

Republic of Croatia

National Reform Programme 2016

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Foreword

The National Reform Programme 2016 describes measures undertaken by the Government of the Republic of Croatia in order to resolve structural challenges faced by the Republic of Croatia, in accordance with the recommendations of the Council of the European Union from July 2015.

Within the European Semester, EU Member States submit their National Reform Programmes by the end of April each year. The European Semester is a surveillance mechanism within the Europe 2020 strategy, which integrates monitoring of national fiscal and structural policies.

The National Reform Programme 2016 was prepared by the Inter-Agency Working Group for European Semester. The Government of the Republic of Croatia adopted the National Reform Programme 2016 at its 16th session held on 28 April 2016.

1. Introduction

In 2015, after six years of decline in gross domestic product, the Republic of Croatia recorded a positive economic growth rate for the first time. Despite recent positive indicators in terms of gross domestic product, labour market trends and projections of overall economic growth for 2016, the long-term development perspective of the Republic of Croatia is still under strong pressure from very high public debt and foreign liabilities, a low employment rate, poor demographic trends, and a long-term low potential growth level. In such circumstances, the implementation of structural reforms to enhance the global competitiveness of the Republic of Croatia, improve the social situation, and ensure fiscal sustainability of the public sector is the most important economic policy objective of the Croatian Government.

The Republic of Croatia is in the process of intensive monitoring by the European Commission within the framework of the procedure for macroeconomic imbalances and excessive deficit procedure (hereinafter: EDP). Among all Member States, only France and Portugal are in the same position as Croatia. EDP was activated in January 2014, but as of June 2014 it is held in abeyance because the European Commission established that Croatia is taking the appropriate measures to correct budgetary imbalances. The European Commission postponed the decision on the possible initiation of corrective procedures within the procedure for macroeconomic imbalances until it receives and evaluates the National Reform Programme (hereinafter: NRP) and Convergence Programme (hereinafter: CP) for 2016.

NRP 2016 describes the measures that are already taken or shall be taken by the Government within the next 12 to 18 months to achieve sustainable economic growth, job creation and the creation of better opportunities for Croatian citizens, while taking into account the stability of public finances, sustainable level of debt and high quality of public services. CP describes the macroeconomic context and the process of fiscal consolidation in the same period, with the primary aim of reducing the general government deficit and achieving fiscal sustainability of the public sector.

The intention of the Government is to present the appropriate measures, within the framework of NRP 2016, to achieve the objectives in terms of correcting macroeconomic imbalances in the short and medium-term and to achieve long-term macroeconomic stability. Based on ambitious reforms contained in the NRP and dedicated work on the implementation of the same, by 2017 we expect Croatia to correct excessive macroeconomic imbalances and excessive budget deficit, which would also send a strong message to international investors regarding the willingness and ability of the Government to initiate the necessary reform measures and achieve the necessary changes.

The Government has set **two main objectives** for structural policies in 2016 and 2017, which are described in the NRP. These are:

- Increasing the sustainability of the general government debt
- Promoting growth and employment in the Croatian economy

There are **four specific key reform areas and eighteen sub-areas** that stand out within these main objectives, concentrating the efforts of the Government in the following eight months, and which are emphasised in this NRP. These are:

1. Macroeconomic stability and fiscal sustainability

Reform sub-areas concentrated in this key area are carried out primarily with the aim of **reducing the deficit and public debt**, as well as risks associated with their high levels. Simultaneously, we seek to achieve **higher levels of efficiency, transparency and fairness in the spending of public funds**, particularly funds underlying large systems such as health, the pension system, and the social welfare system. A special sub-area which, because of its impact on public finances and potentially significant role in economic growth, attracts the special attention of the Government relates to public companies and the improved management or disposal of such companies. Some reforms in this area have already been initiated, and in the following period these reforms shall enter into a more intensive phase of implementation, but in the case of certain reforms, such as pension system reform, there will be significant changes.

- 1.1 Improving public financial management and implementation of fiscal consolidation
- 1.2 Improving the disposition and management of state assets
- 1.3 Reducing fiscal risk in the healthcare system
- 1.4 Improving the sustainability of the pension system
- 1.5 Improving the efficiency of the social benefits system

2. Easier business conditions and better investment environment

The business environment in Croatia should be adapted maximally to suit its main actors - entrepreneurs, in order to provide them with conditions that encourage them to work faster, better, and stronger. The activities to be implemented in the sub-areas listed below are focused on **making state institutions partners to entrepreneurs** in their business. The Working Group for business climate and investment shall have a huge role in the implementation of activities and will become the central body for dialogue between the private sector and public bodies in terms of identifying the administrative, institutional, and financial barriers that the real sector faces in its everyday business. The role of the Working Group will be to actively work on reducing and eliminating these barriers. The real sector needs to be enriched through the diversification of sources of financing, in terms of which financial instruments and EU funds for the development of new and competitive products and services will be activated.

- 2.1 Improving the business and investment environment by reducing the administrative burden and operating costs
- 2.2 Facilitation of financing, deleveraging and restructuring of companies
- 2.3 Increasing investment in research and development in the private and public sectors
- 2.4 Improving the cadastre and land registry system and spatial planning system

3. Greater efficiency and transparency of the public sector

An essential prerequisite for the effective implementation of reforms and maximisation of its effects on entrepreneurs, citizens, and workers is high-quality preparation and smart planning policy. This is one of the basic tasks of public administration, related institutions, and their employees. For this reason, the reform of public administration with all its aspects, which constitutes the biggest part of this key reform area, represents the fundamental pillar of NRP 2016. It is necessary to maximally **simplify and modernise** the system and the operations of the public administration to **make it understandable and equally accessible to everyone**. This will be implemented through the reorganisation of the system, including the judicial system, and by introducing innovations in the human resource management system in public administration.

- 3.1 Rationalisation of the public administration system and operations
- 3.2 Improve human resource management in public administration and public services
- 3.3 High-quality, digitised public services
- 3.4 Strengthen strategic planning and policy coordination and improve the quality of legislative planning
- 3.5 Combating corruption in the public sector
- 3.6 Improved court operations

4. Better education to respond to the labour market

One of the main problems of the Croatian education system is the lack of communication with the labour market, which is manifested through educational programmes at all levels that do not follow the dynamics of the demand for new knowledge and skills in the market. The common objective of the implementation of curricular reform and the further development of the Croatian Qualifications Framework and the modernisation of methods of study and educational programmes will **provide a labour force that will find its place in the labour market** due to its education and employability.

- 4.1 Curricular reform implementation

4.2 Harmonisation of educational programmes with labour market needs

4.3 Quality implementation of the programme of adult education, lifelong learning, and retraining schemes for workers

Each of these sub-areas comprises a number of individual measures described in more detail in the text of the NRP and Annex 1.

2. Macroeconomic outlook for the period covered by the programme

The macroeconomic framework described in the following sections was drafted in February of this year in drawing up the Budget for 2016. The external assumptions are for the most part taken from recent projections of the European Commission from February - "Winter 2016". Subsequently published achievements from 2015 for individual variables are included in this macroeconomic framework without changing their medium-term path, i.e. change rates by the end of the projection period.

In 2015 a six-year negative trend of economic activity ceased, and real gross domestic product growth of 1.6% was recorded.¹ The positive contribution to GDP growth in 2015 primarily came from domestic demand, mainly driven by household consumption, but also from net foreign demand. Continued positive trends and the gradual acceleration of economic activity growth is expected in the medium-term. In 2016 and 2017, real growth in gross domestic product of 2.0% and 2.1% respectively is expected, which will continue to grow to 2.3% in 2018 and 2.5% in 2019. The most significant contribution to economic growth throughout the projection period will continue to come from domestic demand. The contribution of net foreign demand will be slightly positive in the period from 2016-2018, although it will gradually decrease with the acceleration of economic activity and record a slightly negative value in 2019.

Household consumption will be the main driver of growth of domestic demand in the medium-term. Its recovery, after three consecutive years of decline, already began in 2015, and will continue to have greater intensity in the coming years, whereby the dynamics of real growth in household disposable income will be largely monitored, which will particularly determine the movement of further recovery in the labour market. However, especially from 2017 onwards, the movement of household consumption will also be affected by the recovery of consumer confidence in conditions of relatively low and stable inflation. In accordance with state deleveraging needs, a significant contribution of government spending to economic growth is not expected in the medium-term. The growth of gross fixed capital formations, which was already recorded in 2015, will accelerate throughout the medium-term, but, nevertheless, will not reach the levels of the pre-crisis period. A significant incentive to this dynamic of investment activity is expected from the increased utilisation rates of structural and investment funds. Growth in private sector investments will gradually outpace broader public sector investments towards the end of the projection period in terms of strengthening business optimism and improving the investment climate, with persistent structural reforms that will make business easier for entrepreneurs. Despite an estimated acceleration of growth in foreign demand for domestic goods and services, due to the disappearance of the positive effects of re-exports and accession to the common EU market, the real growth of exports of goods and services will be lower in the coming years as compared to 2014 and 2015. Simultaneously, continued positive changes in the share of the domestic export sector in export markets are expected, but this will be considerably less as compared to 2013-2015. Considering the mentioned sharp slowdown in export growth and the disappearance of re-exports, it is expected that real growth in imports of goods and services will slow down in 2016. However, in line with final demand strengthening, the growth of imports will re-accelerate at the end of the projection period.

The recovery of economic activity recorded in 2015 reflected very favourably on the labour market and positive trends will continue, although at lower intensity, in the coming period along with projected employment growth and a decreased unemployment rate. In addition, we expect that, in spite of unfavourable demographic trends, economic recovery will have certain positive effects on the rate of labour force participation.

We expect the period of consumer price deflation to stop during 2016. Raw material prices on the world market will continue to be the main factor in inflation during 2016, therefore an acceleration in the growth of the consumer price index, excluding food and energy, is expected in 2016 while energy prices continue to exercise a negative contribution to inflation. In the following period, influenced by the recovery of raw material prices on the world market and continued growth in household consumption, an acceleration of the inflation rate is also expected.

¹ The data on gross domestic product for 2014 and 2015 are provisional.

Table 2.1 Macroeconomic framework for the period 2016–2019

	2015	Projection 2016	Projection 2017	Projection 2018	Projection 2019
GDP - real growth (%)	1.6	2.0	2.1	2.1	2.1
Household consumption	1.2	1.8	1.8	2.0	2.5
Government expenditure	0.6	0.3	0.8	1.4	2.0
Gross fixed capital formations	1.6	2.5	3.2	3.5	4.5
Export of goods and services	9.2	5.2	5.5	5.6	5.4
Import of goods and services	8.6	4.7	5.3	5.9	6.3
Contributions to GDP growth (percentage points)	1.6	2.0	2.1	2.1	2.1
Household consumption	0.7	1.1	1.1	1.2	1.5
Government expenditure	0.1	0.0	0.2	0.3	0.4
Gross fixed capital formations	0.3	0.5	0.6	0.7	0.9
Changes in inventories	0.0	0.1	0.1	0.1	-0.1
Export of goods and services	4.2	2.5	2.8	2.9	2.9
Import of goods and services	-3.8	-2.2	-2.5	-2.9	-3.2
GDP deflator growth (%)	0.1	1.0	1.2	1.5	1.7
Consumer price index growth (%)	-0.5	0.1	1.4	1.6	1.7
Employment growth (%) *	1.7	1.1	1.4	1.6	1.5
Unemployment rate, survey (%)	16.3	15.5	14.5	13.5	12.8

* National accounts definition

Source: Central Bureau of Statistics, Ministry of Finance

3. Implementation of country-specific recommendations

On 14 July 2015 the Council of the European Union has adopted the following recommendations for Croatia:

1. Ensure a durable correction of the excessive deficit by 2016 by taking the necessary measures in 2015 and reinforcing the budgetary strategy for 2016. Publish and implement the findings of the expenditure review. Improve control over expenditure at central and local level, in particular by establishing a sanctioning mechanism for entities breaching budgetary limits. Adopt the Fiscal Responsibility Act and strengthen the capacity and role of the State Audit Office. Introduce a recurrent property tax and improve VAT compliance. Reinforce public debt management, in particular by publishing on an annual basis a debt management strategy and ensuring adequate resourcing.
2. Discourage early retirement by raising penalties for early exits. Improve the adequacy and efficiency of pension spending by tightening the definition of arduous and hazardous professions. Tackle the fiscal risks in healthcare.
3. Tackle the weaknesses in the wage-setting framework, in consultation with the social partners and in accordance with national practices, to foster the alignment of wages with productivity and macroeconomic conditions. Strengthen incentives for the unemployed and inactive to take up paid employment. Based on the 2014 review, carry out the reform of the social protection system and further consolidate social benefits by improving targeting and eliminating overlaps.
4. Reduce the extent of fragmentation and overlap between levels of central and local government by putting forward a new model for functional distribution of competencies and by rationalising the system of state agencies. Increase transparency and accountability in the public corporate sector, in particular as regards managerial appointments and competency requirements. Advance the listing of minority packages of shares of public companies and privatisations..
5. Significantly reduce parafiscal charges and remove excessive barriers for service providers. Identify and implement steps to improve the efficiency and quality of the justice system, in particular commercial courts.
6. Reinforce the pre-insolvency and insolvency frameworks for businesses in order to facilitate debt restructuring and put in place a personal insolvency procedure. Strengthen the capacity of the financial sector to support the recovery in view of challenges from high non-performing corporate loans and foreign currency mortgage loans, and weak governance practices in some institutions.

3.1. Sustainable public finances

Recommendation 1

Ensure a durable correction of the excessive deficit by 2016 by taking the necessary measures in 2015 and reinforcing the budgetary strategy for 2016. Publish and implement the findings of the expenditure review. Improve control over expenditure at central and local level, in particular by establishing a sanctioning mechanism for entities breaching budgetary limits. Adopt the Fiscal Responsibility Act and strengthen the capacity and role of the State Audit Office. Introduce a recurrent property tax and improve VAT compliance. Reinforce public debt management, in particular by publishing on an annual basis a debt management strategy and ensuring adequate resourcing.

Achieved progress

In January 2014, the EU Council adopted the recommendations for the Republic of Croatia to address the situation of excessive budget deficit by 2016. According to these recommendations, Croatia was invited to cut the budget deficit to 4.6 % in 2014, 3.5 % in 2015 and 2.7 % in 2016, which corresponds to reductions in the structural budget deficit of 0.5 % in 2014, 0.9 % in 2015, and 0.7 % in 2016. Based on the above scenario, Croatia was suggested to adopt consolidation measures in the total amount of 2.3 % of GDP in 2014 and 1 % of GDP in 2015 and 2016.

These recommendations also define regular semi-annual reporting on the implementation of measures to address the excessive budget deficit. Based on the First Report submitted by the Republic of Croatia in the framework of the Convergence Programme for the period from 2014-2017, the European Commission established that Croatia undertook the appropriate measures in order to correct budgetary imbalances and the **procedure in case of an excessive budget deficit was therefore put on hold**.

The data on the excessive budget deficit and general government debt level in the Republic of Croatia have been published in April 2016; the **consolidated general government deficit in 2015** amounted to HRK -10,706 million, i.e. 3.2% of GDP, while in 2014, it amounted to HRK -18,078 million, or 5.5% of GDP. In 2013, the deficit amounted to HRK -17,466 million, or 5.3% of GDP, and in 2012 it amounted to HRK -17,549 million, or 5.3% of GDP. **Consolidated debt at the end of 2015** amounted to HRK 289,669 million, i.e. 86.7% of GDP, while in 2014, it amounted to HRK 284,184 million, or 86.5% of GDP. In 2013 the debt amounted to HRK 270,857 million, i.e. 82.2% of GDP, while in 2012, it amounted to HRK 233,558 million, or 70.7% of GDP. Structural measures to reduce excessive budget deficit in 2015 were implemented at the level of 1.6% of GDP.

With regard to progress in implementing the recommendations of the EU Council relating to sustainable public finances, a detailed overview of the implemented measures is listed below.

Based on an **in-depth analysis of state budget expenditures** - the Decision on conducting in-depth analysis of expenditures of the State Budget of the Republic of Croatia (Official Gazette no. 124/2014), which included (1) expenses for employees who are being paid out of the State Budget, (2) subsidies, (3) healthcare system, (4) business operations of agencies, institutes, funds and other legal entities with public authorities, and (5) tax expenses, during 2015 measures were implemented for the rationalisation of (1) expenditures in the healthcare system, (2) business operations of agencies, institutes, funds and other legal entities with public authorities, and (3) expenses for employees who are being paid out of the State Budget through the reform of the system for determining wages in the public administration and public services. These measures were part of the National Reform Programme 2015 and the Convergence Programme 2015–2017.

Expenditure control on the central and local level, which was significantly improved by amendments to the Budget Act at the beginning of 2015, has been further developed in the proposal of the new Fiscal Responsibility Act. The proposal of the **Fiscal Responsibility Act**, among other things, regulates better control over expenditure planning and execution,

and establishes mechanisms for compliance and the sanctioning of non-compliance with the planned budget limits. The same topic was the subject of a public debate in August 2015 and consultations with the Fiscal Policy Committee and European Commission services. Adoption of the Act is planned by September 2016, and the Act shall be amended in relation to the Proposal of 2015 in the area of strengthening the independence of the Fiscal Policy Committee and ensuring the full compliance of national fiscal rules with the relevant EU framework.

With the aim of improving the budgetary framework, the Ministry of Finance in 2015 prepared and submitted the **Guidelines for the establishment of standard material costs for users of the State Budget** to the state administration authorities. The Guidelines for drafting the State Budget of the Republic of Croatia for the period from 2016-2018 for each expenditure category listed the measures and standards referred to in the Guidelines that should be considered by users when creating a financial plan. For groups of expenditures for which standards have been established, all the users whose expenditures exceed the standard cost are obliged to take measures to reduce these expenditures and plan said expenditures within the framework of the standard cost with at least a 10% reduction compared to 2015. In addition, measures from the Guidelines, the implementation of which is planned in 2016 in order to rationalise expenditures with the aim of their implementation within the expenditure plan, have been listed for each group of expenditures. For example, expected savings resulting from central procurement procedures, establishing a standardisation process of delivery of official documents via e-mail, establishing fleet management for all users, better management of state owned facilities and spaces, etc.

