ljubiša Bačević. In December 2015, the Special Prosecutor has also arrested Svetozar Marović, as the head of the organized criminal group suspected for the loss of EUR 10 million to the municipal budget (N1info 2015). A later assessment of the prosecution suggested the damages are in fact EUR 45 million (Plamenac 2016d).

During previous affairs, such as Zavala, the prosecution has tackled only mid-level political elites. The case of the so-called Organized Criminal Group Budva stands out because Svetozar Marović was previously among the highest level political elites and one of the most important members of DPS. Together with Momir Bulatović and Milo Đukanović he was part of the "triumvirate" that took leadership over from the communist party in 1989 and successfully founded DPS, its successor party. In the clash between Bulatović and Đukanović in 1997-1998, Marović sided with later and became the President of the State Union of Serbia and Montenegro. The media describe him as the second most powerful man in Montenegro, after the long-term Prime Minister Milo Đukanović (Plamenac 2016c).

However, critics of the regime suggested another interpretation according to which the arrest of Marović's "clan" could only be surprising to those who have not followed Montenegrin politics. Radulović suggested that EU's refusal to believe that arrests in the Zavala and Košljun affairs were credible evidence of the Montenegrin fight against the corruption instigated the need to find a sacrifice "to the altar of the anti-corruption fight" (Radulović 2015). Such an interpretation goes hand in hand with assessments that Marović and Đukanović had not been on amicable terms for a longer period of time (Kurir 2011) and that this is yet another case of in-party clashes used to monopolise the power and to convince the EU of dedication to the rule of law.

The tourism sector in Montenegro also showed a pattern of resource rent division. The area of the Budva municipality was under the control of Marović's team, while the rest of Montenegrin tourism was directly under the control of the DPS Government elites. This is also visible in Table 7-7 which shows the width of the coastal belt across Montenegrin municipalities. Coastal belt is not merely a geographical unit, but was legally defined in varying depth across municipalities to encompass strategic areas directly under the control of the Government.

The width of the coastal belt under State Location Study in Budva is the second smallest with 2,206 square metres across Montenegrin coastal municipalities. The only exception is Kotor where the coastal belt is slightly smaller with 2,159 square metres, but Kotor coastal hinterlands largely consist of steep mountains, unattractive for tourism development. The Budva coastal belt is significantly smaller than in Herceg Novi, Tivat, Bar and Ulcinj despite the fact that it was considered the most attractive part of the Montenegrin coast and that its coastal line is not much shorter than Tivat's or Bar's. The area with the coastal belt is under the direct control of the government and the rest is under the control of the municipalities.

Table 7-7 Width of the coastal belt across Montenegrin municipalities

	<b>HN</b>	<b>TI</b>	<b>KO</b>	<b>BU</b>	<b>BA</b>	<b>UL</b>
Surface (m <sup>2</sup> in 000)	4,917	7,463	2,159	2,206	7,965	33,184
Coastal line (m)	60,720	41,810	67,760	40,650	40,650	58,640
Coastal belt width (m)	80.97	178	31.86	54.26	195.94	556.89

Source: Author's calculations based on Spatial Plan of Special Purpose for Coastal Belt (Republički zavod za urbanizam i projektovanje 2007)

The context strongly suggests that Organized Crime Group Budva affair was supposed to provide a convincing evidence of the fight against corruption, but also to ensure monopoly over the resource rents. In the period from 2000 to 2010, natural beauties in Budva municipality were abused by the DPS leadership, with the tacit approval of the Đukanović led government. After prosecuting Marović's group, DPS elites in the government gained an absolute monopoly over the area. This was also echoed by Plamenac, who suggested that the prosecution of Budva DPS leadership meant the government would be controlling the entire coast (Plamenac 2016d).

During the prosecution of the Organized Crime Group Budva, the media have already reported about public disappointment with the work of the prosecution. Several arrested individuals became so-called "repentant witnesses" or have pleaded guilty for involvement in the affairs. As a result, the highest prison sentence would be the one of Svetozar Marović, who agreed with the court to spend two years in prison and a one year under house arrest. Although the group was accused of illegally obtaining millions from the budget of the Budva municipality, the highest compensations requested were EUR 350,000 from Miloš Marović, Svetozar Marović's son (Plamenac 2016c) and EUR 675,000 from Aleksandar Armenko, executive director of company Copyright and Vice-Director of Tourism Organisation Budva (Plamenac 2016d). Plamenac suggested that the Special Prosecutor had enough materials for 27 more cases, but as the whole affair was merely a political process, would probably not

continue as it has already disbanded and destroyed politically the current leadership of Budva DPS (Plamenac 2016b).

In several other Montenegrin projects from the dataset, publicly known land urbanization illegalities incentivised no engagement of the prosecution. The two projects introduced above, Zavala and the Organized Crime Group Budva which have been prosecuted, suggested that the judiciary has not been independent. This argument is additionally supported by the fact that the arrests for Organized Criminal Group Budva came after RTCG's investigative documentary series "Mehanizam" which analysed with the same cases of corruption in tourism and urbanism.

However, the existence of such high-profile affairs with judicial consequences clearly showed that DPS' full control over the Budva municipality allowed the illegal enrichment of elites connected to the party at the cost of the national and municipal budget and public interest. Zavala and Organized Criminal Group Budva clarify the role of the rule of law institutions in the vicious circle of resource misuse and profit grabbing. The following section outlines the engagement of the civil society in preventing rent-grabbing and resource misuse.

### **7.3 Civil Society**

In tourism studies, the involvement of civil society is considered an efficient way of stimulating public participation in decision-making. In the dissertation, I rely on Edward's understanding of the civil society as associational life. Civil society is a part of society that is distinct from the state and markets. It contains associations between family and the state in which the membership is "voluntary." Following Edwards, I exclude a grey area of political society – parties and political organizations. Similarly, profit-seeking activities by individual enterprises are excluded, but business associations with the civil role are included (M. Edwards 2014). I particularly focus on the NGOs, expert groups and local community-based civic initiatives.

Civil society is an important stakeholder with an interest in resource use and rent distribution in the tourism sector. The understanding of the process of spatial planning – procedures, types of plans and levels of authority, as well as the interpretation of the content of planning acts and their graphical counterparts – is largely reserved for groups such as architects, civil engineers and spatial planners. Activists belonging to these professions are better equipped than an average citizen to engage on the topic, but also to narrate the issue to media and the public. Similar expertise constraints apply to environmental experts in cases which require an understanding of the environmental regulations, impacts and decisions.

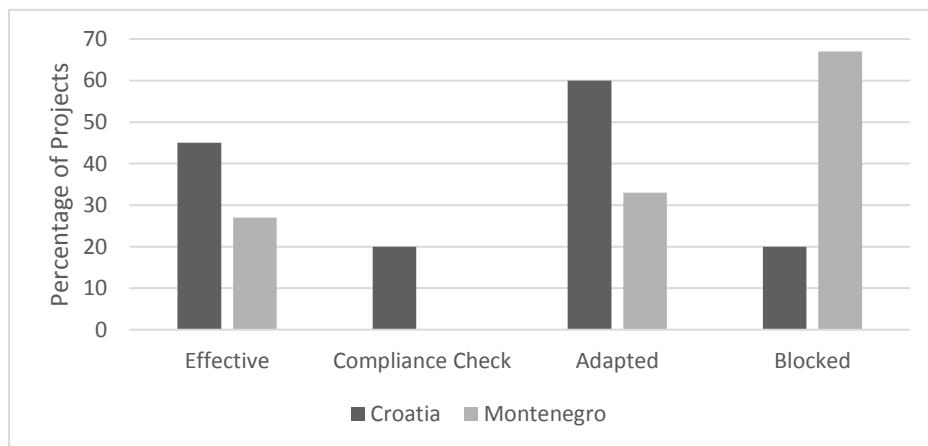
I argue that the civil society does not have a formal role in formulating spatial plans, in the development of the legislation, nor can it stop implementation of the projects. However, it has a role of a catalyst important in informing and influencing the public opinion which can, as an electoral body, influence the decisions of political representatives. Moreover, NGOs have better capacities than individual citizens to file a case with the judiciary; they understand the expert language, but also have legal support which helps in initiating and circulating petitions for the annulment of decisions and planning acts. This is an extension of Burns and Novelli's argument on NGOs as facilitators that ensure expert advice and bring together relevant stakeholders (Burns and Novelli 2008).

Both in Croatia and in Montenegro, NGOs have an important role in channelling public participation – providing information about tourism projects, offering an interpretation of complex procedures, expert language and unfamiliar context where projects take place. However, there are important differences between civil society in Croatia and in Montenegro. In Croatia, numerous national and local NGOs, jointly with the active expert groups, engage against rent-grabbing and resource misuse. The polycentric structure of the NGOs paired up with engaged urbanism and environmental expert groups raise public awareness about the

prevalence of the corruptive practices. Such civil society also has the capacity to request an assessment of planning documents legality from the court.

In Montenegro, urbanism expert groups are weakly engaged and NGOs focus on all side effects of the partitocratic regime, including electoral, privatization and resource use illegalities. However, civil society cannot, as in Croatia, rely on the judiciary. Nevertheless, despite systemic obstacles, civil society has managed to ensure victories in blocking tourism project. Figure 7-7 gives aggregate statistics regarding NGOs role in Croatia and in Montenegro. Figure 7-7 overviews descriptive statistics regarding NGOs is Croatia and in Montenegro.

Figure 7-7 Overview of NGO influence in tourism projects in Croatia and Montenegro



Source: Author based on Tourism Projects Dataset

In Croatia, civil society's engagement was identified in 11 out of 88 projects and was coded as having an influence in 45.45% of these 11 projects. Similarly, in Montenegro, NGOs were active in 11 out of 71 projects and were effective in influencing 27% of these. In the cases in which civil society was effective, I coded its role as compliance check, adaptation and blocking. In the so-called compliance check cases, civil society ensured that additional documents were collected to ensure the project adheres to the legislation and rules. Cases in which NGOs ensured calibration to the legislation were coded as adapted and cases in which

NGOs prevented implementation of ill-suited projects as blocked. This was achieved either through judiciary or public pressure.

Out of all projects in which Croatian NGOs were effective, their role in 20% of the cases was ensuring compliance with the laws, in other 20% blocking of ill-suited projects and in 60% adaptation to the regulations. In Montenegro, out of projects in which NGOs were effective, NGOs ensured adaptation to the rules in 33% of the cases and blocked poorly conceived projects in 67% of the cases. Croatian NGOs were more successful in affecting tourism projects. However, analysis of Montenegrin projects suggests that even in hegemonic party regimes, NGOs society can win battles and occasionally be instrumental in preventing rent-grabbing and resource misuse. In the following sub-section, I describe the polycentric structure of the civil society in Croatia.

#### 7.3.1 Expert-Based polycentric NGOs in Croatia

NGOs had an important role in disseminating information about controversial investments and possible illegalities. Particularly important were Green Istria and Green Action, two NGOs with a focus on privatisation of public spaces which negatively affects limited resources. Expert groups such as the Association of Architects were instrumental in providing expertise and legitimacy to the protests and legal action concerning problematic projects. I also emphasize civic initiative “Srđ je naš,” which relied on NGOs, expert groups and local community engagement.

Organizations such as Green Istria (ZI)<sup>50</sup> and Green Action (ZA)<sup>51</sup> focused on the environmental and illegal aspects of the tourism projects. They were a particularly vocal opposition to the golf real estate projects and their environmental consequences (Zelena Istra

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<sup>50</sup> Green Istria (Zelena Istra)

<sup>51</sup> Green Action (Zelena Akcija)

2014). Specifically, ZI has disputed golf development in Brkač due to its influence on the protected Motovun forest and valley of the river Mirna (Dalje 2012). In the case of Crveni Vrh, ZI raised awareness about irrigation issues during summer months (Radojčić 2012). It also dealt with the role of the state in ensuring access to information to citizens in the process of issuing construction permits (Regional Express 2016) and with the ownership structure of the Brijuni Rivijera project (Zelena Istra 2015b; Zelena Istra 2015a). Green Action (ZA) focused on raising media visibility of a wide range of issues, such as spatial planning in Dubrovnik and Law on Golf Terrains (Munic 2012). ZA was directly engaged in the civic initiative “Srđ je Naš” and provided support to local activists from the Dubrovnik-Neretva county.

Baštijunski brig golf project in the Zadar county, the city of Biograd, has also instigated NGOs engagement against golf development. The golf terrain in Baštijunski brig is in the proximity of the Vransko lake, an ornithological reserve and important habitat for birds. NGOs Eko Zadar and Biom addressed the issue of water consumption for the golf terrain (worrisome prospects of draining already declining levels of water in Vransko Lake) and influence of the pesticides in the karst terrain. The organizations also complained that ornithologists were not included in the Environmental Impact Assessment (EIA) despite the importance of the area as a bird habitat (Kupčak 2010). The specific suggestion for inclusion of the ornithologist in a team which developed the EIA was adopted, but the NGOs other complaints were not incorporated.

Expert groups such as Association of Croatian Architects (UHA) and regional level associations, Society of Dubrovnik Architects (DAD)<sup>52</sup> and Society of Istria Architects (DAI-SAI)<sup>53</sup> have engaged on the issues of poor spatial planning in Dubrovnik and Pula. Members of these expert groups have publicly spoken against arbitrary changes in the planning documents

<sup>52</sup> Society of Architects Dubrovnik (Društvo arhitekata Dubrovnik)

<sup>53</sup> Society of Architects Istria (Društvo arhitekata Istre - Società architetti dell'Istria)



which were introduced on the county and municipal level to satisfy investors' interests. Their members reported irregularities in the changes to the city of Dubrovnik spatial plan and GUP Dubrovnik plan concerning the Srđ plateau. Along with ZA and "Srđ je naš" initiative, UHA sued the Ministry in charge of spatial planning for accepting the Study of Environmental Impact Assessment for Srđ project to the Administrative Court in Split (Munic 2013). UHA submitted its remarks on the changes to the spatial plan of the city of Pula and has publicly criticised the exclusion of citizens from the process of planning for such a large and important part of the city. In 2011, the association also criticised the project Brijuni Rivijera due to unclear concession rights (Pandžić 2011). DAI has organized an art exhibition offering numerous proposals on how Muzil peninsula could be alternatively used to benefit the citizens of Pula.

The expert associations were also engaged with the issue of tourism development in the Dubrovnik-Neretva county in Ston municipality. The Institute for the Sea at the Dubrovnik University has analysed the possible effects of tourism project development in Malostonski bay, particularly concerning the building of real estate apartments in a protected natural reserve. The experts publicly opposed the project (Dubrovnik.net 2013), but despite their negative assessment of the environmental effects, the county continued to implement changes to the county spatial plan.

To summarize, the focus of the NGOs has been on the rent-grabbing and environmental issues, predominantly related to the development of the golf terrains in Croatia. The expert groups acted against the irregularities in the spatial planning or in defence of the environment. NGOs and expert groups have been particularly strong in Istria and Dubrovnik-Neretva. These are also two counties with the most developed tourism sector in Croatia.

## 7.3.2 Catch-all NGOs and weak expert engagement in Montenegro

In Montenegro, NGOs have an important role in raising awareness about corruptive activities in urbanism and tourism sector. In comparison to Croatia, the NGOs are focusing more on the illegalities and corruption, than on the protection of the environment and on the transformation of public space into private ownership. NGOs have an important role in investigating the corruptive schemes through which political elites favour vested interests and in analysing the effects of such investments for the economy.

After Montenegro officially started EU negotiations, legislation was eagerly adapted and reforms were initiated in policy areas which did not confront directly the partitocratic character of the regime. The leverage of the EU membership gave EU great influence over both domestic and foreign affairs, allowing greater civic participation. While the government enthusiastically ensured places for NGOs in the various working groups, real cooperation has not emerged beside in the cases when such an arrangement suited the government (USAID 2012; Gligoric 2014; Uljarevic 2014).

I now turn to a brief overview of the most important NGO groups. Montenegrin NGO scene is strongly dominated by Network for Affirmation of Non-Governmental Sector (MANS).<sup>54</sup> MANS is the largest NGO with a focus on the fight against corruption and organized crime. There are numerous other organizations, but the civil society in Montenegro has not managed to transform its potential into effective collective action. In comparison to Croatia, expert groups are inactive and unengaged.

