



Croatia Report

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Sustainable Governance
Indicators 2017

Executive Summary

In Croatia, the period under review has been characterized by a high degree of political instability. After the parliamentary elections of 8 November 2015, it took time to form a new government as neither of two dominant coalitions achieved a majority of seats in the national parliament. HDZ (Croatian Democratic Union) led the center-right Homeland Coalition, while incumbent Prime Minister Zoran Milanović and his SDP (Social Democratic Party) led the center-left Croatian Growth coalition. The role of kingmaker went to the newly established MOST (Bridge) party, a loose alliance of independent liberal-conservative candidates who had won 19 seats. In late December 2015, after exhaustive negotiations with both HDZ and SDP, MOST and the Homeland Coalition reached an agreement to form a government. Tihomir Orešković, a businessman who had not taken part in the parliamentary election and was a complete unknown to all but a few in narrow business circles, became prime minister.

From its founding, the Orešković government suffered from a power struggle between the various camps, making it dysfunctional. HDZ, which had dominated the political scene since Croatia's independence in 1991, continued to regard itself as the party in power, rather than a coalition partner on par with MOST. In addition, the polarizing nationalism of HDZ's right-wing and the more liberal orientation of MOST proved difficult to reconcile. The short-lived Minister of Veterans Affairs Mijo Crnoja's announcement of a "registry of traitors," Minister of Culture Zlatko Hasanbegović's hands-on approach to the public media, and Minister of Education Predrag Šustar's attempt to redirect education reform raised fears that Croatia might go the way of Poland and Hungary. It took until April 2016 for the Orešković government to unveil a comprehensive reform program. This program included 60 reforms with four main goals: macroeconomic stability and economic security, an improved business and investment climate, public sector efficiency and transparency, and education aligned with the labor market. The list of measures was extensive, ranging from improving public debt management and increasing the efficiency of budget planning and expenditure control, to setting in order cadastral maps and land books, to stimulating higher investments in research and development, to reorganization of the courts, to curricular reform in education. The package came with clear implementation deadlines, most of which ranged from May 2016 to late 2017. While this program was being

finalized, the conflicts between Prime Minister Orešković and Tomislav Karamarko, chairman of the HDZ and first deputy prime minister, escalated. In mid-June 2016, the government broke apart when Orešković insisted on Karamarko's resignation because of his connections to a lobbyist for the oil company MOL.

After some haggling, new parliamentary elections were held in September 2016. HDZ, led by its new chairman Andrej Plenković, a centrist and member of the European Parliament, dissolved the center-right Homeland Coalition, deciding the party would run on its own. SDP chose to run as part of a new coalition which, in addition to their long-time partner HNS (Croatian People's Party), included the Croatian Peasants' Party, traditionally a center-right party. Although surveys had given the SDP-led coalition a slight lead, sufficient for a relative victory, the forecasts turned out to be wrong: HDZ came out victorious, winning 36.2% of the vote and 61 parliamentary seats. The SDP-led coalition won 33.8% of the vote (54 seats) and MOST won 9.9% (13 seats). Much to everybody's surprise, a coalition led by Živi zid (Human Shield), a leftist anti-establishment political party, won 6.2% of the vote (8 seats).

Soon after the September 2016 election, it became clear that HDZ and MOST would again form a coalition government, this time led by the strongest parliamentary party. The new government was formed on 18 October 2016. Some ministers from the former government kept their portfolios (including both HDZ and MOST members). Soon after the new government was formed, it announced a comprehensive tax reform plan.

Citation:

Prelec, T., S. Brown (2016): Croatian parliamentary elections 2016: voters reject the centre-left's tilt to the right. LSE, EUROPP Blog (<http://blogs.lse.ac.uk/europpblog/2016/09/12/croatian-parliamentary-elections-2016/>).

Key Challenges

Croatia has suffered from strong political polarization and a lack of policy and governance reforms for some time. The strong showing of HDZ chairman Andrej Plenković, who has put his party on a more centrist track, and the continued participation of MOST in the new government hold the promise of less ideological and more pragmatic policymaking.

The country's policy challenges are numerous. The foremost of these is fiscal consolidation. While public debt stabilized by the end of 2016, this progress

must be continued in the coming years. The second main challenge requires a new push for reindustrialization. Most of the industries that existed until the late 1980s – and had enabled the relatively steady development of Croatia within socialist Yugoslavia – have not been replaced by new industries. In some parts of the country, these industries have completely disappeared. Only Northwestern Croatia has undergone considerable reindustrialization. The modern Croatian economy must expand beyond tourism. Third, state-owned enterprises must undergo substantial reforms. The wages in state-owned companies remain significantly higher (around 30%) than in private companies and their efficiency is much lower than that of private companies. As a result, their financing continues to heavily rely on various subsidies and government guarantees. Indeed, public enterprises constitute the most problematic economic sector in Croatia and the most inefficient element of the Croatian state. Numerous Croatian economists have pointed out that if public enterprise employees were excluded, Croatia's public sector would not substantially differ from public administrations in other countries (at least in terms of the number of employees). Fourth, the labor market has been characterized by weak job creation. Leading labor market experts have proposed easing hiring and layoff procedures, liberalizing working hours and more freedom/flexibility in work contracts – in short, a more flexible labor market. Finally, the three largest social-welfare-state systems – health care, education and pension systems – all require considerable reforms. As regards health care, infrastructure should be streamlined and the package of essential services should be redefined. The pension system is also unsustainable, as the number of pensioners is almost equal to the number of current contributors to the system. Without the annual transfer of about two billion euros from the state budget, it would be impossible to ensure the regular payment of pensions. As for the education system, greater investment is required.

The Croatian public administration is large and complex. Its streamlining could result in both savings and efficiency gains, which may increase the country's capacity for attracting EU funds. The territorial structure also remains a challenge. In the 1970s and 1980s, a system of local self-government units of about 100 municipalities was created, each unit with a population of around 45,000. These units had about 35% of public revenues at their disposal. Since the 1990s, the system has gradually been substantially expanded. To date, 556 local self-government units have been created (127 towns/cities, 428 municipalities and the city of Zagreb with a dual status as both city and county) and 20 counties have been set up as regional self-government units. All attempts over the past fifteen years to reform this system have failed.

Policy Performance

I. Economic Policies

Economy

Economic Policy
Score: 3

After six consecutive years of recession (2009 – 2014) the Croatian economy returned to growth in 2015. Despite the country's lack of a functional government throughout most of the year, the economy recorded GDP growth of about 2.8% in 2016. The Croatian economy strongly benefited from favorable international circumstances: economic recovery in the EU contributed to the continued growth of exports, the fear of terrorist attacks in other Mediterranean countries led to an excellent tourist season and substantial tourism income, and falling oil prices contributed to the steady growth of personal consumption (the most important component of GDP).

In contrast, little progress has been made with economic reforms. In the runup to the 2015 parliamentary elections, the Milanović government largely confined itself to regulating the conversion of foreign-currency loans. The incoming Orešković government strongly criticized its predecessor for inaction, but only came up with its own comprehensive reform program at the end of April. This program included 60 reforms with four main goals: macroeconomic stability and economic security, an improved business and investment climate, public sector efficiency and transparency, and education aligned with the labor market. The list of measures was extensive, ranging from improving public debt management and increasing the efficiency of budget planning and expenditure control, to setting in order cadastral maps and land books, to stimulating higher investments in research and development, to reorganization of the courts, to curricular reform in education. The package came with clear implementation deadlines, most of which ranged from May 2016 to late 2017. As a result of conflicts in the governing coalition and the latter's eventual breakdown, the Orešković government's reform program was not implemented. The current Plenković government has emphasized its commitment to economic reform and launched a comprehensive tax reform.

Citation:

European Commission (2017): Country report Croatia 2017 Including an In-Depth Review of the prevention and correction of macroeconomic imbalances. SWD(2017) 76final, Brussels (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-croatia-en.pdf>).

Labor Markets

Labor Market
Policy
Score: 4

After steadily increasing from 2009 to 2014, the unemployment rate fell from a peak of 17.3% in 2014 to 16.3% in 2015 and 12.8% in 2016. While the economic recovery contributed to the decline in unemployment, the main underlying factor has been the shrinking domestic labor force due to strong emigration to other EU countries. While unemployment fell by 93,000 between the third quarter of 2015 and the third quarter of 2016, employment increased by only 14,000 over the same period.