Also, the budgetary framework and establishment of the total budget expenditure limits is improved by the adoption of the **Decision on the procedure of giving a statement on the Fiscal Impact Assessment**, which established the new and improved **Standard Methodology Form for Fiscal Impact Assessment** - FIA Form ("Official Gazette", no. 122/2015). The Form contains the instructions for its completion (Box 3.1.1)

Box 3.1.1 Improvement of the Fiscal Impact Assessment

When compared to the previous one, parts of the new Standard Methodology Form for Fiscal Impact Assessment are much simpler and the Instructions for its completion are more detailed. An important novelty in comparison to the previous form is the elaboration of assessment of the expected increase/decrease of expenses and expenditures regarding Sources 1, 2 and 8 (general revenue and receipts, contributions and special purpose income from borrowing) or financing sources that affect the amount of general government deficit and Other sources (own revenues, special purpose revenues, aid and grants) and financing sources that do not fall within the budgetary limits. Specifically, with respect to budgetary constraints and the increasingly important share of resources received from EU funds in the financing of public needs, it is extremely important that the Government in the process of adopting decisions on accepting or not accepting the proposed regulation/act on planning has information whether the implementation of the same affects the volume of the general government deficit or will it be financed from sources that do not fall within the budgetary limits and have no effect on the amount of the general government budget deficit. In addition to the Government, this information is extremely important to the Ministry of Finance in order to create the best and most realistic limits of total budget expenditure. It is also necessary to elaborate the assessment of the expected increase/decrease in revenues and receipts since it is important that the Government in the process of adopting decisions on accepting or not accepting the proposed regulation/act on planning also has information whether the implementation of the same to increase/decrease of revenues and receipts affects the volume of the general government deficit or will the increase/decrease occur in revenues and receipts that do not fall within the budgetary limits and have no effect on the amount of the general government budget deficit. In addition to financing sources, the elements for calculating the fiscal impact assessment also represent a significant innovation. Until now, applicants in the existing Form expressed assessment of the funds required for the implementation of the proposed regulation and budgetary positions on which it was provided. However, in most cases it was not possible to determine how the applicant came to such an assessment. For this reason, calculation elements were added to help the Government in reaching a decision whether or not to accept the proposed regulation/act on planning, specifically and clearly indicating which particular funds will be spent.

The new **Act on Internal Control System in the Public Sector** (Official Gazette, no. 78/2015) shall reinforce the internal financial control system and expand the circle of obliged entities to include companies owned by one or more Local and Regional Self-Government Units (LC(R)SGU) and other legal entities founded by one or more LC(R)SGU. The new Act shall in detail prescribe the responsibilities of head officers responsible for budgetary and extra-budgetary users of the State Budget and the LC(R)SGU budget, heads of municipalities, mayors, heads of counties, administrative officers, presidents of management boards or directors i.e. directors general, and the responsibilities of managers of internal administrative units for the development and implementation of internal control systems, in detail. The Ordinance on internal audit in public sector and the Ordinance on the internal control system in the public sector are being drafted.

Expansion of provided coverage of audit activity to 69 companies owned by the Republic of Croatia (whose total expenditures are estimated at the level of HRK 26 billion) and 272 companies owned by local government units (whose total expenditures are projected at the level of HRK 8.5 billion). The difference with companies on a local level, applies to companies owned by municipalities and small towns that are not obliged to establish internal audits as they are too small to have the capacity to provide the internal audit function. However, implementing regulations and entities, such as small towns and municipalities that are not obliged to establish internal audits, are given the possibility to establish an internal audit if they consider it justified. The internal audit function covers 99% of total expenditures on the state level (budgetary and extra-budgetary users of the State Budget) and 85% of expenditures on the local level (budgetary and extra-budgetary users of the budget LC(R)SGU).

In terms of **strengthening the role and capacity of the State Audit Office (SAO)**, the Action Plan for strengthening the capacity of the SAO through professional education and training is currently being implemented. The draft Proposal of the Act on the Amendments to the State Audit Office Act, which would define the model for sanctioning failures to act upon the recommendations of the SAO, is currently being drafted. Adoption of the said Act is planned by July 2016.

In order to meet the recommendations relating to the **introduction of property tax**, activities regarding improvements to the system of calculation and payment of utility charges and mass property valuation were implemented:

- analysis of the share of utility charges in the revenue structure of local self-government units was conducted and the Action Plan for the implementation of measures to improve the system of calculation and payment of utility charges was drafted,
- based on the Decision on recording all property in the area of local self-government units and updating of data on obliged payers of utility charges (Official Gazette no. 87/2015), the recording of property subject to utility fees and the updating of data on payers of utility charges was initiated, as well as the recording of properties and payers exempt from utility fees with an associated assessment of the fee amount that would be charged if such an exemption was not prescribed,
- the Act on the Assessment of Property Values (Official Gazette 78/2015) was adopted, ensuring reliable standards of property valuation and their implementation by authorised persons and establishing the Information system of the property market eNekretnine (eProperty) and the Ordinance on the information system of the property market, which prescribe the implementation of the Act in more detail.

In order to meet the recommendation relating to the **improvement of collection of Value Added Tax (VAT)**, and based on the Action Plan for the implementation of measures aimed at establishing control in the field of VAT, results in terms of VAT collection are continuously being monitored.

With the aim of shortening the process of tax inspection and the faster collection of newly established obligations in tax inspection procedures, the **tax settlement institute (Box 3.1.2)** was introduced in 2015.

Box 3.1.2 Tax settlement

Tax settlement may be concluded in all cases of tax inspection, except in cases where a criminal offence is suspected. The condition for concluding tax settlement is the acceptance of a newly established obligation in the tax inspection procedures by the taxpayer and his waiver of the right to legal remedies, thus shortening the tax procedure. On the other hand, the taxpayer is exempted from paying the penalty interest stipulated in the tax inspection procedure for the period from the date on which the tax liability arose until the date of the conclusion

of the tax settlement, depending on the amount and agreed payment term (on the settlement date from 10-100% in proportion to the amount of paid tax liability, or 50% if the obligation is paid within 90 days of the conclusion of the settlement). If the conditions of the principle of opportunity are met, the Tax Administration will not initiate misdemeanour proceedings. From July 2015, when the tax settlement institute was introduced in the tax inspection, to 31 March 2016, a total of 361 settlements were concluded, through which HRK 103,281,819.00 of newly established tax liabilities were collected. For the sake of comparison, in the same period a total of 2,248 tax inspections were conducted (without inspection of focalisation) according to which the newly established tax liability amounts to HRK 918,172,989.00. The data shows that tax settlements were concluded in 16% of tax inspections and that 11% of total tax liabilities were collected through tax settlement. It is estimated that taxpayer insolvency has an impact on the number of concluded tax settlements (according to the General Tax Act, tax liabilities are to be paid immediately or no later than 90 days after the settlement).

Amendments to the General Tax Act, which entered into force on 17 March 2015, allow the taxpayer to conclude an **administrative contract with the tax authority**. This amendment was made in order to make it easier for taxpayers to meet their tax obligations. The conclusion of administrative contracts enables the rescheduling of taxpayers' overdue tax liabilities in up to 24 monthly annuities, thus enabling the easier management of cash flows to entrepreneurs, and tax burden of citizens is distributed in a manner that is more aligned with their monthly income. Taxpayers have recognised this institute and continuously apply for administrative contracts with the tax authority.

For the purpose of effective and efficient management of tax debt, the **eOvrha** (eEnforcement) platform was also developed. This Tax Administration portal application creates databases of current debt and forms lists of debtors on a monthly basis. Lists of debtors formed in this way, along with the recommendations for handling, are distributed to officials responsible for collection procedure. In this way, eOvrha reduces the impact of the human factor in recognising the need to take measures and significantly facilitates timely treatment. This enables the measures to also cover debts due in the previous month, i.e. the period of time that passes from taxable financial or property inflow is shorter and therefore the burden on taxpayers is lower than in subsequent periods in which financial effects are used up.

In order to strengthen public debt management, the Ministry of Finance initiated the drafting of the **Strategy for Public Debt Management 2016-2018**.

3.2. Sustainability of the pension and healthcare systems

Recommendation 2

Discourage early retirement by raising penalties for early exits. Improve the adequacy and efficiency of pension spending by tightening the definition of arduous and hazardous professions. Tackle the fiscal risks in healthcare.

Achieved progress

The reduction of opportunities for early retirement in the past period was primarily addressed by measures to reduce disability pensions, i.e. by **implementing new process to determining disability**, as well as stricter implementation of **ad hoc controls of previously acquired pensions on the basis of disability**. A reduction in the number of new disability pension beneficiaries is noticeable; on 31 October it amounted to 2,101 in comparison to 3,475 in the previous year. The share of disability pensions (which include disability pensions transferred into old-age pensions) in total pensions is also reducing, and on 31 December 2015 this share amounted to 24% of total pensions in comparison to 24.7% in 2014.

Simultaneously, the **effects of the implementation of the Pension Insurance Act**, which entered into force on 1 January 2014, **were monitored**, particularly **regarding early retirement pension trends**. Pursuant to the current Act, entitlement to an early retirement pension in the period until 31 December 2030 is acquired with 60 years of age and 35 years of pensionable service. In the same period, insured women are entitled to an early retirement pension under favourable conditions, with a lower age limit and lower pensionable service. In the period from 1 January 2031 to 31 December 2037, the age limit for an early retirement pension will gradually increase, in accordance with the current Act, and as of 1 January 2038, entitlement to an early retirement pension shall be acquired with 65 years of age and 35 years of pensionable service. Also, the current Act provides a permanent reduction in the initial factor for determining pensions in the amount of 0.34% to 0.1% for each month of early exercise of the right to a pension before reaching the age limit of the insured prescribed for entitlement to an old-age pension. The share of new early retirement pensions in the total number of new pensions on 31 December 2015 amounted to 25%, representing a slight decrease in comparison to the previous year. Simultaneously, the share of early retirement pensions in total pensions is increasing, amounting to 13.9% as of 31 December.

Table 3.2.1 Overview of trends in total number of pension beneficiaries, their average age and average pensionable service

		Status on 31 December 2014	Status on 31 December 2015
1.	Total number of pension beneficiaries	1,223,738	1,228,020
2.	Total number of old-age pension beneficiaries, not including disability pensions transferred into old-age pensions and Article 35 of the Pension Insurance Act	505,219	503,084
3.	Total number of old-age pension beneficiaries under Article 35 of the Pension Insurance Act	4,940	9,836
3.	Total number of early retirement pension beneficiaries	160,374	170,804
4.	Total number of disability pension beneficiaries, including disability pensions transferred into old-age pensions	302,332	294,448

4.	Total number of new pension beneficiaries	51,526	49,256
5.a.	Total number of new old-age pension beneficiaries, not including Article 35 of the Pension Insurance Act	18,235	19,516
	Average age of new old-age pension beneficiaries, not including Article 35 of the Pension Insurance Act (years and months)	64 03	63 09
	Average pensionable service of new old-age pension beneficiaries, not including Article 35 of the Pension Insurance Act (years and months)	31 01	30 10
5.b.	Total number of new old-age pension beneficiaries under Article 35 of the Pension Insurance Act	4,580	4,014
	Average age of new old-age pension beneficiaries under Article 35 of the Pension Insurance Act (number of years and months)	62 09	61 09
	Average pensionable service of new old-age pension beneficiaries under Article 35 of the Pension Insurance Act (number of years and months)	42 10	42 08
6.	Total number of new early retirement pension beneficiaries	13,443	12,101
	Average age of new early retirement pension beneficiaries (number of years and months)	59 06	59 00
	Average pensionable service of new early retirement pension beneficiaries (number of years and months)	36 06	36 06
7.	Total number of new disability pension beneficiaries under the Pension Insurance Act	3,475	2,102
	Average age of new disability pension beneficiaries under the Pension Insurance Act (number of years and months)	53 09	53 01
	Average pensionable service of new disability pension beneficiaries under the Pension Insurance Act (number of years and months)	23 01	23 03
8.	Total number of new pension beneficiaries under special regulations	11,793	11,523

Also, a **revision of the existing list of professions and job positions to which pensionable service with extended duration is applied** was conducted in the previous year, with the purpose of decreasing the number of such professions by 50%. A revised list will be the basis for the new Act on Extended Duration of Pensionable Service.

In terms of redefining the pension systems of active military personnel, police officers, and authorised officials, with the aim of regulating the occupational pension system of these special categories of insured persons, the Regulation on Amendments to the Pension Insurance Act (Official Gazette no. 93/2015) was adopted, by which capitalised assets from the personal accounts of members of mandatory pension funds, which are beneficiaries of disability pension due to professional incapacity for work under the Act on Pension Insurance Rights of Active Military Personnel, Police Officers, and Officials, were transferred to the State Budget. The Regulation on Amendments to the Mandatory Pension Funds Act was also adopted, enabling persons insured under the Act on Pension Insurance Rights of Active Military Personnel, Police Officers, and Officials to exit the 2nd pillar by personal declaration. Persons who decide to remain in the 2nd pillar and currently do not qualify for pension under the existing Act shall exercise their pensions in accordance with the general regulation.

Within the part of the recommendation relating to fiscal risk in the healthcare system, steps were taken to **improve the control of expenditures of the hospital system**. The due liabilities of the healthcare system on 31 December 2015 amounted to HRK 2,533,285,651, which is for HRK 270.947.979 i.e. 9.66% less than on 31 December 2014 when due liabilities amounted to HRK 2.804.233.630. In 2015, there were over 300 million unforeseen expenses for jubilee

awards, salary arrears due to annual leave calculation, and the impact of calculation of changes in the collective agreement.

Simultaneously, emergency hospitals increased their natural indicators (amount of performed work), which increased variable operating costs: treatment in day care hospitals increased by 33.7% in comparison to 2014 (mostly in CHC, CH, clinics and smaller hospitals) and as much as 51% in comparison to 2013; the number of hospital treatment cases is reducing due to new modalities of treatment (day care hospitals); duration of hospital treatment was shortened by 3.3% since January 2015; bed occupancy rates rose by 22.4% (in 2015 it amounted to 96% comparable to the new Network from October 2015) in comparison to 2014 (mostly in general hospitals); the number of patients in specialist/conciliar healthcare has grown by 10.2% (in comparison to 2014) mainly due to the introduction of internal hospital referrals and the strengthening of day care hospitals which are included in specialist/conciliar healthcare; although primary healthcare is reducing referrals to specialist/conciliar healthcare - 83% of cases are resolved in primary healthcare, i.e. the number of referrals decreased by 800,000 (mostly in CHC, CH and clinics); the number of operations is increasing – an increase of 6% in CHC, CH, and clinics in comparison to the beginning of 2015.

In terms of the results of implementation of the new model of contracting and payments for hospitals, hospitals in the first half of 2015 recorded a financial and natural increase of performance. Increasing efficiency is partly the result of implementation of the "Programme Plus", a programme to shorten waiting lists, through which 33 hospitals that participated in the programme handled an additional 130,000 patients. Along with "Programme Plus" in 2015, "Open Doors" projects were launched, in which almost 4,000 patients were examined in two rounds in seven major Croatian hospitals, and the "72 Hours Programme" project was also initiated, which includes initiating treatment within 72 hours from the diagnosis of patients with colorectal carcinoma, breast cancer, and malignant head and neck tumors. The "72 Hours Programme", in which 1,200 patients were treated by September 2015, enables the initiation of treatment within 72 hours i.e. provides admission, multidisciplinary team decisions, and operation planning, as well as chemotherapy or radiation therapy.

According to the new payment model, the Croatian Institute for Health Insurance pays hospitals a share of revenue in advance payments, and the rest after the execution of services. At the end of 2015, the **Croatian Institute for Health Insurance reduced its due liabilities by 46.84%** i.e. by HRK 440,386,060. The due liabilities of the Croatian Institute for Health Insurance on 31 December 2014 amounted to HRK 940,126,023, and HRK 499,739,963 on 31 December 2015. Trends of positive operating results have been recorded. More and more hospitals in 2015 showed positive operating results. Thus, a **positive financial result was achieved in 38 i.e. 67% of hospitals**. Positive financial results were recorded in 25 out of 26 specialised hospitals.

With regard to the implementation of the new model of hospital management, the **monitoring of five parameters of quality and efficiency was introduced**, which had a significant influence on the quality and efficiency of provided healthcare services. These parameters are: average duration of treatment in hospital, the total number of specialist/conciliar healthcare cases per one healthcare worker, the general mortality rate, the number of treatments in day care hospitals, the number of patients treated with reserve antibiotics.

The rate of temporary incapacity for work (hereinafter: sick leave) on 31 May 2015 amounted to 3.28; of which 1.61 was at the expense of employers and 1.67 was at the expense of the Croatian Institute for Health Insurance. In the first three months of 2016, the rate of sick leave amounted to 3.30; of which 1.51 was at the expense of employers and 1.79 was at the expense of the Croatian Institute for Health Insurance. In the same period in 2015, the rate of sick leave amounted to 3.56; of which 1.83 was at the expense of employers and 1.73 was at the expense of the Croatian Institute for Health Insurance. The Croatian Institute for Health Insurance continuously conducts regular, unscheduled and specially designed actions of sick leave controls and sick leave controls on the request of employers. In the first two months of 2016, 566 sick leave controls were carried out. Through the organisation of thematic workshops and other forms of support, the relevant department of the Directorate of the Croatian Institute for Health Insurance continuously encourages all forms of sick leave controls carried out by controllers of the Croatian Institute for Health Insurance and its regional offices. A system of business reporting (BI) on trends in sick leave rates was established in 2016 enabling more effective surveillance of trends in the sick leave rate and opening the possibility of faster action of controllers of the Croatian Institute for Health Insurance regarding certain indicators. The liabilities of the Croatian

Institute for Health Insurance arising from sick leave compensations in the first two months of 2016 amounted to HRK 209,173,142.00.

3.3. Improve conditions in the labour market and enhance the social benefits system

Recommendation 3

Tackle the weaknesses in the wage-setting framework, in consultation with the social partners and in accordance with national practices, to foster the alignment of wages with productivity and macroeconomic conditions. Strengthen incentives for the unemployed and inactive to take up paid employment. Based on the 2014 review, carry out the reform of the social protection system and further consolidate social benefits by improving targeting and eliminating overlaps.

Achieved progress

Within the part of the recommendation relating to the alignment of wages with productivity and macroeconomic conditions, an analysis of the minimum wage in the Republic of Croatia and its impact on the productivity was conducted. Regarding the decision on whether the **Study on the impact of minimum wage** will be taken into account in further policy shaping, it can be expected that, after discussion with social partners, the said study will become the basis for future policies and regulatory solutions, especially because numerous statistical data used in the Study on the impact of minimum wage are relevant for understanding the role of the minimum wage in Croatia (from the Labour Force Survey and Population Income Survey, followed by detailed information from Annual Reports on employed persons and paid wages and from JOPPD form processing and structural business indicators of enterprises for 2014), and since the Study results from the research and analytical work of experts in the field of economics and the labour market, bearing in mind the lack of another analytical background. The intended activity regarding this objective is to establish a working group in order to assemble all relevant stakeholders.

The Action Plan for establishment and regulation of the wage system in the Republic of Croatia 2015-2016 was adopted in July 2015, providing continuous monitoring of the collective bargaining process in public and civil services, equalisation of rights in collective agreements in all sectors of public services and in relation to the rights of employees in the civil service and the adoption of the Act on Wages in the Public Sector. The said Action Plan was further developed in the framework of the **Commission for development of human resources in public administration**, which was established pursuant to the Decision on the implementation of reform measures for improving the system of public administration (Official Gazette no. 18/2016). Measures within the jurisdiction of the Commission are:

- conducting an analysis of work complexity in public administration in order to develop a competency framework for employees and establish criteria for new classification of jobs in public administration
- establishing a system of objective and impartial evaluation as an effective foundation for the stimulation and/or sanctioning of civil and public servants by providing funds in the State Budget for rewarding employees based on ratings and by limiting the number of employees rated with highest grades, as well as enabling the change of pay grades without formal career promotions,
- the revision of the salary determination system and regulation of the system of salaries in public administration and public services,
- improving the human resources management system and the continuous development of human resources in public administration through formal and informal education,

and will be further developed through the **Action Plan for the development of human resources in public administration**.