Work of MANS includes investigating corruption cases, publishing information and filing criminal charges against involved individuals. MANS also covered cases from the field of urbanism and has mapped out criminal groups' activities and schemes used to obtain valuable

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<sup>54</sup> Network for Affirmation of Non-Governmental Sector (Mreža za Afirmaciju Nevladinog Sektora)

land, ensure changes in the spatial plans or the legalisation of illegal buildings (MANS 2010; MANS 2009b). Their work covered various aspects of tourism related rent-grabbing and resource misuse. For example, MANS analysed the management of the public company in charge of the coastal belt (MANS 2015c), privatisations of tourism companies through insolvency (MANS 2014a; MANS 2015d) and the drafting of the spatial plans for the coastal belt and for the coastal municipalities (MANS 2016a). They wrote case study analyses of 17 problematic tourism projects.<sup>55</sup>

However, their interest is not limited to urbanism and corruption in the tourism sector. MANS also assesses corruption fight activities (MANS 2008) and monitors the elections and electoral spending (MANS 2015e). Because of their work on investigating illegalities and corruption, the coordinators and executive team of MANS have been receiving threats. Because of these threats, MANS has turned for help to foreign embassies and international institutions and has become a direct channel of information on the institutions of rule of law to foreign diplomatic services (PCNEN 2004). Another NGO, Centre for Civic Education (CGO), deals with the illegal elements of the construction boom, the Montenegrin legal framework for corruption in urbanism and the local budgets (CGO 2013; Marić, Bošković, and Vukićević 2014).

Environmental NGOs have been active in raising awareness regarding the influence of industrial and energy production facilities, but have dedicated less attention to the effects of the coastal devastation. However, the spatial plan of the coastal municipalities drafted in 2015 instigated public engagement of the environmental NGOs. The main suggestion was to

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<sup>55</sup> MANS analysed following 17 case studies: saltpans Solana Bajo Sekulić (MANS 2014b), auto camp Dobrota (MANS 2015a), Mamula (MANS 2015b), hotel As (MANS 2013c), Valdanos (MANS 2011c), Sveti Stefan (MANS 2013g; MANS 2013f), Skocidjevoka (MANS 2012a), Mirište (MANS 2012e), Meljine (MANS 2012c), Kumbor (MANS 2013e), Južni Jadran (MANS 2013d), Budva organized group (MANS 2013b), Avala (MANS 2012b), Kolašin (MANS 2013a), Zavalu (MANS 2011b) and Ada Bojana (MANS 2009a).

introduce a moratorium on construction in lieu of the measures the government has suggested to ensure sustainable use of coastal space. The NGOs jointly stated that the plan has failed to ensure means of protection as it suggests both protection and aggressive tourism development within nature protected areas (Vijesti 2016a). There is much less collective action among Montenegrin NGOs, or almost none at all if individual projects are considered.

In comparison to Croatia, also expert groups such as spatial planners and architects, have less prominent roles. NGO *Expeditio* from the coastal Kotor is the only association that actively deals with the issues of spatial planning and urbanisation in Montenegro. Their engagement is reflected in publications dealing with legislative foundations of sustainable spatial planning as well as participation in public discussions regarding large investment projects which were perceived to have harmful effects on the public interest (NGO Green Home and *Expeditio* 2012). Individuals such as architects Jelisava Kalezić (Kalezić 2014; Kalezić 2012), Borislav Vukićević (CGO 2013) and Dragan Hajduković (Vijesti 2016b) openly criticise the use of land and cultural heritage to suit investors. However, besides KANA<sup>56</sup> group which engaged to protect Hotel Podgorica in the capital of Montenegro (Rajković 2015), there were no other cases of traditional activism directed against the usurpation of public space and devastation of natural resources.

### 7.3.3 Valdanos: An unlikely victory

Among the cases influenced by NGOs in Montenegro, the case of Valdanos is among the most famous. The government attempted to develop hotel and apartments for the market on 3.5 million square metres of land in Valdanos bay in Ulcinj municipality. The bay has, due to ancient olive trees grove (18,000 olive trees some of which are older than 500 years), a status of a cultural good protected by the Montenegrin state. However, the SLS adopted in November

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<sup>56</sup> Who Will if Not the Architects ('Ko će Ako Ne Arhitekti)

2010 allowed 100 residential villas and construction of 3 hotels with 700 accommodation units. Moreover, despite being protected as a cultural good, the designs also allowed the removal and transplantation of hundreds of years old olive trees to ensure the construction of the accommodation units. The Privatization Council opened at the end of 2008 international tender for long-term concession over the Valdanos bay (MANS 2011c).

The concession over the land was offered for a period of 30 years, with the possibility of extension to a 90-year period in case of above EUR 200 million investment. Two offers were received, one from a Russian-Montenegrin consortium Mos City Group and other from British-Croatian company Cubus Lux (MANS 2011c). Cubus Lux's offer was assessed as better and the Privatization Council decided to accept it. However, MANS warned that the decision to accept Cubus Lux's offer has been compromised as Vujica Lazović, authorised to sign the contract, was both a member of the Privatization Council and the President of the Tender Commission (ibid).

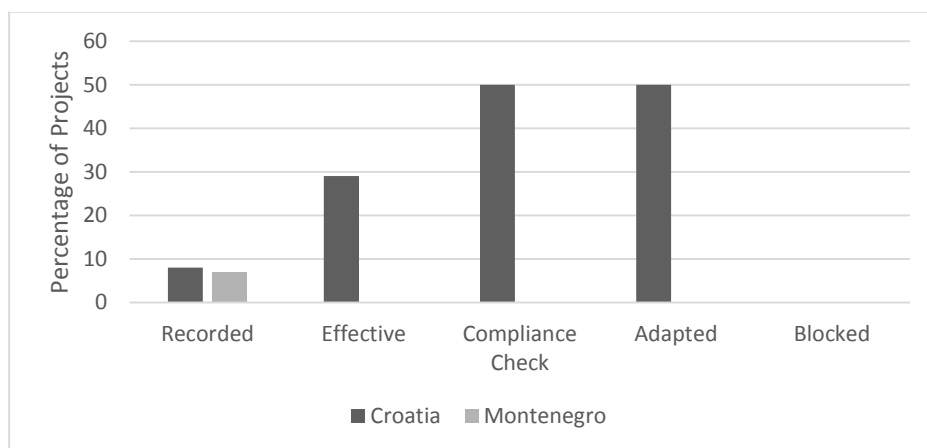
MANS further cautioned the Privatization Council that Cubus Lux, based on online publicly available data, also failed to fulfil three out of four tender requirements and is therefore not suitable for investment in Valdanos. As the Council failed to respond, MANS filed a charge with the Head State Prosecutor against Vujica Lazović for abuse of influence. The government and tender commission defended the investor and accused MANS of creating an anti-investment climate. The financial status of Cubus Lux was also printed in newspapers, leading to public dissatisfaction with the government for signing the contract. Under the pressure of the public, the tender for Valdanos has been cancelled on 28<sup>th</sup> of February of 2011 (MANS 2011c). The case clearly showed that campaigns of the NGOs, particularly when combined with the threat of prosecution and public pressure, can be successful in preventing resource misuse and rent-grabbing.

The NGOs scene in Montenegro is dominated by NGO MANS which has a catch-all focus on various negative externalities of the partitocracy. There is limited coordination of activities concerning individual projects. Expert groups are passive and do not invest their expertise in collective action. However, as illustrated in the case of Valdanos, despite obstacles facing from the partitocratic regime MANS has managed to ensure victories in the fight against resource misuse. In the following sub-section, I turn to the local community role in ensuring sustainable tourism development.

#### ***7.4 Local community: Important After All?***

In the tourism scholarship, local community participation is crucial for ensuring sustainable tourism development. In this subsection, I focus on the civic initiatives in Croatia and Montenegro and outline differences in the level of engagement and perception. Several cases from the dataset included active engagement of the local community. Figure 7-8 overviews the engagement of the local community in projects in Croatia and Montenegro.

Figure 7-8 Overview of local community influence in Croatia and Montenegro



Source: Author based on Tourism Projects Dataset

Among the Croatian cases, there were 7 instances of the local community mobilisation. However, it had an influence in only two projects, out of which in one they helped in ensuring compliance check and the other was blocked to prevent resource misuse. In Montenegro, there

were 5 projects where I coded engagement of the local community, but no effect in any of these cases. However, the most important difference is that, because of the coordination efforts between the NGOs and expert groups, the local community is also included in the collective action to prevent rent-grabbing and resource misuse. For example, Sansević describes citizens' resistance to urbanization of pristine bays on the island Hvar saying:

*A group of spatial planners, architects, friends and lovers of the small city Jelsa attempt to stop the adoption of the spatial plan that would urbanise several pristine bays in the centre of the island in a real estate paradise. (Sansević 2007)*

The quote suggests that the local community and expert groups join forces to oppose the urbanization of the land on island Hvar. However, such wide coalitions of NGOs, expert groups and local population are not formed in Montenegro. I now turn to Croatian civil initiatives illustrations.

#### 7.4.1 Coordinated local community

The best-known examples in Croatia are the civic initiative “Srđ je Naš” and “Volim Pulu.” The civic initiative “Srđ je Naš” problematized the issue of real estate golf project, potential illegalities and environmental problems on the Srđ plateau above Dubrovnik. The initiative included several NGOs and was organised after illegal changes to the spatial plan of the Dubrovnik-Neretva county were approved by the Government's Trustee Želimir Bosnić. The initiative requested a judicial assessment of the legality of these changes, monitored the adoption of the detailed plan and of the Environmental Impact Assessment for the project. Moreover, they organized a first citizens' initiated referendum on the county level in Croatia. The initiative became a vocal opposition to the project on Srđ plateau, catalysed the engagement of the judiciary and eventually blocked the project implementation (HRT Vijesti 2017).

Before the local elections of 2013, the civic initiative formed an independent list “Srđ je Grad” which won three seats in the Dubrovnik city council. In 2015, “Srđ je Grad” was also

included on the electoral list of MOST, the relative winner of the 2015 parliamentary elections. Following the parliamentary elections held in November 2015 Maro Krstić, representative of the “Srđ je Grad,” won a seat in the Croatian parliament.

Initiative “Volim Pulu” was organized in 2009, in the Istria county, in the city of Pula, with the aim of ensuring an authentic public discussion on the development of the Muzil peninsula. The group opposed a developmental concept that allows a narrow circle of political elites to define the development of Muzil, while ensuring benefits accrue only to the privileged elites (Volim Pulu 2013).

Small scale local level issues have managed to gather supporters in groups organized through new social media. However, the clicktivism type of activism, such as signing online petitions and joining Facebook groups advocating protection of the public interest, had limited influence on the political decisions. Surveys analysing public opinion about best-known cases, Srđ and Muzil, show the citizens oppose favouring investors. A survey conducted in August 2013 in Pula, showed that 90% of the respondents considered that the buildings on the Muzil peninsula should be managed by the civil sector, while 60% opposed the planned development of a golf terrain on Muzil (GfK 2014).

Similarly, the results of a survey conducted in Dubrovnik in June 2013 showed that 66% of the surveyed supported the engagement of the civic initiative “Srđ je Naš” in their efforts to prevent the real estate component of the project on the Srđ plateau above Dubrovnik. 63% of the surveyed stated that they either completely or largely mistrust the investors’ claims about the benefits of the Srđ project (GfK 2013). However, despite the mistrust towards the promises made by the investors, a much lower percentage engages in the projects as traditional activists.



#### 7.4.2 Disillusioned local community

Montenegrin civic initiatives and social movements focusing on the issues of rent-seeking in tourism have been relatively rare, weak and lacking organizational structure. The initiatives organized for the protection of the river Tara against the construction of a system of hydropower plants is the only well organized and successful example of the civic engagement (Krcić 2015). However, most of the cases of resource misuse in tourism either go unnoticed or do not attract a critical mass necessary to impact the decision-making process. This is in stark contrast with Croatia where Muzil and Srđ managed to incentivise strong local community engagement and active opposition against rent-grabbing at the expense of the public interest.

The Internet has offered platforms for the only type of tourism-related activism in Montenegro. The concession of the Mamula fortress led to an initiative organized through Facebook, “Let the scream for the salvation of Mamula be heard.”<sup>57</sup> The group provided a basis for a loose civic initiative which collected signatures (partially over the internet, partially personally) to halt the concession allocation process.

Group representatives were thus invited to a roundtable meeting with representatives of the government and the investor, but had no success in changing the investment path already defined by the investor and the government. Lazarevic, founder of the initiative, said that he initially hoped the initiative was given a real chance to present their perception of the problematic aspects of the chosen valorisation of the island and Mamula as historical monument. However, towards the end of the meeting he said he understood that the

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<sup>57</sup> A recent graduate of Design Studies, Mirko Lazarevic has initiated in February 2014 a Facebook group that would raise awareness among citizens about the intentions of the Montenegrin Government to sign a long-term rental contract for the island Lastavica. In thirty hours, the group collected 6000 supporters, which can be considered a great success for such a local issue.

Government and Ministry's representatives were not even taking into account what he and others from the initiative have presented (Interview 32)

Although the group received legal support from individuals interested in the process, it did not have the necessary organizational structure to influence decision-making in the long run. Despite instant media support (Radio Jadran 2014; Al Jazeera 2014) and the support of the Herceg Novi Assembly (Biznis Plus 2014; Kosic 2014), the group has not managed to ensure any concessions from the government, the Ministry or the investor.

While formal rules allow civil society's engagement in Montenegro, civil initiatives are merely tolerated or ignored. Such an approach to the civil society was recognized by one interviewee. Instead of openly countering the NGOs and civic initiatives, the governing elite has adopted all the formal tools of democracy. However, the suggestions of the civic initiatives and NGOs are accepted only when their ideas do not challenge the partitocratic nature of the regime. Otherwise, all the actors, from political and non-governmental organizations, have a chance to act, but there is no intention from the side of the government to actually change its intentions and decisions (Interview 19).

Daliborka Uljarević, a representative of the CGO pointed out that when citizens recognize that public interest is threatened, a spark of citizens' engagement appears. However, for success, it is crucial to ensure media coverage (Uljarevic 2014). Moreover, I argue there is a lack of experience and institutional support on which citizens' initiatives could rely. This echoes Edwards argument that citizens' initiatives are largely reactive (M. Edwards 2014), appear in cases when public interest is jeopardized and as a result, participants have little experience and capacity to prevent rent-grabbing and resource misuse.

Besides civic initiatives, citizens have a chance to be included in the process of decision-making through the instrument of the public discussions during the development of the spatial

plans. However, citizens tend to “mind their own business” and are involved in discussions in cases where planning documents have an impact on their private property. Citizens’ interest in spatial planning in the sense of caring for the public interest is on a low level. Despite World Bank’s assessments of high public participation in Montenegro, for which it received the highest score among the Western Balkan countries (Novakovic 2011; NGO Green Home and Expedio 2012), officials from the planning offices, spatial planning experts and media representatives confirm that participation of the citizens’ concerns only particularistic interests (Interviews 19, 30 and 31).

This is in accordance with the research conducted in 2015 on the patterns of citizens’ participation in Montenegro which showed that only 9% of the population participated or is currently involved in any type of group activities (Komar et al. 2015). In the interviews with representatives of the NGOs and participants in civic initiatives, it was suggested that citizens in Montenegro react to corruption with resignation, such as “good for him/her, he/she found a way to cheat” (Interview 32). Moreover, the public is reluctant to personally engage with cases of perceived resource misuse as “in any case, nothing can be done to change the things” or “The engagement might be dangerous, couldn’t someone else do it?” (Interview 22). This is in accordance with the assumptions of the collective action problem literature (Ostrom 2011) and its applications in the corruption literature (Rothstein and Varraich 2017; Mungiu-Pippidi 2015).

Montenegrin local community-based civic initiatives are much weaker than their counterparts in Croatia. The public is disillusioned regarding corruption prevention and sees illegalities in the resource use as part of the grabbing equilibrium in which everyone is corrupt. Therefore, collective action and breaking the vicious circle of corruption is difficult to achieve.

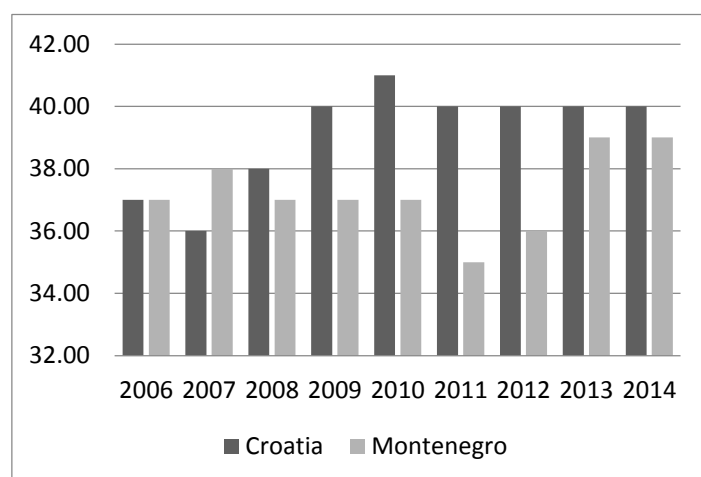
In the following sub-section, I deal with the role of the media in preventing rent-grabbing and resource misuse.