While the number of participants in active labor market programs has quadrupled since 2010, labor market performance has suffered from various institutional and policy shortcomings. The severance payment regime hinders labor mobility and discourages the use of open-ended contracts. The multi-layered social benefits system and generous early retirement options create disincentives to work. The wage-setting regime is not conducive to aligning wage dynamics to macroeconomic conditions. In particular, little has been done to facilitate job creation. From a comparative perspective, it is the low rate of job creation rather than a high rate of job destruction that underlies the weak labor market performance in Croatia.

Like its predecessor, the Orešković government largely failed to address these issues. The announced reform of active labor market policy, which was to be informed by a February 2016 comprehensive external evaluation, did not materialize before the September 2016 elections. In June 2016, however, the government suspended five – relatively effective – active labor market programs, including the largest one (accounting for almost 50% of all participants). In an attempt to reduce the fiscal cost of active labor market policy, the government combined these program suspensions with a call on actors to expand measures financed by the EU's operational program Efficient Human Resources.

Citation:

Bejaković, P. (2015): Croatian Employment Policy in the EU Context, in: D. Lajh, Z. Petak (eds.), EU Public Policies seen From a National Perspective: Slovenia and Croatia in the European Union. Ljubljana: Faculty of Social Sciences, 255-266

(https://bib.irb.hr/datoteka/819245.EU_public_policies_seen_from_a_national_perspective.pdf).

Croatian Employment Service (2016): External Evaluation of Active Labour-Market Policy Measures 2010-

2013: Summary Evaluation Report. Zagreb

(http://www.hzz.hr/UserDocsImages/Sumarno%20evaluacijsko%20izvje%C5%A1%C4%87e_ENG_Vanjska%20evaluacija%20mjera%20aktivne%20politike%20tr%C5%BEi%C5%A1ta%20rada%202010%20-2013.pdf).

IMF (2016): Croatia: Selected Issues. Country Report No. 16/188. Washington, D.C., 19-25 (<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Croatia-Selected-Issues-44011>).

Taxes

Tax Policy
Score: 4

In Croatia, the share of tax revenues in GDP is low compared to other EU countries. This is partly due to a high degree of tax evasion and an inefficient tax administration. While Croatia has a progressive personal-income tax, the redistributive effects of the tax system are limited by the fact that the tax system relies strongly on VAT and social-insurance contributions, which each account for about a third of all tax revenues. In contrast, the personal-income tax generates only 9% of total tax revenues, as does the corporation tax. Property tax, which generates only 1% of total tax revenue, is a very underdeveloped form of taxation in Croatia. The amount of tax reliefs, exemptions and incentives in the Croatian profit tax system has been growing year after year. The main aim is to engage in international tax competition to attract foreign investment by reducing the effective rate of profit tax set at 20%. However, allowing tax reliefs reduces the tax revenue available to finance public expenditure, and also increases the administrative costs of tax collection. The various reliefs and exemptions are moreover distortionary and reduce the efficiency of the tax system as a whole.

During its first years in office, the Milanović government tried to shift the tax burden from social-insurance contributions to consumption taxes. Later on, it focused on boosting the personal consumption of the middle class by reducing income tax. The Orešković government failed to implement any changes in taxation. By contrast, tax reform has been among the top priorities of the Plenković government. Immediately after coming to office, it presented a comprehensive package of 15 tax reforms. Beginning in 2017, these provide for a simplification and reduction in personal income tax, rationalization of corporate income tax, a one-off incentive for the writing-off of non-performing loans, and a shifting of VAT rates for goods and services. In 2018, a property tax will be introduced.

Citation:

European Commission (2017): Country report Croatia 2017 Including an In-Depth Review of the prevention and correction of macroeconomic imbalances. SWD(2017) 76final, Brussels, 22-23 (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-croatia-en.pdf>).

Government of the Republic of Croatia (2016): Prime Minister Plenkovic: Tax reform aimed at boosting growth and employment, November 11 (<https://vlada.gov.hr/news/prime-minister-plenkovic-tax-reform-aimed-at-boosting-growth-and-employment/19643>).

Budgets

Budgetary Policy
Score: 6

Croatia joined the European Union in July 2013 and almost immediately was placed under the EU's excessive deficit procedure. In March 2016, Moody's downgraded Croatia's issuer and bond ratings to Ba2 with a negative outlook, expressing doubts about the reform capacity of the Orešković government. At the height of the coalition crisis in June 2016, the government failed to issue government bonds. Eventually, however, the general government budget deficit was reduced: 2.1% in 2016, down from 3.3% in 2015 and far below the recent peak of 7.8% in 2011. The deficit reduction was largely achieved through windfall revenues stemming from stronger-than-expected economic growth. The Orešković government refrained from wage and pension cuts recommended by a number of prominent Croatian economists, instead allowing for a minor expenditure increase (in nominal terms) in the 2016 budget. The ratio of government debt remains high: 85% of GDP in 2016, a slight improvement over the 86.7% observed in 2015. Reduction in the debt is expected to continue this year and next as growth picks up. However, if the proposed tax reforms are implemented this may weigh on the revenue side of the budget, while public sector wage negotiations may yield pressures on the expenditure side. Overall, fiscal sustainability appears to be improving, though at a slow pace and significant risks remain on the horizon.

European Commission (2017): Country report Croatia 2017 Including an In-Depth Review of the prevention and correction of macroeconomic imbalances. SWD(2017) 76final, Brussels, 19-21 (<https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-croatia-en.pdf>).

Research and Innovation

R&I Policy
Score: 3

Croatia does not have a mature innovation system, and has fallen further behind in the field of innovation policy. The country lacks a coherent and integrated policy framework, companies have low technological capacity to support innovation, and technology-transfer mechanisms are inadequate. While budget outlays for R&D reach about the same proportion of GDP as the EU-28, the results in terms of overall expenditure on R&D are far weaker in Croatia. In 2015, overall spending on R&D stood at about 0.85% of GDP, compared to more than 2% in the EU-28. This was mainly due to the very low level of R&D expenditure by the private sector, which spent only 0.44% of GDP on R&D compared to 1.3% in the EU-28. Investments on R&D therefore still remain far below 1.5% of GDP (the target suggested by the EU's Europe 2020 framework). This also suggests that the private sector is over reliant on the government to fund R&D.

Like its predecessor, the Orešković government did little to use the newly available EU structural funds for modernizing and developing the innovation system. In its short term in office, it failed to prepare new strategic documents related to research and innovation. Unlike the Milanović government, it openly rejected the relatively comprehensive September 2013 Strategy for Education, Science and Technology, a 180-page document drafted by more than 100 experts, including R&I specialists.

Citation:

Račić, D., J. Švarc, H. Hristov, H. (2017): RIO Country Report Croatia 2016. Luxembourg: European Union (<https://rio.jrc.ec.europa.eu/en/country-analysis/Croatia/country-report>).

Global Financial System

Stabilizing
Global Financial
Markets
Score: 4

Croatia has a relatively stable banking system, with more than 90% of banks under foreign ownership. In recent years, the banking sector has increased its exposure to the government by providing finance to support the budget deficit, while lending to households and corporations has stagnated. The increased exposure to the government sector makes the banks more vulnerable to risks arising from this sector, especially since the profits derived from lending to the government are likely to fall as interest rates decline. The Croatian National Bank shares responsibility for overall financial system stability with the Ministry of Finance and the Croatian Financial Services Supervisory Agency (HANFA). However, the tools that HANFA has at its disposal do not seem to be particularly efficient. Due to rising foreign debt that has reached almost 100% of GDP, international rating agencies relegated Croatia to the “junk” category in 2013. Risks to financial stability have been reduced following the return to economic growth. In addition, the number of non-performing loans has been falling, reaching 15% of all loans, the lowest level since 2013. Access to loans for SMEs has improved following the introduction of measures related to crowd-sourcing and venture capital funds.

The accession of Croatia to the EU has brought greater integration of the financial system. The EU’s single passport system for financial institutions allows banks regulated by their home country authority to set up branches in Croatia. Previously, foreign banks were only allowed to establish subsidiaries under the regulatory supervision of the Croatian National Bank. With the passing of domestic regulatory authority from the Croatian National Bank to that of the foreign banks’ home country, an important protection for the Croatian financial system is removed. This raises the vulnerability of the Croatian financial system and increases the risk of cross-border contagion in the event of a new financial crisis. As yet, the establishment of foreign bank branches in

Croatia has been limited, but this factor is a potential risk to future financial stability.