In terms of social benefit reform, the **comprehensive analysis of the social protection system** was completed, covering the beneficiaries and expenditures of social benefits and programmes at the central government level and programmes and social benefits at the level of local and regional self-government units. Analysis results have determined 28 benefits at national and 2907 benefits with a social component at the local level (that can be reduced

to a few dozen categories since many LC(R)SGU have the same benefits/programmes, under the same or different names, which are intended for the same groups or have the same function), intended for primary user groups: family (parents, children and other members); persons with disabilities; unemployed persons; persons participating in the education system; Croatian Homeland War veterans and their family members; pensioners and the elderly; other socially vulnerable groups (homeless people, asylum seekers, victims of domestic violence, drug addicts, etc.). Central government benefits were provided for a total of 1,230,962 users, and in 2014 these benefits amounted to HRK 3,946,753,211. Benefits generated at the local level were provided for a total of 724,076 users, for which in 2014 local and regional self-government units settled a total of HRK 1,736,661,301. Tax relief analysis identified 28 reliefs amounting to a total of HRK 4,405,944,933 in 2013. Regarding the analysed benefits, lack of uniform criteria for their award was determined, i.e. certain benefits require verification of income and assets, some require only verification of income and others do not require any verification of income or assets. The same was concluded in case of the analysis of tax relief.

In accordance with possibilities, proposals of measures arising from the said analysis shall be integrated in the reform measures to be implemented in 2016 and 2017, especially with regard to **improving social benefits and expenditures** by introducing financial status verifications (income and/or assets) as a criteria for benefit awarding, as well as by **reducing misuse or the removal of overlapping, duplication or accumulation of rights in the allocation of benefits and services on different levels of government** through better coordination and information exchange on the use of rights from the social welfare system.

Regarding the **consolidation of social benefits** through the **One Stop Shop**, the Act on Amendments to the Social Welfare Act (Official Gazette no. 99/2015) was adopted, regulating the administration of the guaranteed minimum benefit (GMB) by competent state administration offices in counties or the competent office of the City of Zagreb. As of 1 June 2016, said offices should have started making decisions on recognition of rights to guaranteed minimum benefit, i.e. take over the role of One Stop Shop. Since the necessary preparations have not been made in the meantime (employees of the state administration have not passed the necessary training, a public tender for the development of applications related to achieving standardisation of social benefits have not been published yet), the need to redefine the proposed structure of a unified benefits centre was confirmed. Discussions are underway about development of a model that would ensure the maximum use of existing capacity and ensure the strengthening of professional social work in order to support families and individuals in overcoming difficulties, as well as the active role of working age users in their work activation.

In order to prevent the risk of poverty and further impoverishment, the amount of guaranteed minimum benefit for singles - incapacitated adults, as well as children of single parents and children from single-parent families has been increased. With the same purpose, the new benefit for low income buyers of energy was introduced, and certain provisions have been improved in order to prevent the social exclusion of certain vulnerable groups by providing the use of a greater range of social services.

The implementation of the project of **Strengthening the policy and capacity to reduce undeclared work** was initiated in 2015. The project is worth EUR 1.5 million and is financed by the European Union. Based on the results of project activities and in accordance with European guidelines on combating illegal employment, the **Strategy and Action Plan on combating illegal employment** will be adopted and a working body for coordination of policies and measures to combat illegal employment will be established. In this sense, the project will contribute to the establishment of an efficient system of policies, measures and control mechanisms, as well as to strengthening administrative capacity and the ability to fight illegal employment and the creation of an interdepartmental electronic database in the field of combating illegal employment.

3.4. Improving public sector efficiency

Recommendation 4

Reduce the extent of fragmentation and overlap between levels of central and local government by putting forward a new model for functional distribution of competencies and by rationalising the system of state agencies. Increase transparency and accountability in the public corporate sector, in particular as regards managerial appointments and competency requirements. Advance the listing of minority packages of shares of public companies and privatisations.

Achieved progress

In May 2015, The Government adopted the **Decision on the establishment of the Commission for the implementation of the rationalisation of regional units of the central state administration bodies**, which conducted an analysis of regional units of state administration central bodies. Simultaneously, the Government adopted the **Decision on reducing the number of agencies, institutes, funds and other legal entities with public authorities and the establishment of the Commission for the implementation of the rationalisation of the system of agencies, institutes, funds and other legal entities with public authorities**, based on which (1) the State Institute for Nature Protection and the Environmental Protection Agency were abolished, and the performance of their duties was entrusted to the newly established Croatian Agency for Environment and Nature, (2) the Agency for regional development of the Republic of Croatia was merged into the Central Finance and Contracting Agency for EU Programmes and Projects.

As regards the implementation of the process of functional, fiscal, and territorial decentralisation in order to rationalise the LC(R)SGU system, the Act on Amendments to the Act on County, City and Municipality Area in the Republic of Croatia (Official Gazette no. 110/2015) was adopted, establishing a legal framework for the voluntary merger of local self-government units.

The **Commission for modernisation of the system of public administration** was established by the Decision on the implementation of reform measures for improving the system of public administration (Official Gazette no. 18/2016) in order to implement further activities related to raising the efficiency of public administration and its focus on customers. Measures within the jurisdiction of the Commission are:

- reducing the fragmentation of task performance in state administration performed by central bodies of state administration, units of regional and local self-government and legal entities with public authorities,
- standardising the internal organisation and improvement of business processes in public administration bodies,
- rationalising regional units of state administration central bodies,
- functional and fiscal decentralisation and achievement of optimal territorial reorganisation,

and will be further developed through the **Action Plan for the modernisation of public administration**.

The same Decision established the **Commission for the Digitisation of Public Administration** whose work is managed by the Prime Minister of the Republic of Croatia in the role of the president of the Commission. The Commission is responsible for establishing the **Action Plan for the Digitisation of Public Administration** that will define the activities and deadlines for implementing the following measures:

- integrated maintenance and management of databases and information and communication infrastructures, development and support to key information systems of the Republic of Croatia.
- improve the e-business of public administration by developing application services and providing electronic services to citizens, business entities and state services,

- developing an Open Data Portal at data.gov.hr.

In the part of the recommendation relating to **transparency in the operation of public enterprises**, i.e. strengthening the competency requirements for candidates and transparency in the management board appointment process of companies in state ownership, the following documents were adopted:

- Decision on the Terms and Procedure for the Election and/or Appointment of Supervisory Board Members of Public Companies in which the Republic of Croatia or Legal Entities Partake in Capital Stock Shares (Official Gazette no. 91/2015), which separates the selection process of board members from the selection process of supervisory board members and applies to members of supervisory boards of public companies whose shares and stocks are managed by the Restructuring and Sale Centre,
- Regulation on the Criteria for the Implementation of Public Tenders for Appointing Presidents and Board Members of Public Companies and Other Legal Entities of Strategic and Special Interest for the Republic of Croatia (Official Gazette 112/2015), which improves and professionalises the selection process of presidents and management board members, and also applies to the selection of candidates for persons authorised to represent public companies whose shares and stocks are managed by the Restructuring and Sale Centre, unless otherwise provided for by a special regulation.

Both regulations were amended in April 2016. The new **Decision on Terms and Procedure for Election and/or Appointment of Supervisory Board Members of Public companies of Strategic and Special Interest for the Republic of Croatia** aligns the criteria for selection of candidates for supervisory board members and candidates for management board members, and prevents situations in which the criteria for the selection of candidates for members of supervisory boards would be stricter or weaker than the criteria for the selection of candidates for management board members.

The new **Regulation on the Criteria for the Implementation of Public Tenders for Appointing Presidents and Board Members of Public companies and Other Legal Entities of Strategic and Special Interest for the Republic of Croatia** (Official Gazette 112/2015) stipulates the selection of candidates by means of public tender or through specialised agencies. In this way, the process is in compliance with the Act on the Management and Disposal of Assets owned by the Republic of Croatia (Official Gazette no. 94/13, 18/16), simplified and accelerated.

Regarding the process of reducing the state portfolio of public companies, in July 2015 the Government adopted the amendments to the **Decision on establishing a list of companies and other legal entities of strategic and special interest for the Republic of Croatia**, by which the number of public companies and other legal entities of strategic and special interest was reduced from 59 to 56. Club Adriatic d.o.o, Sunčani Hvar d.d. and Hrvatska brodogradnja Jadranbrod no longer represent companies of special interest to the Republic of Croatia. Also, in July, the Government adopted the Proposal of the Decision on initiating the procedure to reorganise the public company Imunološki zavod d.d. into an institution for performing health-related activities, the Institute of Immunology.

The Report on the implementation of the management plan for assets owned by the Republic of Croatia for 2015 was adopted in April 2016.

3.5. Improving business environment and efficiency of justice system

Recommendation 5

Significantly reduce parafiscal charges and remove excessive barriers for service providers. Identify and implement steps to improve the efficiency and quality of the justice system, in particular commercial courts.

Achieved progress

In accordance with the **Decision on the reduction of parafiscal levies in 2015 and reduction objectives in 2016 (in amounts of 0.1% of GDP for 2015 and 2016) and the establishment of the Commission for the monitoring of implementation of the reduction of parafiscal levies** (adopted in April 2015.):

- on 10 September, the Register of Non-Tax Levies was published, containing a total of 161 items in the total value of HRK 8,413 billion,
- in 2015, the regulations for relieving financial pressure on entrepreneurs and citizens were amended in the net annual amount of HRK 309,575,898.70 in respect of non-tax levies, as follows:
 - waste tire management fees (HRK -7,768,674.46),
 - waste motor vehicle management fees (HRK -11,768,141.68),
 - water contributions (HRK -64,363,468.00),
 - Tourist Board membership fees (HRK -32,290,566.28),
 - annual fees for the use of public roads (HRK -99,594,868.00),
 - monument annuities (HRK -18,808,104.96),
 - Croatian Chamber of Trades and Crafts membership fees (HRK -4,300,000.00),
 - Croatian Chamber of Commerce membership fees (HRK -18,682,075.32),
 - packaging and packaging waste fees and incentive fees for packaging waste which were abolished (HRK -52,000,000.00).

Many regulatory barriers on services market have already been eliminated in various sectors (trade, mediation in property sales, construction, architects, engineers, land surveyors, tourism, hospitality, museums, etc.) in accordance with the EU Services Directive. With the aim of service market reform, the Ministry of Economy defined the measures to eliminate the remaining barriers to the Croatian services market (e.g. the introduction of an online registration process to establish companies and obtain approvals/licenses for certain service activities, simplifying administrative requirements for access to service activities, and eliminating the remaining sectorial regulatory barriers, especially in the area of professional and business services, including review of access to certain regulated professions, costs of professional examinations and mandatory membership fees in professional chambers (in accordance with OECD Product Market Regulation methodology), the Regulation on services market is in the jurisdiction of different competent authorities of the central state administration, and therefore the interdepartmental horizontal coordination in the implementation of reform measures and legal obligations under the EU Services Directive is essential. Elimination of remaining key regulatory barriers will be implemented by the end of 2016, and shall continue with the implementation of additional measures in 2017, in accordance with the EU's Internal Market Strategy.

In August 2015 the Government adopted the Action Plan on reducing the administrative burden in the economy. Based on the Action Plan, the reduction of administrative burden was implemented in the fields of retail and mediation in real estate sales. The said plan established the Standard Cost Model (SCM) implementation of measuring administrative burden in order to further reduce the burden by at least 20% by the end of 2016 in the following areas:

- business start-up of public companies and crafts,
- work safety,
- health and sanitary standards,
- energy efficiency in construction.

The report on the conducted SCM measurement is currently being drafted, as is an identification of measures to reduce the burden by at least 20% by the end of 2016 in the area of the business start-up of companies and crafts, work safety, health and sanitation standards, and energy efficiency in construction, and additionally in the field of trade and mediation in real estate sales.

Business start-up facilitation in 2015 was achieved by amendments to the Companies Act and the Court Register Act of 1 November 2015, which introduced legal requirements to reduce the liquidation costs of limited liability companies, facilitate liquidation procedures for all capital companies, strengthen existing provisions on the prevention of possible conflicts of interest of management board members, and all data on registration in the Register and information and communications of subjects of entry are being published, in accordance with the Act, on the website of the Court Register, which replaces the previously prescribed publication in the Official Gazette. The average annual number of Register publications is 45,000. More than 40,000 publications refer to data on registration whose individual cost of publication amounted to HRK 200-900. This type of publication is now free of charge. For the cost of publication of the liquidation proceedings, entrepreneurs previously had to pay HRK 1,600, and for the cost of other publications that must be published according to the Act, they also had to pay amounts that in some cases exceeded the amount of HRK 10,000. In accordance with the new rules, each of these costs amounts to HRK 100. The amounts of notary fees for registry documents were also reduced.

In addition, in 2015, an application for the registration of crafts, e-Obrt (e-Craft), was launched, enabling the submission of application forms for the establishment of crafts, the publishing of changes in existing crafts, and the retrieval of records from official registers via the internet. Login is available through the e-Građani (e-Citizens) system.

In order to improve the efficiency and quality of the judicial system, the reorganisation project of 1 April 2015 established a new network of municipal and commercial courts and municipal state attorney's offices, and from 1 July 2015 a new network of misdemeanour courts was established, and second instance local jurisdiction system of County Courts was also reformed (Box 3.5.1).

Box 3.5.1 Effects of reorganisation of the judicial system

The total of 43 municipal courts, 39 misdemeanour courts and 11 municipal state attorney's offices were closed.

Judicial bodies that closed and existing permanent services of judicial bodies have become permanent services of newly established judicial bodies, and a detailed arrangement of communication between judicial bodies and their services enabled citizens to take a large number of actions in permanent services, allowing almost identical continued access to the justice system, with the exception of certain actions that can be taken only at the seats of judicial bodies.

In the new organisation of the network of municipal courts, criminal and commercial proceedings are carried out only at the seats of the courts, unless a special decision of the Minister of Justice on the proposal of the President of the Court provides otherwise. Retention or physical consolidation of certain permanent services will depend on meeting the appropriate spatial and technical requirements for the work of the courts and ensuring adequate levels of access to the justice system to citizens, provided that access to the justice system is primarily ensured by maintaining judicial days. Each county court became competent to decide in second instance on appeals against judgments of all municipal courts in civil and criminal proceedings, except on appeals against decisions in commercial disputes, family matters, and land matters, which are in the jurisdiction of individual county courts. The decision on which county court will be assigned to resolve a certain case in second instance shall be made by random algorithmic allocation of cases.

In order to standardise the judicial practice of county courts, mandatory meetings of the Supreme Court of the Republic of Croatia have been introduced and attended by the presidents of the judicial departments of county courts, whose conclusions will be published on the website of the Supreme Court of the Republic of Croatia, and the Judicial Practice Centre was established for the purpose of standardising common judicial practice. In order to achieve easier and faster delegation of cases, as one of the means to harmonise the workload in courts, the

authority to decide on the delegation was passed from the President of the Supreme Court of the Republic of Croatia to the President of the immediately superior common court, and the obligation of drafting the annual work programme of the court was introduced, as was reporting on the completed operations of the court administration for the previous year, which enables the continuous monitoring of the performance and results of the courts and court presidents. The institute of permanent transfer of judges was additionally elaborated in order to achieve greater efficiency, objectivity, and transparency. The role of the National Judicial Council and the State Attorney's Council was reinforced by appointing judicial officials who now have the option of selecting the best candidates among a wide circle of persons who fulfil the requirements for appointment. With the aim to achieve greater efficiency of the Judicial Academy, as the central institution responsible for the training of key stakeholders in the justice system, specific organisational changes have been introduced and professional training activities were expanded to all employees in the field of justice. The Judicial Academy developed activities and programmes for the training of judicial officials and officials in judiciary bodies.

Digitisation of the judicial system in 2015 was focused on supporting the reorganisation of the network of judicial bodies and all locations of judicial bodies were linked on Hitronet and placed in the domain of the Ministry of Justice. Application systems used by judicial and penal bodies were improved, and thus the required adjustments and expanded functionalities were integrated in the electronic filing system eSpis (eFile), and the case management system in misdemeanour courts was implemented with modules for electronic data exchange. The CTS system used by county and state attorney's offices was implemented on all locations and linked with the electronic filing system eSpis (eFile). The application for misdemeanour records and register of unpaid fines was put into operation, criminal records were upgraded, as well as the Court Register and eOglasna ploča (eBulletin board) of courts, while significant progress has been made regarding new functionalities and expansion of the Joint Information System of Land Registry and Cadastral Data. In 2015, the Joint Information System of Land Registry and Cadastral Data was introduced in 50 Land Registry Departments. The first service of the Ministry of Justice payable by electronic means, elzvadak (eExcerpt), was put into operation. In addition to upgrades and new information systems, a significant part of the investment was related to office computer equipment.

3.6. More efficient regime for resolving insolvency and deleveraging and the greater contribution of the financial sector to recovery

Recommendation 6

Reinforce the pre-insolvency and insolvency frameworks for businesses in order to facilitate debt restructuring and put in place a personal insolvency procedure. Strengthen the capacity of the financial sector to support the recovery in view of challenges from high non-performing corporate loans and foreign currency mortgage loans, and weak governance practices in some institutions

Achieved progress

In the area of reforming the pre-bankruptcy and bankruptcy legal framework, the new **Insolvency Act** was adopted in June 2015, introducing many innovations. With the new Insolvency Act entering into force on 1 September 2015, pre-bankruptcy proceedings were fully transferred into the jurisdiction of the court, conditions for more efficient restructuring process were created, the rules for faster resolution of bankruptcy cases and full transparency were introduced, as were the use of prescribed forms, the random selection of bankruptcy trustees, cost reduction, e-auction, and automatic bankruptcy treatment towards legal persons whose bank accounts have been blocked in the long-term. Special emphasis was put on the protection of creditors, their right to (timely) information, control and sanctioning of others both in the pre-bankruptcy and bankruptcy proceedings. In 2015 all the implementing acts were adopted, whereby it is necessary to underline the **vocational and professional training programmes for bankruptcy trustees**, within which the measures to strengthen their professionalism were introduced for the first time. In addition, the **Guides for pre-bankruptcy and bankruptcy proceedings** were prepared and the **Guidelines for entrepreneurs' debt restructuring through out-of-court agreements** were adopted. The guidelines are intended for entrepreneurs whose financial problems are still resolvable out of court. They are not a binding document, but they represent the proposal of possible solutions to the problem. The purpose was to clearly and economically provide entrepreneurs and creditors with information on the principles and rules relating to restructuring of debt through an out-of-court agreement, and thereby to encourage their cooperation in order to ensure the realisation of their interests and increase the overall value for creditors, debtors, employees and the entire economy. The **Working Group for Analysis and Monitoring of the Effects of the Bankruptcy Act** started its work in April 2016.