### **7.5 Media**

The role of the media has been neglected in the tourism studies. As discussed in the literature review in Chapter 2, corruption literature cautions against simplistic arguments about the relationship between media freedom and corruption (Bauhr and Grimes 2014; Camaj 2013; Coronel 2009). Similarly, media can have a perverse effect in preventing environmental degradation as journalists pay lip service through superficial coverage (Driedger 2007). Based on the entries from the Tourism Projects Dataset, I analyse whether and how media can assist in preventing rent-grabbing and resource misuse.

I argue that media can have an important role in raising awareness about rent-grabbing and resource misuse. Moreover, the analysis of the engagement of the media in Croatia and Montenegro suggests that the higher media freedom score does not directly mean better control over corruption. Even though Croatia ranks higher in freedom of press indicators, Montenegrin media outlets are the real watchdogs investigating and reporting on collusion between political, business and criminal elites. Figure 7-9 provides the comparison of the press freedom index in Croatia and Montenegro and shows that the Croatian score is slightly higher than Montenegrin (Freedom of Press 2015).

Figure 7-9 Press freedom in Croatia and Montenegro between 2006 and 2014



Source: Freedom of Press

Freedom House characterizes Croatian media as partially free and warns about the harassment journalists reporting about covering corruption, organized crime and war crimes face. Its 2015 report outlines that the threat of physical violence against journalists has significantly dropped, but that oligopolistic media market biases investigation and reporting of sensitive topics. Companies Hanza Media and Styria control most of the print media market, but also invest in other sectors, potentially leading to reduced coverage of the government or key industrial companies. Similarly, banks and sub-national level frequently control media outlets and jeopardizes independent reporting of local politics (Freedom House 2015).

The media largely cover cases that the civil society has already identified and increases public awareness about possible illegalities. Media outlets report on upcoming tourism projects, frequently describing them as strategic for Croatian economy, but also emphasize the perils of Croatian bureaucracy – for example, “jaws of bureaucracy” (Poslovni.hr 2010) and “bureaucratic oligarchy” (Banka.hr 2016). The detailed coverage of the various cases often supports the image of notoriously anti-development conservation departments and lethargic municipal, county or national-level civil servants (e.g. Business.hr 2010; Filipović 2013; Zemunović 2016).

Occasionally the media reports critically on the Government's lack of ability to attract investors and to provide an investment-friendly environment to implement projects (e.g. Petranović 2013). Media also examine the role of the investors and report on the cases in which investors are affiliated with the domestic political elites or where suspicions about illegalities arose (Kelava 2014; see e.g. Kelava 2010; Lasić 2010; V. Vuković 2012). With the exception of the weekly Nacional which investigated privatization cases (Rogošić 2004; Nacional 2002; e.g. Bajruši 2005), the media in Croatia have not engaged in investigating potential illegalities in tourism.

Civic initiatives complain about biased reporting and unequal access to media space. For example, the "Srđ je naš" initiative suggested there was discrimination in access to the media space before the referendum about the Srđ golf project on the public TV service. Croatian Radio Television (HRT) decided to ban announcement paid by the NGOs on the Radio Dubrovnik, with the explanation that public service cannot charge advertisements to non-governmental organizations. According to the representative of the initiative, a day before the referendum, the editor of the news on the national TV channel made tendentious and largely false statements about the project along with promotional films of investors in the prime time of the informative service (Dubrovački vjesnik 2013). Moreover, Đuro Capor of "Srđ je naš" added that largest media outlets, such as Jutarnji list and Dubrovački Vijesnik, both owned by Hanza Media group, openly sided with investors and have defamed the members of the civic initiative (Car 2013).

In Montenegro, the relationship between the media, rent-grabbing and resource use is complex and paradoxical. Even though the Freedom House indicator suggests media is less free in Montenegro than in Croatia, the media in Montenegro take on the role of investigating corruption in tourism and increasing awareness about the rent-grabbing in tourism. In a nutshell,

Montenegrin media is much more active in preventing rent-grabbing than in Croatia, suggesting that the relationship between media freedom scores and corruption prevention is not linear and straightforward.

Media include clearly government-supportive and government-critical outlets which frequently either propagate or criticise tourism projects. Paradoxically, despite the existence of prominent critical media such as *Dan* and *Vijesti*, freedom of expression is threatened. Critical journalists (especially those conducting investigations of corruption and undue influence) have been subjected to threats and violence to themselves and media property. Reporters without Borders criticized the oppressive climate for investigative journalism such as the death of owner and editor in chief of the newspapers *Dan* Duško Jovanović in 2004, a physical attack on journalists of newspapers *Vijesti* Olivera Lakić during her work on covering corruption affairs in 2012, several bomb attacks on *Vijesti*'s cars in 2011 and bombing of *Vijesti* journalist Tufik Softić's house, a physical attack on *Vijesti* editor Mihailo Jovović and director of *Vijesti* Željko Jovanović, as well as a bomb attack on the *Vijesti* office in 2013 (Ponoš 2014).

However, these cases were not investigated by the police or prosecuted by the court. A commission tasked with investigating cases of threats and violence against journalists has been established, but its recommendations were not implemented. EU's Directorate General for Enlargement argues that an environment of intimidation and self-censorship prevails, as the justice system has so far been passive in dealing with the concerning trend (DG Enlargement European Commission 2014). In an interview with Croatian *Novi List* Mihailo Jovanović, editor in chief at *Vijesti* stated:

*Even if these attacks were not ordered from the Government, the attitude of the ruling elites created an atmosphere in which it is almost normal to attack Vijesti at your wish, since this is not punished. Đukanović publicly calls us monsters, media mafia, requests*

*our deratisation, and is subsequently quoted by his party and mafia colleagues, his media, and even criminals on the trials.* (Ponoš 2014).

Journalists reporting critically on the incumbent party have faced costly civil defamation suits and the government syphons the advertising funding to the pro-government media outlet Pobjeda. Despite having higher circulation, critical media fail to obtain advertising funding from the state budget. Moreover, the government funded *Pobjeda* operated between 2002 and 2014 in an evident violation of legislation prohibiting the state from funding print media outlets (Freedom House 2014). In December 2014, Petros Stathis, Greek entrepreneur and tourism investor who owns and has concessions over important tourism assets purchased the outlet Pobjeda. He already owns daily newspapers Dnevne Novine and web portal Analitika. However, Stathis' expansion on the media market is argued not to be fuelled by financial gains as the two daily newspapers he owns (Dnevne Novine and Pobjeda) are expensive, unprofitable, and require additional investments. Greek businessman has been financing and maintaining the media which support DPS' Government to further the interests and privileges in tourism and other businesses he has in Montenegro (Perović-Korać 2016).

Critical media in Montenegro have taken the role of investigating the resource use and rent-grabbing affairs and informing the public. While Pobjeda offers an extremely pro-governmental angle on privatization and tourism investments, Vijesti provide an alternative source of information and wrote critically about new investments in tourism. For example, Centre for Investigative Journalism (CIN), investigated the connections between the organized crime groups, the family of the Prime Minister Milo Đukanović, the First Bank and the sales of the land on the island Sveti Nikola (Patrucic and Milovac 2014; Patrucic 2014), as well as Zavala affair (OCCRP/CIN 2012).

Considering direct accusations critical media make against political and economic elites, the role of the media in Montenegro is controversial. While the critical media has an important



role in raising awareness and informing citizens on the potential illegalities, Freedom House report for 2013 also stated that Montenegrin media lack professional and self-regulation standards (Freedom House 2013). Moreover, the existence of media outlets which are biased either in favour or against the government makes it difficult for the public to separate facts from propaganda and unfounded criticism. On NGO representative said in an interview “it takes reading five newspapers to understand what is actually happening in Montenegro” (Interview 22).

Despite this assessment, it must be noted that critical media play an important role in reporting on the misuse of natural resources and rent-grabbing. In 2015, RTCG developed a four sequel series Mechanism: Promised Land in which it investigated the mechanism through which rent-grabbing in land urbanization enables benefits for colluding political and business elites (Rašković 2015). The case of Prijedor/Jaz investigated in the series was later prosecuted as a part of a larger Budva organized criminal group affair in 2015/2016. The prosecution of the Organized Criminal Group Budva cannot be attributed to the series, but it shows, along with the work of CIN, how media have taken over the role of the prosecution in investigating the illegalities.

In a nutshell, Montenegrin critical media are in a similar position as the NGOs. Both take on the responsibilities of the prosecution in investigating the affairs and partially of the opposition in challenging the incumbents. Both the critical media and the NGOs are openly suppressed through a smear campaign, defamation, intimidation and use of oppressive institutions.<sup>58</sup> I suggest that in the case of tourism, the Montenegrin media have a more

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<sup>58</sup> For example, in June 2014 Vanja Čalović, leading anti-corruption activist in Montenegro, was a target of public vilification campaign linked to integrity and sexuality. The newspaper Informer published offensive sexual images taken from a random video and claimed that they portrayed Čalović. Its publication was a deliberate attempt to compromise her personal and professional integrity (Civil Rights Defenders 2014).

prominent role not only in raising awareness, but also in terms of criticising the government through their investigations and publications.

Due to the weakness of the opposition parties, media developed strong investigative functions and became part of the systems of checks and balances. To summarise, while media do not have a direct influence on the tourism projects, in both countries it is instrumental in informing the public and shaping public opinion over the projects. Consequently, public opinion can influence political decisions as politicians attempt to ensure re-elections. However, in Montenegro, despite lower freedom of press scores, media also engage in investigating crimes and corruption.

### **7.6 Summary**

The chapter analysed how political veto points (PVPs) influence two aspects of tourism development, resource use and rent-grabbing. Political veto points encompass turnover in power, vertical cohabitation and judiciary. The civil society (NGOs, expert groups and local community) and the media act through judiciary as catalysts.

In Croatia, national-county level vertical cohabitation and turnover in power led to blocking of project Brijuni Rivijera which lost governmental support when HDZ replaced SDP's coalition Government. In Montenegro, as was illustrated in the Mamula case, centralization of spatial planning nullified the veto effects of vertical cohabitation. Independent judiciary provided a channel for civil society engagement in Croatia, but still faced difficulties in distinguishing speculations from illegalities in spatial planning. Government controlled judiciary in Montenegro was used to persuade the EU of Montenegrin compliance with the *acquis* and as a tool for resolving in-party DPS conflicts. The case of Organized Crime Group Budva illustrated how prosecution of Budva DPS ensured monopoly over the resource rents.

Civil society played a different role in the two countries. Polycentric structure and engagement of the expert groups increased public awareness about tourism resource misuse and led to requests for judicial assessments of the planning documents legality. Moreover, civic initiatives were much better organized and provided collective action solutions for the rent-seeking and resource misuse. In Montenegro, there was a lack of coordination efforts among NGOs focusing on the specific tourism projects and expert groups were mostly disengaged. Consequentially the public sees illegalities in the resource use as a part of the grabbing equilibrium, which makes collective action aimed at protecting resources less likely.

Finally, the media in both countries report on the issues of rent-grabbing and thereby increase the public awareness about corruption in tourism and misuse of natural resources. However, based on the analysis of the cases included in the Tourism Projects Dataset, I suggest that the media have a significantly more important role in investigating corruption and organized crime than the media in Croatia. As the judiciary is biased and the opposition weak, Montenegrin journalists take on the role of the opposition and judiciary in investigating and confronting the Government about the illegalities in the tourism projects. As the media is considered less free in Montenegro than in Croatia, this suggests that the relationship between the media freedom and corruption control is more complex than anticipated. In the following chapter, I describe and analyse the synergies between the BVPs and PVPs and investigate their effect on rent-grabbing and resource use.

***Annex 7-1 Croatia – Stable Party Control over Coastal Counties***

In 1993, on the first local elections held in independent Croatia, HDZ ensured a majority in five out of 7 coastal counties. In Istria, IDS ensured a landslide victory, while in Primorje-Gorski Kotar HDZ ensured more seats than other parties, but the centre-left parties of HSLS-SDP-HNS and RDS<sup>59</sup>-IDS coalesced after the elections. In overall, HDZ won a majority of the votes in 19 counties.

The following local elections in 1997 confirmed HDZ's domination in Croatia. The party won a majority in 18 out of 21 municipalities, but also in 56 cities (46,28% of all cities) and in 259 municipalities (61,37% of all municipalities) (HDZ 2016). HDZ also maintained control over most the coastal municipalities, except for Primorje-Gorski Kotar where SDP triumphed and Istria where IDS confirmed its importance.

The death of Franjo Tuđman and the resulting loss of support among HDZ's electorate was reflected also in the results of the local elections in 2001. The left coalition parties won 56,58% of the mandates, compared to 36,68% won by the centre and right-wing coalitions. Although HDZ party won the most mandates in all but four counties (City of Zagreb, Primorje-Gorski Kotar, Istria and Međimurje) it formed county governments in only seven counties (Sisak-Moslavina, Karlovac, Lika-Senj, Požega Slavonija, Zadar, Šibenik-Knin, Split-Dalmatia). Parties of the centre and left joined mandates in the post-electoral coalition making and have achieved a similar effect as on 2000 parliamentary elections. The loss of HDZ's influence was also reflected in the municipal and town level where HDZ won 198 mandates, but the parties of the left coalition jointly won 274 mandates (Omejec 2002). These results stood in stark contrast to total control over the municipality and county and municipal level assemblies in the previous decade.

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<sup>59</sup> Rijeka Democratic Alliance (Riječki Demokratski Savez)

Within the coastal belt, the relations between the HDZ and centre-left parties have not significantly changed. Istria remained IDS' bastion and in Primorje-Gorski Kotar centre-left parties SDP, HSS, HSLS and HSU formed a coalition before the elections and won the most seats. In the post-electoral coalition-making, the centre-left coalition joined forces with the coalition of PGS-IDS and ensured a majority in the county assembly. One of the electoral surprises was centre-left parties' Dubrovnik-Neretva Assembly take-over where HDZ won 16 seats, but the centre-left parties, headed by SDP, formed a post-electoral coalition and took control over the county. HDZ proved its domination in Lika-Senj, Šibenik and Split-Dalmatia counties, while Zadar county saw an unusual post-electoral coalition of HDZ which won the most seats and of HSLS which won 4 seats. HSLS was a centre party and its coalition with HDZ in Zadar was the only such cooperation which bridged the ideological gap between the right and the centre block after the elections in 2001 (Omejec 2002, 17).

Elections in 2005 confirmed centre-left parties' control over Primorje-Gorski Kotar and IDS' domination over Istria. Lika-Senj, Zadar, Šibenik-Knin and Split-Dalmatia saw a continuation of HDZ's rule. Dubrovnik-Neretva county saw interesting coalition making where HDZ-DC despite winning fewer mandates than the centre-left SDP-HSS.HNS-LS-HSLS coalition managed to ensure the majority of the seats. HDZ-DS made a coalition with HSLS and HSP, but in 2006 HSP's Mišo Veraja joined the opposition parties. As a result of the County Assembly crisis, Government's Trustee Želimir Bosnić took control over the Dubrovnik-Neretva Assembly. The new majority was subsequently formed by the left-centre coalition.

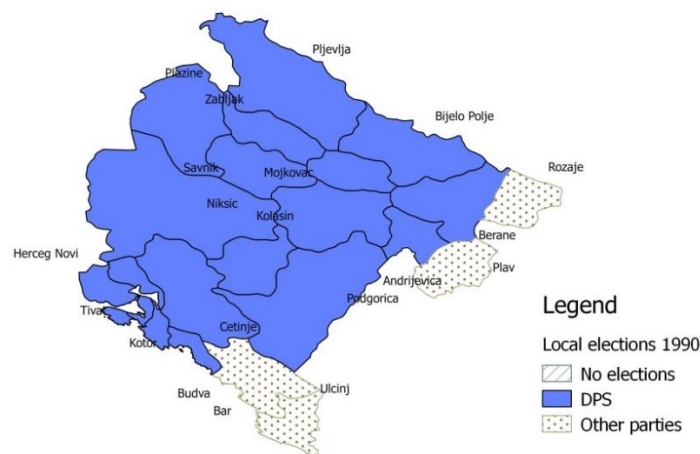
The elections in 2009 returned Dubrovnik-Neretva to HDZ's hands where its coalition with HSS, HSLS and HSU managed to win a majority. HDZ remained already traditionally in power in Lika-Senj, Zadar, Šibenik-Knin and Split-Dalmatia counties. In Primorje-Gorski Kotar coalition gathered around SDP confirmed its majority, as well as IDS did in Istria. The

county elections in 2013 merely confirmed the established pattern as all Southern coastal municipalities (including Lika-Senj, Zadar, Šibenik-Knin, Split-Dalmatia and Dubrovnik-Neretva) remained under the control of the HDZ and the right block, while Istria and Primorje-Gorski Kotar remained under IDS and SDP and left block respectively.