While Croatia is rather vulnerable to developments on the global financial markets, its governments have not played a major role in global attempts at reforming the international financial system. Nor have they cracked down on money laundering. Croatia is part of the “Balkan route,” a major trade corridor where trade-based money laundering takes place, and where private and state-owned companies have been linked to money laundering activities. The Anti-Money-Laundering Office is understaffed and the rate of convictions for money-laundering offenses remains relatively low.

Citation:

Croatian National Bank (2017): Financial Stability No. 18. Zagreb (<https://www.hnb.hr/documents/20182/1972383/e-fs-18-2017.pdf/c738405d-b8b7-4e6f-9819-2e0f72e39715>)

II. Social Policies

Education

Education Policy
Score: 5

As a percentage of GDP, public expenditure on education aligns with the EU average and is an even higher percentage of total public spending. However, the efficiency of this spending is doubtful. The share of 15-year-olds with underachievement in reading, mathematics and science is above the EU average; in the case of science, by almost eight percentage points. Conversely, the share of early leavers from education and training is far below the EU average, indicating that access to education is not a problem. The inefficiency of the system is worsened by the high degree of selectivity in upper secondary education, which offers an university-preparatory track for the brightest students and a system of underfunded vocational schools for the rest. Over 70% of upper-secondary-pupils attend such vocational schools in Croatia, compared to 49% of pupils in the EU as a whole. As in other former Yugoslavian countries, vocational education is very weak, and there is a high degree of mismatch between what is taught and the demands of employers. Thus, vocational education is not an assured route to a job. The expected length of education in Croatia is lower than the average in the EU by more than one year; similarly, only 70% of 18-year olds are still in education, compared to 80% in the EU as a whole. Access to education is open and widespread, with almost 60% of each cohort enrolled in tertiary education. The quality of tertiary education varies significantly across institutions and even between departments within

universities. Universities do not function as unified institutions with common policies, resources and objectives, and the academic culture is poorly developed. The share of the population aged 30-34 years who have successfully completed university education in Croatia, at 32.2%, was about five percentage points below the EU average in 2014. The resources spent on education appear further wasted by the high level of unemployment of school and university graduates, indicated by the low employment rate of recent graduates from secondary level (47.3%) and tertiary level (72.2%) of education compared to 70.8% and 80.5% respectively in the EU as a whole.

Education reform has suffered from a lack of continuity. In 2014, the Milanović government charged an expert team headed by Boris Jokić with providing a proposal for a new curriculum. This team's work, which built on the contributions of more than a hundred teachers and experts from individual educational fields, was brought to a halt by the Minister of Education Predrag Šustar's decision to change the leadership of the project. Šustar's attempt at giving greater say to the Catholic Church and to experts close to HDZ raised fears of an "ideologization" of education policy. This led to the resignation of Jokić and provoked large-scale demonstrations by teachers and parents in various Croatian cities in mid-2016.

Citation:

European Commission (2016): Education and Training Monitor Croatia 2016. Luxembourg: EU (https://ec.europa.eu/education/sites/education/files/monitor2016-hr_en.pdf).

Social Inclusion

Social Inclusion
Policy
Score: 4

Poverty and social exclusion are major problems in Croatia. Whereas the income quintile share ratio (S80/S20) and the Gini coefficient broadly match the EU-28 average, 29.1% of the Croatian population is at risk of poverty or social exclusion, a figure five percentage points higher than the EU-28 average. In addition, a substantially greater proportion of the population (14%) lives in conditions of severe material deprivation (compared to 8.1% across the EU-28). Almost one-tenth of people live in a dwelling with a leaking roof, damp walls, floors or foundations or rot in windows frames or floor space. About 42% of the population lives in overcrowded accommodation compared to just 16% across the EU-28. The problems of social exclusion and poverty have been exacerbated primarily by the under-performing labor market, and a significant portion of the active population is trapped in long-term unemployment. Labor-market policy and policies dealing with social exclusion are weakly institutionalized, often prone to changes, lacking in strategic objectives and focus, and are almost never evaluated on the basis of efficiency. Social transfers suffer from extreme fragmentation, have low replacement rates and are not structured in such a way

that they can have any significant impact on social exclusion. Education still constitutes the best route out of social exclusion. However, vulnerable segments of the population are transferred into the vocational stream of secondary education, which mostly does not allow access to higher education. An additional problem is that regional-development policy has failed to address the geographic distribution of poverty and exclusion. As a consequence, regional disparities have deepened since Croatia became an independent country. This problem of regional inequality and poverty is especially severe in the war-affected areas of Eastern Slavonia, which still have not recovered economically from the effects of the war in the 1990s. Under the Orešković government, no specific plans for addressing these problems were proposed.

Citation:

Bicanic, I., V. Pribicevic (2013): A NUTS2 view of regional inequality in Croatia, in: W. Bartlett, S. Malekovic, V. Monastiriotis (eds.), *Decentralization and Local Development in South East Europe*, Basingstoke: Palgrave Macmillan, 231-251.

Health

Health Policy
Score: 5

In Croatia, health care services are mainly publicly provided on the basis of a system of social health insurance paid through employer and employee contributions. Public money accounts for 85% of all health care spending, leaving only 15% to market schemes and private spending. The system is broadly inclusive. Primary care is widely available while specialized care is provided in regional hospitals and national clinical centers which divide work on the basis of the complexity of procedures. There are 568 hospital beds per hundred thousand of the population (the EU average is 526 beds per hundred thousand), and around 300 practicing physicians per hundred thousand of the population, the same as in the EU. As a percentage of GDP, government spending on health care is close to the EU average, and there is little room for reducing expenditure. However, access to care is adversely affected by the regional variation in the range of care provided, and there is evidence of significant health inequalities between low and high-income groups. Self-reported health status is worse among low-income groups than in the EU as a whole. Resources are not always used efficiently, and suppliers' interests often lead to duplication of resources or syphoning of funds. The low employment rate and aging population have produced a persistent financial deficit within the system, which is covered by the central government's budget. Due to resource constraints, patients are expected to make co-payments for an increasing range of services. The Milanović government adopted a National Health Care Strategy 2012 – 2020 in September 2012, which provided a list of detailed proposals for gradual improvement of the health care system, while ruling out any radical reforms. In the period under review, the focus rested on the separation of the

Croatian Health Insurance Fund from the central-government budget and a reduction in the number of hospitals and hospital beds. Dario Nakić, minister of health in the Orešković government, also emphasized the need for reducing hospital losses through rationalization and improved cooperation among hospitals, but did not initiate major changes before he was replaced following the 2016 elections.

Citation:

Mastilica, M. (2012): Health reforms in Croatia from the user perspective, in: W. Bartlett, J. Bozиков, B. Rechel (eds.), *Health Reforms in South-East Europe*, Basingstoke: Palgrave Macmillan, 31-48.

Radin, D. (2013): The effect of EU Membership on the health care systems of member countries in Central and Eastern Europe, in: *Politička misao: Croatian Political Science Review* 50(5), 141-154.

Families

Family Policy
Score: 5

The employment rate among women in Croatia is 10 percentage points lower than among men and lower than in almost all other EU countries. In 2015, it was lower than it had been in 2009 by 2.2 percentage points. Maternity pay is relatively generous, while child-care facilities and extended-day programs at school are limited. Only 11% of children aged under three years receive any formal child care per week compared to 28% in the EU-28. From the age three up to the minimum school age, only 47% of children receive any formal child care, compared to 82% in the EU-28. Child-care coverage is especially poor in areas with low employment, which reflects the inability of local government to pay for services. Women with children face challenges within the labor market. Discrimination by employers in some segments of the private sector against younger women is widespread, because it is assumed that the women will eventually require maternity leave. This practice is technically forbidden by anti-discrimination legislation, but is weakly enforced due to weak unions and poor enforcement by government agencies. The new Family Law, originally adopted in June 2014, did not address these issues, focusing instead on expanding the legal rights of young people and clarifying child-custody issues. This law has generated much controversy. A decision by the constitutional court led the Milanović government to amend the law just before the parliamentary elections in 2015. Under the Orešković government, the minister of social policy sharply attacked the legislation for being poorly written, unreadable and difficult to implement.

Citation:

Dobrotić, I. (2015): Politike usklađivanja obiteljskih obaveza i plaćenog rada i položaj roditelja na tržištu rada (Work-Family Policies and the Position of Parents on the Labour Market), in: *Revija za socijalnu politiku* 22(3): 353-374.