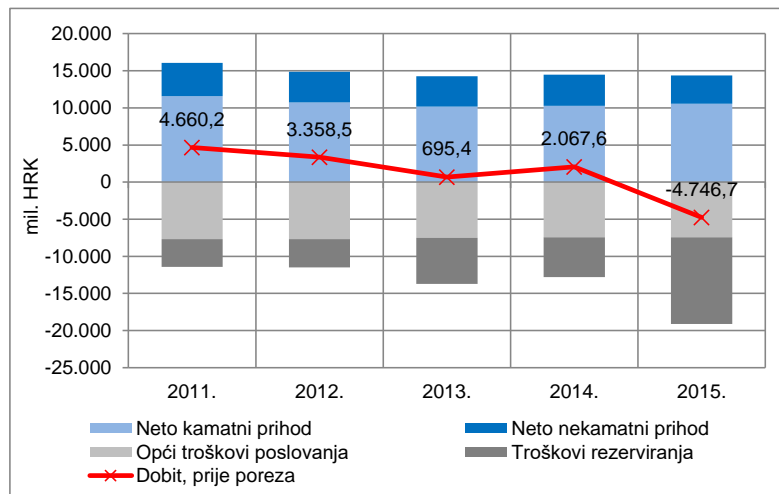
The institution of consumer bankruptcy was introduced in the Croatian legal system for the first time by the adoption of the **Consumer Bankruptcy Act** in September 2015. The overall objective of the institution of consumer bankruptcy was to develop a system that would result in the creation of an opportunity to reprogram commitments or provide a new start for fair insolvent consumers, and provide appropriate compensation of creditors' claims. Special objectives include creating opportunities to reach agreement between creditors and debtors through informal and formal framework, and creating opportunities for responsible and economically rational consumer behaviour, as well as relieving the system from multiple unsuccessful enforcement proceedings. Implementation of out of court proceedings in counseling centres was introduced as one type of process with the purpose to collect all relevant data on creditors' claims and consumers' property, as well as to mediate between participants in the proceedings in order to conclude an agreement. If consumer fails to agree with creditors on ways to settle the claim in the said phase of the proceedings, the proceedings will continue before the competent municipal courts. The court proceeding also has elements of voluntariness, and consumer is once again provided with the opportunity to reach an agreement with creditors before the court in the form of court settlement. If a settlement is not reached, the court shall appoint a trustee, which in further course of the process plays a key role in the distribution of the consumer's assets and represents a bridge between the court, the consumer and the creditors. Taking into account the objective of the Act and the basic principles of related European norms, a specified period for reviews on behaviour is determined for exemption from remaining liabilities. The court's decision on exemption from remaining liabilities will depend on the consumer's conduct during reviews of his behaviour. Denial of exemption from remaining liabilities is introduced for unfair consumers. After the expiration of behaviour review period conscientious consumers will be exempted from remaining liabilities towards creditors. However, in order to protect public and stronger interest, an exhaustive list of

liabilities for which there is no possibility of exemption were introduced, and the court may revoke the exemption from remaining obligations if certain preconditions are fulfilled. All implementing acts were adopted, the training of 73 mediators in counselling centres and 33 judges of municipal courts was conducted and the **Working Group for Analysis and Monitoring of the Effects of the Bankruptcy Act** started its work.

The **Act on Amendments to the Consumer Credit Act** (Official Gazette 102/2015, hereinafter: CCA) and the **Act on Amendments to the Credit Institutions Act** (Official Gazette 102/2015, hereinafter: CIA) entered into force on 30 September 2015, stipulating the conversion of loans denominated in CHF into loans denominated in EUR and conversion of loans denominated in HRK with foreign currency clause in CHF into loans denominated in HRK with foreign currency clause in EUR. Loan conversion also covers claims arising from the termination of loan agreements, i.e. in which the debtor's obligation to return the received due to termination of the loan agreement has not been implemented or enforced (terminated loan agreements, loans with ongoing enforced collection etc). Loan conversion does not cover loans for which conversion was conducted before CCA and CIA entered into force and loans for which the debtor's obligation was fulfilled or enforced before CCA and CIA entered into force. Conversion also covers the consumers (CCA), as well as freelancers, craftsmen, sole traders, and holders of family farms (CIA). Within 45 days of the entry into force of the CCA and CIA the creditors were required to deliver a loan conversion calculation to the consumers, as at 30 September 2015, by registered mail with return receipt, together with a proposal of the new of amended loan agreement. Consumer was obliged to inform the creditor on the acceptance of conversion calculation, by registered mail with return receipt or in person, within 30 days of receipt thereof.

In 2015, the profit and loss accounts of banks were strongly affected by legislative amendments aimed at facilitating the position of debtors with loans in Swiss francs and with foreign currency clauses in Swiss francs, and their equalisation with the position in which they would be if their loans were in EUR. According to preliminary unaudited data for 2015, the banks recorded losses of HRK 4.7 billion (before tax) and HRK 2.1 billion profit at the end of the previous year (Figure 3.6.1). The charges for value adjustments and provisions had the strongest negative impact on the profit and loss account (and thus on the final result of bank operations), of which the most important are the costs of conversion amounting to HRK 6.8 billion at the end of the year. The banks expressed the impact of conversion, for the first time, on the date of conversion (30 September 2015), and it represents the difference between the carrying value of outstanding principal of loans in Swiss francs and those by the conversion process calculated in EUR. Excluding the impact of these costs, the profit of banks would have recorded a slight increase.

Figure 3.6.1 Profit (loss) of banks, before taxation (at the end of the period)

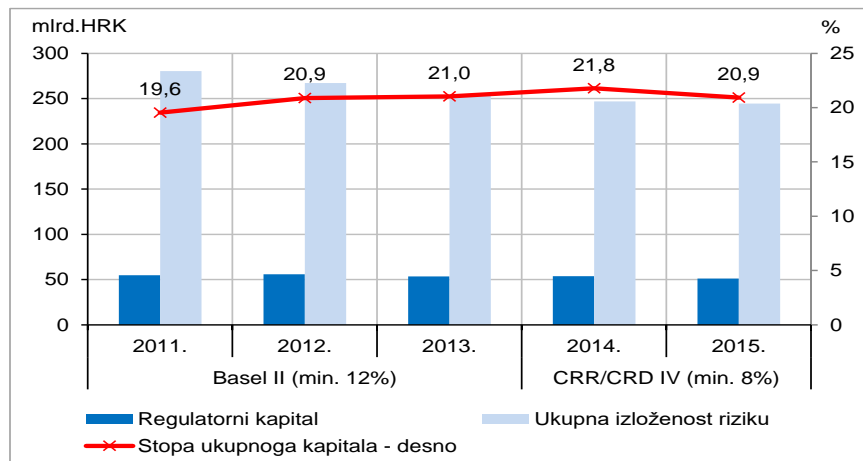


Source: Croatian National Bank

The application of legal provisions on conversion influenced the decrease of the banks total capital ratio, on the one hand by reducing the regulatory capital due to current year's loss, and on the other hand by increasing banks' exposure

to currency risk as a result of currency position adjustment. However, the total capital ratio still remained high - at the end of 2015 amounted to 20.9%, which is 0.8 percentage points less than at the end of 2014 (Figure 3.6.2).

Figure 3.6.2 Banks' total capital ratio (at the end of the period)



Source: Croatian National Bank

Conversions had no significant impact on the quality of housing loans in 2015, due to relatively small realised amount of conversion at the end of the year. The share of B and C group loans in total housing loans in Swiss francs (including loans in HRK with currency clauses in Swiss francs) amounted to 16.5%. This indicator was significantly lower for the HRK and EUR component (including loans in HRK with currency clause in EUR) and in this case amounted to 9.6% and 6.0%, respectively. In the HRK component, the share of B and C groups decreased in comparison to the previous year, which was influenced by new lending activity and a reduction in loans within the mentioned risk groups. Analysis and monitoring of trends in quality of housing loans will continue in 2016.

In 2015, after several years of unfavourable trends, **the level of non-performing placements was reduced** (partly recoverable and fully irrecoverable placements) and off-balance sheet liabilities of banks² primarily reflecting the increased activities of resolving claims with collection difficulties. This interrupted the multi-annual negative growth of non-performing placements and their share decreased for the first time after nine years. Compared to 2014, the amount of receivables sold significantly increased, which had a major impact on the reduction of partly recoverable and fully irrecoverable receivables, which were lower by 4.1%. This reduced their share in the total exposure, from 12.3% to 11.9%.

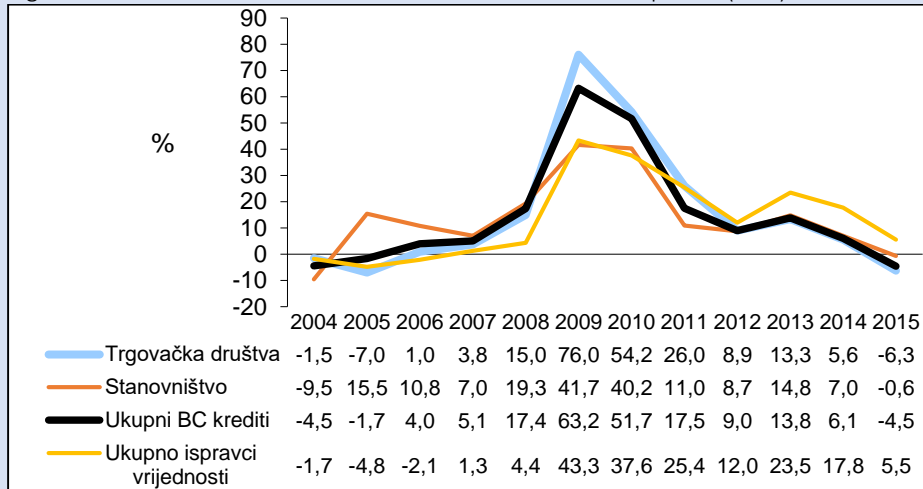
Box 3.6.1

The growth in share of partly recoverable and irrecoverable loans (risk categories B and C), which had started in 2008, ended in 2015 (Figure 3.6.3). The share of mentioned risk groups decreased from 17.1% at the end of 2014 to 16.6% at the end of 2015 (Figure 3.6.4). Implemented sales of group B and C loans had the key impact on these trends. However, it should be noted that, if we exclude the effects of sales, group B and C loans in the second half

² Total credit risk exposure consists of placements (balance sheet items) and assumed off-balance sheet commitments. Placements are divided into loan portfolio and receivables and into portfolio of financial assets held to maturity, with interest rate receivables and payables in a separate item (receivables on the basis of income). The mentioned financial assets include different instruments, such as loans, deposits, bonds and treasury bills while the assumed off-balance sheet guarantee liabilities include framework loans and other. Placements and assumed off-balance sheet liabilities are classified into risk groups A (fully recoverable placements and assumed off-balance sheet liabilities), B (partially recoverable placements and assumed off-balance sheet liabilities) and C (fully irrecoverable placements and assumed off-balance sheet liabilities). Risk group B consists of three sub-groups, depending on the amount of established loss: B-1 – loss of up to 30% of the receivable amount, B-2 – loss of more than 30% but not more than 70% of the receivable amount and B-3 – loss of more than 70% but less than 100% of the receivable amount. Risk group C includes exposure with loss in the amount of 100% of the receivable amount.

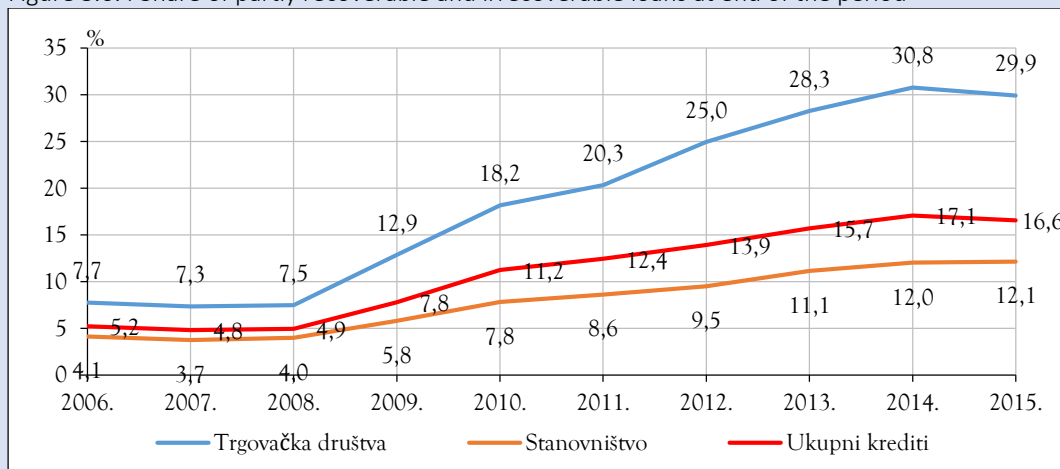
of 2015 would record stagnation. This was mainly caused by developments in the corporate sector, as a result of increased efforts in resolving non-performing loans. After several quarters of loans in risk groups B and C, their share in total loans of that sector was stabilised. On the other hand, in the private banking sector, which responded to the crisis later, the growth of share of B and C loans did not stop. Despite the nominal reduction of B and C level household loans, due to a significant decline in total household loans, the share of B and C loans in 2015 rose slightly from 12% at the end of 2014 to 12.1% at the end of 2015.

Figure 3.6.3 Growth rates of B and C loans at the end of the period (in %)



Source: Croatian National Bank

Figure 3.6.4 Share of partly recoverable and irrecoverable loans at end of the period



Source: Croatian National Bank

Notes: The distribution of exposure by institutional sectors is conducted by the Croatian National Bank in accordance with the European System of Accounts 1995 (ESA 1995). The population includes households and non-profit institutions serving households. As of 31 October 2013 the loan amount is reduced by the amount of unpaid remuneration (formerly recorded as deferred income in liabilities). Data for 2015 are not audited.

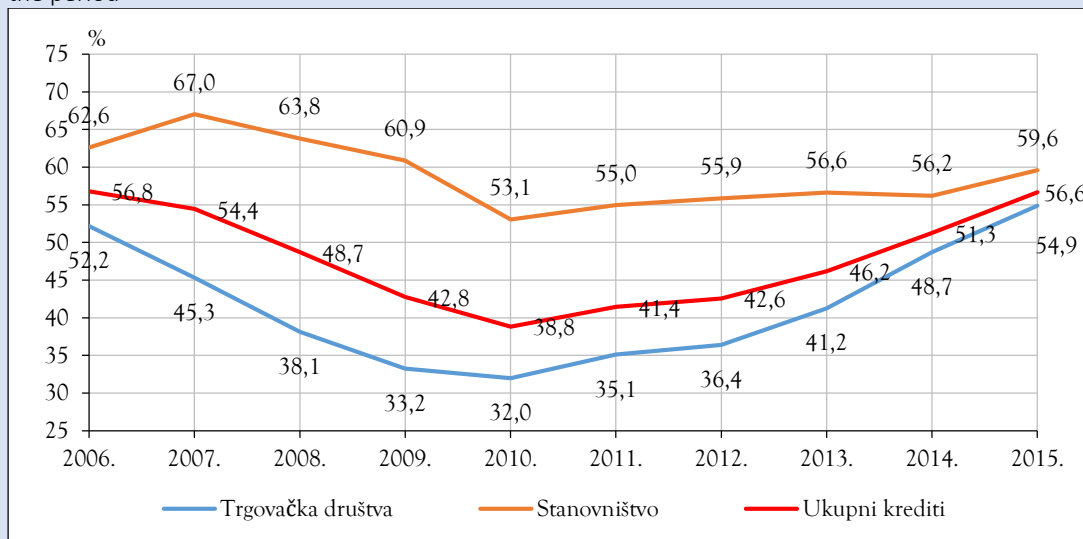
In the corporate sector, B and C group loans decreased by 6.3%, which was mostly affected by sales of receivables and other factors, such as concluded pre-bankruptcy settlements and finalised bankruptcy proceedings. In these

proceedings the banks conducted partial debt write-off or remit³ and took over the real estate and other assets of clients. In addition, debt write-off, which was not related to pre-bankruptcy proceedings or sales, increased at the end of the year, and part of reduction came from improved creditworthiness of debtors, as indicated by reclassification of certain clients into a better risk group or group A (fully recoverable loans).

In the private banking sector, group B and C loans slightly decreased (0.6%), also primarily due to sales of receivables. Regulations related to loans in CHF, which resulted in losses in banks' operations and will result in partial loan principal write-off, had no significant impact on the quality of housing loans due to relatively low realised amount at the end of the year (by the end of 2015 the amount of conversion was relatively low – the banks reported HRK 2.1 billion of loans generated by conversion, of which 97.1% of the amount related to housing loans and in this context the principal write-off in the amount of HRK 979.8 million was made at the expense of previously formed provisions). Furthermore, the deterioration of the portfolio (of housing loans) continued somewhat more dynamic than in the previous year, with the largest contribution of CHF component, whereas the share of B and C group loans in total housing loans in CHF (including loans in HRK with currency clause in CHF) amounted to 16.5%.

The growth of value adjustments for B and C group loans (Figure 3.6.5) continued and reflected in a noticeable increase of coverage of the said loans, despite the fact that sold receivables were highly covered by value adjustments. Compared to the end of 2014, when it was 51.3%, coverage increased by 5.3 percentage points and reached 56.6%. Increased coverage of B and C loans by value adjustments was a consequence of growth of losses on these loans due to portfolio aging. In addition, the impact of a decline in the value of collateral, especially real estate collateral, is also possible. Coverage was particularly increased in the corporate sector, and the difference in the level of coverage for B group loans and C group loans in these two sectors continued to decrease. However, it still remained higher in the private banking sector (59.6% compared to 54.9% in corporate), due to significance of poorly secured loans, such as non-purpose cash loans and overdrafts, in which banks generally perform reclassification of receivables based on late payment days and increase value adjustments.

Figure 3.6.5 Coverage of partly recoverable and fully irrecoverable bank loans by value adjustments at the end of the period



³ According to the Civil Obligations Act (Official gazette nos. 35/2005, 41/2008 and 78/2015), debt relief is one of the ways to terminate the obligation. The obligation terminates when the creditor declares to the debtor that he will not require its fulfilment, and the borrower agrees.

In 2015 the amount of sold receivables significantly increased, mostly due to a large transaction of one bank in the last quarter of the year. During the year the banks sold a total of HRK 2.8 billion receivables (gross) of risk groups B and C, whose net book value amounted to HRK 396.7 million. In addition, HRK 931.0 million of related of-balance sheet receivables, related to interests and other receivables, were sold. Sales of receivables from corporations dominated with almost two-thirds of the total amount, and buyers were mostly specialised debt collection houses. For comparative purpose, in 2014 the banks sold HRK 1.3 billion of receivables, of which approximately 60% of the amount referred to the population. The majority of sales were executed by three banks. Portfolio aging, strengthened by the influence of the rules on gradual increase of value adjustments for receivables with a long status of irregularities in repayment (adding 5% value adjustments every six months for receivables older than two years), led to a decline in the net book value of B and C risk group loans, which increased their attractiveness in the secondary market. Sales generally generated income for banks (due to sales at prices higher than net book value and receivables in the balance sheet)⁴, but also caused the stabilisation of the level of junk loans, which could have a positive impact on credit growth possibilities.