### **Annex 7-2 Montenegro – How DPS Gained Control over Montenegrin Municipalities**

In 1990, in the first local elections, the League of Communists of Montenegro (SKCG)<sup>60</sup> won a majority in all coastal municipalities besides Bar and Ulcinj. In Bar League of Communists won 21 seats, while Union of Reforms (SRSJ)<sup>61</sup> won 29 seats. Predominantly populated by Albanians, on the first local elections in Ulcinj, Democratic Coalition “Albanians Together” (DC)<sup>62</sup> won 30 seats and SKCG 8. Figure 7-10 shows results of Montenegrin local elections from 1990, where municipalities won by SKCG, Montenegrin communist party of which DPS is a successor of, are coloured in blue. In 1992, DPS was victorious in all coastal municipalities, including Bar, besides Ulcinj where Albanian party Democratic League won elections.

Figure 7-10 Results of local elections in Montenegro in 1990



Several municipalities held early elections in 1998, among them Tivat and Ulcinj from the coastal Montenegro. In Tivat, DPS won 14 and SDP 4 out of 32 seats which were sufficient to form a majority in Tivat Assembly. In Ulcinj, Albanian parties Democratic League (DSCG)<sup>63</sup> and Democratic Union of Albanians (DUA)<sup>64</sup> won 20 out of 33 seats, while DPS remained in opposition with 8 seats. Elections were held in seven continental municipalities and DPS won in all besides Berane. Elections in Herceg Novi were held in 2000 and resulted in a victory of

<sup>60</sup> League of Communists of Montenegro (Savez Komunista Crne Gore)

<sup>61</sup> Union of Reform Forces (Savez Reformskih Snaga Jugoslavije)

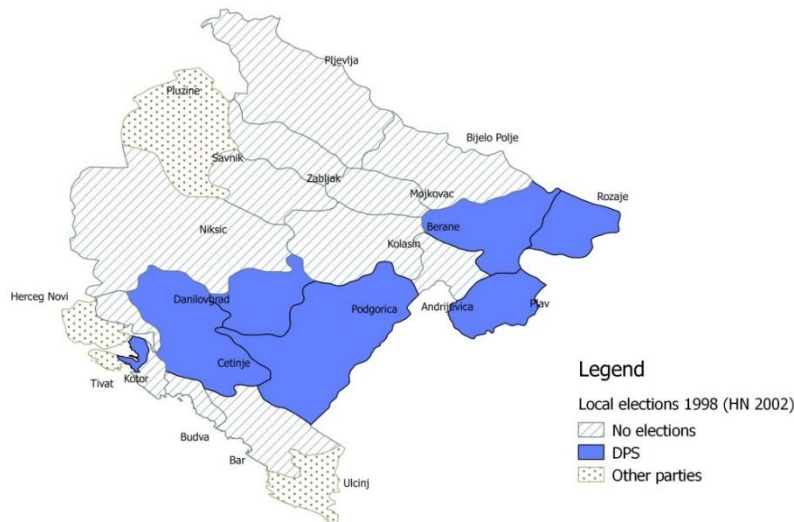
<sup>62</sup> Democratic Coalition “Albanians Together” (Demokratska Koalicija “Albanci Zajedno”)

<sup>63</sup> Democratic League in Montenegro (Demokratski Savez u Crnoj Gori)

<sup>64</sup> Democratic Union of Albanians (Demokratska Unija Albanaca)

Momir Bulatović's SNP-led coalition "Yugoslavia" over Milo Đukanović's "To live better." (See Figure 7-11 below)

Figure 7-11 Results of local elections in Montenegro in 1998 and in Herceg Novi in 2000

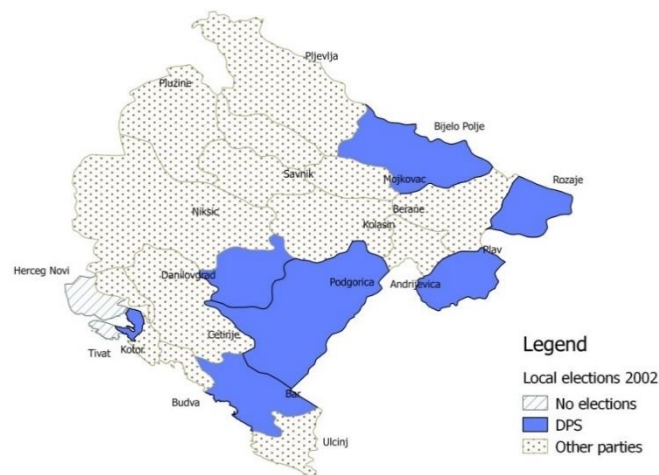


In 2002, elections were held in 19 municipalities. The results in the coastal municipalities still showed significant effects of the rift between Đukanović and Bulatović. In Bar, DPS won 12 and its junior partner SDP 5 seats, which sufficed to form a majority in comparison to 11 seats won by SNP-NS-SNS coalition and LSCG's 4 seats. In Budva, DPS lost elections as it ensured, in coalition with SDP, 14 seats, while SNP-NS-SNS coalition received 15 seats. In Kotor, the outcome of the elections was similar to the one in Budva. DPS-SDP coalition ensured 13 seats, the same as the SNP-NS-SNS coalition, but the majority was formed by the SNPs block as they managed to coalesce with LSCG which won 6 seats. DPS-SDP was more successful in Tivat where they snatched 14 seats, three more than SNP-NS-SNS's 11, but as neither of the coalitions managed to make an agreement with LSCG which won 5 seats, the elections were repeated. In October 2002 Đukanović's coalition won on Tivat's elections 13 seats, same as SNP-NS-SNS's coalition, but Croatian ethnic party HGI won 4 seats and formed a post-electoral coalition with DPS forces. In Ulcinj Albanian parties DUA and DSCG won 15 seats, Party of Democratic Prosperity (PDP)<sup>65</sup> won 6 seats, while DPS received 7 seats. (See Figure 7-12 below).

<sup>65</sup> Party of Democratic Prosperity (Partija Demokratskog Prosperiteta)



Figure 7-12 Results of local elections in Montenegro in 2002



In 2004, early municipal elections were held in three coastal municipalities, Herceg Novi, Kotor, Tivat and Žabljak. In Herceg Novi SNP-SNS-SRS coalition won 15, DPS-SDP won 11, NS 3 and Democratic Serb Party (DSS)<sup>66</sup> 2 seats. As a result, the majority in Herceg Novi was formed by the SNP block. In Kotor, DPS won 14 and SNP 9 seats. DPS formed a coalition with HGI which brought two mandates to the table. Similarly as in Kotor, in Tivat, DPS-SDP coalition won 11 and SNP-SNS 8 seats, but the majority was formed with HGI which won 6 seats. (Monstat 2006). Early elections for councillors were held in 2005 in Budva, where DPS-SDP took control from the Serbian parties and ensured 19, while the SNP-SNS-NS-NSS block got 11 seats (Monstat 2006).

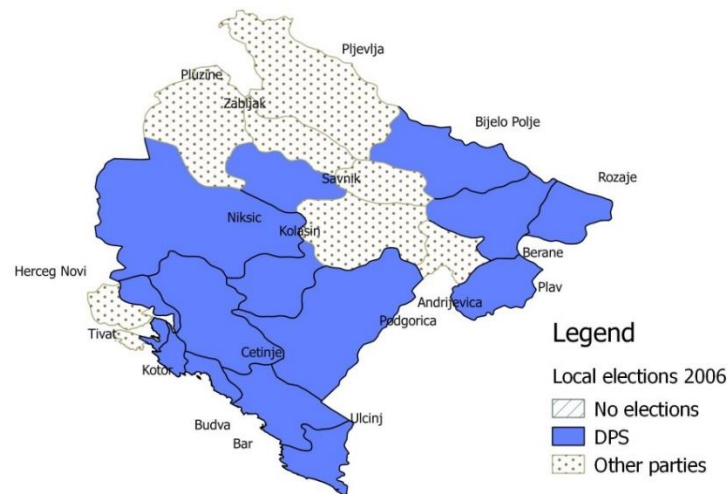
Regular local elections were held in 2006 with the following results. The coalition of DPS-SDP won 19 out of 36 seats in Bar. PzP won 5, Serbian List 4, SNP-NS-DSS 3 which was insufficient to jeopardize ruling coalition. In predominantly Albanian municipality Ulcinj, DPS and SDP coalesced with DUA, one of the strongest municipal parties and won 14 seats. New Democratic Power – FORCA<sup>67</sup> ensured 8 seats, the coalition of DSCG, PDP and civic initiative “The Truth”<sup>68</sup> won 7 seats. DPS’ coalition formed a majority in the Ulcinj Assembly, which was the first time DPS was not in opposition (see Figure 7-13 below).

<sup>66</sup> Democratic Serb Party (Demokratska Srpska Stranka)

<sup>67</sup> New Democratic Power – Forca (Nova Demokratska Snaga – FORCA)

<sup>68</sup> Dr. Isat Jakupi founded the civic initiative The Truth (Istina)

Figure 7-13 Results of local elections in Montenegro in 2006

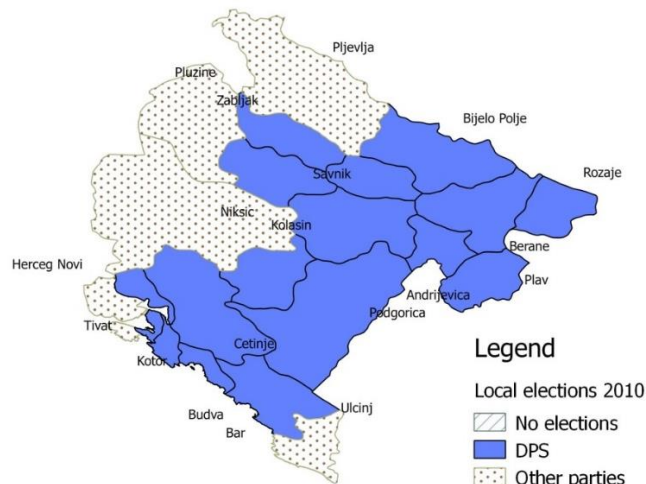


In 2008, early elections were held in Herceg Novi, Tivat and Kotor and have in coastal municipalities confirmed the results of elections in 2004. In Herceg Novi, SNP won 12, DPS 11, Serb List 5, PzP 3 seats and SDP 2 seats. The results meant that SNP maintained the position of power. In Kotor DPS whipped out the competition and won 14 seats, SDP and HGI won each 3 seats which prolonged their majority in local assembly over 7 mandates of SNP and 4 of the Serb List. The results in Tivat saw a continuation of DPS' domination as the party won 12 seats and SDP 4. Serb List managed to ensure 5 and SNP 2, while HGI and PzP each got 3 (Monstat 2010).

In 2009, early elections were held in Budva where DPS-SDP coalition got 23 seats, while coalition SNP-NSD<sup>69</sup>-NS won 6 and PzP 2 seats. In 2010, regular elections on the local level were held in 14 municipalities and DPS won the most seats in 12. From the coastal municipalities, elections were held in Bar and Ulcinj. In Bar, European Coalition DPS-SDP won 20 seats and kept absolute power in the municipality. In Ulcinj, Albanian parties dominated the elections. FORCA won 11 seats and coalition DUA-PDP won 10 seats, which confirmed Albanian control over Ulcinj. DPS won 7, SDP 2 and coalition SNP-NSD 2 seats (Monstat 2010). New power relations are shown in Figure 7-14.

<sup>69</sup> New Serbian Democracy (Nova Srpska Demokratija)

Figure 7-14 Results of local elections in Montenegro in 2010



Elections for Herceg Novi, Kotor and Tivat were held again early in 2012. In Herceg Novi, DPS won 14 seats and its usual coalition partner SDP 2, while SNP ensured 12, NSD 3, PzP 2 and Serbian coalition (NS-SSR<sup>70</sup>) 1 mandate. Such results meant that Serbian parties led by SNP managed to ensure a majority in the local assembly, even though the power of SNP party on national level declined when its faction approached Democratic Front. Both in Kotor and in Tivat DPS in combination with SDP confirmed its position of power. In Kotor DPS again ensured the majority of the seats and won 11 mandates and SDP got 4. Democratic Front got 7 seats, PCG 3 and SNP 4 seats. In Tivat, DPS won 12 seats and SDP 5, while HGI got 4 seats. SNP ensured 4, NSD 3 and PzP 1 seat (Monstat 2014).

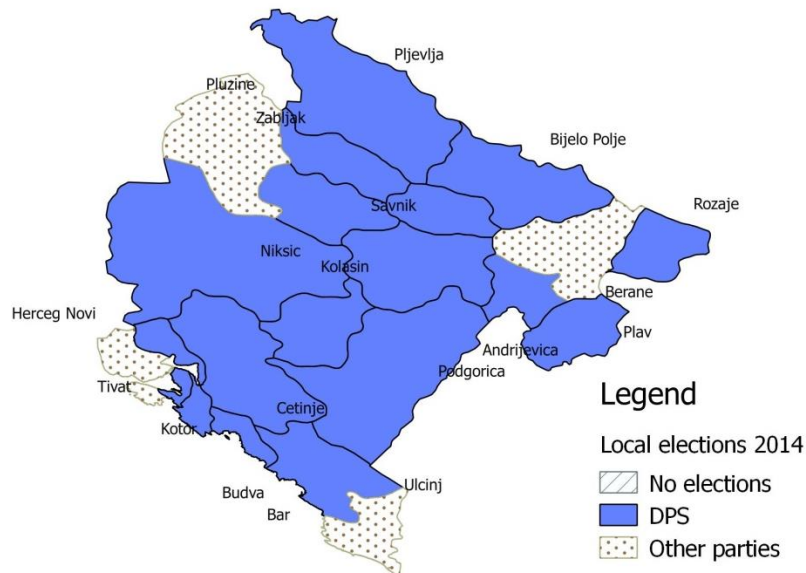
In 2014, municipal elections DPS confirmed its domination on the local level elections. In Bar, DPS won 13 seats and SDP, with which it formed a majority after the elections, got 8 seats. SNP lost its relevance and won 3 seats, the newly formed Democratic Front (DF), led by Miodrag Lekić, ensured 9 and PCG 2 seats. In Budva, DPS-SDP coalition won 17 seats and defeated opposition parties represented by DF (8 seats) and PCG (4 seats). The biggest surprise of the elections was DPS' success in traditionally Albanian parties led Ulcinj. DPS managed to get 9, the winner of previous elections Forca won 8 and the coalition "Together for the future of Ulcinj" (ZBU)<sup>71</sup> 7 seats. DUA ensured 3, while PCG and SDP each 2 mandates. However,

<sup>70</sup> Party of Serb Radicals (Stranka Srpskih Radikala)

<sup>71</sup> The coalition formed before the local elections in 2014 which included Democratic Party (Demokratska Partija) and Civic Initiative "Perspective" (Perspektiva).

Forca agreed to coalesce with PCG and coalition ZBU which effectively prolonged DPS' opposition status (Monstat 2014). The results of the elections in 2014 are shown in Figure 7-15.

Figure 7-15 Results of local elections in Montenegro in 2014



In 2015, irregular elections were held in Herceg Novi in which DPS managed, through a coalition with Izbor, to win the majority in the local government in front of traditionally winning Serbian parties. Out of local elections in 2016, the only elections held were the ones in Tivat where DPS showed its absolute domination. Out of 32, DPS won 17 mandates and SD<sup>72</sup> won 4 seats. The relative losers of the elections were HGI, SDP and SNP each of which won 2 mandates, which is a decrease from the 2012 elections. Several citizen initiatives won seats in the local assembly as well, such as TA<sup>73</sup> (2), AzT<sup>74</sup> (1) and BF<sup>75</sup> (1). All the maps in the Appendix 7-2 are made by the author, based on Monstat's data (Monstat 2010; Monstat 2006; Monstat 2014).

<sup>72</sup> Social Democrats (Socijalni Demokrati)

<sup>73</sup> Tivat Action (Tivatska Akcija)

<sup>74</sup> Arsenal for Tivat (Arsenal za Tivat)

<sup>75</sup> Boka Forum (Bokeljski forum)

# 8

## POLITICAL AND BUREAUCRATIC SYNERGIES

### Joint Veto Points Effect

*It is indeed easier to unravel a single thread — an incident, a name, a motive — than to trace the history of any picture defined by many threads. For with the picture in the tapestry a new element has come in: the picture is greater than, and not explained by, the sum of the component threads.*

J.R.R. Tolkien (1938)

**B**eyond the individual effects of the bureaucratic and political veto Points, the thesis also researches their interaction effect. In the previous two chapters, I have dealt extensively with the importance of the bureaucratic veto points (BVPs) and political veto points (PVPs) for preventing rent-grabbing and ensuring sustainable resource use. I now turn to the analysis of the joint BVP and PVP effects. Among the BVPs, I have outlined the importance of decentralized spatial planning and environmental legislation. Bureaucracy drafts legislation and implements it, but politics influences the form and content and adopts the laws. Therefore, it lays between politics and bureaucracy. PVPs include vertical political cohabitation, turnover in power and judiciary. Civil society as a catalyst can also influence rent-grabbing and resource

misuse in interaction with veto points. These categories create six possible combinations of the BVP and PVP interaction.