Pensions

Pension Policy
Score: 4

Like some other East-Central European countries, Croatia introduced a three-pillar pension system with a mandatory second pillar in the late 1990s. The average effective replacement rate for pensions is around 40%, partially due to the fact that many pensioners retire early. As a result, pensioner poverty is rather high in Croatia. The rules for calculating benefits are generally equitable. However, war veterans enjoy strong privileges, and inequalities between cohorts have been introduced through irregular supplements that have reflected the electoral cycle. As a consequence of the aging of the population, the low general employment rate and the decline in the effective retirement age, the system is neither fiscally sustainable nor intergenerationally fair. The public pension fund has shown a persistent deficit, which represents a significant risk to the stability of the system.

The Milanović government began to address these problems. The Pension Insurance Act of January 2014, intended to stimulate employees to work as long as possible, raised the statutory retirement age from 65 to 67 and the early retirement age from 60 to 62. Under the new rules, early retirement cannot be taken without penalty until 41 years of service have been completed, and eligibility begins only at 60 years of age. Moreover, an amendment to the Act on Social Welfare has allowed the continuation of pension payments even if a retiree takes on a part-time job. Pensions under certain “special schemes” that are above a certain threshold have been temporarily cut by 10% and indexed to GDP growth. New rules covering disability pensions were introduced, and the occupational-rehabilitation system has been changed. Disability-pension beneficiaries must now undergo a compulsory medical assessment every three years and are subject to random control assessments. While improving the fiscal sustainability of the pension systems, these reforms have done little to address the issue of pensioner poverty and intergenerational fairness.

The Orešković government presented plans to shorten the deadlines for raising the retirement age to 67 (both for men and women) and increase the early retirement age from 60 to 62. These plans, however, were not implemented before the September 2016 elections.

Citation:

Werdning, M., M. Primorac (2016): Old-Age Provision in Transition: The Case of Croatia. CESifo, Working Paper No. 5761, Munich (https://www.cesifo-group.de/ifoHome/publications/working-papers/CESifoWP/CESifoWPdetails?wp_id=19191601).

Integration

Integration Policy
Score: 3

Immigration is largely limited to ethnic Croats from neighboring countries, who are de facto integrated and have citizenship and equal access to labor market, social system and education. Other groups of migrants are very small and there is no policy directed at integrating them. The treatment of returnees from among the 200,000 Croat citizens of Serbian ethnicity expelled from the country in 1995 represents a significant gap in migration policy. Nearly 21,500 minority returnees still have outstanding housing, reconstruction and civil-status issues to resolve, with most returnee families needing legal counseling to help them gain access to their basic rights. Many refugees have not been able to return to Croatia, as they were stripped of their rights to socially owned housing after the war.

In autumn 2015, Croatia faced a large influx of refugees from Syria, Afghanistan, Iraq and other Asian countries. More than 350,000 refugees passed through Croatia by early November, with only a few of them seeking asylum in Croatia. This wave of refugees and migrants built up after Hungary had stretched barbed wire along its border with Serbia, thus redirecting the movement of people to Croatia. No incidents of racist behavior directed at the refugees was recorded. This might be explained in part by the living memory of more than 700,000 refugees who found shelter in Croatia during the war in Croatia and Bosnia-Herzegovina in 1991-1992. However, Hungary's attempts at closing its borders have created fears in Croatia that – as a country still outside the Schengen system – it could be selected by the EU as a processing “hotspot” for incoming refugees. Such developments could become a source of substantial instability in Croatia and other countries in the region.

Safe Living

Safe Living
Conditions
Score: 9

In Croatia, crime represents no significant threat to public safety and security. The police are generally effective in maintaining public order and combating crime. The police and prosecutor's office collaborate effectively with international organizations and countries in the southeast European region, the European Union and internationally. Intelligence services cooperate with their counterparts within NATO and the European Union, and act within an integrated security system. Croatia does not face significant terrorist threats. Organized crime affects the country mostly through transnational and regional crime networks involved in drugs and human and arms trafficking.

Global Inequalities

Global Social
Policy
Score: 4

The Croatian government takes part in the activities of international organizations to which the country belongs; these are mostly in the field of international security and involve armed-forces personnel in various roles. The government does not have a well-developed international-development policy and is little more than a passive participant in most other joint international activities. Trade policy is mostly focused on regional and EU relations, with the government lacking an independent policy beyond this context. For trade issues related to international development, the government follows the policy of the European Union and other international organizations.

Since joining the EU, Croatia's international assistance policy has improved. The National Strategy for Development Cooperation 2015 – 2020 has been adopted, and the country aims to increase its development aid to 0.33% of GDP by 2030. This includes funds for the European Development Fund, which distributes aid at the EU level.

III. Environmental Policies

Environment

Environmental
Policy
Score: 4

Environmental policy in Croatia has been strongly shaped by Croatia's accession to the European Union. According to the National Strategic Reference Framework, which guides the use of EU Structural and Cohesion Fund money, Croatia is to spend almost €10 billion on waste management, water management and air protection – the three most important environmental issues in the EU accession negotiations – by 2023. However, implementation of the envisaged measures progressed slowly under the Milanović government.

In July 2016, the European Commission pursued a legal action within its infringements package (in the form of a reasoned opinion) against Croatia for failing to comply with its obligations under EU environmental law. The Commission requested that Croatia bring its national laws on waste into full conformity with EU rules, particularly with Directive 2008/98/EC. The Directive aims to minimize the negative effects of waste generation and management on human health and the environment. The Commission identified a number of defects in Croatia's transposition of the Directive and sent the Croatian government a formal notice on that issue. It stated that none of the fundamental requirements in waste management had been completed, including

requirements on waste management permits, the waste management plan and waste prevention program as well as detailed rules on inspections. The Commission allowed Croatia two months to respond with a precise list of measures on how it would address these shortcomings. If Croatia fails to adequately respond, the infringement may be referred to the European Court of Justice.

Citation:

Tišma, S., M. Funduk (2015): Croatian Environmental Policies in the EU Context, in: D. Lajh, Z. Petak (eds.), EU Public Policies seen From a National Perspective: Slovenia and Croatia in the European Union. Ljubljana: Faculty of Social Sciences, 225-239

(https://bib.irb.hr/datoteka/819245.EU_public_policies_seen_from_a_national_perspective.pdf).

Global Environmental Protection

Global
Environmental
Policy
Score: 6

Croatia strongly adheres to international environmental standards. During the accession negotiations with the European Union, Croatia incorporated these standards in its national law almost completely. The country has also supported the goals of the Kyoto Protocol and played a major role in the United Nations' decision to make 2011 the International Year of Forests. In the period under review, however, Croatia did not launch any major global initiatives. With regard to implementation of the targets set by the Kyoto Protocol, Croatia has reduced emissions of greenhouse gases (GHGs). Also, the share of renewable energy in gross final energy consumption is 20%.

Citation:

European Environment Agency (2015) The European Environment: state and outlook (SOER 2015)

Quality of Democracy

Electoral Processes

Candidacy
Procedures
Score: 9

Candidacy procedures are largely fair and do not suffer from major procedural restrictions. However, participation in parliamentary elections is easier for registered parties than for independent lists. Whereas the latter must collect a certain number of signatures, political parties must do so only for the presidential elections, as well as in local elections for prefects and mayors. A legal amendment which would have introduced uniform requirements was repealed by the constitutional court in a controversial decision shortly before the parliamentary elections in November 2015. One peculiarity of Croatian electoral law is that candidate lists can be headed by people who are not actually candidates. In February 2015, the Croatian parliament adopted an amended law on the election of members of parliament that introduced preferential voting at parliamentary elections.

Citation:

OSCE/ODIHR (2016): Election Assessment Mission Final Report Republic of Croatia: Parliamentary Elections 8 November 2015, Warsaw, 8-9

(<http://www.osce.org/odihr/elections/croatia/223631?download=true>)

Media Access
Score: 5

Amendments to the election law in February 2015 changed the legal framework for media coverage of parliamentary elections, with a view toward ending the “clogging” of the media space by minor candidates. The amendments have removed the obligation of private broadcasters to cover the campaign and left it up to public broadcasters’ discretion to provide candidates proportional rather than equal time in news and analysis. Moreover, debates among candidates have been restricted to only one per broadcaster. After the public broadcaster HRT decided to involve only five parties (a decision based on public opinion polls) for a scheduled debate in the run-up to the 2015 parliamentary elections, the State Electoral Committee judged this decision to be arbitrary and the debate was cancelled. Before the 2016 parliamentary elections, HRT broadcast a debate with only the leading candidates of the two biggest parties, thereby ignoring MOST’s strong showing in the previous elections and its strategic role. MOST and the smaller parties thus complained of discrimination.