Regarding the **improvement in management of the Croatian Bank for Reconstruction and Development**, the obligation of conducting independent *asset quality review* (AQR) of the bank's loan portfolio in the second quarter of 2017 based on data from 2016 was established. Based on AQR data and findings, it will be determined whether the management of the Croatian Bank for Reconstruction and Development is adequately regulated. In this sense, the Republic of Croatia wishes to improve the management process in the Croatian Bank for Reconstruction and Development, since the Croatian Bank for Reconstruction and Development plays an important role in achieving the objectives of balanced economic and social development aligned with the strategic objectives of the Republic of Croatia. Simultaneously, each improvement of the management system will be focused on strengthening the reputation of the Croatian Bank for Reconstruction and Development.

⁴ In earlier periods the banks suffered losses based on these receivables, so their overall influence of banks' operations was unfavourable.

4. Main objectives and reform areas in 2016 and 2017

The Government has set **four main objectives** of the structural policies described in the NRP 2016. These are:

- macroeconomic stability and fiscal sustainability,
- easier business conditions and better investment environment,
- greater efficiency and transparency of the public sector,
- education for the labour market.

There are **eighteen specific reform areas** that stand out within these main objectives, concentrating the efforts of implementation in the following period. Planned key measures in these areas are described below, and the main obligations under the measures are shown in Annex 1.

4.1. Macroeconomic stability and fiscal sustainability

Improving public financial management and the implementation of fiscal consolidation

Key reform measures

1. Improve public debt management
2. Improve budget planning and expenditure control
3. Further standardisation of material expenditures
4. Reduce expenditures for employees in public administration and public services
5. Further development of the unified public procurement system
6. Improving the fiscal framework
7. Ensuring stricter implementation of the recommendations of the state audit
8. Introducing the property tax

This specific objective is primarily focused on the measures relating to **public debt management** and **better budgetary planning and expenditure control**, as well as **implementation of fiscal consolidation**.

Key reform measures to be implemented relate to the adoption and implementation of a three-year **Strategy for Public Debt Management 2016-2018**, pursuant to the provisions of the amended Budget Act (OG, no. 15/2015). Adoption thereof is planned in May 2016 (Box 4.1.1). The Ministry of Finance also plans to strengthen the capacity of its organisational unit for public debt management through additional employment, reallocation of resources and internal reorganisation activities.

In order to **improve budgetary planning**, as well as the **efficiency of budgetary expenditure**, the activities to be implemented in 2016 are related to the improvement of the legislative framework, strengthening of national strategic planning process, and the introduction of obligatory *ex-post facto* evaluation of the effects of selected State Budget programmes, activities, or projects.

In order to ensure fiscal discipline, the Budget Act (Art. 39 a) stipulates the fiscal rule determining that deficit established by the budget for the next fiscal year must not exceed the deficit established by projection adopted by the Croatian Parliament, or representative body of local units, during the previous year for that fiscal year. Since the said rule provides no exceptions to its application, in unexpected situations, such as sudden economic slowdown, it would be hard to implement this rule and its implementation would be very difficult. That is why the **amendments to the legislative framework**, the Budget Act, will introduce an adjustment mechanism to be applied in specific and explicitly mentioned situations.

Furthermore, since the current legislative framework governing strategic planning provides no solid basis for the development of national strategic documents, strategic plans must be adapted in order to, among other things, include the presentation of reform measures in the same manner as required by the National Reform Programme (see measure Improve strategic planning system on national level). Also, the timeline of the process of national strategic planning needs to be adapted to the pace of preparation of the National Reform Programme. These efforts to **simplify and strengthen the process of national strategic planning** could also result in termination of semi-annual and annual reporting on the implementation of strategic plans since the objectives and performance indicators defined in the strategic plan would be translated into the financial plan, which would provide a unified mechanism for monitoring their implementation. In this way, the semi-annual and annual reporting on the execution of financial plans will also include reports on the implementation of strategic plans. Thus reporting on the implementation of strategic plans becomes redundant.

In order to reinforce the medium-term budgetary framework, the introduction of one and/or more new measures will be considered, with the aim of strengthening the medium-term budgetary framework, such as changes in adopted projections with mandatory detailed explanation of reasons for such changes.

For the purpose of continuous improvement, a system of budget planning and better expenditure control will be introduced, as will **obligatory ex-post facto evaluations of the effects of selected State Budget programmes, activities, or projects**. Evaluation will become an essential part of the strategic planning cycle. Evaluation results may show that some programmes have achieved their objectives or that additional investments will not affect their efficiency. This can be the basis for changes in the existing legislative framework, but also for the development of new programmes. It is therefore necessary to prescribe the framework for evaluating the effects of selected programmes, activities or projects in the State Budget on an annual basis, including: criteria for the selection of programmes, activities or projects for evaluation, institutions that would carry out such evaluation, the terms of implementation and ways to take evaluation results into account in the drafting of the State Budget. In order to find the best possible legislative solutions before proposing amendments to legislative framework, during 2016, an *ex-post facto* evaluation will be conducted on 2-3 selected programmes/activities/projects, and such evaluation will become mandatory on an annual basis after the amendments to the Budget Act.

The further **improvement of fiscal statistics** will be implemented through the creation of binding tables for conversion of records of business events according to the rules of entrepreneurial accounting in the budgetary accounting for certain extra-budgetary users in order to strengthen statistical reporting in accordance with ESA 2010 methodology. For this purpose, it is planned to establish a working group whose members will be experts from academic community, accounting experts specialised in budgetary accounting and accounting experts specialised in enterprise accounting.

Simultaneously, efforts will be made to **further improve expenditure control**, on the one hand, based on the results of monitoring of the implementation of measures from the Guidelines for the establishment of standard material costs for users of the State Budget, adopted in November 2015, and on the other hand, by reducing the wage volume in the public administration and public services. Concerning material expenditures, the objective is to standardise and harmonise the levels of same material costs in all budgetary and extra-budgetary users of the State Budget and thus provide a realistic planning of the same.

Further standardisation of material expenditures will be achieved by applying the Guidelines for fleet management adopted pursuant to the **Decision on the conditions of use of company cars, mobile phones, regular airlines, business credit cards, means of representation, and the method of approving business trips**. Savings on material expenditures in the amount of HRK 50 million per year will be achieved by this measure.

Concerning reductions in the wage volume in the public administration and public services, the goal is to **reduce total expenditures in the period from 2016 to 2018 by 2%** compared to 2015, i.e. about HRK 600 million (expenditures for employees in 2015 amounted to approximately HRK 30.5 billion). The targeted reduction is planned to be achieved primarily through employment freeze (except employees of EU funds and other funds by the categories defined by the Government of the Republic of Croatia), and by the amended terms of final deadline for retirement of civil and public servants and through the reduction of bonuses for years of service. Since the natural outflow of employees in

2016 and 2017 exceeds 5,000 persons, even with partial new employment, potential savings are estimated at over HRK 400 million in total by 2018. Amendments to the Civil Servants Act will modify the provision regulating termination of service by force of law through terminating employment on the date of the realisation of the conditions for retirement, and not at the end of the year in which the employee achieved these conditions. Concerning reducing the bonus for years of service, most of the savings in this section are intended to be used to finance incentives for work efficiency of employees after establishing a new model of wages, including employees in public administration and public services.

In 2016, the State Office for Central Public Procurement plans to **launch the unified procurement procedures for 5 new procurement categories** (printing solutions - printing devices rental and print monitoring software), security services, airline tickets and hotel accommodation, vehicle maintenance, and supply of natural gas), and amendments to the Decision on procurement categories (OG, no. 67/12) are necessary in this area. An estimate of the amount of savings in the proposed procurement categories will be made after collecting procurement plans for 2016, which is in progress, but we certainly expect savings due to greater public purchasing volume and the fact that certain standardisation is realised through unified public procurement procedures. Considering the significant increase in the number of procurement categories, at this time it would not be wise to simultaneously increase the number of users for all proposed new categories, since the consolidation of the needs of a large number of users would significantly extend preparation procedures, and in new categories, in addition to natural gas supply, the implementation of procedures are proposed for central public procurement taxpayers according to the Regulation on the Internal Organisation of the State Office (OG, No. 3/15) – 34 bodies (Ministries, Government, professional services and offices, Croatian Parliament, the Office of the President). Regarding natural gas supply, the consolidation of user needs is simpler and the procedure requires no long-term preparation, and such a procedure for this category can also be carried out for additional number of users. In addition to new procurement categories in reform measures, in 2016, the State Office plans to implement 4 unified procurement procedures within the existing categories, such as licenses, fuel, computers and computer equipment, and electronic communications services in the fixed network and equipment (fixed telephony). Regarding the mentioned procurement categories, procurement of fuel and fixed telephony is planned to be carried out for 34 central public procurement taxpayers and additional 567 users, and in this respect the State Office will request the adoption of a specific Decision of the Croatian Government on additional users of fuel procurement, while the Government's Decision on additional users regarding fixed telephony was already adopted on 23 April 2015. In April 2016, the State Office also commenced data collection and eligibility analysis of the implementation of a unified procurement for the category of printing services and the ongoing maintenance of buildings, and if results of unification turn out to be positive in terms of cost savings or standardisation, i.e. if unification of procurement shows no adverse effects on the market, it is conditionally possible to initiate public procurement procedures for other two categories in 2016.

Further improvement of the expenditure control system is anticipated through the **strengthening of the role of the State Audit Office (SAO)**, i.e. the introduction of financial sanctions for non-compliance with its findings and recommendations. This will be regulated by amendments to existing legislative framework, the State Audit Office Act (OG, no. 80/2011). In addition, amendments to the Act will also regulate other procedures relating to the verification of the execution of orders and recommendations. This would improve the existing system, which is based on the mandatory submission of data on measures taken upon the audit results in the form of the Implementation Plan of Orders and Recommendations which will list all planned activities (measures) for the implementation of such orders or recommendations, persons responsible for due implementation and the deadline of executing implementation, by each auditee.

The new **Fiscal Responsibility Act** will be adopted in September 2016. The Act will improve the harmonisation of fiscal policies with the provisions of the Directive 85/2011 on requirements for budgetary frameworks of Member States, and strengthening of the independence and role of the Fiscal Policy Committee. Also, the adoption of the Act is relevant to the further improvement of the budgetary framework through better control mechanisms for planning and executing the expenditures of budgetary and extra-budgetary users.

Box 4.1.1 Public debt management strategy

Public debt and general government debt reached a level of 289.7 billion or 86.7% of GDP at the end of 2015. This high level of public debt constitutes a great burden on overall economic policy and its associated risks highlight the vulnerability of public finances. Cyclic disruptions accompanied by structural rigidities showed the consequential extent and speed of public debt expansion in the period between 2008 and 2014 when it increased by HRK 147 billion, or if measured as a share of gross domestic product, from 39.6% to 86.5%.

Recovering from a long-term economic recession during 2015 contributed to the efforts and effects of fiscal consolidation, and consequently ended the long-term trend of excessive year-on-year increase in the share of public debt in GDP. In the short term, the current macroeconomic projections indicate the possibility of mitigating the refinancing risk and stabilisation and reversal of this trend. However, the current high level of public debt requires the implementation of active policies for public debt management in order to ensure its long-term viability and to limit the negative effects of associated risks. Necessary leverages for active public debt management include the regular formulation, publication and evaluation of public debt implementation strategy whose objectives are based on a cost risk analysis, taking into account macro-economic and market constraints.

The Ministry of Finance is drafting a Public debt management strategy for the period from 2016-2018, whose adoption by the Government is proposed for May 2016. The Strategy will define basic objectives and implementation methods for improving the sustainability of public debt and the mitigation of associated risks. With detailed overviews of historical trends and the public debt structure, three-year projections and the principles for achieving the established funding plans, the aforementioned Strategy will identify the implementation risks and principles of mitigating such risks. In so doing, the main emphasis will be on addressing risks that require:

- Improving legal and institutional framework for public debt management

The existing legal and institutional framework provides a relatively satisfactory implementation and control framework with the necessary flexibility at the level of the central budget, extra-budgetary users, and local units of government. The framework needs to be expanded with effective control mechanisms at the level of public companies covered by the ESA 2010 methodological classification in public debt, in order to be able to define the overall objectives and limits of fiscal policy.

- Mitigation of refinancing risk and reducing the share of short-term debt in total public debt

The current level of public debt and the established structure of annual repayments create a significant refinancing need that comes close to 20% of gross domestic product annually. The current favourable conditions in the financial markets offer the possibility of extending the average debt maturity and balancing the maturity profile, while reducing the share of short-term debt in total public debt.

- Mitigation of public debt currency risk

Although the domestic component is a prevalent part of the total public debt structure, its majority (over 75%) is denominated or indexed in euros. This currency risk cannot be eliminated in the short term, but the conditions on the domestic capital market allow its partial mitigation since the volume, available maturity and price of HRK sources have provided adequate alternative denominated currency in the past 18 months. We expect further growth in the HRK component in the total debt through primary issuance in the domestic market as well as the possibility of replacing part of the existing currency instruments with HRK instruments, in the case such preferences are adopted by financial institutions in terms of adapting to capital requirements pursuant to regulatory provisions.

- Mitigation of interest rate risk of the public debt

Given the overall high level of indebtedness, a long-term increase in reference market interest rates would represent a substantial threat to fiscal sustainability and consequently generate a substantial public debt increase. In the short term, this threat is mitigated by the existing structure of interest rates in which more than 82% of long-term debt consists of instruments with fixed interest rates on the state budget debt level. Also, in the short term, current market conditions suggest a refinancing of maturities of current debt at a lower nominal interest

rate. In the medium term, this risk can be mitigated by consistent implementation of sustainable fiscal policies and a consequent improvement of the state credit rating, and by reducing the existing high risk premium.

In addition to the analysis of aforementioned public debt management risks, the Strategy will include a precise borrowing plan for the current year which will include planned dynamics and an auction calendar, and medium term projections of the borrowing plan. The regular annual adoption and publication of the three-year strategy compliant with the convergence programme is scheduled for May of each year, preceded by the plan, dynamics, and borrowing calendar that would be published after the adoption of the state budget.

In order to improve the management of public debt, increased volume and complexity of operative tasks, we will continuously work on strengthening the organisational capacity by filling systematised and currently vacant job positions. Also, part of the operational activities that are currently performed by the public debt management sector, and which are not directly related to the public debt management activities, will be transferred to another organisational unit, thereby providing a substantial increase in the efficiency of the existing facilities. Continuous additional training of existing employees will also be implemented where possible.

In addition to these activities, we will perform a **comprehensive analysis of the tax system in the Republic of Croatia** in 2016.

The objective of each tax administration is efficient and economical tax collection, and to have taxpayers voluntarily comply with tax obligations as much as possible. Contrary to the stated objective, the tax system in the Republic of Croatia was subject to frequent legislative changes in recent years which ultimately led to an insufficient understanding of the tax system and unclear and inconsistent legal provisions. A Working Group of tax experts has been established under the guidance of the Ministry of Finance to tackle and rectify this situation. This Working Group will carry out a complete audit of the current tax system, identify main tax barriers responsible for halting the economic development of the Republic of Croatia and propose new laws and tax regulations. New legislation aims to achieve a stable system that will not change year after year, a sustainable system in which tax expenditures will be known and targeted, a simple system that is understandable without additional instructions and opinions, and a competitive system that has comparable tax rates in the tax system environment.

The primary objective of the proposed new legal solutions is to find room for lowering tax rates, while maintaining or increasing the level of income by broadening the tax base, introducing property or environmental taxes, and eliminating unproductive tax expenditures (exemptions, reliefs and exclusions). The proposed legal solutions should be simple and understandable to taxpayers and provide legal security. In this regard, special emphasis is placed on finding solutions for establishing a system of educational activities for the taxpayers which would introduce first warning procedures instead of misdemeanour procedures. In addition to educational activity aimed at taxpayers, there is the requirement of opening channels for continuous and transparent communication between the tax administration and taxpayers.

The main activities of the Working Group are established by the decision of the Minister of Finance and they focus on state taxes (VAT, income tax, excise duties, and taxes and fees in the area of gambling), shared taxes (income tax and property transfer tax) and utility charges i.e. property tax, with a view of interpreting overall effects of the transformation of utility charges into value property tax. However, the activities of the Working Group are not limited to the aforementioned, and other taxes as well as all processes in existing tax procedures are to be looked at. The Working Group's activities should result in new legislation to be adopted after a public debate and parliamentary procedure for adopting regulations. It is expected that the new tax legislation will be implemented by 2017.

By 1 January 2018, we will introduce a "simple" **property tax** to replace utility charges, which will take into account two additional variables when calculating the tax base: age and condition of the property, in addition to the existing parameters which are currently considered when calculating utility charges. Introduction of additional variables will correct current unfairness in the calculation of utility charges, given that the payment of taxes will approximate the payment by value. To complement the additional variables, local self-government units will use the existing administrative structures and the method of determining additional variables will be based on the principle of

simplicity, allowing the entry of additional variables without increasing operating costs for introducing the tax. A simple tax would be charged to all persons who are currently obligated to pay utility charges. This means that taxpayers would be taxed for residential facilities, office spaces, garages, building plots used for business activities and unused building land. Potential tax exemptions will be regulated by law, i.e., local self-government units will not have the authority to independently exempt individuals or groups of users. Since the local units have not been collecting utility charges for construction zoned property (although the law provided them with this option), this means that a new one group of taxpayers will emerge in practice. This tax will be collected by local government or the Tax Administration in areas where local self-government units lack adequate capacity. With regard to the fact that the property tax will be considered a multi-purpose local tax, local self-government units will achieve additional flexibility when using tax revenue. On the basis of an up to date registration of taxable properties and based on the controlled application of tax exemptions and reliefs during the implementation of the "simple" property tax, we expect an increase of up to 15% in the revenue generated from existing utility charges, i.e., increased annual income by HRK 300 million.

In the second phase, we will introduce the "full" property tax by 1 January 2020 based on an assessment of property values under the Regulation on assessment of property values (mathematical model of assessing property values based on a number of parameters). During the application of the simple property tax, prerequisites for the transition to the "full" property tax will be completed and determined based on property value. Collecting the "full" property tax will greatly enable real revenue management by local self-government units and will require further review of income tax revenue redistribution with the aim of equally developing all areas of the Republic of Croatia. By applying the "full" property tax, we expect to see an increase in revenue from property taxes similar to the EU average level.

The **consolidation strategy** of the Government aims to reduce the **planned deficit of the consolidated general government to 1.0% of GDP in 2019**, based on the implementation of structural reform measures, and in line with macroeconomic projections for the period between 2016 and 2019. These positive trends regarding the significant reduction of the budget deficit, and taking into account the privatisation incomes and a change of deposits, will lead to a **reduction of the public debt in the GDP** in 2016 to 85.9%, after several years of strong growth. The rest of the observed medium term period is also expected to show its gradual reduction to **80% of the GDP in 2019**.

Improving the disposition and management of state assets

Key reform measures

1. Better definition of owner policies in strategic companies owned by the Republic of Croatia
2. Financial restructuring of strategic companies experiencing difficulties
3. Re-evaluation of strategic properties and reducing the state portfolio of companies
4. Reducing the state portfolio of flats, office spaces, and land
5. Redefining the concept and structure of comprehensive state property records

Key effects to be achieved within the framework of this reform subarea include the **reduction of fiscal risk to the state budget, greater contribution of public companies to the development of the Republic of Croatia and public debt reduction through the activation of state property**.