	Turnover& Cohabitation	Judiciary	Civil Society
Decentralized Spatial Planning	1  Municipal Level Cases	2  Srđ	3  Srđ
Stringency of Environmental Regulations	4  Brijuni Rivijera	5  Brkač	6  Baštijunski Brig Duba Malostonska Solana (MNE)

The first category includes the joint effect of turnover or cohabitation and decentralized spatial planning. Cases in which there is vertical cohabitation between sub-national levels are representative of it. The second and third category encompass the interaction of the decentralized spatial planning with the judiciary and with the civil society. For these two categories, I illustrate the Srđ project. The fourth category includes the joint effect of stringency of environmental regulations and turnover in power or vertical cohabitation. The case which reflects this interaction is Brijuni Rivijera. The fifth and sixth category consist of the joint effect of the stringency of environmental regulations, in tandem with the judiciary and civil society. I illustrate these interactions through the Brkač and Solana projects.

The section examines each of the interaction categories in the order as introduced above. The overview and analysis of the six categories of interaction suggest there is a synergy between the veto points. The addition of another veto point helps prevent rent-grabbing better than the sum of their individual effect would predict. This is particularly the case with synergies between vertical cohabitation and decentralized spatial planning, as well as interaction effects of the civil

society with BVPs and PVPs. I coded and analysed interaction effect of vertical cohabitation and decentralized spatial planning in more than a dozen cases in Croatia. No such case was possible in Montenegro as there is no spatial planning decentralization.

The chapter also illustrates two least likely cases, one in Croatia and one in Montenegro. In Croatia, in the case of Srđ, despite the formal inclusion of decentralized spatial planning and strong engagement of the catalysts against rent-grabbing, the interaction effect barely managed to control rent-grabbing and resource misuse. In contrast, in Montenegro, I represent a case in which against all odds, an interaction effect of political competition, legislative protection and NGOs managed to constraint rent-grabbing and resource misuse within valuable nature protection area of Solana. I now turn to the first category and explore the interaction between the vertical cohabitation, turnover in power and decentralized spatial planning.

### **8.1 Political Competition and Decentralized Spatial Planning**

In several cases, the interaction between three-level spatial planning and political turnover or cohabitation in Croatia prevented rent-grabbing and resource misuse. As in Montenegro spatial planning includes only two levels, with the centralized planning of the narrow coastal belt, there were no such cases in Montenegro.

Due to the existence of three levels on which spatial planning is managed in Croatia, political controls also exist on the county-municipal relation. The existence of national, county and municipal planning levels increases the chances that political actors on one of the governing levels act as a veto point and block non-sustainable and rent-grabbing projects. In addition, the political changes on the municipal level in Croatia are more likely and more frequent than on the county level and can act as PVPs. This is particularly important as there are cases in which changes made to the planning acts could be a result of bribery or undue influence. The benefits

of land urbanisation then accrue to the vested rather than public interest. Municipal and county level political elites have access to local information and are particularly important for ensuring the protection of the interests of the county and the municipality.

In multiparty systems, the turnover of the political parties controlling national, county and municipal level decision-making leads to control and oversight of initiated changes in spatial plans. Each new assembly on county or local level has political incentives to audit the projects agreed and initiated during the previous mandate. I now turn to the cases of interaction between vertical cohabitation and decentralization.

#### 8.1.1 Vertical cohabitation and decentralization

An analysis of the tourism projects suggests vertical cohabitation on the county-municipal level is an effective veto point that can block harmful projects. Table 8-1 outlines the cases in which vertical cohabitation interacted with decentralized spatial planning in Croatia.

Table 8-1 County - municipal level cohabitation in Croatia

County	Municipality	Influenced project
Istria	Vodnjan	Negrin Prtlog
	Fažana	Pineta
	Umag	Terra Istriana Stancija Grande
Zadar	Biograd na moru	Baštijunski brig
Šibenik-Knin	Primošten	Marina Lučica
Split-Dalmatia	Split	Hotel Dioklecijan
	Sućuraj	PPK
	Stari Grad	Ključna
Dubrovnik-Neretva	Konavle	Canavia
	Ston	Malostonska Duba
	Orebić	Lovišta
	Mljet	Saplunara

Source: Tourism Projects Dataset



There are several cases in which robust political competition in combination with planning on local and county level played a role in Croatia. Such cases are for example investments in the Sapunara location, in Mljet municipality, Dubrovnik-Neretva county and in the Pineta location, in Fažana city, Istria county. In the Mljet case, vertical cohabitation followed by electoral turnover led to a re-examination of projects agreed with the previous municipal leadership. In the Pineta case, the SDP led municipality of Fažana opposed the Brijuni Rivijera project supported by the Istrian county ruling party, IDS.

The overview also identified Croatian cases where the continuous rule of a single party or coalition on the local level simplified or even incentivised the loss of valuable resources and rent-grabbing. Such a case occurred in the Barbariga and Dragonera locations, Istria county. IDS' control of county and municipal level and their participation in the governing coalition at the national level led to streamlined land urbanization which favoured investors and harmed the budget of the Vodnjan municipality (Košta 2015).

In some cases, municipal authorities were overruled and their spatial planning responsibilities micro-managed on the county level. Such case was found in the Split-Dalmatia county, Stari Grad city. In the Stari Grad case, the investor bought non-urban land in the Stari Grad city in Ključna bay. For the location of the project, refer to the Figure 8-1. The municipality has not supported conversion of the land into tourism zone. More specifically, the city authorities, headed by SDP's Mayor Đurđica Plančić, assessed the project positively, but have suggested reconsidering it once the existing tourism zones are 80% used, which is a legislative obligation for the introduction of a new tourism zone (City Stari Grad 2012). The case is also interesting as there was cohabitation on local and county level. The Split-Dalmatia county is traditionally under HDZ's coalition government, whereas Stari Grad's Mayor between 2009 and 2013 was SDP's Đurđica Plančić (Crnčević 2012).

The city of Stari Grad adopted a municipal spatial plan in 2013 whereby Ključna zone was not included among the tourism zones on Hvar island (City Stari Grad 2013). The Split-Dalmatia county, led by HDZ's centre-right coalition, also adopted in 2013, but a few months later, a new spatial plan which introduced the tourism zone Ključna (Split-Dalmatia County 2013). To include Ključna, another tourism zone, Vrbanja, was deleted from plans although it had the full infrastructure available (roads, water, electricity), while Ključna had none (Crnčević 2012).

Local land owners in Vrbanja zone complained about these changes and were supported by the Mayor Đurđica Plančić who stated that the municipality decidedly requested that the Ključna zone not be included in the spatial plan at the expense of the existing zones (Crnčević 2012). The city of Stari Grad has initiated the change of its spatial plan in June 2015 (Council of Stari Grad 2015), but a new plan which would introduce Ključna tourism zone in the Stari Grad spatial plan has not yet been adopted. In the next sub-section, I turn to the cases illustrating the interaction between turnover in power and decentralization.

#### 8.1.2 Turnover in power and decentralization

Based on the Tourism Projects Dataset I also identified municipal level political turnover can block potentially harmful projects that the previous political leadership has initiated, as an important mechanism enabling sustainable resource use and preventing rent-grabbing. In Croatia, a political turnover in combination with decentralization led to the re-examination of the projects initiated under previous leadership in eight cases and was effective in adapting or blocking problematic projects in six. The complete list of the cases in which turnover helped in adapting or blocking illegalities is presented in Table 8-2. Out of these six cases, I introduce the case of Sućuraj where turnover in power in interaction with decentralized spatial planning provided controls against rent-grabbing and resource misuse.

Table 8-2 Turnover on the municipal level in Croatia

County	Municipality	Influenced project
Istria	Ližnjan	Marlera
Šibenik-Knin	Primošten	Marina Lucica
Split-Dalmatia	Split Sućuraj	Dioklecijan PPK
Dubrovnik-Neretva	Orebić Mljet	Lovišta Saplunara

Source: Tourism Projects Dataset

In the case of Sućuraj in the Split-Dalmatia county, Hvar island, a municipal political turnover led to a re-examination of land sale deals concluded under the previous municipal leadership. In 2007, Prima Property Croatia (PPK), a Norwegian investor, bought municipal and privately owned land in Perna and Vinogradine locations, Sućuraj municipality. The land was sold during the coalition of the independent list of Ivan Vitali and SDP. The investors stated they would build two hotels, one in Perna and the other in Vinogradine, but on another occasion announced they would build villas and apartments instead, without specifying if these would be for sales or for tourism rentals (Kukec 2014). The location of the Sućuraj project is represented in Figure 8-1.

Figure 8-1 Location of the projects Sućuraj, Lovišta and Ključna



Source: Author, based on Geoportal.hr

Following the 2009 local elections, SDP ensured a majority in the municipal council, but HDZ won local elections in 2013. Ivan Slavić, HDZ's newly elected Head of municipality stated that the land sold to PPK is defined as forest land and is therefore under the management of the Croatian Forests and owned by the state. He claims to have warned both the investors and the previous head of the municipality, that the land was state owned and that the municipality could not sell it (Kukec 2014).

The Stari Grad Municipal Court ruled that the municipality can be registered in the cadastre as the owner of the 27,000 square metres. However, the State Attorney's office in Split complained to the Split County Court Split against this decision. Split County Court ruled, based on the Law on Forests, that the municipal ownership over the land in cadastre should be annulled (State Attorney's Office Split 2013). The state has initiated a court procedure to claim the land, while the annex of the contract signed between the investor and Ivan Vitali, the previous Head of the municipality, stated that in the case of the property rights dispute, the municipality must insist on a court solution until it reaches a verdict in the High Merchant Court. Such a procedure would require up to ten years of court disputes (Kukec 2014). Property rights issues between state and municipalities are described in detail in Legal Glossary in Annex 6-2.

Once HDZ's Slavić became Head of the municipality, he complained that the investor bought cheap agricultural land and demanded the municipality urbanize it to realize the project. He opposed such an approach to land use and was unwilling to change the spatial plans. As a result of the changed politics of the municipality towards the project, the representative of the investor announced multiple times the investor is withdrawing from the project and has also searched support from the Norwegian embassy to ensure the realization of the investment (Vuković 2014). The investors claimed that HDZ's county leadership, as opposed to Slavinović,

supported the project. They argued the Head of the municipality opposed the project in its current location so they would be forced to buy out the land on another location, belonging to his friends and relatives (S. Vuković 2014).

The HDZ's county leadership got involved and pressured HDZ's municipal leadership to initiate changes in the plans that would urbanize the agricultural land bought by the investor (Šunjerga 2014). The public discussion demonstrated the anxiety of the locals whose urban land was deurbanized to allow the construction on the land the investors have already purchased (Ljubičić 2015). In the meanwhile, the investment has not yet been initiated as the property rights over the land the investors have bought from private owners are not fully resolved. The land is under various property claims, as the local population which has already agreed to sell its land must also be registered as owners in the land registry and cadastre. The locals have initiated numerous cases in court. The municipality leadership has agreed not to dispute their registration claims on the court. However, the state level has not agreed to the same and some of the claims concern state-owned land (Kukec 2014; Ljubičić 2015). A general overview of the property rights issues is provided in Legal Glossary in Annex 6-2.

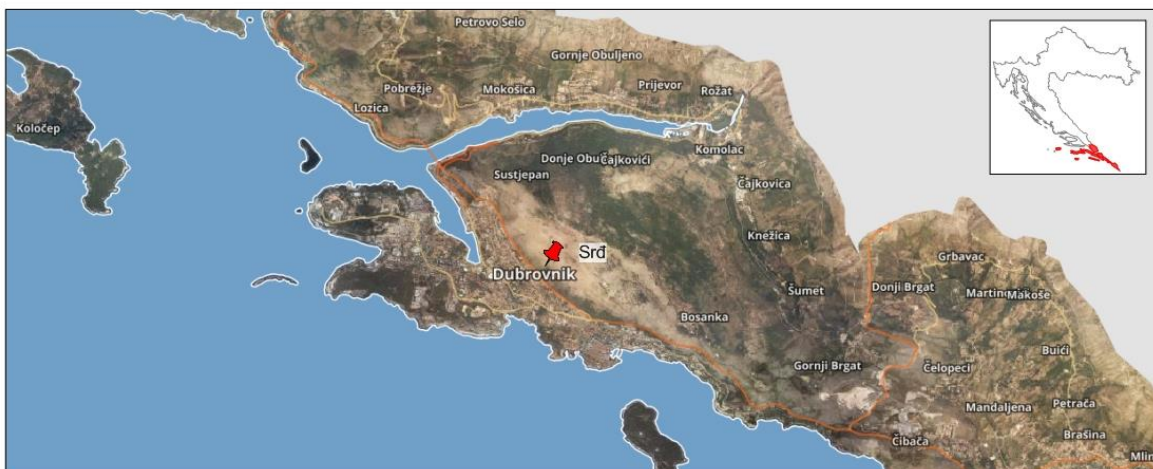
This case shows how political turnover in combination with decentralized planning led to the questioning of the contracts concluded between investors and the previous municipal leadership. However, it also shows that county-level authorities can pressure the municipal leadership to make concessions in cases when there is no vertical political cohabitation. The case also illustrates an interaction between BVPs, as property rights enter the picture. As the state insists on the protection of the state-owned land, ownership disputes can extend project horizon indefinitely. I now turn to the categories two and three where the judiciary and civil society interact with decentralized spatial planning.

## 8.2 Judiciary, Civil Society and Decentralized Spatial Planning

Categories two and three are handled jointly as there were no cases where CSOs in combination with decentralized spatial planning influenced rent-grabbing and resource use without the engagement of the judiciary. By far the most (in)famous case of rent-grabbing and resource misuse in Croatia, where the damage was prevented through a combination of PVPs and BVPs, is the case of golf developments on the Srđ plateau. The location of this project is directly above Dubrovnik city core, a UNESCO protected heritage site.

The conceptual foundations for the golf area on the plateau were already set in the Regional spatial plan of the Southern Adriatic (1964-1986). The plans for Southern and Northern Adriatic (Regionalni prostorni plan za Južni Jadran and Regionalni prostorni plan za Sjeverni Jadran) were developed as strategic foundations for the development of the tourism along the coast of Yugoslavia. The project was co-financed by the UNDP and American experts suggested already in these plans development of recreational facility on the plateau, with golf as one of the contents (Rudež and Marić 2014). The location of the Srđ project is outlined in Figure 8-2.

Figure 8-2 Location of the Srđ project



Source: Author, based on Geoportal.hr

A similar conclusion was reached in a study from the 1980s which suggested that the city of Dubrovnik lacked a general recreational area for its population, but that even the area of Srđ plateau would not suffice to satisfy these needs. In this study, golf terrains were also introduced as one of the possible recreational activities (Relac and Bartoluci 1987). The idea of golf developments above Dubrovnik became popular and several different investors tried their luck with the project. German investors started buying land from the city of Dubrovnik as well as from private owners with the idea of developing golf terrains. In May 2004, they sold 97 per cent of the Golf park Srđ company, along with its land to Braslav Turčić, the project advisor (Srđ je naš 2016).

The project had the support of the political elites during the first mandate of the Prime Minister Ivo Sanader from 2003 to 2007. In 2005, Sanader's government agreed in a meeting to co-finance the development of the necessary communal infrastructure for the golf project Srđ. Moreover, the government committed to giving the concession over the land in the state ownership (Ćimić 2013). The administrative obstacles to golf developments on the Srđ plateau were removed by the alignment of the HDZ political elites on all administrative levels. In this period, HDZ controlled the Ministry in charge of spatial planning, county Dubrovnik-Neretva and the city of Dubrovnik.

In 2005, the spatial plans for the Dubrovnik-Neretva county and for the Dubrovnik city defined a recreational area of 100 hectares on the Srđ plateau. The experts supported the 100 hectares golf zone, as this is also the standard size of a regular 18 holes golf course in the world (Marunčić 2013). However, under HDZ's Mayor Dubravka Šuica, spatial plan for the Dubrovnik city increased the size of the golf project on Srđ plateau from 100 to 310 hectares (Srđ je naš 2016). However, according to the Physical Planning Law and (1994) and Decree on

Use and Protection of the Protected Coastal Belt (2004) spatial plan for the Dubrovnik city needed to be in agreement with the plan of the higher level, which is the county level plan.

Later the same year the GUP plan for Dubrovnik, as a plan of the lower level in relation to the spatial plan of the Dubrovnik city, confirmed the increase of the golf area to 310 hectares and was approved by the Ministry of spatial planning under HDZ's Minister Marina Matulović-Dropulić. The county authorities did not formally express any objections although the plan was in discordance with the spatial plan of the county (Srđ je naš 2016).