Voting and
Registrations
Rights
Score: 8

All citizens of voting age are entitled to participate in elections, and legislation on this issue is strongly inclusive. For example, prisoners are eligible to vote, and persons without legal capacity were allowed to participate for the first time in the April 2013 European Parliament elections. Before these 2013 elections, the highly outdated voting register was thoroughly cleaned. However, a controversial 2015 amendment to the Law on the Register of Voters limited the automatic registration of voters to those with a valid ID. A provision enabling Croatian citizens without permanent residence in Croatia to take part in national elections if they register in advance remains controversial.

Citation:

OSCE/ODIHR (2016): Election Assessment Mission Final Report Republic of Croatia: Parliamentary Elections 8 November 2015. Warsaw, 7-8

(<http://www.osce.org/odihr/elections/croatia/223631?download=true>).

Party Financing
Score: 5

With the adoption of the Law on Political Parties and Campaign Funding in February 2011, the regulation of political finance has become more transparent and effective. The new law has made it obligatory to disclose party revenues and expenditures, introduced limits on private donations, donations from the business sector and campaign spending and established a ban on foreign donations. However, the reliability of the reports submitted is questionable – there is an excessive reliance on public funds to finance parties and campaigns and insufficient public control of party and campaign budgets. The key problem in implementing effective bans on inappropriate campaign funding is the weakness in enforcing the law. In-kind services and various forms of indirect money transfers from the business sector allow legal restrictions to be circumvented, and make it difficult to obtain a clear picture of party finances. The monitoring capacity of the State Electoral Committee is weak, as it can open its own investigations only after having received official financial reports from political parties or individual candidates. In a big step forward, the State Auditing Office has also begun to carry out systematic audits of the campaign budgets of political parties and individual candidates. However, it can neither conduct random audits nor react to external complaints.

In order to limit the burden on the already strained budget, campaign financing for the snap elections in November 2016 was limited. After the elections, MOST insisted on a limit to public party financing as a precondition for forming a coalition with HDZ. As a result, the Law on Financing of Political Activities and Election Campaigns was amended in October 2016 with a view toward limiting the annual financing of political parties.

Popular Decision-
Making
Score: 6

While the law provides for some forms of popular decision-making, there is no strong tradition of organizing and holding referenda in Croatia. The Sabor, the Croatian parliament, can call a national referendum if it is proposed by at least 10% of the electorate. In the past, the Sabor has refused to do so even in cases

of high-profile initiatives by war veterans (2000) and trade unions (2010). Local referenda have also been rare; only a few have ever taken place. However, the success of the referendum on the constitutional definition of marriage in early December 2013 ushered in a wave of initiatives in 2014 and 2015. In the period under review, however, there were no initiatives for referenda at the national nor local level. The Milanović government attempted to reduce the legal barriers to referenda in 2014, but eventually failed to send the proposed amendments (to a 2000 law on referenda) to parliament for a second reading before the 2015 elections.

Citation:

Butković, H. (2017): The Rise of Direct Democracy in Croatia: Balancing or Challenging Parliamentary Representation?, in: *Croatian International Relations Review* (77): 39-80.

Access to Information

Media Freedom
Score: 4

Media freedom in Croatia is limited. Political influence on the media is still fairly strong, especially at the local and regional levels, as is the influence of private media owners. Media freedom has also suffered from the poor working conditions afforded to journalists, who are not protected by collective agreements.

The Orešković government heavily interfered with the media. Making use of a provision introduced under the Milanović government, it replaced the Director General of the public broadcasting company Croatian Radio Television (Hrvatska radiotelevizija, HRT) soon after coming to office. Following this change, almost all news anchors of HRT were replaced. After the Electronic Media Council, headed by Mirjana Rakić, a prominent former journalist and commentator on national television, penalized a local television station for hate speech, rightwing demonstrators organized a protest march and tried to discredit Rakić. In March 2016, the government fired all Council members, including Rakić. This expulsion led the OSCE to express serious concerns about media freedom in Croatia.

Citation:

Bilić, P. et al. (2016): *Media Pluralism Monitor 2016: Croatia*. Florence (<http://cmpf.eui.eu/media-pluralism-monitor/mpm-2016-results/croatia/>).

Media Pluralism
Score: 4

Media pluralism in Croatia is limited. The TV market is dominated by the public TV station Croatian Radiotelevision (Hrvatska radiotelevizija, HRT) and two private broadcasters, Nova TV and RTL. Two companies and a single distribution network dominate the market for print media. Ivica Todorčić, whose Agrokor group owns the distribution network, also controls most of the marketing agencies and thus most of Croatia's advertising budgets. Given the

hands-on approach of many private media owners, these oligopolistic ownership structures have infringed upon the freedom of the media. One of the dominant print media companies, Europa Press Holding (EPH) replaced Boris Dežulović, one of its best-known liberal columnists. The financial problems of the independent daily Novi list (New paper) have raised concerns about its future. The Orešković government contributed to a further weakening of media pluralism. Immediately upon taking power in January 2016, Zlatko Hasanbegović, the minister of culture in the Orešković government, discontinued the financing of non-profit media, provoking strong protests from numerous members of the journalists' association.

Citation:

Bilić, P. et al. (2016): Media Pluralism Monitor 2016: Croatia. Florence (<http://cmpf.eui.eu/media-pluralism-monitor/mpm-2016-results/croatia/>).

Access to
Government
Information
Score: 8

The Right of Access to Information Act has been in place since 2003 and the legislative framework is relatively well established, particularly thanks to later amendments to the act. However, access to information continues to lack transparency, and some public institutions even fail to submit the required regular reports on the enforcement of the act. These reports are coordinated by the Personal Data Protection Agency (AZOP). AZOP still lacks some of the mechanisms required for the implementation of requests made to public-authority bodies. Moreover, AZOP is not authorized to represent the public interest in the most important cases dealing with classified information. In October 2013, however, a long-standing demand by NGOs was met and Anamarija Musa, a public administration scholar, was appointed by parliament as the first commissioner for the right of access to information. Thanks to her efforts, access to information has significantly improved. In a number of cases, her office has urged the government and other public authorities to provide citizens free access to requested public information.

Civil Rights and Political Liberties

Civil Rights
Score: 5

Civil rights are formally protected by the constitution and other laws. The Ombudsman and specialized ombudspersons play an important role in the protection of human rights. However, the Ombudsman's recommendations are not always followed up carefully. The Kosor government's judicial-reform strategy (2011 – 2015) sought to increase the effectiveness of the judicial system. Nevertheless, the need to reduce the backlog of civil, commercial and enforcement cases is still pressing. Domestic war-crimes prosecutions remain a weak point within the judicial system, as it moves slowly and displays an institutional bias in favor of ethnic-Croat suspects. The rights of tenants of Serbian ethnicity who were expelled from the country in 1995 remain an open

issue, as the implementation of housing programs for returning refugees continues at a slow pace.

Political Liberties
Score: 7

In Croatia, political liberties are largely respected. There are laws that guarantee the freedom of assembly and the freedom of association. However, the Law on Public Assembly is more restrictive than in France or the United States, containing an obligation to outline the purpose of an assembly, and limiting spaces available for public assemblies. While the constitution guarantees freedom of expression, the criminalization of defamation, insult and shaming remains at odds with international standards.

Citation:

Gardašević, Đ. (2011): Pravo na javno okupljanje u hrvatskom i komparativnom pravu, in: Zbornik radova Pravnog fakulteta u Splitu 48(3), 487-519.

Non-discrimination
Score: 5

Although discrimination has been prohibited by several different legislative acts for some time, the new Anti-discrimination Act (ADA), which entered into force in 2009, was an important step. The new act prohibits discrimination in 10 specific areas of social life and distinguishes 17 different forms of discrimination. It has enabled new forms of judicial redress for cases of discrimination. The Ombudsman institutions have a large role in combating discrimination, and the Office of the Public Ombudsman serves as a central anti-discrimination body under the ADA. However, although discrimination is prohibited by the law, the legislation has not been fully implemented, and certain vulnerable groups still experience widespread discrimination. In particular, the Roma encounter discrimination in almost all areas of life, especially in education and employment. In addition, although Croatia has a good legal framework governing minority rights, Croatian citizens of Serbian ethnicity continue to experience discrimination.