The state will implement the aforementioned measures to, *inter alia*, redefine its policy on public companies in terms of setting harsher requirements on the quality of operations, planning and realisation of business objectives and operational control. It will also examine the justification of ownership over 56 companies and other legal entities of strategic and special interest with a view to reducing the number of companies in that category by selling stocks and shares.

It is expected that, by November 2016, all strategic companies will **draft medium-term business plans** for the period between 2017 and 2020, which will also include company restructuring strategies. These plans will be drafted in accordance with a pre-defined methodology and Action Plan for determining strategic business objectives of strategic companies. The list of strategic companies required to draft business plans will be established by July when the

Government will adopt the **Amendments to the Decision of the Croatian Government on establishing a list of companies and other legal persons of strategic and special interest for the Republic of Croatia**. Supervision of the implementation will be carried out under the jurisdiction of the State Office for State Property Management (SOSPM) which will have its capacities strengthened through additional employment and education for the purposes of performing this function. The State Office for State Property Management will especially supervise the implementation of the strategic restructuring of companies, particularly those with the highest levels of indebtedness and repayment difficulties on the basis of business analysis and the importance of strategic companies in June 2016. In July 2016, the Government will adopt the **Guidelines for drafting internal documents of strategic companies in terms of wage policy** which will serve to clearly link the compensation policy, i.e., the amount of compensation given to management and supervisory boards with success in achieving mid-term goals.

Companies not included in the amended Decision of the Croatian Government on establishing a list of companies and other legal persons of strategic and special interest for the Republic of Croatia will be included in the **Plan for the privatisation of non-strategic companies** in addition to companies managed by the Restructuring and Sale Centre (RSC). This plan will be adopted by August. The Government will actively pursue the **reduction of state ownership over flats, office spaces and land**, and the activation of unused state property (e.g. assigning functions to former army barracks). In order to start the activation process as soon as possible, procedures will be initiated in accordance with the existing procedure of sale of stocks and business shares (especially in the case of companies from the Restructuring and Sale Centre portfolio⁵) and properties, for the purpose of which the Government will adopt a Decision on the sale of 3,800 flats with a total area of 160,000 m² by June. Concurrently with the existing sales procedure, the Government will work on simplifying said sales procedure in order to accelerate implementation and generate revenue of EUR 500 million during 2016 and 2017. This will be done by amending the Act on Management and Disposition of the Property Owned by the Republic of Croatia, Regulation on the sale of stocks and business shares and the Regulation on Disposal of Properties Owned by the Republic of Croatia.

In order to ensure transparent insight into the scope and structure of property owned by the Republic of Croatia and thus enable a comprehensive approach to the management of state assets during 2016, the data and software of the Central Registry of State Assets will be upgraded as part of the multi-year development and implementation of the State Property Management Information System (ISUDIO).

Reducing fiscal risk in the healthcare system

Key reform measures

1. Changes in the health insurance system
2. Emergency medicine reform
3. Hospital network reorganisation
4. Rationalisation and reorganisation of non-medical services in hospitals
5. Primary healthcare reform
6. Further implementation of the unified public procurement procedure, stricter control of prescription medicines and system digitisation

The standard of the healthcare system in Croatia is generally satisfactory, but the health system faces many challenges - from an ageing population and an increase in chronic diseases, and increasingly expensive medicines to the need to cut losses. The Government of the Republic of Croatia will continue with the health reform which is currently under way. With the more effective control of expenditures, rationalisation and optimal costs this reform should provide a high level of health protection.

The most important activities planned for 2016 include:

⁵ <http://www.cerp.hr/default.aspx?id=4412>

1) Changes in the health insurance system

Increased revenue will be primarily achieved by increasing the monthly cost for supplementary health insurance from HRK 70 to HRK 89 as well as increasing the maximum amount of participation in healthcare costs from HRK 2,000 to HRK 3,000 for those who do not have supplementary health insurance as well as by introducing a new type of insurance for non-standard health services, so-called additional health insurance. Although the increased cost of health insurance will result in a possible transfer of certain number of persons insured under the Croatian Health Insurance Fund to other providers of insurance services, it is estimated that this number will be very limited and ultimately will have no significant effect on revenue gained from increased insurance policy costs because the policy cost increase is relatively minor.

In order to realise the proposed measures, General act of the Croatian Health Insurance Fund by which the premium for supplementary health insurance is regulated, must be amended. The Act on compulsory health insurance and the Act on voluntary health insurance also have to be amended, and such changes are planned for adoption by the IV. quarter of 2016.

2) Emergency medicine reform

The main objective of the planned activities is to reduce the number of unnecessary examinations in the field of emergency medical care on the one hand, and on the other hand to improve the availability of emergency medical services in areas that are not adequately covered by the existing network of emergency medical services. In order to secure access to emergency medical services, the Government plans to restructure the system and provide financial relief to the hospital system, as well as ensure the rational use of human and material resources. According to the latest available data, 58% of all examinations carried out within the integrated emergency hospital admission system, as well as 74% of all examinations carried out outside the hospitals, were not medical emergencies. System changes will include a new integrated emergency hospital admission system in hospitals, which will include harsher requirements on admitting patients for emergency examinations and introduce a fee for patients who insist on emergency medical examination. Decisions as to which patient needs immediate and emergency help, and which can wait, will be made by the triage nurses in hospitals on the basis of symptoms. They will also avert all patients from the IV. and V. triage categories. Such an approach will encourage patients to use more family medicine services and reduce the number of non-emergency hospital visits. On the other hand, patients who are truly at risk will thus be able to receive emergency medical intervention faster, without having to wait for hours in the system clogged with other non-emergency patients.

The planned savings that will be achieved by improved control over the justification for emergency medical examinations in hospitals will be used to improve the quality of outpatient emergency medical services. The availability of emergency medicine will increase in areas away from the hospitals and in areas with greater depopulation and emigration through the introduction of additional emergency services teams, which will ultimately have an impact on increasing the quality of healthcare.

As for legislative activities, the plan is to amend the Ordinance on the conditions, organisation and methods of emergency medicine in the month of May which would enable the implementation of a new operating mode. All activities encompassed in this part of the healthcare system reform are planned for completion by the end of May. The involvement of primary healthcare is also planned with a view to relieve the burden on the integrated emergency hospital admission system.

3) Hospital network reorganisation

The reorganisation of the hospital network includes improving the quality, implementing rationalisation and achieving a financially sustainable system, order and transparency of the same, and eliminating debt in the hospital system by implementing reorganisation and rationalisation measures. The first step refers to the development and adoption of a operational rationalisation plan by establishing the dynamics of the repayment of hospitals' outstanding debts. This plan will include the very precise dynamics of repayment of outstanding debts for each hospital. When the rationalisation plans are completed by the end of May, the Ministry of Health will draft the reorganisation plan for the hospital system network system. This plan will determine the exact number of hospitals and assign activities to specific health institutions. After the reorganisation plan is officially adopted in September 2016, activities regarding the

functional connectivity of institutions will begin with the purpose of monitoring necessary employment and spatial adjustments in accordance with newly assigned activities. The conversion of activities in individual hospitals will be based on a key objective - rationalising hospitals' business operations without compromising the quality of healthcare. In addition to defining the functional connectivity model, the reorganisation plan will describe access to employment for redundant staff in hospitals that are subject to reorganisation. The process of hospital reorganisation in the part referring to the necessary spatial adjustments will be financially supported through EU funds made available to the Ministry of Health under the Operational Programme Competitiveness and Cohesion. Legislatively speaking, this process will be based on amendments to the Act on quality of healthcare. The objective is to complete the process of hospital network reorganisation by the end of June 2017. The objective is to reduce the total number of hospital beds for acute treatment by 772, i.e., from currently contracted 13,572 hospital beds for acute treatment to 12,800 by the end of 2017.

4) Rationalisation and reorganisation of non-medical services in hospitals

The main objective is to improve the provisional organisation of non-medical services, increase staff productivity, introduce more efficient operational models and rationalise the use of medical services. The main reason for the reorganisation of non-healthcare services is that hospitals should focus on their core activities (provision of hospital care to patients, which comprises nearly 85% of all hospital spending) and the reduction of costs associated with providing support functions, i.e., non-healthcare services. By separating and reorganising the activities of certain non-medical functions such as laundry, cleaning non-medical areas, technical maintenance services, and other related services, it would be possible to achieve an appropriate level of operational quality with fewer employees in the system and with less total expenses. This measure will be implemented by harmonising existing general acts regulating the operational activities of medical institutions (articles of association and other general acts).

5) Primary healthcare reorganisation

Primary objectives include improving access to healthcare and rationalisation within the system, limiting the number of patients per physician (500-1500) in primary healthcare, and strengthening community healthcare services. The adoption of a new primary healthcare network is also planned.

6) Further implementation of the unified public procurement procedure, stricter control of prescription medicine and system digitisation

The main objective is to further rationalise medicine consumption by implementing better prescription and consumption controls, a more intensive and improved unified procurement procedure, and further system digitisation. By the end of 2016, we plan to further expand the application of the unified public procurement model with a view to further rationalise the system, especially concerning the procurement of generic, innovative and expensive medicines. Additional positive fiscal performance will be achieved by changing countries used as a reference when pricing medicine, improving control mechanisms for the use of medicines, and greater control of the use of expensive medicines.

The expected total fiscal impact of these measures amounts to HRK 2.6 billion in the period between 2016 and 2019 by reducing expenses in the amount of HRK 1.6 billion and achieving additional income in the amount of HRK 1.0 billion in the health insurance system.

Strengthening the role of primary healthcare should lead to a reduction in the number of referrals to specialist/conciliar healthcare, as well as reducing the costs of more expensive specialist and hospital treatments due to the subsidiary principle. The Croatian Health Insurance Fund plans to implement this by continuous control of the new contracting model for four basic activities of primary healthcare (family medicine, gynecology, pediatrics, polyvalent dental medicine), and referral to specialist/conciliar healthcare. For this purpose, it is planned to equip primary healthcare facilities with diagnostic and therapeutic equipment, mainly in deprived areas, as well as small scale infrastructural interventions in primary healthcare facilities and healthcare centres. To achieve the

mentioned, funds were secured under the Operational Programme Competitiveness and Cohesion from the European Regional Development Fund in the amount of HRK 140.6 million.

Improving the sustainability of the pension system

Key reform measures

1. Encouraging a longer working life
2. Improving the pensionable service system with increased duration
3. Ensuring the consistency of criteria related to the definition of disability/invalidity

Demographic trends in the Republic of Croatia are characterised by an aging population and longer lifespan which has a very adverse impact on public spending, especially on public expenditure regarding pensions. There were a total of 1,397,400 insured persons and 1,223,738 of pension beneficiaries in 2014 – the ratio of the number of pension beneficiaries and the number of insured persons was 1: 1.15. In addition to these demographic trends, the sufficiency of the pension amount is a special issue. The current pension amount compared to the average salary equals 38% (making it one of the lowest ratios in the EU), but could drop to approximately 20% after 2050.

Therefore, the issue of pension system reform is not only related to the sustainability of the pension system, but it is a question of poverty levels and social exclusion, especially for people older than 65. Many inefficiencies have been observed in a number of early retirement cases, especially for jobs with special working conditions as well as a number of special pension rights in relation to certain professions. The high share of early retirements is attributed to weak work incentives provided until the legal regular retirement threshold. "Penalisation" for early retirement is far below the EU average (5% in the EU as opposed to 1.2 to 4.1% in the Republic of Croatia). The Croatian pension system is fragmented, with a large number of pensions provided under special regulations, (approx. 14% of current pensioners, i.e., one in seven receive pensions under special regulations).

Encouraging a longer working life represents a key measure for improving the effectiveness of the pension system. Longer working life will be achieved by the following:

- **greater penalisation of early retirement** by equalising the percentage of premature percentage of early retirement pension reduction to 0.30%. Instead of past reductions that dependent on the pensionable service and ranged from 0.10% to 0.34% for each month before the insured person was entitled to old-age retirement, a linear reduction would be introduced in the amount of 0.3% for each month before the insured person was entitled to old-age retirement, regardless of years of accrued pensionable service, or 3,6% per year of entering into early retirement.
- **speeding up the equalisation of minimum age required for early retirement and old-age retirement for men and women.** The minimum required age for women would increase by 6 months per year until 2023 (instead of 3 months per year until 2030). Between 2024 and **2027**, the minimum required age would increase by six months per year, up to **62 years** for early retirement and **67 years** for old-age retirement (instead of 3 months per year until 2038). The minimum required age for old-age retirement in 9 EU countries increases in accordance with increased life expectancy (Czech Republic, Denmark, Greece, Italy, Cyprus, Hungary, the Netherlands, Portugal and Slovakia). By 2020, the retirement age will be higher than 65 in 11 EU countries (Denmark, Germany, Ireland, Greece, Spain, France, Italy, Netherlands, Poland, Portugal and the United Kingdom).
- **amendments related to old-age retirement of long-time insured persons** (Article 35 of the Pension Insurance Act) which would prescribe new conditions: **61 years** of age and **41 years** of pensionable service with effective duration (while the applicable law takes into account years of pensionable service with increased duration - accelerated retirement). The pension would not increase by 0.15% per month of later retirement (in accordance with applicable law, the pension increases by 0.15% for each month of entering retirement after 60 years of age, which makes this a very attractive retirement).

In order to **improve the pensionable service system with increased duration**, in relation to “challenging jobs” and dangerous professions which grant the right to special pension schemes and related measures, audit assessments have been carried out on a hundred existing jobs and occupations by an expert professional body (Croatian Institute for Health Protection and Safety at Work). Preliminary results show that almost half such professions will lose future benefits granted by this institute after the audit assessment. Following expert recommendations and presentation to social partners, amendments to the Act on Insurance with Increased Duration will be drafted in the part relating to the scope of jobs and professions, and we will review the institution of reducing the minimum required age for old-age retirement depending on the effective time spent as an insured person or performing jobs for which pensionable service is calculated with increased duration.

A reform measure for **ensuring the consistency of criteria related to the definition of disability/invalidity** should achieve uniformity of criteria for determining the disability or invalidity of beneficiaries. Centre for the implementation of these measures is located under the Department of Expertise, Vocational Rehabilitation and Employment of Persons with Disabilities, within the established Department organisational unit - Unique body of expertise. Analysis has determined the very low productivity and efficiency of business processes and the accuracy and speed of solving medical expertise cases at the expense of a very sensitive population. Steps have therefore been taken and are being taken to correct identified weaknesses.

In addition to new business processes, the medical side of expertise procedures (with technical assistance provided by the EC) is busily working to establish an improved medical expertise algorithm by developing guidelines and precisely defining objective diagnostic methods and functional abilities’ testing of insured persons. This will establish a new systematisation (classification) of disability/invalidity and associated pension and social benefits that is adjusted to legal and economic changes and the modern labour market in the Republic of Croatia and the European Union.

Improving the expertise procedure through the standardisation and development of algorithms aims to achieve the equalisation of criteria, while maintaining the working capacity rating audit institute and ensuring the continuous education of expert staff. Additional efforts and improvements will provide for the significantly more efficient investments of collected fees and payment of incentives and rewards when employing persons with disabilities and implementing projects and programmes for the employment of persons with disabilities (rehabilitation and the role of rehabilitation centres), provided by the Department of Expertise, Vocational Rehabilitation and Employment of Persons with Disabilities (purpose-specific revenues). Simultaneously, improvements to the existing monitoring and control mechanisms in the expertise system have a deterring effect and reduce the possibility of corruption.

Regarding the **pension insurance rights of active military personnel, police officers, and officials**, the Ministry of Labour and Pension System will launch the initiative for creating a multi-annual retirement plan for these groups of insured persons, employees of the Ministry of Defense, Ministry of the Interior, Ministry of Justice, and the intelligence community. Coordination between these ministries for the purpose of enabling employees to transfer between systems (with possible vocational and additional training) creates prerequisites for changing the existing legislative framework in the part referring to increasing minimum age requirements for retirement. This could achieve two objectives: longer working life of stated insured persons, which would favourably affect the sufficiency/appropriateness of their pensions, and convergence of their age requirements for retirement to those of persons in the general system, taking into account their arduous working conditions present in these government services. This will be implemented and achieved by the inter-agency body in collaboration with the unions no later than the start of 2017.

Improving the efficiency of the social benefits system

Key reform measures

1. Consolidation of benefits in the social welfare system on a national level
2. Establishing a single centre for social welfare benefits with integrated data and benefit administration
3. Prescribing a guaranteed minimum standard
4. Improving and strengthening professional work activities

The system of social benefits is one of the foundations of social security, which is particularly important in times of economic crisis when the increased needs of the population must be coordinated with the limited overall financial and other capacities of the society. Therefore, the social benefits system has been reviewed in recent years in order to increase its **efficiency, transparency, flexibility, and fairness** and to ensure its **sustainability**. The proposed reforms will be achieved in part as continuation of measures initiated in 2015, and in part as new measures which are the result of current opportunities and professional commitments.

Reform of the system will be based on the standardisation of criteria for the allocation of social benefits and the **systematic introduction of means test and/or income threshold** as criteria for the allocation of social benefits, further development of the information system as a basis for **all social benefits records** (including benefits granted by the local self-government) and the **easier administrative processing of social benefits**.

The standardisation of social benefits will apply to benefits provided under the competency of the Ministry of Social Policy and Youth (benefits from the social welfare system) and benefits provided under the jurisdiction of other ministries and bodies (benefits from the social protection system). Two working groups have been established to deal with reform implementation, one for drafting social benefits proposals under the Ministry of Social Affairs and Youth, and the other to audit the social benefits system in the Republic of Croatia (inter-agency working group).

Based on an analysis carried out by the Working group for drafting social benefits proposals under the Ministry of Social Policy and Youth, the **first benefit to consider the income threshold and means test will be the child allowance. This will be made possible by adopting amendments to the Child Allowance Act by September 2016**. The World Bank carried out an impact assessment in 2014 (within the framework of technical assistance provided to the Republic of Croatia) of introducing a means test for the child allowance benefit (where the property was measured in the form of other real estate, financial savings and ownership of two or more cars). The results show that approx. 19% of the population lives in a household with two or more cars, while 13% of those who receive child benefits have two cars. Fiscal savings achieved by this single means test would amount to 0.1% of the GDP per year, while the fiscal savings achieved on the basis of all three means tests are estimated at 13% of the current expenditure - approx. HRK 195 million annually. Since the legal framework was changed in September 2016, **fiscal effect of introducing the means test for the child allowance is expected in 2017**.

The inter-agency Working group for drafting the Audit of the social benefits system in the Republic of Croatia was established in April of 2016 with the aim of drafting a proposal of the **Action Plan for the consolidation of social benefits 2016-2020**. This Action Plan, **to be adopted in September of 2016**, will determine the following:

1. benefits with a social component that are paid in other systems and for which the means test will be introduced, and the income threshold will possibly be expanded or redefined in order to standardise criteria,
2. benefits which will be managed from a single administrative point (one-stop-shop), with set deadlines for the start of administration and required preparatory activities for execution (workflow of legislative changes),
3. opportunities and further steps for continuing the consolidation of social benefits and the creation of a Guaranteed Minimum Standard (GMS)
4. monitoring methods and the evaluation of measures.