In 2006, HDZ and its coalition partners lost the majority in the County Assembly and the Assembly was temporary dissolved. Until a new Assembly could be sworn in, the Government has delegated a Trustee, Želimir Bosnić, to ensure the functioning of the County Assembly. Installed by the HDZ, the trustee has overstepped his authority by adopting changes of the county Dubrovnik-Neretva spatial plan which increased the size of the project from 100 to 310 hectares (Srđ je naš 2016). These changes were adopted to comply with the already changed city of Dubrovnik spatial plan and GUP plan, but they were not voted nor approved by the County Assembly. For the first time, this spatial plan of the county also added 2800 beds in tourism apartments and villas in the recreational zone (Falkoni Račić 2015). What initially was conceived as a recreational area, suddenly became a real estate residential project.

The project had the support of the government, Ministry, county and the city of Dubrovnik. The lack of political veto points has allowed a streamlined process of plan adoption, but also the controversial change of the land use that favoured investors and damaged the public interests. From this point onward, several NGOs engaged to increase awareness about the illegalities of these changes. This was also made possible by the involvement of experts with political relevance such as architect Branka Martinović-Vuković. She was a member of the



Croatian People's Party (HNS)<sup>76</sup> and of the Dubrovnik-Neretva county level spatial planning team. When the changes were adopted by the trustee, she warned that the changes were not made properly as the graphic component still illustrated a golf recreational area of the 100 hectares and had not recorded the accommodation capacities (Interview 6). Additionally, the trustee had no legal authority to adopt the plan as this was the task of the County Assembly, according to the law. The Dubrovnik Society of Architects and the Croatian Architect's Society confirmed that the changes were not made in accordance with the law and supported the civic engagement (Bijelić 2013).

In 2006, a group of NGOs from the Dubrovnik-Neretva county, "Domovina", "Baština", Društvo prijatelja prirode Dub and Eko Omblići – requested a legal assessment of the 2006 changes in the Dubrovnik-Neretva county spatial plan from the Constitutional Court (Falkoni Račić 2015). These groups formed a core of the civic engagement under the name "Srđ je naš" which fought against spatial planning illegalities and the use of the area planned for the recreational zone for real estate purposes. After the changes were approved in the spatial plans of the county level, the Croatian investor sold the project to Israeli investor Aaron Frenkl. Frenkl's wife is Croatian and she was the Deputy Minister of the Economy in Ivica Račan's 2000-2003 left-centre coalition government (Srđ je naš 2016).

In December 2008, the Parliament approved the Law on Golf terrains, to ensure the easier implementation of similar real estate projects. The investor formed a company, Razvoj Golf, and obtained a concession for the Imperial fortress on the Srđ plateau in 2009. The fortress is an important monument and Homeland War memorial. The concession contract defined the obligations of the investor in terms of renovating the fortress and the Museum of the Homeland

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<sup>76</sup> Hrvatska Narodna Stranka is one of the important political parties in Croatia which on the national level supported two left oriented government, Ivica Račan's 2000-2003 and Zoran Milanovic's 2011-2015.

War. It also defined obligations of the city of Dubrovnik to develop communal infrastructure, such as the road from the nearby Bosanka settlement to the golf location (Brailo 2014).

In 2009, Dubravka Šuica, the Mayor of Dubrovnik, sold 47,041 square metres of land on the Srđ plateau for HRK 2,603,888 or approximately EUR 8 per square meter to Frenkl's company Razvoj Golf. The money was not transferred to the city of Dubrovnik, as the city already owed this money to the Razvoj Golf company for the concession deposit paid for the Imperial fortress. Therefore, the money was used only to cancel the existing debts. This acquisition of the land has completed the land parcel for the planned golf tourism project. It was speculated that the land was sold for a price lower than its market value. For example, private owners of the land on Srđ claimed that the price was between EUR 20 and 40 per square meter while the area was still mined. It was suggested that after mine reclamation process, the value of the land could only increase and not decrease (Benačić and Ćimić 2009).

After the 2009 local elections, there was a turnover in power on both county and city level. HDZ's Mayor of Dubrovnik, Dubravka Šuica, was replaced by Andro Vlahušić, a member of HNS, who promised to investigate what already became the Srđ golf affair. In his campaign, he promised to organize a referendum on the question of project's continuation (Srđ je naš 2016). HDZ's Nikola Dobrosavljević became the Head of the County, and HDZ also took control over the County Assembly. In 2009, Prime Minister Ivo Sanader under never clarified circumstances stepped down from his position and was replaced by his party colleague, Jadranka Kosor. In 2011, following parliamentary elections, the left coalition won the elections and took control of the Ministry in charge of spatial planning.

To proceed with the development, the project still required an UPU plan of the Srđ plateau and an Environmental Impact Assessment study which had to be confirmed on the county and/or on the ministerial level. As the law defined the obligation to conduct a public

consultation for the UPU plan, the discussion was organized in September 2010. Interest for the public consultation was such that an overflow crowd of citizens could not fit in the Town Hall. (Srđ je naš 2016). The UPU was not approved by the county as it was not in accordance with county plans, as a plan of a higher level. The Head of the county was Nikola Dobrosavljević of HDZ, and the county level spatial planning office refused the plan. The 2010 UPU suggested the development of a much greater number of villas, visible from the city of Dubrovnik both of which disagreed with the county spatial plan. The changes in the UPU plan were sent out for approval to higher level institutions, but in March and April of 2011 the county and the Ministry, both still controlled by the HDZ, refused the UPU as it was still not in accordance with the spatial documents of the higher level (Srđ je naš 2016).

As the UPU for Srđ was not harmonised with the plan of the higher level within the time framework prescribed by the Law on spatial planning, another round of changes to the existing plan was contrary to the law. The Ministry in charge of spatial planning issued the opinion that a new UPU plan was required for the golf project, and that the Environmental Impact Assessment (EIA) study can be conducted simultaneously with the development of the UPU (ibid). However, the city of Dubrovnik did not initiate the development of a new UPU, but instead continued adapting the already rejected UPU plan from 2009.

Mirela Holy, the newly appointed Minister of the Environment and Nature Protection from SDP party, refused to allow the development of the Environmental Impact Assessment as the UPU plan has not yet been approved. However, after she resigned, her successor, Mihael Zmajlović also from the SDP party, immediately allowed the development of EIA for Srđ (Kelava 2012). After the study was three times returned, as various aspects of developing two golf terrains in the arid and karst terrain were not taken into consideration, the committee for EIA formed by the Ministry of Environment and Nature Protection accepted the study. The

discussion about the EIA was held on 8th of January 2013, and the discussion on the renewed UPU on 23rd of January (Index 2013).

The NGOs that managed to organize since the first controversial changes of the spatial plan in 2006 were unsatisfied with how political elites treated the project and decided to initiate the referendum promised by Dubrovnik Mayor Andro Vlahušić in his electoral campaign. As Mayor Vlahušić in the meanwhile became an ardent supporter of the golf real estate project, his promise to organize a referendum was not delivered. The law enabled citizens to initiate a referendum on the county level by collecting a sufficient number of signatures. Civic initiative “Srđ je naš” and its volunteers started collecting signatures to initiate the question of real estate development within the recreational land use area for golf on the Srđ plateau (Srđ je naš 2016).

The civic initiative collected 10,890 signatures which were sufficient for the organization of the first citizen-initiated referendum in the history of Croatia. Simultaneously, both national and county level politicians campaigned in support of the golf real estate project and against the citizen-initiated referendum. The Minister of Economy, Branko Grčić (SDP), stated on the 25th March of 2013 that if the referendum stops the project, there will be significant financial retribution (Fiorović 2013). He said:

*The alternative to the project is that the investor sues the City of Dubrovnik or Republic of Croatia and will for sure, according to the international law, receive significant retribution. There are several hundreds of such disputes, of several billion Euros... If a spatial plan was adopted, if lower level spatial plans were also adopted in democratic procedure and if the investor arduously bought parcel by parcel of the land and spend EUR 40 million, and along the way, enriched some people, who has the right to stop him?*

The following day, Dubrovnik Mayor Andro Vlahušić requested that the Prime Minister Zoran Milanović provides clarifications about the legality of the civic referendum and regarding the type of financial retribution if the referendum vote turns against the project.

In March 2013, the Ministry of Environment and Nature Protection's committee for the EIA accepted the study. The committee assessed that the impact of the project will be acceptable for the environment. In April, the Ministry of Environment and Nature Protection approved the EIA study. On the 26th of April, Mayor Vlahušić stated on a radio show that on the day of the referendum citizens should stay home and not vote. The referendum was held on the 28th of April with following results: 31.51% of electoral body voted, 84 per cent were against the real estate project and 15% in favour of it (Srđ je naš 2016). As the turnout was lower than 50% plus one vote, the results of the referendum were not binding and the project could continue.

After ensuring that the now reduced number of villas would not be visible from the city, the UPU plan received confirmation from the Ministry of the spatial planning. However, it could not be adopted in Dubrovnik Assembly as the local elections held in May gave unclear results. Two months later, in July 2013, Mayor Andro Vlahušić of HNS suggested a large coalition HNS – HDZ – HSP AS<sup>77</sup> – SDP – HSS – DDS<sup>78</sup>, which included traditionally antagonistic parties from the extreme right to the left of the ideological spectrum. Four days later, on the 30th of July, the UPU plan was approved in the city of Dubrovnik Assembly by the large coalition under what was dubbed “Dubrovnik Agreement” (SEEbiz 2013a). Dubravka Marunčić, HDZ representative in the Dubrovnik Assembly and one of the members of the Assembly who voted for the UPU plan, stated several months later that the large “Dubrovnik Agreement” coalition was assembled solely with the purpose of approving the UPU plan for

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<sup>77</sup> The Croatian Party of Rights – Ante Starčević (Hrvatska stranka prava – Ante Starčević)

<sup>78</sup> Dubrovnik Democratic Assembly (Dubrovački demokratski sabor)

Srđ. If the plan was not approved before August of 2014, the UPU would have to be developed from the beginning as it would have surpassed the legally allowed time frame for adoption since the public consultation (Index.hr 2014).

A decision on the assessment of the legality of the county spatial plan requested by the NGOs in 2006, was announced eight years later. In 2014, the High Administrative Court ruled that the changes in the Dubrovnik county spatial plan from 2006, introduced by the Government's Trustee Želimir Bosnić, were illegal (Srđ je naš 2014). The Constitutional Court's final decision is still pending. It is unclear how an incriminating verdict of Constitutional Court might influence the project as the county of Dubrovnik in the meanwhile designed a new spatial plan based on which the investor could still continue the project.

The NGOs around the civic initiative "Srđ je naš" have also legally challenged the decision of the Ministry to accept the Environmental Impact Assessment study for the project and the decision of the city of Dubrovnik to continue adapting the UPU plan initiated in 2010. In 2016, the Administrative Court decided that Ministry's adoption of the EIA was not legal as the assessment had not included the effect of the apartments for sales on the environment (HRT Vijesti 2017). The location and construction permits were issued by the Ministry of spatial planning in October and December 2015 (Ministry of Construction and Spatial Planning 2015). However, the NGOs disputed also the location permit as it is based on the already annulled EIA study. The project was blocked and in February 2017 the High Administrative Court in Split annulled also the location permit (ibid).

The combination of decentralized spatial planning, the engagement of the NGOs and the judiciary, jointly led to examining of the project and control against resource misuse. Srđ is an example of collusion between the political and business elites in an otherwise well-functioning spatial planning system. It illustrates how difficult it is for the NGOs to prevent rent-grabbing,

even when they have the expertise and organisational capacities. It is problematic to fully prevent-grabbing as there are ways political elites can, through democratic procedures, ensure rent-grabbing. However, even in such circumstance, civil society has raised awareness about the potential illegalities and has managed to limit additional issues.

The analysis of the case of golf and real estate investments on the Srđ plateau shows the importance of decentralized spatial planning in combination with the judiciary. The strictness, length and number of procedures, paired up with the control of opposition parties ensured that the number of real estate units within the area and the visibility of the project from the city were reduced. NGOs' insistence on the correct EIA ensured that the project was aligned with standards of the environmental protection. The engagement of the NGOs, expert groups and media provided continuous attention over decision-making for this and other projects with similar characteristics. The NGOs also used the judicial channel to seek and challenge the legality of the assessment for the county plan and EIA study, blocking the development of the project through judicial means.

As a result of the interaction of decentralized spatial planning, NGO engagement and court assessments of illegalities, the project was adapted to the regulations and blocked. This would not have been possible without interaction of various veto mechanisms.

The projects analysed thus far relied on decentralized spatial planning as a BVP in interaction with PVPs. In the following sub-section, I turn to the projects in which stringency of environmental regulations in combinations with various PVPs had a role in preventing rent-grabbing and resource misuse. Brijuni Rivijera project, the only case in which there was a tentative interaction (Category 4) between vertical cohabitation and stringency of environmental regulations, was described and analysed in Chapter 7. After a turnover in power

and national-county vertical cohabitation, the project was blocked because of the Government's concerns over linear urbanization and real estate development. However, another reason why it was not supported by the government was the unclear financial construction and benefits the project would have for the public interest. Besides this case, there were no other cases in which vertical cohabitation or turnover helped in preventing rent-grabbing and resource misuse by relying solely on the strict regulations. I now turn to the category where the Stringency of Legislation interacts with the Judiciary.

### ***8.3 Judiciary and Stringency of Environmental Regulation***

The interaction of the judiciary and stringent environmental regulation was exemplified in the Brkač golf project in Croatia. The project was briefly illustrated in Chapter 7 to illustrate the role of the NGOs as catalysts and judiciary as political veto point. However, as the court relied on the environmental regulations, the case is an example of interaction between the judiciary, NGOs and environmental stringency.

Since 2003, the county and municipal spatial documents planned the development of a golf complex in Brkač on 240 ha with 498 beds in 67 villas and apartments and other facilities. However, the project is planned in the area of Motovun forest and the valley of the Mirna river, both of which are protected ecological landscapes. There are less than 1000 registered inhabitants in the municipality of Motovun. Therefore, NGO Green Istria has suggested that the golf terrains would develop almost as many beds as there are currently people living in Motovun (Rimanić 2014).

Local NGOs and representatives of the institutions in charge of assuring sustainable resource use opposed the project. Velimir Šimičić, the Head of the EIA committee and representative of the Tourism Ministry, Nataša Nefat from the Department of Conservation in Pula, Radenko Deželić from the Directorate for Nature Protection of the Ministry of Culture



and Boris Černeha from Buzet office of Croatian Forests, claimed that the project was environmentally unacceptable. During the public discussion in Motovun, the representatives of these institutions suggested a reduction of accommodation capacities and warned the local population about the negative environmental consequences such as pesticides, pollution and forest cutting (Jerin 2008).

Issues were brought to the forefront after Interplan's EIA study was rejected by the Ministry and a new tender for EIA was controversially given to IGH company.<sup>79</sup> The NGOs claimed that IGH's EIA ignored data incompatible with the project study, but the Ministry in charge of environment protection has accepted the second study in March 2009. Besides ignoring data which implied that the golf course could have a damaging impact on the environment, the Ministry also contentiously replaced the chairman of the EIA assessment committee who publicly expressed doubts about the validity of IGH's EIA study (Leljak Gracin and Čerimagić 2012).

NGOs Green Istria and Green Action requested the assessment of legality for the Ministry's acceptance of the EIA, and in July 2011 the High Administrative Court decided the Ministry should not have accepted the study. Subsequently, without conducting a new EIA procedure or at least the parts which the Court assessed as problematic, in October 2011 the Ministry decided to again approve the same study suggesting that the golf in Brkač had an acceptable impact on the environment. In December 2011, NGOs sued the Ministry again for this decision (Leljak Gracin and Čerimagić 2012).

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<sup>79</sup> NGOs and media speculated that choice of IGH as a planning company which would draft an EIA was not accidental as the Minister in charge of spatial planning, Marina Matulović-Dropulić had shares in IGH and the company won numerous public contracts during her mandate (Koalicija udruga za zaštitu okoliša 2010).

In April 2014, the High Court again ruled that the Ministry should not have accepted the study as it has not sufficiently considered the opinion of experts, nor provided relevant evidence that their opinions should have been disregarded. Moreover, one of the members of the committee which approved the EIA study was not even on the list of EIA assessors assembled by the Ministry, which helped the court state that the decision of the Ministry was not valid (Rimanić 2014). Until June 2016 there was no new information that a new EIA was commissioned for the golf in Brkač.

The case illustrates how NGOs could turn to the judiciary for an assessment of legality, based on the strict existing regulations that the Ministry in charge of environment protection attempted to ignore. I now turn to the sixth category, including cases whereby civil society engagement based on the stringency of legislation, but without interaction with the judiciary, managed to prevent resource misuse and rent-grabbing.

#### ***8.4 Multiple Political and Bureaucratic Veto Points***

Unlike the previous categories that included only cases from Croatia, this category includes two cases from Montenegro, Solana Bajo Sekulić and Mamula. The case of Mamula was already analysed in Chapter 7. I described how vertical cohabitation has not succeeded in preventing rent-grabbing despite the engagement of the civil society. In this section, I focus on the Solana case, which is exceptionally complex as it includes a joint effect of the civil society, political opposition, and environmental stringency.