Rule of Law

Legal Certainty
Score: 5

The Croatian legal system puts heavy emphasis on the rule of law. In practice, however, legal certainty is often limited. As regulation is sometimes inconsistent and administrative bodies frequently lack the necessary legal expertise, executive ordinances do not always comply with the original legal mandate. As a result, citizens often lack confidence in administrative procedures, and frequently perceive the acts of administrative bodies to be arbitrary.

Judicial Review
Score: 5

Croatia has among Europe's highest level of judges and court personnel per capita. The independence and quality of the judiciary were a major issue in the negotiations over EU accession. Reforms in early 2013 changed the process by which justices of the highest regular courts (Supreme Court, High Commercial Court, High Misdemeanor Court and High Administrative Courts) were

appointed, with a view to increasing judicial independence. Justices are now selected by an independent council (the State Judicial Council, or SJC) consisting of their judicial peers (nominated and elected in a process in which judges of all courts participate), two representatives of legal academia (elected within legal academia by their peers) and two members of the Sabor (elected by a parliamentary majority). The SJC has a mandate to elect judges on the basis of prescribed professional criteria and through a transparent procedure. Judges are appointed for life, and their appointment can be revoked only in extraordinary circumstances by the SJC. The Milanović government carried out a reform of the judiciary in 2014 and 2015 that succeeded in substantially reducing the number of courts and in overhauling misdemeanor law. Every county now has a single municipal court, misdemeanor court and municipal State Attorney's Office.

Despite these reforms, the judiciary suffers from a number of structural problems. The procedures for out-of-court settlement are not sufficiently developed and costs of litigation low. As a consequence, the number of cases brought before judges far exceeds the EU average. Judicial procedures are very complicated and the judiciary remains underequipped when it comes to IT and electronic communication. Many judges are not familiar with EU law and corruption in the system remains relatively widespread.

Appointment of
Justices
Score: 7

The Constitutional Court of the Republic of Croatia has 13 judges, elected for a term of eight years. Judges are appointed by the Sabor on the basis of a qualified majority (two-thirds of all members of the Sabor). The eligibility criteria are prescribed by the constitutional law on the constitutional court. The criteria are rather general and represent a minimum that candidates need to fulfill in order to apply. Candidates are interviewed by the parliamentary committee tasked with proposing the list of candidates to the plenary session. There is a notable lack of consistency in this interview process, as the committee does not employ professional selection criteria. Constitutional court justices are appointed to the court for a period of eight years. Their mandate can be revoked by the Sabor only in extraordinary circumstances related to their involvement in criminal acts.

In mid-2016, the functioning of the Croatian Constitutional Court was threatened because no replacements had been appointed for the 10 outgoing judges. Eventually, the judges were elected on the basis of a political agreement between HDZ and SDP, the two biggest political parties. There were three members of these parties among the elected judges. It was the first time since the 1990s that active politicians were elected judges of the constitutional court and tarnished its image.

Corruption
Prevention
Score: 5

Corruption is one of the key issues facing the Croatian political system, and ranked high on the agenda of the accession negotiations with the European Union. Upon coming to office in 2009, Prime Minister Kosor made the fight against corruption one of her priorities and succeeded in improving the legal framework and its enforcement. The implementation of anti-corruption measures was gradually reinforced in 2013 and 2014. However, the fight against corruption lost ground in 2015, when major verdicts, most notably the conviction of former Prime Minister Sanader, were annulled for procedural reasons and prominent indicted political actors, including the mayor of Zagreb, were able to re-enter the political scene after having paid considerable bailout sums. Under the Orešković government, HDZ and MOST struggled over control of USKOK (Ured za Szbijanje Korupcije i Organiziranog Kriminala, Croatian State Prosecutor's Office for the Suppression of Organized Crime and Corruption). In June 2016, the HDZ chairman and vice deputy prime minister, Tomislav Karamarko, eventually resigned after the parliament's commission for the conflict of interests ruled that there was a conflict of interest given his connections to a lobbyist for oil company MOL.

Governance

I. Executive Capacity

Strategic Capacity

Strategic
Planning
Score: 6

The introduction of strategic-management tools has just begun in Croatia's public administration. At the central-government level, strategic planning over the last decade has been dominated by the goal of EU accession. Since joining the EU in 2013, strategic planning capacity has increased substantially, in part due to the learning process that took place during the accession period, but also thanks to Croatia's inclusion in the EU strategic planning exercise organized within the framework of the European Semester. The most recent examples of improved strategic planning can be found in the National Reform Program which sets out the structural reform measures undertaken by the government to comply with the recommendations of the European Council, and the convergence program of April 2016 which aims to align Croatia's economic policies with the jointly defined goals and provisions of the EU in the field of macroeconomic policy.

Notwithstanding the introduction of these institutional arrangements, policymaking in Croatia continues to be dominated by short-term political interests. Strategic units and bodies have extremely limited influence on government decision-making processes. Political parties usually come to power unprepared, without clearly defined priorities and policy packages. The Orešković government, for example, introduced only seven bills – including a state budget execution act, an act proposed by every government when the budget is voted on – in its first three months in office. Save for its tax reform, prepared by a minister who had gained experience by holding the same office in the former HDZ/MOST government, the Plenković government also had a slow start.

Scholarly Advice
Score: 4

The 2009 Societal Consultation Codex, which serves as guidelines for the policymaking process, mentions the consultation of academic experts. In practice, however, the involvement of academic experts in the policymaking

process remains rare. Moreover, it is largely limited to the early phases of policy formulation, and does not extend to the final drafting of legislation, let alone the monitoring of implementation.

Interministerial Coordination

GO Expertise
Score: 3

Until 2014, the Prime Minister's Office lacked a central policy unit able to evaluate and coordinate the activities of the line ministries. At the beginning of 2014, a unit for public policy coordination and support to the prime minister was established in the Prime Minister Office. The unit has jurisdiction for coordination and monitoring public policies performed by line ministries. However, the capacity of the staff to provide reliable applied policy analysis is limited.

Citation:

Petak, Z. (2015): Evidence-Based Policy Making and the Implementation of Regulatory Impact Assessment in Croatia, in: *Management and Business Administration: Central Europe* 23(2), 147-162.

GO Gatekeeping
Score: 5

The Prime Minister's Office (PMO) has the political authority to return policy proposals it receives from ministries. However, its gatekeeping role is limited by its weak sectoral-policy expertise. Under the Milanović government, the PMO has played only a subordinate role in interministerial coordination. Prime Minister Orešković tried to change this by appointing Jakša Puljiz, Deputy Minister of the Ministry of Regional Development and EU Funds in the Milanović government, chief integration officer in charge of interministerial coordination. This attempt at strengthening the gatekeeping role of the PMO was not followed up by the current Plenković government.

Line Ministries
Score: 4

Line ministries consult with the government's Legislation Office, but this consultation is mostly formal, focusing on technical and drafting issues. Ministries normally enjoy huge leeway in transforming government priorities into legislation, and there is no stable and transparent arbitration scheme that would give the Prime Minister's Office a formal role in settling interministerial differences.

Cabinet
Committees
Score: 6

The rules of procedure of the Croatian government provide for different kinds of cabinet committees and assign a major role in policy coordination to them. The prime minister and the vice prime ministers form the core cabinet (Uži kabinet vlade). In addition, there are various permanent and non-permanent cabinet committees that focus on particular issues. As there is little ex ante coordination among ministries, controversies are often pushed upwards, with cabinet committees playing an important role in resolving conflicts. However, the quality of coordination suffers from the fact that cabinet committees are absorbed by these disputes and other matters of detail.

Ministerial
Bureaucracy
Score: 4

The direct coordination of policy proposals by ministries is limited. There is no stable and transparent scheme for settling interministerial differences within the bureaucracy. The ministries in charge of drafting proposals rarely set up working groups that include peers from other ministries or government bodies. Deadlines for comments by other ministries are often too abbreviated, capacities for comments are sometimes inadequate, and comments made by other ministries are often not taken seriously.

Informal
Coordination
Score: 4

Informal coordination in the form of meetings between the coalition partners featured prominently under the Milanović government. Meetings were mostly held between Social Democratic Party (Socijaldemokratska partija Hrvatske, SDP) and Croatian People's Party – Liberal Democrats (Hrvatska narodna stranka – liberalni demokrati, HNS) leaders, with the other coalition partners – the Istrian Democratic Assembly (Istarski demokratski sabor, IDS) and the Croatian Party of Pensioners (Hrvatska stranka umirovljenika, HSU) – playing a minor role. A strong reliance on these informal-coordination mechanisms helped maintain the tradition of keeping strategic decisions and policy coordination largely within the political parties' ambit, preventing the development of more formal and transparent mechanisms of policy coordination or a strengthening of the public administration's role.