Furthermore, the central government will encourage regional and local authorities to introduce the income threshold and means test with regard to the eligibility for benefits allocated under their jurisdiction. In this regard, a monitoring methodology and method for evaluating county social plans will be developed and coordination with local and regional authorities established in order to implement a transparent social policy. Formalising relations with the Croatian Association of Counties and the Association of Cities will ensure conditions for collecting data on social benefits granted by the units of local and regional self-government and the beneficiaries who use them.

Given that the implementation of social programmes and the allocation of social benefits is under the jurisdiction of the central, regional and local levels, it is necessary to **ensure an efficient, complete and transparent access to and exchange of data on social benefits** at all levels. The provisions of the Social Welfare Act currently stipulate the obligation of verifying the use of social benefits granted under the jurisdiction of other bodies before exercising rights

under the social welfare system. However, this verification method is not effective because it does not enable the timely receipt of information, access to databases and lacks control mechanisms.

For this reason, by **developing and establishing a unique application system (MISOSS) as the basis for establishing a unique centre for benefits (One Stop Shop)**, we will ensure a simpler data verification and exchange procedure with bodies on a national, regional, and local levels, and in real time.

The MISOSS application is an IT system that will, in the first phase, support business processes for the administration of GMS, child allowances, maternity and parental benefits, and unemployment benefits. The data exchange includes interfaces to systems:

- MSPY/CZSS (SocSkrb application),
 - HZMO, HZZ and HZZO databases,
 - Tax Administration (Central Information System and the Personal Identification Number (OIB)),
 - Ministry of the Interior (Register of vehicle ownership)
 - Ministry of Maritime Affairs, Transport and Infrastructure (Register of vessels),
 - Croatian Civil Aviation Agency (Register of aircraft ownership),
 - Commercial Court (access to ownership information),
 - Central Depository & Clearing Company (access to information on ownership of securities and accumulated dividends),
 - Financial Agency (access to information on retention/seizure of property, notice of blocked accounts and REGOS),
 - Ministry of Public Administration (e-Citizen),
 - Units of local and regional self-government,
- and
- To other bodies and registers for a more efficient management of the social benefits system in the field of social protection.

The first phase of this application (end of 2017) aims to achieve the standardisation and unification of the process of administering benefits under the social protection system (HZZO, HZMO, HZZ, CZSS) and we expect to include other institutions from the field of administering benefits with a social component by the end of the same year. Simultaneously, a unique database will be established containing input data and data used by different institutions for issuing decisions on the right to benefits (currently every institution that administers benefits with a social component develops its own mechanisms for accessing the same database, and these institutions are not related).

The **unification of benefits administration** under the social protection system in a single administrative point (One Stop Shop) will provide control of social protection receipts, prevent abuse of the system in the form of “not reporting” individual changes essential for exercising the rights of beneficiaries, and increase the transparency of payments of benefits. One Stop Shop will become a single administrative point in relation to citizens. As a basis for adopting and managing public policies, a system will be established that will provide control and supervision of financial payments on the national level to the citizens, and it is expected that the annual savings achieved by establishing the One Stop Shop for the administration of all benefits will amount to approx. 15% of all current expenditures as a result of the introduction of the means test, minor irregularities in the system, and lower costs of application processing. Costs for beneficiaries are also reduced thanks to the integration and standardisation of processes - beneficiaries no longer have to submit physical evidence, and all conditions for the allocation of benefits will be digitised instead.

For this purpose, the Act on Amendments to the Social Welfare Act, planned for June 2016, will postpone the deadline for the introduction of the One Stop Shop due to the redefinition of its establishment. Simultaneously, other rules and regulations governing the rights (social benefits) will change based on the Action Plan for the consolidation of social benefits 2016-2020, with **plans to adopt the new Social Welfare Act in March of 2017** which will regulate the overall harmonisation and improvement of existing standards and the establishment of the One Stop Shop.

Exchange of data on benefits at different levels of government by establishing the One Stop Shop also represents the analytical basis for **determining the guaranteed minimum standard (GMS)** as the total amount of social benefits that can be collected from state and local sources, i.e., the **social benefits accumulation limit**. The GMS will include income

that is (not) counted as income when determining the conditions for achieving social benefits, so that the total amount of achieved social benefits is no higher than the income that could be achieved by working (especially by low-paid workers), i.e., so that social benefits will not undermine the work motivation of beneficiaries of working age. For the purposes of determining the GMS and the social benefits accumulation limit, taking into account work activation, a special inter-agency working group will be established. The working group operational results will be incorporated into the new Social Welfare Act and other legislation necessary for the implementation of standardised criteria and means test and income threshold in accordance with the Action Plan for the consolidation of social benefits 2016-2020.

A special group of activities under the framework of social welfare system reform represents an improvement and **strengthening of the role of professional social work**, especially in relation to families of social benefits beneficiaries to prevent family and child poverty, negative social effects in families, and end the vicious circle of poverty. These activities will also encourage work activation among working-age persons, strengthen the preventive role of social work in the community, and provide professional support to families and individuals who need extra help and support to overcome existing difficulties and escape the cycle of poverty (monitoring the academic success of children, cooperation with other bodies by prioritising the inclusion of work-capable members in community services and active employment policy measures).

4.2. Easier business conditions and better investment climate

Reducing the administrative burden and operating costs of companies

Key reform measures

1. Removal of regulatory and administrative barriers and burdens for business and investments
2. Measuring the administrative burden on the economy by applying 'Standard Cost Model' (SCM) methodology
3. Continued liberalisation and reform of the services market
4. Development of electronic procedures for starting and doing business
5. Further reduction and elimination of non-tax payments
6. Public procurement reform including the simplification and digitisation of procedures

The **Working Group for business climate and investments** will be reactivated by June 2016. A new Decision on the establishment of the Working Group will define the mechanisms for identifying and removing barriers and burdens for business and investments, and the Working Group will position itself as a central body for conducting a dialogue with the business sector, collecting information about the barriers experienced by the business sector and horizontal coordination of inter-agency encouragement for the removal or reduction of such barriers. The Government will, at the proposal of the Working Group, adopt an annual **Action Plan for reducing the administrative burden on the economy**, and the first Action Plan, which will cover the period until the end of 2016, will be adopted in June 2016. The action plans will include measures for removing all kinds of barriers and burdens imposed on the economy, including measures (1) proposed as a result of the implementation and extension of *Standard Cost Model* (SCM) measurements, (2) aimed at improving the ease of doing business (*Doing Business*), (3) for reducing regulatory restrictiveness of the market/economy (*OECD Product Market Regulation*), (4) for reforming the EU services market and regulated professions, which have already been identified within the existing activities of individual institutions.

The Government's objective is to **reduce administrative business costs by a minimum of 20%** by the end of 2016 in the field of starting companies and craft businesses, occupational health and safety, health and sanitation, energy efficiency in construction, and real estate brokerage. The basis for defining the implementation of measures to meet this objective, which will be integrated into the Action Plan for reducing the administrative burden on the economy, are the results achieved by measuring the administrative burden on the economy in these areas by applying the Standard Cost Model (SCM) methodology. In June 2016, the Government will also adopt a decision on expanding SCM measurements on all existing regulations in the field of economy. Pursuant to the results of SCM measurements, the **administrative burden on the economy will be reduced by June 2018 by a minimum of 25%**. Removing regulatory barriers to investments, reducing the administrative burden, and facilitating business activities in the internal market frees up capital required for creation of new jobs, investments, export, and innovation. The contribution to annual GDP growth, especially investments, can exceed 2 percentage points, directly dependent on the level of administrative unburdening and the number of removed regulatory barriers.

According to the rules of internal market freedom established by the EU, the Ministry of Economy encourages the inter-agency **removal of the remaining regulatory barriers to providing easier access to services**, especially those contrary to the EU Services Directive. The priority is to reform the sector of professional and business services, and regulated professions. The Action Plan for reducing the administrative burden on the economy aims to define the obligation of amending laws and by-laws governing the services market of auditors, tax consultants, accountants, lawyers and auto-schools by the end of 2016, in areas where there are significant regulatory barriers. Regulations in the field of architectural services are for the most part harmonised with the EU Services Directive. What remains is to address the limitations of the legal form of two services provided by architects. These will be resolved in 2017. The liberalisation of the services market has a positive effect on prices and ensures increased quality for customers, as well as increased business efficiency due to increased competition. Simultaneously, reducing the administrative burden for accessing the services market will increase business and employment opportunities, including opportunities for freely developing new types of services, business models, and digital platforms.

Pursuant to a Government decision that will be adopted in May, authorities will undertake to **develop electronic processes for the simple start-up of businesses and the issuing of permits for providing services** in accordance with the EU Services Directive, by the end of 2016. Thus, by the end of the year, it will be possible to establish d.o.o. and j.d.o.o. companies online, as well as revise company activities, and the entire company registration procedure will be available from the beginning of next year (Box 4.2.1). The electronic Single Point of Contact for services psc.hr is being developed under the EU Internal Market Centre cut.hr as a portal that consolidates key information on the requirements for starting up businesses on the services market and provides links to electronic procedures in order to facilitate the registration of companies and obtaining documentation for performing services. The EU principle of "once-only" will also be applied, meaning that authorities must not ask for the same information from businesses more than once, instead, they have to exchange such information between themselves. Simplifying the business start-up procedure will reduce the high level of administrative burden and ensure **simpler, faster, and cheaper access to the market**. Integrating information on regulatory requirements and developing electronic procedures for establishing services reduces the time needed to collect the necessary information and perform administrative formalities for starting a business in the services market by approx. 80%.

Box 4.2.1 Easier, faster and cheaper business registration

Amendments made to the normative framework and modernisation of the court registry's information system will enable electronic communication – the online establishment of d.o.o. and j.d.o.o. companies without being physically present via the e-Citizens service and the submission of all applications exclusively in digital form. Registration forms will be standardised, the registration of company activities simplified and costs of business registration reduced and made more transparent. With the introduction of the obligation of court officers (court advisors and authorised registration clerks) to complete simpler registration procedures in their entirety and by further educating court officials in these manners, the better utilisation of existing resources will be achieved and judiciary employees will be freed from additional burdens which will ensure the faster processing of other cases under the jurisdiction of commercial courts. Court advisors and authorised registration clerks are authorised to make decisions in six types of registration procedures. Despite the fact that more than 40 registration clerks meet the statutory prerequisites, none of them have taken the exam to become an authorised registration clerk, while less than 30% of the total number of court advisors employed at commercial courts are working on registration cases. Because of this, of the total number of requests for name reservations, which make up more than 10% of registration cases, 38% involve court advisors, while 62% of such cases involve judges. Also, almost 80% of registration cases are decided on by judges, although more than 50% involve changing personal information (25%), the establishment of d.o.o. and j.d.o.o. companies (16%), the changing of board members (5%), and the changing of company members (3%). Court advisors and authorised registration clerks are authorised to make decisions in all these cases.

The establishment of a Work Group to **abolish of the use of official stamps** is currently under way; this Working Group will monitor the implementation of amendments to all regulations of state administration bodies and legal persons founded by the Republic of Croatia establishing the obligation to use the official stamp for legal and natural persons engaged in registered profit and/or non-profit activities in the administrative, legal and other proceedings, business communication and other activities. The abolition of the obligation to use the official stamp from business practices will contribute to the modernisation of business processes and improving public administration services offered to citizens while supporting the economy through the operationalisation of creating a simpler business environment in the Republic of Croatia.

The additional reduction and elimination of parafiscal levies remains a top priority in 2016. Decision on the regulation of the non-tax payments system that will be adopted by the end of April establishes the obligation of parafiscal unbundling of businesses by a minimum of 0.1% of the GDP from 2014 (approx. HRK 330 million) by the end of 2016. The abolition or reduction of certain parafiscal levies will free up capital needed for investing in jobs, export and innovation. The aforementioned Decision will establish a Committee for regulating the non-tax payments system and reducing non-tax payments, which will review draft legislation proposing the introduction of new non-tax payments

or the increase of existing ones, and which will act preventively in this regard. The Committee will propose measures and reliefs in the administrative sense and simplification of administrative procedures related to the payment of levies.

A significant step forward in terms of simplifying business activities in 2016 will be the **adoption of a new Public Procurement Act**, whose adoption is planned by the end of the year. An important determinant of the public procurement reform is the introduction of electronic tendering (e-procurement), the European Single Procurement Document (ESPD) by June 2017, and the linking of key public registers with the Electronic Public Procurement Classifieds of the Republic of Croatia (EOJN RH) by September 2017. Public procurement reform will stimulate an increase in the efficiency of the business sector due to reduced administrative costs of procurement procedures and the introduction of e-procurement. This will encourage the participation of a larger number of businesses, market competition, and the rational spending of public money.

Facilitation of financing, deleveraging, and restructuring of companies

Key reform measures

1. Accelerated deleveraging by encouraging write-off of receivables
2. Activation of financial instruments

The key measure in this section refers to the **amendments to the Corporate Income Tax Act** which would further encourage banks (or credit institutions) to use out of court instances to a greater extent in order to achieve partial or complete write-off of irrecoverable and non-performing loans (junk loans). Amendments to this Act are aimed at facilitating conditions for using the option to write-off receivables as a tax deductible expense for already established irrecoverable/junk loans through out of court resolution of write-offs. This would reduce the number of civil cases and speed up the process of decreasing the share of junk loans among total loans. In addition to existing measures related to write-offs of receivables which are focused on deleveraging citizens and entrepreneurs, and with regard to the perceived need to accelerate the process of deleveraging companies and decreasing the share of irrecoverable and junk loans, amendments to the Corporate Income Tax Act would prescribe provisions that would encourage the process of deleveraging entrepreneurs during 2017, whereby the write-off, without initiating judicial or enforcement proceedings or other proceedings under the Corporate income tax Act in terms of irrecoverable loans or junk loans of entrepreneurs, would be established as a tax deductible expense. Therefore, this measure would be introduced as a temporary measure, limited to a certain time period.

Other measures related to deleveraging include activities carried out by the Croatian National Bank in order to **reduce the share of non-performing loans in the loan portfolio of credit institutions**. Planned activities include the continuous analysis and monitoring of the implementation of regulations governing the investment classification segment in a conservative and cautious manner, with the aim of ensuring adequate identification of non-performing loans and their coverage by value adjustments and ensuring a continuous increase in the coverage of non-performing loans by value adjustments. The results gained from the analysis and monitoring of adequate allocation of loans and the formation of loan value adjustments will be presented as a semi-annual report on the movement of non-performing loans, the coverage of non-performing loans by value adjustments, the sales volumes of non-performing loans, and write-offs.

Since the low liquidity of the real estate market is one of the essential factors preventing the faster resolution of non-performing loans, it is estimated that additional activities in this segment may indirectly contribute to improving the quality of the loan portfolio and a reduction in the share of junk loans in credit institutions. Additional activities are consequently planned and include dialogue and workshops with credit institutions (if necessary, other market participants) in order to analyse reasons for the lack of liquidity in the real estate market, as well as possible activities that would encourage trade in this market.

Furthermore, by **encouraging credit activity**, we can also positively affect the quality of the loan portfolio of credit institutions, due to which we will consider the option of motivating banks to introduce products with the aim of stimulating the credit activity of credit institutions (introduction of risk-sharing products, limited credit insurance, etc.).

Additional activities are consequently planned, and include dialogue and workshops with the banks (if necessary, other market participants) in order to consider possible measures for supporting banking products which could reduce the risks of loan beneficiaries, stimulate demand and credit activity, or indirectly affect and increase liquidity of real estate, which would facilitate the resolution of non-performing loans and improve the quality of the loan portfolio of credit institutions.

Improving the availability of funding for SMEs is one of the key objectives of this Government in the field of SME development. The objective is to establish new financial instruments which meet the business needs of entrepreneurs at all stages of their development, such as soft loans, micro-loans, guarantees, and entrepreneurial venture capital (or a combination thereof). The Republic of Croatia has access to EUR 310 million from EU funds within the 2014-2020 perspective intended to encourage the development of a number of financial instruments in order to ultimately further stimulate economic activity and help create and maintain jobs.

Most of these financial instruments will be initiated during 2016, with the greatest effect expected from launching new credit and guarantee lines at very favourable terms. Furthermore, the establishment of new venture capital funds will continue until the end of the year in cooperation with the relevant financial institutions so that we could further expand the options for financing small and medium-sized enterprises through equity investments in 2017. The ultimate objective is to encourage at least EUR 600 million of additional investments in small and medium enterprises by the end of 2020 based on new financial instruments.

Measures in the field of simplified company restructuring are related to the monitoring and strengthening of pre-bankruptcy and bankruptcy proceedings, the effects of the new Bankruptcy Act, and the Consumer Bankruptcy Act.

This will serve as a prerequisite for a transparent and efficient process of restructuring enterprises and preventing insolvency and the removal of insolvent enterprises from the market. Timely removal of identified deficiencies and sustainability of the entire system requires the establishment of a quarterly monitoring and analysis system, providing electronic communications with the Financial Agency and external users, and securing expertise of stakeholders through educational activities. Between 1 September 2015 and 1 April 2016, the Financial Agency filed 20,573 applications for implementing summary bankruptcy proceedings and 3,183 proposals for initiating bankruptcy proceedings. Based on the indicator of the required number of staff to implement summary bankruptcy proceedings, 103 additional staff members are needed. Of the eight commercial courts, court advisors in two courts are not implementing summary bankruptcy proceedings even though they are authorised by law, while the remaining six courts have 70% of summary bankruptcy proceedings conducted by judges, and 30% by court advisors. The commercial courts, with a total of 123 judges and 45 court advisors, also taking into account other types of cases, do not have sufficient staff and need support in this matter. The fact that the influx of cases at the misdemeanour courts decreased by 45% in the last two years indicates an opportune moment to reallocate part of the solvers from misdemeanour to the commercial courts. Given that half of the 52 court advisers in misdemeanour courts are located in cities with commercial courts, measures will be taken without delay to transfer and train these advisers for implementation of these types of procedures.

Creating an effective framework for consumer bankruptcy will help honest consumers and encourage them to exhibit financial discipline. For this purpose and for the timely removal of identified deficiencies and the sustainability of the entire system, the effects of new legal rules will be monitored and analysed, informing the public of any such proceeding will be ensured, and the necessary training of all stakeholders in the process will continue as planned.

Increasing investment in research and development in the private and public sector

Key reform measures

1. Increasing public and private investments in research and development and directing public and private investments to areas where we have the greatest opportunities for achieving economic growth on the basis of the Smart Specialisation Strategy (S3)

The low level of investment in research and development is one of the biggest constraints to faster and more sustainable economic growth in the Republic of Croatia. Expenditure on research and development in the Republic of Croatia are among the lowest in the EU (0.79% of the GDP in 2012); with a high proportion of public funds (0.41%), and only 0.38% of the GDP from the business sector. To change these unfavourable characteristics, the Croatian Government intends to encourage significant additional investments in research and development by means of EU funds and tax breaks. The Republic of Croatia has at its disposal over EUR 700 million for direct co-funding of research and development activities in the public and private sectors within the financial perspective 2014-2020. The Government's goal in 2016 and 2017 is to put as large an amount of these funds as possible at the disposal of the interested public and private organisations in order to encourage further investment in research and development. In doing so, the Government will pay special attention to **focus the investments on those thematic areas that were identified as areas of greatest potential for future growth and development via the Smart Specialisation Strategy**. The five key areas are as follows: Health and Quality of Life, Energy and Sustainable Environment, Transport and Mobility, Safety and Food and Bio-economy within which a larger number of sub-investment areas have been defined. **The Government plans to initiate an application process in 2016 through which approx. EUR 390 million** of EU funds will be made available to public and private organisations for financing research and development activities. Project implementation will especially encourage cooperation between public and private research sectors, which until now has been underdeveloped and lacked focus, which will further contribute to strengthening the capacity and the relevance of scientific research institutions in the real sector in terms of its potential contribution to the development of the economy of the Republic of Croatia.