The Solana Bajo Sekulić is a traditional salt production facility located in the Ulcinj municipality. It was sold through voucher privatization and on the stock market. In 2002, 37% of the shares of Solana Bajo Sekulić were purchased by Eurofond, Trend and Moneta for EUR 800,000. In 2003, the number of employees was reduced from 600 to 150 and then in 2005, to 50. In 2006, Eurofond bought 35% of the shares from Moneta for EUR 1.74 million, and now

owns 70% of the shares (MANS 2014b). The location of the Solana project is represented in Figure 8-3.

Figure 8-3 Location of the Solana project



Source: Author, based on Geoportal.me

The area under salt pans is acknowledged by several environment conventions as an important habitat for migratory birds. The land is listed as an international Important Bird Area (IBA) and is recognized as an EMERALD area.<sup>80</sup> Although salt production formally still continued, changes in the 2008 spatial plan of Montenegro suggested that it should be converted from salt production industrial into tourism use land (Ministry of Economic Development 2008, 143–44). As the change in the spatial plan was announced, the investor attempted to sell the property for EUR 260 million. The company considered it has also acquired land through privatization and not just the legal rights to use it and the land was also mortgaged for EUR 5 million with First Bank and CKB bank. However, in the cadastre, it was noted that the company only has the so-called right of use of land, and does not own 15,000,000 square metres it had

<sup>80</sup> The Emerald Network is an ecological network that defines protection of the so-called Areas of Special Conservation Interest. It was initiated by the Council of Europe in fulfilment of the Bern Convention,

attempted to sell (MANS 2014b). The difference between the right of use and ownership right is described in Annex 6-2 Legal Glossary in Chapter 6.

To prevent resource misuse in a valuable and environmentally protected area, in 2011, NGO MANS suggested changes to the spatial plan of Montenegro to prevent the transformation of the saltpans into tourism resort (MANS 2011a). The suggestion was supported by opposition members from PZP,<sup>81</sup> but also by Albanian and Bosniak minority parties which were part of the governing coalition. The suggestion was not approved in the Parliament as DPS members of the Parliamentary committee for tourism, agriculture and spatial planning overruled it. However, NGO MANS made the affair public and after the pressure from the foreign diplomats, European Union representatives and NGOs, in April 2012 the government decided that the land of saltpans cannot be treated as construction land. Nevertheless, the government has not initiated the changes in the spatial plan accordingly, but has suggested that the Ulcinj municipality treats the area as nature protected zone in its spatial plan. This decision is legally problematic as there is a legislative prerogative of the higher-level plan in defining lower-level plans.

During the parliamentary meeting of May 2012, the suggested changes to the spatial plan of Montenegro were adopted by the majority of the MPs but not through a legal procedure in accordance with spatial planning regulations. The changes have not been initiated by the government, there was no announcement about them published in official newspapers, nor was a public discussion held (Montenegrin Government 2008). Regardless, with a majority of the votes in favour, the saltpans were returned to the list of the monuments of nature and deleted

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<sup>81</sup> Movement for Changes (Pokret za Promjene)

from the list of the industrial areas that can be used for tourism development (Parliament of Montenegro 2012; “Odluka O Izmjeni I Dopuni Prostornog Plana Crne Gore” 2012).

Legal representatives of the Eurofond company filed a complaint with the Constitutional Court that the changes were unconstitutional. The Constitutional Court assessed in November 2015 that the changes to the spatial plan of Montenegro were not made in accordance with the spatial planning legislation, and are therefore not valid (Constitutional Court of Montenegro 2015). Eurofond has requested from the Commercial Court that the right to the use of land be recognized as an ownership right over the entire 14,900,000 square metres of saltpans or to obtain a compensation of EUR 200,000,000 from the state. The procedure was temporarily halted as the Court awaits the Privatization Council’s clarification whether a market value for the land was paid during the privatization process.

Opposition representatives, particularly from Ulcinj municipality such as Dritan Abrazović, were engaged on this issue along with representatives of the international community. The German ambassador in Montenegro Gudrun Elisabeth Steinacker has stated to media that if saltpans were endangered, Montenegro would not be allowed to open the chapter 27 of EU accession negotiations which concerns the protection of the environment. Her concern came from statements of Eurofond’s representative announcing construction on the territory of saltpans, while the Ministry simultaneously promised that the area would be protected (Montenegrin Parliament 2013).

In the draft of the Spatial Plan of the Specific Purpose for the Coastal Zone, in public discussion in February 2016, the area was defined as private property. As the land of the saltpans still formally belongs to the state, NGOs reacted through media campaigns raising awareness among the population on this issue (MANS 2016a). The Ministry in charge of spatial

planning, tourism and environment stated that spatial plans do not define ownership rights and suggested that the remark was a mistake from the side of the developer. It also indicated its utmost and fullest dedication to the protection of the salt pans (Čenić 2016).

This case is particularly important as it shows how the misuse of natural resources and rent-grabbing was temporarily blocked as representatives of the MPs from Ulcinj voted for the changes in the spatial plan of Montenegro initiated by the NGO MANS. It also showed the importance of the EU as an external factor. Moreover, as several MPs noted, it indicates collusion of the judges with the ruling party and investors. There were numerous cases in which the government has violated the laws, but as the MPs argued, the verdicts of the constitutional court were either delayed or the court assessed the issue not to be within its authority to avoid action when it was against the interests of the DPS circle.<sup>82</sup> In the case of Solana, the Court promptly reacted that the procedure for returning Solana to the list of the protected areas was not in accordance with the law. Finally, the case shows that interaction of NGOs, political opposition, foreign pressure and the existence of environmental protection jointly prevented rent-grabbing and resource use.

### **8.5 Summary**

In this chapter, I discussed the joint effects of Bureaucratic and Political Veto Points on rent-grabbing and resource use in the tourism sectors of Croatia and Montenegro. The analysis showed that the joint effect of BVPs and PVPs was more common in Croatia than in Montenegro. I outlined six categories of joint effects and analysed cases representative of each.

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<sup>82</sup> A relevant case from spatial planning which shows how formal institutions are placed in the service of the ruling DPS is the development of the State location studies for the areas within the maritime coastal belt. The government has initiated the development of the studies although the Parliament has not accepted a five –year programme of planning and use of space which was proscribed in the law as legally necessary step for initiation of the state location studies. The SNP party parliamentary club submitted to the Constitutional Court in February 2008 a request for the assessment of the constitutionality and legality of the fifteen decisions the Government has brought to initiate the State study locations. The decision of the Constitutional Court was made after public calls for the assessment in June 2011, stating that the issue is not within the authority of the court and there are no procession assumptions for the required assessment (Parliament of Montenegro 2012, 143).

As Montenegro has a two-tier centralized spatial planning system, the projects discussed were mostly from the Croatian part of the Tourism Projects Dataset. In Croatia, spatial planning is organized on three levels and it allows vertical cohabitation and more occurrences of turnover in power between the county and the municipal level of government. Moreover, decentralized spatial planning has more chances of influencing tourism projects in interaction with PVPs in Croatia, then in Montenegro where the planning was centralized.

The cases clearly showed that the interaction of political cohabitation or turnover on the sub-national level and decentralized spatial planning provided an operational set of veto mechanisms against rent-grabbing and resource use. This was illustrated in the cases of Sućuraj, Pineta, and Saplnara. Vertical cohabitation partly in interaction with the stringency of environmental regulations ensured blocking of the project Brijuni Rivijera. The role of the judiciary and the civil society in interaction with the decentralized spatial planning and environmental stringency was analysed in the cases of Brkač, where the joint effect ensured resource protection in an environmentally protected area.

I also discussed cases in which multiple political and bureaucratic veto points were involved. Such two cases are Srđ in Croatia and Solana in Montenegro. In the Srđ project, the NGOs, expert groups and civic initiatives closely monitored the golf project above Dubrovnik and were crucial in reducing the planned effects of the project on the environment. Moreover, civil society also requested legality assessment and thus catalysed the engagement of the judiciary and blocked the project. The case also showed how difficult it is for the civil society, even with the engagement of the independent judiciary, to win a battle against colluding political and business elites.

In the case of Solana, Montenegrin NGOs, opposition MPs and foreign diplomats opposed rent-grabbing at the expense of a protected environmental area. The case is parallel to Srđ as it also involved multiple veto points. However, it is also an opposite as it showed that even in the partitocratic system, NGOs can win against vested interests. Finally, the chapter closes a circle in explaining why some countries have more success than others in preventing rent-grabbing, ensuring sustainable resource use and avoiding the paradox of plenty. In the following chapter, I provide a summary of the argument, the findings, explain the limitations of the work and suggest venues for the future research.



# 9

## CONCLUSION

### Constraining the Grabbing Hand and Ensuring Resource Sustainability

This dissertation has posed the question of why some countries manage to prevent rent-grabbing and resource mismanagement in the process of tourism development, while others fail to do so, allowing resource revenues to benefit colluding elites and depleting crucial natural and cultural resources. To shed light on this issue, I developed a theoretical framework focused on bureaucratic and political veto points (BVP and PVP) which I then tested quantitatively on a large-N sample of 127 economies, as well as qualitatively through a two most-similar case study comparison of two countries, Croatia and Montenegro. Both countries are tourism-dependent and rely on an abundance of natural resources to attract tourists. They share a socialist heritage, the effects of the Yugoslav wars and autocratic transition to market economy. However, Croatia is more successful in preventing tourism resource rent-grabbing and has managed to better protect its resources, while rent-grabbing and resource misuse are prevalent practices in Montenegro.

This mixed method approach corroborated that bureaucratic and political veto points explain variation in the rent-grabbing and resource management in the tourism sector. I built on the existing literature recognizing that tourism revenues can represent a type of natural resource rent, which – depending on the type of political institutions – can incentivize politicians, businessmen and bureaucrats to turn to grabbing, rather than to productive activities. Where mechanisms of governance are grabber-friendly, rent-grabbing, in turn, leads to non-sustainable resource management. Rent-grabbing refers to attempts to illegally ensure control over resource rents – in this context returns in excess of all costs of for example land urbanization, within a grabbing equilibrium. This dissertation suggests that to understand why some countries manage to prevent rent-grabbing and tourism resource use, it is useful to look at the partial exogeneity of bureaucratic capacity. To this end, I map out a theory of coevolution of political, bureaucratic institutions and economic development, instead of assuming the primordality of one type.

The framework I propose has two components, bureaucratic and political. More specifically, I argued that multi-level decentralized spatial planning that provides administrative controls of political decisions on sub-national and national levels of government, reduces the window of opportunity for rent-grabbing and thus helps prevent resource mismanagement. In addition to the bureaucratic vetoing exerted through the decentralized spatial planning, dynamic effects of political competition also ensure political vetoing. I introduced a new type of political competition, which I call vertical cohabitation. Vertical cohabitation refers to situations in which different political actors, including parties and coalitions, hold power at different levels of governance (national and sub-national, such as regional and local). Along with vertical cohabitation, turnover in power – a change of political party or coalition governing on national and sub-national level – is another type of political veto mechanism. Both vertical cohabitation and turnover in power enable monitoring of tourism projects agreed upon by different political

parties, whereby preventing instances of rent-grabbing and mismanagement to be capitalized upon following elections.

Other important veto points can also have an impact. In addition to these ex-ante veto mechanisms, the judiciary acts as both an ex-ante and ex-post veto point in preventing and sanctioning illegal rent-grabbing, thus protecting against resource mismanagement. Media and civil society act as catalysts, informing the public on rent-grabbing and resource mismanagement issues; but to veto a project, both actors rely on the impartiality of the judiciary. The stringency of legislative is a result of the interaction of the system of bureaucratic and political veto points. I suggested that the legislation is shaped and implemented by the bureaucrats, however it is adopted by the legislative bodies and therefore lies between bureaucratic and political mechanisms. As opposed to weak legislation, strict legislation defines how much and in which ways natural and cultural resources can be used, as well as procedures ensuring sustainable resource use.

## **9.1 Findings**

### 9.1.1 Coevolution between politics, bureaucracy and economic development

The historical chapters (Chapters 4 and 5) explained the relationship between bureaucratic and political institutions and development in Croatia and Montenegro. A combination of socialist state monopoly over land and investments in the tourism sector and Yugoslav expertise in spatial planning resulted in a paradoxical regime of sustainable resource use. While in general communist countries cared little about the environment, in Yugoslavia much attention was paid to the urbanization of less valuable landscapes and protection of the pristine areas. However, while during this period Croatia developed in-house capacities and expertise for resource protection, the Montenegrin coastal belt was protected through federal planning alone.

Bureaucratic and political institutions further coevolved after the fall of Yugoslavia. During the transition to market economy and democracy, Croatia and Montenegro found themselves on opposite sides of the Yugoslav wars. On the one hand, Croatia fought for independence and – for the purpose of state-building – reorganized territorially to distance itself from the Yugoslav heritage. On the other hand, the Montenegrin leadership sided with Serbia and advocated Yugoslav continuity. Pre-existing differences in the in-house capacities and expertise in spatial planning, combined with newly introduced changes in territorial organization, led to diverging systems of spatial planning. Croatia introduced a three-level spatial planning system which included national, county and municipal levels of plan-making, while Montenegro opted for a two-level system which included national and municipal levels only.

Political changes at the end of the decade led to further differentiation between the two countries with regard to the organization of spatial planning and the stringency of the environmental and tourism related laws. The autocratic state was dismantled in Croatia after the death of its first President and war leader Franjo Tuđman in 1999. In the aftermath of his autocratic rule, two party blocks started to compete in a democratic system. Opposition parties took over power from HDZ, which had dominated until that point, and decreased the authority vested in the function of the president, also initiating a fight against corruption and cronyism. In Montenegro, in-party conflicts within DPS in 1997 and 1998 resulted in the marginalisation of Momir Bulatović and the development of two within-DPS centres of power, one around Milo Đukanović, and the other around Svetozar Marović. However, the domination of DPS as a hegemonic party was not challenged in the same way as in Croatia.

In 2000, the strengthening of the DPS in Montenegro and the development of bipartisan democracy in Croatia coincided with the end of the Yugoslav wars and the beginning of the

tourism boom. Historical analysis revealed that the partitocratic regime, in combination with the lack of spatial planning capacities and expertise, has led to further centralization and weakening of the regulatory system in Montenegro. The authority over resource management was removed from municipalities and centralized by the government, while pre-existing legislation provided no restrictions regarding construction on the coastal belt. In contrast, partisan competition and a strong legacy in spatial planning – expertise and capacity – jointly steered towards stricter legislation in spatial planning in Croatia. The inherited capacity and autonomy of bureaucracy thus ensured the proper implementation of strict environmental laws that jointly prevented rent-grabbing and resource mismanagement.

At the end of the 2000s, the economic crisis introduced a quasi-experimental variable in both economies, testing how diverging regimes can handle resource busts. In a democratic context with a strong spatial planning “pocket of efficiency,” the crisis pressured politicians to facilitate new investments by stripping away veto points which served as protection against rent-grabbing and resource mismanagement. However, in Croatia, the expertise and capacity of the bureaucracy to recognize and curb rent-grabbing projects with negative effects on resource use has not been influenced by the crisis. Although implications of the legislative changes cannot yet be observed and therefore are not analysed, it seems that the spatial planning capacity and expertise of the bureaucracy continued to provide protection against rent-grabbing and resource mismanagement.

In Montenegro, the crisis period coincided with a new in-party conflict that resulted in the prosecution and marginalization of the power-group surrounding of Svetozar Marović. Absolute rent monopolization in the hands of the narrow circle around DPS’ Government and the fast pace of resource extraction incentivised further centralization of the resource management process. As a result, the new Montenegrin plan for coastal development selectively

revoked permits for the urbanization of the areas controlled by Budva DPS. Despite the alleged dedication to resource protection, the plan threatens important ecologically protected areas and promotes the vested interest of a minority above public interest, by urbanizing untouched areas of the coast.

The in-depth qualitative cases confirmed the hypotheses in complex contexts and provided a deeper understanding of the theoretical mechanisms. The analysis also mapped out how resource booms and busts influence institutional changes, and thus directly contributes to the debates on the primordial role of the political and bureaucratic institutions and levels of development.

#### 9.1.2 Quantitative analysis

The quantitative analysis in Chapter 3 tested the main hypotheses about the dominant role of the bureaucratic veto points in preventing rent-grabbing, through an analysis of panel and cross-sectional data. The findings support the assumed importance of an independent judiciary and, a somewhat weaker, role of political competition for reducing rent-grabbing. In addition, a two-stage least squares model with instrumental variables was conducted and revealed that BVPs and PVPs affect the sustainability of resource management through rent-grabbing. This is one of the major findings of the quantitative chapter and speaks most directly to my theoretical framework. To reduce the number of correlated individual variables I used a principal component analysis. Using BVP and PVP principal components in a panel data framework confirmed the relative dominance of the bureaucratic veto points over the political ones, with all robustness tests supporting the claim that bureaucracy has been unjustly neglected in the literature.