Informal coordination mechanisms under the Orešković government also tended to undermine rather than complement formal mechanisms of interministerial coordination. Interparty coordination between HDZ and MOST did not work, and the difficult accommodation of different party factions undermined coherent policymaking.

Evidence-based Instruments

RIA Application
Score: 6

The EU accession process has accelerated the development of RIA in Croatia. In July 2011, the Kosor government adopted an RIA bill and reestablished the Government Office for Coordination of the Regulatory Impact Assessment System that had been abolished in July 2009 as a reaction to populist critique. In accordance with the RIA Action Plan for 2013 – 2015, the office became a department of the government's Legislation Office, and RIA implementation coordinators were appointed in all ministries. Since 2012, all government bodies have been obliged to prepare annual regulatory plans specifying which of their planned regulations should undergo a RIA. However, these and other obligations have been only selectively met. According to official figures, two-thirds of the laws in the period from 2013 to 2015 were adopted in an ad hoc fashion, without the application of any substantial ex ante policy evaluation. RIA results do not feature prominently in cabinet sessions.

Citation:

Petak, Z. (2015): Evidence-Based Policy Making and the Implementation of Regulatory Impact Assessment in Croatia. *Management and Business Administration: Central Europe* 23(2): 147-162.

Quality of RIA
Process
Score: 4

In 2011 and 2012, the government's Legislation Office created a new legislative framework for RIA. It also developed the administrative capacities for implementing RIA procedures and established stable partnerships with representatives of the business community (Croatian Chamber of Commerce, Croatian Employers Association, Croatian Chamber of Crafts, Croatian Banking Association), some civil-society organizations (Croatian Law Center, Croatian Youth Network, Forum for Quality Foster Care, Croatian Business Council for Sustainable Development) and unions (Trade Union of Textile, Footwear, Leather and Rubber Industry). However, one weakness of the RIA process in Croatia is the low level of inclusion of the public in the process and the difficulty of exerting real influence on regulatory plans. The RIA Act stipulates that the proposed regulatory plan be posted on the official website for not less than 15 days. In practice, the attitudes of regulators (ministries, agencies) toward the openness of the policymaking process have varied considerably. Some ministries opened the entire RIA process to the public, asking stakeholders for feedback to their bill drafts. Other ministries ignore the importance of getting feedback from the public, thereby undermining the effectiveness of the whole RIA project.

Sustainability
Check
Score: 4

Croatia adopted a sustainability strategy in 2009. However, neither this strategy, the RIA Strategy or the RIA Action Plan for 2013 – 2015 provide for comprehensive sustainability checks. RIA is supposed to consider a broad range of impacts, including fiscal, economic, social and environmental, but the actual quality of assessments is low. There is no systematic differentiation between the short, medium and long term. RIA implementation has featured a rather selective bias that depends on regulators' attitudes regarding an open policymaking process. Some ministries opened the entire RIA process up to the public, requesting feedback on draft bills from stakeholders. Unfortunately, there are still ministries and agencies that do not sufficiently value public feedback, which undermines the purpose of RIA. A poor communication strategy regarding RIA application has also generated further problems. The Croatian government promotes RIA as a tool relatively rarely, thereby de facto neglecting the efforts of ministries and agencies that implement RIA tools.

Societal Consultation

Negotiating
Public Support
Score: 4

Consultation of societal actors in Croatia has been governed by the 2009 Societal Consultation Codex. In practice, consultation has been limited, and the economic crisis has caused a general trend of weakening with regard to the mechanism of social dialogue as an instrument for policymaking. Under the Milanović government, the tripartite dialogue between representatives of the

government, employers and trade unions in the Economic and Social Council was marked by a lack of trust and respect. This did not change under the Orešković government.

Policy Communication

Coherent
Communication
Score: 3

The Prime Minister's Office is formally responsible for policy coordination and the communication of policy to the general public through the Public Relations Service. However, the Milanović government did little to streamline its communication policy. Under the Orešković government, the two parties in government, HDZ and MOST, followed their own communication strategies and these were never reconciled.

Implementation

Government
Efficiency
Score: 4

The Orešković government eventually came up with a comprehensive reform program at the end of April 2016. This program included 60 reforms with four main goals: macroeconomic stability and economic security, an improved business and investment climate, public sector efficiency and transparency, and education aligned with the labor market. The list of measures was extensive, ranging from improving public debt management and increasing the efficiency of budget planning and expenditure control, to setting in order cadastral maps and land books, to stimulating higher investments in research and development, to reorganization of the courts, to curricular reform in education. The package came with clear implementation deadlines, most of which ranged from May 2016 to late 2017. As a result of conflicts in the governing coalition and the latter's eventual breakdown, the Orešković government's reform program was not implemented.

Ministerial
Compliance
Score: 5

As the strong conflicts within the governing coalition (between HDZ and MOST) and the weak policy record of the Orešković government have shown, the organization of government has provided only weak incentives for ministers to implement the government's program.

Monitoring
Ministries
Score: 4

The Secretariat General of the Government is just one of the central-government organizations involved in monitoring the activities of line ministries. Its restrictive remit constitutes a major capacity gap. More important has been the Ministry of Finance, as the 2010 Fiscal Responsibility Act has given it far-reaching powers to monitor the activities of any organization drawing funds from the central budget.

Monitoring
Agencies,
Bureaucracies
Score: 4

Croatia has about 75 executive agencies, six of which are regulatory agencies. The tasks of these agencies are determined by law. The two most important monitoring instruments are certain reporting requirements and the representation of ministers or senior civil servants on the agencies'

management boards. Reports are not based on redefined performance indicators, but are more a loose and often self-congratulatory review of agencies' activities in the past year. They are seldom discussed after publication. As a result, the agencies enjoy a relatively large amount of discretion and face primarily political constraints. The proliferation of agencies has been a source of waste and inefficiency. The Orešković government continued the evaluation of agencies begun under the Milanović government and eventually proposed the elimination of nine agencies. However, this proposal has not yet been implemented.

Task Funding
Score: 4

The division of competencies between central and subnational governments has been relatively stable. By far the most important revenue source of subnational governments is the personal-income tax, which contributes about 90% of all tax revenues and slightly more than half of total revenues. The remaining taxes account for only around 6% of total revenue, the most important being the property tax (approximately 3,3% of total revenue). The second most important source of revenue is the various types of administrative fees (user charges being the most significant among them, as they collectively make up approximately 17% of total subnational revenues). Grants from the central government (often administered via counties) and various assistance funds from abroad rank third. Finally, about 8% of subnational governments' revenues derive from the various types of property they own (business premises, apartments). Strong regional and local differences have long hindered subnational governments from being properly financed. Many municipalities and towns, most of them in rural areas, are poor and therefore face severe difficulties in providing public services.

As part of a broader reform of public administration, Dubravka Jurlina Alibegović, Minister of Public Administration in the Orešković government, proposed to replace the 20 existing counties with 5 to 8 more homogeneous regions. However, this proposal was blocked by a grand coalition between the ruling HDZ and SDP, the main opposition party.

Citation:

IMF (2016): Croatia: Selected Issues. Country Report No. 16/188. Washington, D.C., 2-9 (<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Croatia-Selected-Issues-44011>).

Koprić, I., A. Musa, V. Dulabić (2016): Local government and local public services in Croatia, in: H. Wollmann, I. Koprić, G. Marcou (eds.), Public and social services in Europe: from Public and municipal to private sector provision. London: Palgrave Macmillan, 201-215.

Constitutional
Discretion
Score: 4

The autonomy of local and regional self-government units is very limited. In violation of the European Charter on Local Self-Government, local units are usually not allowed to regulate and expand their autonomous scope of activities on their own. In the case of activities devolved to local self-government units by the central government, a central-government body issues

instructions to county prefects and mayors. The Ministry of Administration can dissolve the representative bodies of local or regional self-government units if they violate the constitution or laws. The Milanović government established an Advisory Council for Decentralization headed by Deputy Prime Minister Neven Mimica in February 2012, but eventually failed to clarify the relations between the different tiers of government.