Using graphical modelling, I have probed associations and lack of associations between the individual bureaucratic and political veto point variables. Such an analysis of the data

revealed how the variables are associated with each other within the pre-defined BVP and PVP models. Based on these analyses I formulated a parsimonious model which clearly shows that BVPs and PVPs influence resource management by (not) creating windows of opportunity for rent-grabbing. The results also speak to larger debates in political economy on the relationship between political and bureaucratic institutions and development. The level of development clearly plays an important role in defining how BVPs and PVPs associate with rent-grabbing and resource management. However, previous literature overlooks the relevance of partial bureaucratic exogeneity, which my analysis showed to exist both in high- and lower-income economies.

The quantitative analysis provided strong support for the outlined bureaucratic and political veto points framework, allowing for the generalization of the argument across cases. The graphical modelling findings also gave some insights into the relationship between individual variables.

#### 9.1.3 Country-level analysis of BVPs, PVPs and their synergies

In addition to mapping out the coevolutionary development of partial bureaucratic exogeneity, the thesis relies on original data – namely, the Tourism Projects Dataset – to systematically analyse how BVPs and PVPs influence individual projects. Chapter 6 describes the dataset in order to show that on the aggregate level, major differences in the BVPs and PVPs have led to a significant divergence in rent-grabbing and resource use in the two countries. On a micro-level, I selected and described the cases that were most likely and least likely to demonstrate the effect of BVPs, PVPs and their joint effect. Tourism projects were coded as dummy variables based on a number of elements, including the presence and effect of the BVPs, PVPs, property rights, land urbanization and illegalities. In the BVPs empirical chapter (Chapter 6), I analysed how spatial planning organization and the stringency of legislation affect

rent-grabbing and resource management on the national level and how the mechanisms operate in specific tourism projects.

Through analysed Croatian tourism projects in Chapter 6, I showed how the system of BVPs explicitly prevents problematic projects. I illustrated how multilevel planning in Croatia activates the system of bureaucratic controls and prevents rent-grabbing, ensuring sustainable resource management as well. However, I also outline how the system of BVPs provides sufficient project flexibility if environmental impact assessments justify changes in the plans. The analysis further suggested that protective regulations should be clearly set apart from the complex procedures of land and property restitution, which aggravate and hinder the implementation of the otherwise well-conceived projects. Montenegrin tourism projects in Chapter 6 revealed that the construction boom happened due to the lack of limitations and controls against construction in the narrow coastal belt. However, the conservation standards assisted in the protection of valuable cultural heritage, even if only in the case when the investors did not belong to one of the centres of power.

In the empirical PVP chapter (Chapter 7), I analysed how political competition, as well as the judiciary and its catalysts – media and civil society – create a window of opportunity for rent-grabbing and resource management on the national level, and how these mechanisms operate in specific tourism projects. On the national level, a lack of political competition and politically controlled judiciary in Montenegro enabled rent-grabbing and resource mismanagement, while in Croatia bipartisan democracy and a politically independent judiciary assisted in preventing such outcomes.

In-depth project analysis suggested that vertical cohabitation and turnover in power in Croatia played a significant role in preventing rent-grabbing and resource mismanagement. In Montenegro, due to the centralization of the system, vertical cohabitation could not play a role.



From the perspective of the role of the judiciary, the analysis of the specific projects revealed that in Montenegro, the judiciary was used as means of facilitating in-party conflicts, while in Croatia, despite increased independence, prosecution encountered difficulties when investigating possible criminal elements in speculative land use. Research on the role of the NGOs and the media provided strong support for the catalyst hypothesis. Moreover, it suggests that NGOs can win battles even in partitocratic regimes such as in Montenegro. The analysis also suggests that, despite lower press freedom score, the media is more influential in fighting against corruption in Montenegro than in Croatia.

Chapter 8 explores the synergy of BVPs and PVPs. The existence of multi-level spatial planning and strict legislation in interaction with the political veto points have a clear interaction effect on rent-grabbing and resource management. The interaction effect was mostly noted in Croatian cases, but the analysis suggested that interaction of the BVPs and PVPs can also ensure resource protection against vested interest also in partitocratic Montenegro.

## ***9.2 Theoretical Implications***

This dissertation built on four strands of literature: natural resource curse, tourism, corruption and veto points. Developing a bureaucratic and political veto points framework provided a contribution to each of these four fields of scholarship. I have argued that tourism resources, especially if institutional protective mechanisms are lacking, can incentive rent-grabbing in a similar way as already noted by the resource curse scholars focusing on oil, minerals, alluvial stones or timber. Beyond applying the framework to a new sector and focusing on a so far under-researched tourism resource, I have expanded existing scholarship on non-sustainable resource management. The resource curse scholarship has so far largely focused on autocratic institutions, inequality, negative growth, falling rates of educational attainment and civil wars as the outcomes of rent-seeking and patronage in resource abundant

contexts. However, the negative effects of the resource abundance and corruption on the environment have been neglected in the literature. The dissertation provided a theoretical framework for understanding and analysing how resource abundance can induce rent-grabbing and result in a lack of environmental sustainability. Moreover, it suggested how such vicious circle can be broken if a set of protective bureaucratic and political veto points are in place.

For the tourism literature, the dissertation has expanded the scope of the research on resource management stakeholders. Beyond identifying the important stakeholders, I have studied the role each of the stakeholders has in preventing rent-grabbing and ensuring sustainable resource management. Contributing to a theoretical framework that mainly focused on the role of the local communities, I specify the role of regulations and bureaucracies, as well as of the political competition and judiciary. In this research, I have also investigated the importance of the local communities for ensuring sustainable tourism development and identified the exact channel which allows civil society to veto tourism development projects through the judiciary. The findings confirmed that in the most cases, resource mismanagement occurs as a consequence of rent-grabbing. This is a contribution to the existing scholarship, which has so far ignored corruption in theoretical considerations of sustainable resource governance.

For the corruption and rent-seeking scholarship, the dissertation provided new insights into rent-grabbing in the tourism sector and its links to developmental outcomes. I argued that decentralized bureaucratic oversight over political decisions and strict environmental legislation have a key role in controlling rent-grabbing. By doing so, the thesis contributed to the existing corruption literature, which has largely advocated deregulation to disincentivize businesses from bribing or going “underground”. However, researching tourism sector in this dissertation enabled a better understanding of the kind of bureaucracies and regulations needed

to prevent corruption. I have argued that to prevent corruption and achieve sustainable resource management, a system of strict legislation and decentralized spatial planning must be in place. The dissertation thus argued that there is an important difference between protective regulation and red tape, as well as between vertical and horizontal veto points.

Furthermore, I have adapted the veto points framework to the rent-grabbing and resource management scholarship. The initial literature suggests that veto points have the ability to reject proposals for policy change. In the theoretical framework, I have argued that political and bureaucratic veto points can also curb rent-grabbing. The thesis has also developed a new type of veto mechanisms related to political competition for which I have coined the term of “vertical cohabitation.” I have proposed that vertical cohabitation – control over different levels of government by various political actors – can help in preventing rent-grabbing and resource mismanagement. I now turn to the methodological contributions of the dissertation.

### ***9.3 Methodological Contributions***

In addition to the theoretical contributions mentioned above, the dissertation also offers a methodological contribution with policy implications. Corruption research largely relies on either aggregate indicators of corruption, or on circumstantial accounts of corruption occurrence. I attempt to systematically capture rent-grabbing by cataloguing the whole universe of tourism projects and by coding land urbanizations according to official documents as corrupt and potentially corrupt affairs. Such approach is a contribution to the methods of researching sensitive topics as it provides not only in-depth insight in the specific cases, but also aggregate statistics on the prevalence of rent-grabbing in the use of tourism resources. Cataloguing tourism projects according to the pervasiveness of the rent-grabbing and its influence on resource management also has policy implications. The dataset offers an overview of a variation

of cases, which policy makers can understand as lessons for the future management of the resources.

Finally, in the thesis, I have graphically modelled the cross-sectional data to better understand the associations and lack thereof between veto points, rent-grabbing and resource management. The method has so far been commonly applied in pharmaceutical and epidemiology research and has only recently been introduced to political science to explore causal interpretations of multiple variables of interest. This dissertation therefore makes a methodological contribution by applying both directed acyclical and undirected graphs to the broader field of resource governance and corruption.

Apart from the theoretical and methodological contributions which the research offered for the natural resource curse, tourism, corruption and the veto points scholarship, the argument has direct implications for policymakers interested in preventing rent-grabbing and resource mismanagement. I now turn to the policy implications for international organizations, national governments and local communities.

#### ***9.4 Policy Implications***

The thesis argued that stringent legislation and multiple, vertically placed, veto points curb rent-grabbing and help in ensuring resource management. This conclusion counters the argument put forward in the mainstream corruption and investment literature that burdensome regulation always incentivises businesses to bribe, rent-seek and cheat on taxes. There are two strands of developmental literature that deal with bureaucracy and regulation in a very different way. The first type of developmental literature recognized in the aftermath of the Washington consensus that markets cannot be left alone, while the second focused on choosing domestic winners and suggested that embedded autonomy of bureaucracy is crucial for jump-starting development.

However, despite recognition that capable bureaucracy is much needed, international organizations still bid countries against each other to attract investors by cutting down the regulatory burden. The dissertation therefore contributes to a better and more nuanced understanding of the role of regulation and bureaucracy in curbing corruption and supporting sustainable resource management. I suggest that procedures introduced to control rent-grabbing and ensure sustainable resource management should not be cut as this can have adverse effects on developmental potential.

In this vein, the thesis echoes Karl Polanyi's term of "fictitious commodities" which underscores the moral indecency of treating people, land, and money as strictly marketable products. Polanyi was concerned with the negative externalities of unregulated markets, suggesting defiled landscapes, pollution, destruction of food and raw materials as outcomes. Therefore, the main argument of the thesis, namely that lack of regulation and market failure can have devastating negative outcomes on resources can be particularly useful for the work of the international organizations and for their engagement in promoting good governance in developing economies.

Additionally, international organizations often advocate tourism development as a strategy for ensuring growth and job opportunities. However, critics warn that tourism development fails to assist much to poverty reduction in developing countries and has significant leakage rates whereby the rich capture most of the profits. In the dissertation, I focus on rent-grabbing, another negative externality of unchecked tourism industry. I have argued that an abundance of natural and cultural resources incentivises rent-grabbing, especially when protective institutions are absent. Developing countries which lack bureaucratic and political systems of monitoring and control that can curb rent-grabbing face issues in ensuring sustainable resource management. As the most important policy contribution, the research has

suggested that resource mismanagement commonly occurs as a consequence of rent-grabbing. Based on the findings and conclusions, it would be prudent to ensure that systems of bureaucratic and political veto mechanisms are in place before donor money is earmarked for tourism development projects.

Furthermore, studying tourism offers a new insight into institution-building processes and a better understanding of how institutions define developmental outcomes. Tourism is an under-researched policy area from the perspective of the scholarship focusing on the institutional determinants of growth and development. Therefore, this dissertation provides information about a yet unexplored sector, widening our knowledge on the role of the bureaucratic and political institutions. However, unlike other economic sectors in which success is measured by the economic growth, the measure of success in this dissertation is the protection of the valuable resources. As most of the developed countries boast good quality of both political and bureaucratic institutions, researching the institutional determinants of resource preservation in the tourism sector helps in evading the collinearity that affects many other studies. The analysis of the relationship between political and bureaucratic institutions and development in tourism sectors thus allowed discerning how exactly political and bureaucratic institutions influence each other and shape developmental outcomes. In addition, mapping the coevolution of political and bureaucratic institutions and economic development provided valuable lessons for policy makers on how economic development and institutions change. Moreover, I also underline in the analysis that existing political and bureaucratic legacies cannot be simply overwritten and should be considered during policy making.

Beyond implications for the tourism sector, the dissertation also has policy implications for the so-called natural resource curse. Tourism resources are most similar to resources researched within the resource curse framework. For example, if institutions preventing rent-

grabbing are missing, resource revenues incentivise timber cutting at the high rates. The dissertation argued that the interaction between bureaucratic and political controls can prevent rent-grabbing tourism resources. The policy implications for tourism sector can be easily transferred to other resource sectors. Specifically, I argue that additional regulations and vertical mechanisms of control could be of key importance for ensuring environmentally sustainable outcomes of resource management in other sectors. In the next section, I turn to the limitations of the dissertation and possible ways of remedying them.

### ***9.5 Limitations and Future Research Venues***

Certain limitations of the work presented in the dissertation were outlined and partly addressed in the individual chapters, such as data issues elaborated in the quantitative analysis. The thesis relies on a quantitative analysis for the generalization of the argument and external validity. However, as was already noted in the quantitative chapter, I have relied on a number of indicators ill-suited for the type of the panel data analysis I would have ideally liked to employ. The literature lacks consensus on how to measure governance, corruption and capacity consistently across time and units of analysis. In addition, there is a general lack of data suitable for a time series analysis of corruption and governance. Moreover, the existing research on corruption, governance and capacity, as well as this work, relies on cross-national surveys and perception based aggregate indicators, which is problematic because of the possibility of confounding effects and bias. In addition to such issues in measuring governance, there is a serious lack of tourism-specific governance indicators, resulting in the use of the best available alternatives. Whilst acknowledging potential limitations, and issues with the data, I have adopted a pragmatic approach and have used panel data analysis to test whether the bureaucratic and political framework can be generalized across a large number of cases.

Furthermore, I have suggested that resource mismanagement occurs as a result of rent-grabbing in tourism abundant contexts, where protective bureaucratic and political veto points are not present. I have shown that this is the most prevalent channel that was statistically tested and applied on a large number of cases, but also that it has a relatively strong internal validity tested through an in-depth comparative case study analysis. However, limitations of the specific causal mechanism outlined and tested in the dissertation include situations when Olson's stationary bandit monopolizes resource rents and commands strict environmental laws to ensure long-term resource preservation co-existing with rent-grabbing. However, as the stationary bandit would theoretically employ a centralized rent distribution system that ensures the loyalty of her cronies, rent-seeking would have the perverse effect of de facto resource preservation. One such case described in the literature is Maldives, where despite the fact that concessions over islands were divided among long-term connections of the President, the strict legislation ensured resource preservation.

The dissertation dealt with grand corruption and focused on explaining how rent-grabbing causes non-sustainable resource management. Therefore, the Tourism Projects Dataset includes only tourism projects deemed large and important for development. I have included all the projects that promised to create numerous jobs, as well as to provide significant sources of income for the community and the country. Smaller tourism projects, such as private home renting or family hotels and hostels, have not been included in the Tourism Project Dataset. As a result, the thesis has limited insight into petty corruption and bribery which can occur on the municipal level in the process of developing a small-scale tourism project. This represents a possible venue for the future research. An extension of this project would revisit the main hypotheses by focusing on the role of the bureaucratic and political veto points in small scale tourism projects with a focus on the informal economy.



Similarly, the main argument of this dissertation – that the bureaucracy matters for preventing rent-grabbing – could be further tested and extended on the classical focus of the resource curse literature, namely oil, gas, minerals, alluvial stones and timber. The developmental state literature recognizes the importance of bureaucracy, but the policy recommendations still prevalently suggest indiscriminate dismantling of procedures – considered uniformly as regulatory burden – to improve the investment climate and prevent corruption. Future research focusing on the application of the bureaucratic and political veto points could also include testing how the framework applies outside of the resource abundance context.

The dissertation has historically traced the coevolution of bureaucratic and political veto points in Croatia and Montenegro and has tested how BVPs and PVPs affect rent-grabbing and resource use both within a quantitative and qualitative framework. Based on the results of the analysis, I offered a number of policy suggestions relevant for policy making in the tourism, other resource-based sectors, and wider developmental context. However, one of the key shortcomings of this project is its narrow understanding of how changes in governance can be instigated. Nevertheless, it also provides an opportunity to deal with the issue in the future research. To test how changes in governance can be initiated, I suggest the use of randomized control trials and quasi-experiments. Experimental research designs could provide a better understanding of causal relations, but also enable testing various mechanisms under controlled conditions. State of the art methods provide a range of experimental designs, which could assist in testing and identifying a mechanism for jump-starting the fight against corruption. Natural experiments involving as-if random assignment could also be used to research how good governance mechanisms can be built.

In conclusion, this work provides theoretical contributions to the resource curse, tourism, corruption and veto points scholarship, and advances our understanding of tourism resource use with wide applications for corruption control, governance and development. Moreover, the dissertation provides a methodologically diverse and innovative approach to analysing rent-grabbing and resource management and proposes new ways of integrating qualitative and quantitative techniques. Finally, I hope the dissertation will be useful for readers and open future research venues.

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