National
Standards
Score: 2

There are no national standards for public services in Croatia. Modern systems for the improvement of service quality such as ISO, EFQM or similar public-management standards are not implemented in the Croatian public sector. Moreover, the productivity, efficiency and quality of local self-government units are not systematically measured, and local-government budgets are currently monitored only on the basis of the economic purposes of local-government spending, rather than on its outcomes. There is not even a catalogue of services that local and regional self-government units (municipalities, towns, counties) should provide to the local community. The absence of clear national standards is particularly visible in the field of social policy. Here, the implementation of central-government regulation has differed strongly among municipalities. Some have even ignored legal requirements such as the provision in the Act on Social Welfare that municipalities should use 5% of their budgets for housing allowances for socially marginalized groups.

Adaptability

Domestic
Adaptability
Score: 6

Croatia's accession to the European Union and NATO has been accompanied by substantial changes in domestic-government structures, ranging from the reintroduction of RIA to the passage of the Societal Consultation Codex and the strengthening of capacities for policy coordination. The reshuffling of competencies following accession, for example with the shift in responsibility for EU coordination to the Ministry of Foreign Affairs and the integration of the former Central Office for Development Strategy and Coordination of EU Funds (CODEF) into the Ministry of Regional Development and EU, has not always gone smoothly. The ability of the Croatian administration to absorb the newly available EU funds has remained limited. The Milanović government's long-awaited Strategy for Public Administration was passed only in June 2015 and addressed these concerns only partially. Dubravka Jurlina Alibegović, Minister of Public Administration in the Orešković government, presented her own plan for a reform of public administration at the beginning of 2016. Announced as the nucleus of a comprehensive law to be adopted at the end of the year, it included comprehensive measures to improve the computerization of the Croatian administration, professionalize its human resources management and rationalize the organization of the various tiers of

International
Coordination
Score: 5

government. Due to strong resistance from within the administration and the collapse of the Orešković government, the plan was never implemented.

Croatia has supported major global reform initiatives, especially in environmental affairs. However, the Milanović government did not pay particular attention to improving the country's capacity to engage in global affairs or to assessing the global repercussions of national policies. Unlike her predecessor, President Kolinda Grabar Kitarović has not been very active in improving cooperation with the other successor states of the former Yugoslavia.

Organizational Reform

Self-monitoring
Score: 4

There is no regular self-monitoring of the institutional arrangements of Croatian governments. Public organizations are supposed to prepare annual reports, but often fail to do so, and do not use these reports to examine deficiencies.

Institutional
Reform
Score: 6

The Orešković government sought to strengthen interministerial coordination by creating the position of chief integration officer in the Prime Minister's Office. Plans for a reorganization of public administration, presented at the beginning of 2016 by Dubravka Jurlina Alibegović, minister of public administration in the Orešković government, were not implemented before the elections in September 2016.

II. Executive Accountability

Citizens' Participatory Competence

Policy
Knowledge
Score: 4

Citizens' policy knowledge in Croatia is limited. Most citizens show only minimal political interest. Moreover, the media situation makes it difficult to obtain detailed information on specific government policies.

Legislative Actors' Resources

Parliamentary
Resources
Score: 6

Members of the Croatian parliament (Sabor) have limited resources. Parliamentary committees are supported by some parliamentary staff. The Sabor has an Information and Documentation Department that keeps track of the Sabor's legislative activity and responds to queries for information from MPs and parliamentary staff about bills in progress and transcripts of plenary sessions. There is also a parliamentary library with various collections in the fields of law, politics, history, economics and sociology. However, the support

staff for individual MPs is relatively small, as the budget of the Sabor allows for a secretary for every parliamentary group and one additional advisor for every 15 group members. Moreover, the Sabor does not have an office for policy analysis, and the staff of the Sabor is characterized by formal-legalistic thinking.

Obtaining
Documents
Score: 7

According to Article 115 of the Standing Order of the Croatian Parliament (Sabor), any working bodies of the Sabor may “seek a report and data from ministers of state or officials who administer the operations of other state administrative bodies,” and ministers are obliged “to report on issues and affairs within the authority of the ministries or other state administrative bodies, to submit a report on the execution and implementation of laws and other regulations and the tasks entrusted to them, to submit data at their disposal, or data they are obliged to collect and record within the scope of their duties, as well as records and other documents necessary to the work of parliament or its working body, to respond to posed questions.” However, these rights are seldom used de facto. The most commonly used supervisory mechanism are oral or written questions to the government.

Summoning
Ministers
Score: 7

Parliamentary committees can summon ministers for hearings. The Commission for Conflict of Interest in the Exercise of Public Office, and its President Dalija Orešković, has performed extremely effectively as a parliamentary body. The Commission summoned Tomislav Karamarko, deputy prime minister in the Orešković government and leader of HDZ, to investigate documents related to a possible conflict of interest arising from his wife’s business cooperation with MOL (a company currently in a serious legal dispute with the Croatian government). The investigation showed that this business cooperation was not in compliance with the principles of public office. Soon after, Karamarko resigned from his position in the government.

Summoning
Experts
Score: 10

Croatia is one of the rare countries where experts can be named as outside members of parliamentary committees, and this has become a regular practice. The Committee for International Relations, the Committee for European Integration and the Committee for Internal Affairs and National Security are the only exceptions to this rule. Some civil-society actors, such as Citizens Organize to Oversee Voting (Građani organizirano nadgledaju glasanje, GONG), insist that committees’ use of experts be fully open through the use of a transparent summoning process.

Task Area
Congruence
Score: 8

In both parliamentary terms in the period under review, the number of committees has substantially exceeded the number of ministries. This discrepancy stems largely from the existence of committees that deal with internal parliamentary affairs such as the Credentials and Privileges Committee, Interparliamentary Cooperation Committee, and Petitions and Appeals Committee. The task areas of the other parliamentary committees largely match those of the ministries, thus enabling an effective monitoring.

Audit Office
Score: 9

The Auditor General is elected by the parliament (Sabor) for an eight-year mandate, and can be removed by the Sabor only if he or she is unable to conduct his or her work or is convicted for a criminal act. The Audit Office reports to the Sabor at the end of every fiscal year. It undertakes a broad range of audits and acts independently.

Ombuds Office
Score: 6

The institution of the People's Ombudsman was introduced with a special constitutional law in 1992, and the first ombudsman started his mandate in 1994. According to Article 2 of the Ombudsman's Act, the Ombudsman is "a commissioner of the Croatian Parliament for the promotion and protection of human rights and freedoms laid down in the Constitution, laws and international legal acts on human rights and freedoms accepted by the Republic of Croatia." He or she is appointed by the Croatian parliament (Sabor) for a term of eight years, and can be reappointed. In practice, most government institutions do not react promptly to the Ombudsman's requests, with requests often left pending for considerable time.

Media

Media Reporting
Score: 5

As a result of the rise of media conglomerates and the dominance of foreign owners, the Croatian media sector is highly commercialized. Entertainment genres prevail in both the electronic and print media. Croatia lacks a great, serious daily newspaper comparable with Delo in Slovenia or Politika in Serbia. Nevertheless, the newspapers Jutarnji list and Vecernji list provide good coverage of Croatian political, economic and social affairs. As for electronic media, market share has shifted from the partisan public broadcaster HRT to the more objective independent broadcasters TV Nova and RTL Croatia.

Parties and Interest Associations

Intra-party
Democracy
Score: 4

Croatian parties are characterized by a rigid structure. The degree of intra-party democracy is generally low, as participation of members is limited and selection procedures and debates are largely controlled by the party leadership. In the HDZ (Croatian Democratic Union), no internal elections took place until April 2016. Since then, the party's chairmen have been elected directly by party members. The SDP (Social Democratic Party) is somewhat more open, but does not tolerate the existence of open political blocs. MOST held its first intraparty elections in January 2017, more than one year after having been catapulted into parliament.

Association
Competence
(Business)
Score: 3

Trade unions have traditionally played a significant role in Croatia. Union membership rates are relatively high, and unions have been quite powerful in organizing protest against the government's austerity measures. Like the Croatian Employers Association and most other economic interest

associations, however, the unions have focused on opposing government proposals and have lacked the will – and the capacity – to develop their own proposals. The Chamber of Trades and Crafts, which has been particularly vocal in making proposals concerning vocational education, has played a more constructive role.

Association
Competence
(Others)
Score: 6

Many social-interest organizations in Croatia have the capacity to propose relevant policy proposals. For instance, experts from Citizens Organize to Oversee Voting (Građani organizirano nadgledaju glasanje, GONG), an association of various organizations for the protection and promotion of human rights originally formed in 1997, have taken part in the drafting of various laws on lobbying and elections. Green Action (Zelena Akcija) is another example of a social-interest organization with strong analytical capacity and the ability to promote its issues in the media.

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