An additional objective refers to the **strengthening of the overall institutional capacity for managing the innovation policy**. This will be achieved by formulating a clear national institutional framework responsible for formulating and monitoring the implementation of the innovation policy. The National Innovation Council, which will be established in May 2016, will be tasked with the overall coordination of the implementation of the Smart Specialisation Strategy (S3) as the single most important strategy in terms of independent and authorised decision-making with regard to making the necessary changes and revisions to the S3, evaluating all implementing instruments of the S3, as well as other related instruments or programmes that will complement the financing of S3 with assets from ESI funds and the state budget. The National Innovation Council will be comprised of officials from senior management level with the authority to make binding decisions concerning the implementation of the S3. Additional technical support will be provided by the appointed representatives of the three advisory councils (Innovation Industrial Council - INNOVA, National Council for Human Resources Development and the National Council for Science, Higher Education and Technological Development), while other stakeholders will also be involved in Council's operations in the form of representatives of the Croatian Chamber of Commerce, Croatian Chamber of Trades and Crafts and the presidents of the so-called Thematic Innovation Councils, and university rectors.

The third important activity refers to the adoption of the **Act on the State aid for research and development projects** that would further boost the investments of entrepreneurs in research and development activities based on tax incentives. Currently, there is no adequate legal framework for the allocation of tax incentives which makes the Republic of Croatia less attractive to investors, given that such measures are implemented by the vast majority of EU Member States and other neighbouring countries. This new Act is scheduled for adoption by the end of September 2016.

Improving the cadastre and land registry system and spatial planning system

Key reform measures

1. Improving the cadastre and land registry system
2. Development of the Spatial Planning Information System (SPIS) and its modules

For more than ten years, a number of activities have been carried out in the Republic of Croatia aimed at improving business processes and organisation of work within the land administration system. Although a number of important projects have been implemented from the start of the "Organised Land" Governmental programme, and new solutions

have been introduced that have contributed to its effectiveness, the system is still not at the desired level. Therefore, plan is to improve the programme by establishing an **effective land administration** system which will provide legal security, encourage and accelerate slow investment processes, improve the functioning of real estate markets, and exchange of information with all stakeholders.

These measures will include the revision of legislation, digitisation of cadastral and land registry data, and reorganisation of work activities with special emphasis on the functional integration of existing registers and institutions. This measure will be implemented in several phases in the period between 2016 and 2020, and will be initiated by developing and adopting the **Functional Integration Plan**.

In order to establish a legal framework for the implementation of a functional integration of cadastre and land registry departments, the Act on State Survey and Real estate Cadastre, the Act on Land Registry and other legal regulations will be revised from the adoption of the Functional Integration Plan until December 2017. The functional integration of cadastre and land registry departments in a new institution in particular implies a significant reduction in the number of procedures, the reduction of double implementations arising from the currently applicable regulations, and the transfer of certain authority to non-institutional persons in cadastral and land registry procedures.

The new institution will be established by December 2018, and the physical integration of cadastre and land registry departments will take place by December 2020. The proposed reform measure is aimed at boosting the effectiveness of the new institution focused on users by implementing faster and simpler procedures and using quality and digitised information on real properties. Updated data on real estate are of crucial importance for both the private and public sector in order to strengthen fiscal policy, correctly assess and collect public payments, prevent abuse in the real estate business, monitor various requirements of self-governing units, and provide strategic planning for services and infrastructure.

Considering that the establishment of the **Real estate Registration and Cadastre Joint Information System (JIS)**, which includes integrated business processes and a single database for cadastre and land registry data, ensures a high degree of cooperation and improves the exchange of information on real estate and enables database synchronisation, implementing JIS in all land registry and cadastral offices is one of the priorities. Out of a total of 108 land registry departments and a total of 113 cadastral offices, JIS is implemented in 84 land registry departments (78%) and 81 cadastral offices (72%). The completion of JIS implementation is scheduled for July 2016.

Since JIS, as a main registry, should become a central point for all real estate data, the implementation of JIS and Land Registry Data Management project will start in 2016 under the framework of the Operational Programme Competitiveness and Cohesion 2014-2020 in order to establish a methodology for harmonising all real estate records, establish a unique real estate identifier and efficient exchange of information between sectors, with the ultimate objective of providing quality data on real estate which the new institution will make available to internal and external users through electronic means. Furthermore, development of the Open Data Portal is also planned with the aim of encouraging more intensive cooperation with the private sector in the field of information technology, improving electronic public services, and increasing transparency via this JIS module.

Many research projects have shown that entries in the cadastre and the land registry correspond with the actual situation by more than 60%. Cadastral surveys are the appropriate method in areas where the state of the existing registry is so bad that only the implementation of a cadastral survey could achieve the desired result. However, even when implemented, the slowness of cadastral survey implementation procedures and the establishment and renewal of land registries, which can take up to five years on average and up to 15 years in some cases, cause a number of new changes in the field or in real estate.

In order to achieve effective coordination, planning, and management, the **Programme of cadastral surveys and establishment and renewal of land registries** will be developed, taking into careful consideration that approx. 71% of the total area of the Republic of Croatia is in public ownership (common good - 36.43 %, state ownership - 34.21%, local and regional self-government ownership - 0.15%), half of which is the sea and coastline, while only 29.21% is privately owned. Urban areas amount to 38.65% and approx. 70.39% of the population lives there, and rural areas

amount to 61.35% with 29.61% inhabited by citizens. In fact, one of the priorities is to ensure effective cadastral survey procedures and the establishment and renewal of land registries. A detailed plan of cadastral surveys and the establishment and renewal of land registries will be adopted by the end of 2016 for 99 cadastral municipalities for which the technical part of the cadastral survey has already been completed and its implementation already started. Procedures will be simplified, the authority of officials increased, work activities will be reorganised, mobile teams formed, and funding made available in order to establish additional committees since the lack of capacity and the inability of procuring additional funding for existing officials is one of the fundamental reasons for system slowness.

In areas where the state of registry data corresponds with the actual situation, there is no need to implement necessary surveys since the harmonisation of land registry and cadastral data is possible through individual transformation procedures. Based on the conducted analysis, 27% of cadastral and land registry data is fully harmonised, 61.7% of data is partially harmonised (different signs, street names, etc.), while 11.3% is not harmonised. By applying previously developed methodologies and applications for transforming land registry and cadastre data into the Land Database (LDB), completely harmonised data will be automatically digitally transferred to the LDB without any additional activities. Partially harmonised data will be harmonised and transferred to the LDB by implementing a simple procedure for making corrections with the involvement of outside persons, while the unharmonised data will be subjected to regular harmonisation procedures. Also, geodetic documents that have been implemented in the cadastre but not delivered to the land registry departments will be given legal power, and by doing so a large number of real properties will be updated with no new expenses and in a short time.

Land registry books in digital form reflect the state of the last entry, but not the entire history of respective entries. Therefore one of the objectives is to continue digitising other manually kept land registries and document collections. Only 30% of land registries is currently scanned, with approximately 28.5 million pages left. This digital archive will not only preserve the archives, but will also enable easier access and facilitate the wider use of these valuable documents including the resolution of land registry cases regardless of territorial jurisdiction. Due to the scope of documents in question, scanning presents a difficult and time consuming process, so activities to establish the Land Registry Archives in which all document collections and scans will be stored as requested by individual clerks will begin in 2016.

Since the inception of the Organised Land programme the courts have managed to reduce the backlog of land registry cases with considerable effort to 90.81%. Incomplete proposals and invalid documents represented a major obstacle.

The "One Stop Shop" subsystem of the JIS application enables electronic submitting of requests and documents for the land registry registration through public notaries, attorneys and the e-Citizen system and issuance of land certificates regardless of territorial jurisdiction.

The obligation to submit proposals and documents in digital form by authorised persons will be adopted by the end of 2016, which will particularly contribute to the establishment of a complete digital archive. In addition, the obligation of issuing land certificates by all public notaries and attorneys will also be implemented, as well as the revised issuance cost. Based on the indicated required number of staff to issuing land certificates, of which approx. 1.4 million are issued annually, it can be concluded that only this kind of work is performed by 106 land registry clerks. Therefore, by implementing the rule that land certificates may be issued by public notaries and attorneys, and courts only in exceptional cases, it is expected that the clerks will be unburdened to perform other important tasks for which they are trained. All necessary actions will be taken to involve outside persons for verifying the remaining 1.5% of land registry files that have not yet been digitally controlled and checked if they correspond with an active state in the hand-kept land registry books. This will, alongside the introduction of the obligation for experts to prepare documents and with the introduction of their responsibilities and the eligible amount of unique rewards, simplify the conditions for the entry and introduction of the obligation of registration in the land registry, ensure complete and accurate proposals, relieve clerks from unnecessary administration, reduce the average time required to make entries from 15 to 7 days, and ensure that the land registry is up-to-date, as well as ensuring legal security.

Taking into account the fact that inefficient procedures of expropriation are one of the obstacles to achieving better investment climates, particularly for investments made by state-owned entities, provisions of the Act on Expropriation and Determining Compensation will also be revised under this measure. The problem with the implementation of

expropriation procedures is the resolution of cases in four stages, lack of an effective mechanism for determining the amount of compensation due to various expert reports and opinions, which is the only issue, and insufficient number of solvers. The trial process takes an average of seven months, however, if a legal remedy is lodged against the decision, and judicial protection sought as well, the expropriation process takes almost four years. For this purpose, the acquisition of ownership rights will be enabled by adopting a decision on the existence of interest by the Republic of Croatia against which the appeal does not stay the execution by assuming that the former owner was given the amount of compensation determined in the process of securing evidence, and mechanisms will be implemented for preventing the determination of the amount of compensation contrary to rules of the profession. In addition, given the fact that the second-instance administrative body significantly reduces the influx of cases to the courts (on average, 25% of decisions adopted by the second instance body were objected to), the introduction of a single instance judicial proceedings for which the High Administrative Court of the Republic of Croatia will be responsible will not burden its operations and will significantly shorten the duration of the proceedings and provide a unique jurisprudence.

The continued development of the Spatial Planning Information System (SPIS) and its modules includes the following:

1. development of the eArchive application for loading existing spatial plans and processing existing data (between 5-6000 plans in force and any amendments thereto) and providing a functional link with the ePermit application/displaying graphics and text from the current plans (by the end of 2018) and bridging the period until the development of new generation plans,
2. development of the eArchive module for permits for loading construction acts issued prior to the establishment of the ePermit module and respective metadata (continuously),
3. development of the eInspection module for monitoring the work of building inspection and providing an overview of locations that have been granted executive decisions by the building inspections under a special regulation (by the end of 2018),
4. improvement and development of new functionalities for the eCatalogue module for improving business processes, enabling network services, etc. (end of 2017),
5. continued development of the ePlans module and all required functionalities for the purpose of complying with existing legislative obligations (implementation is continuous and parallel with other activities. Final deadline for completing the implementation of this module development activity is 2019, and the use of the module depends on the dynamics of editing other data in the field of land administration - new cadastral surveys, harmonisation of the land registry and cadastre, etc.)
6. linking SPIS with other sources of spatial data. Implementation: continuous, depending on the availability of data, e.g. in the Joint Information System (for displaying data on owners and holders in the Location Info), Address Registry, availability of network services (e.g., digital cadastral plan of the SGA, as well as information from other public bodies),
7. establish advanced network services (WFS, etc.).

The SPIS geoportal and all its modules require permanent hosting services and an information and communication infrastructure in accordance with the National Information Infrastructure Act (Official Gazette, No. 92/14) and related regulations.

SPIS will enable the efficient management of spatial data by digitising spatial planning documents, provide a better overview of the situation in the area, improve the quality and coordination and rationalise the system for managing the process of separating acts in the field of spatial planning and construction, which enables the effective implementation of administrative procedures and the faster separation of acts and transparency, and we ultimately expect positive effects on the investment climate and business environment.

4.3. Greater efficiency and transparency of the public sector

Rationalisation of the public administration system and operations

Key reform measures

1. Comprehensive regulation of the public administration system in order to reduce fragmentation and increase transparency
2. Rationalisation of the system of legal entities with public authority
3. Rationalisation of regional units of state administration central bodies
4. Improving the organisational model of local self-government operations

Box 4.3.1 Linking measures under the Strategy for the Development of Public Administration 2015-2020 with Reform measures for improvement of public administration

The Strategy for the Development of Public Administration 2015-2020 (hereinafter referred to as: the Strategy), adopted by Croatian Parliament on 12 July 2015 (Official Gazette, No. 70/2015) establishes the fundamental objectives of the public administration reform:

- increasing efficiency and effectiveness in the public administration system
- increasing the quality of public services
- increasing trust between public administration and users in electronic communications
- higher level of openness and transparency and accessibility of public bodies
- strengthening the rule of law
- strengthening social sensitivity in the public administration in relation to users
- respecting ethical principles in the public administration and eradication of corruption
- using modern information and communication technologies for the purpose of efficient provision of services and greater transparency of the public administration
- inclusion of the public administration of the Republic of Croatia in the European administrative area
- stronger user participation in public administration and development of democratic political culture.

The strategy defines three main directions of public administration development:

- simplification and modernisation of administrative procedures, as well as providing reliable and prompt support from the public administration to citizens and businesses through the implementation of E-Administration projects
- improving the human resources development and management system in order to create a modern public service
- reforming the administrative system in accordance with best practices and good governance experiences and European standards.

Finally, the Strategy defines the final results of its implementation:

- the scope and quality of public services provided by public administration are adjusted to actual user needs
- the procedure for public service provision is extremely simplified and requires only minimum user commitment
- the number and competency of public administration employees are harmonised with relevant service actual needs, objectives and quality standards

- the public administration system represents a clear and realistic framework in which procedures of providing public services with the appropriate number and expertise of employees necessary for timely, efficient and quality execution takes place.

The National Reform Programme 2015 contains the implementation of activities in the public administration reform area, which are based on the objectives and measures defined in the Strategy and the Action plan for implementation of the Strategy, which is a constituent part.

Starting from the premise that the public administration reform is a key prerequisite for creating a transparent, predictable and efficient institutional framework for the implementation of all relevant policy reforms that should lead to a general economic and social progress in the Republic of Croatia, Government of the Republic of Croatia issued on 24 February 2016 a Decision on the implementation of reform measures for improving the public administration system. This Decision is a political instrument which underlines the strong commitment of the Government of the Republic of Croatia to continue the reform process and strengthen reform activities in the field of public administration.

This Government Decision established three main reform objectives focused on resolving management weaknesses and increasing public sector efficiency: (1) effective public administration focused on users, (2) developed human resources for effective public administration, and (3) quality and computerised of public services. This Decision also defines measures for achieving the realisation of the aforementioned reform objectives, and proposes the establishment of three committees (for the modernisation of public administration, development of human resources in public administration and digitisation of public administration). Representatives from all key ministries participated in the activities carried out by these committees, ensuring a horizontal inter-agency cooperation, which is the basic prerequisite for the implementation of reform measures.

Given the fact that the fundamental objective of the Decision is to further elaborate main reform objectives and priorities defined by the Strategy and to ensure continued implementation of reform activities stated in the National Reform Programme 2015, basic approach of committees when drafting action plans was to ensure content consistency, continuity of initiated activities (with an emphasis on completing activities of the NRP 2015 or redesigning them in order to achieve stronger reform effects) and timely compliance with the Strategy and measures contained in the Action plan for implementation of the Strategy as a prerequisite for using EU funds in the field of improving the efficiency of public administration.

Comprehensive regulation of the public administration system by adopting the Public Administration Act aims to transparently regulate the public administration system in accordance with functional criteria. Specifically, this Act will allow for a reduction in the number of organisational forms at the level of central state administration bodies (ministries, state administration organisations, state offices and their regional units), delineate jurisdiction for performing administrative functions and tasks between state administration bodies and state administration offices in counties, and determine criteria for the transfer of public authority. Furthermore, this Act will set a uniform criteria for the establishment of agencies, their legal status, activities, management structure and relations with ministries, as well as the agency founders as a prerequisite for a comprehensive regulation of the system. The first phase of the rationalisation of systems and public administration activities will include the **rationalisation of the system of legal persons with public authority and the rationalisation of regional units of central state administration bodies** (see Annex 2 Implementation plan for reducing the number of agencies, institutes, funds, and other legal entities with public authority).

The rationalisation of regional units of central state administration bodies will reduce the number of regional units of central state administration bodies performing inspection activities and first instance administrative procedures by at least 20% compared to the current number following their merger with state administration offices in counties. The merger of regional units will reduce the state administration fragmentation and ensure a quicker and more efficient treatment of citizens and entrepreneurs by the state. The operational load of ministries will be relieved due to the

conferral of authority for resolving cases in the first instance from the ministries to the public administration offices which will free up space for ministries to create and adopt new policies.

The rationalisation of the system of legal persons with public authority by the end of October 2016 will reduce the number of legal persons with public authority of the agency type and other legal persons whose operations that overlap with activities of legal persons of the agency type or state administration bodies for 12 legal entities. In terms of reducing material expenditure which will be achieved by this measure in 2016, savings in the amount of HRK 5 million are expected. Following the adoption of the Public Administration Act and setting criteria for the establishment and operation of agencies, an Action plan will be developed which will list legal persons with public authority of the agency type that do not meet the establishment criteria as defined by law, as well as provide a plan for dealing with such legal persons.

Improving the organisational model of local self-government operations

Because of the suboptimal allocation of responsibilities and decentralised public services, local self-government reform will be implemented in 576 municipalities and cities. The objective of these measure is to ensure effective implementation of public functionalities under the jurisdiction of local self-governments and ensure the quality, speed and availability of public services provided by local self-governments to citizens and the economy.

Reform proposals will be developed based on the collected data relating to demographic, geographic, social, economic and fiscal indicators, existing administrative capacities of municipalities, cities and counties, as well as the territorial distribution of public services. Three alternative organisational models for local and regional self-governments will be proposed with regard to the present condition which will represent a combination of proposals for territorial organisation (the optimisation of local self-governments through minor or major interventions in the existing territorial structure) and proposals for changes to the method of performing public services (the identification of the different scope of work performed by large and small local self-government units). In addition, each of the proposed organisational models will include elaborate instruments of financing the work of local and regional self-government units, inter-municipal cooperation mechanisms, financial incentives for voluntary merger of units and a system for providing support from regional self-government units and the central government to cities and municipalities that are not able to carry out their defined responsibilities. Finally, each of the existing models will be accompanied by a detailed analysis of the financial impact of the implementation, and an elaborate action plan for implementation. Drafting the proposed model will be completed by October, after which all three proposed models will be presented at a public debate. Based on the results of public debate, which will include representatives of local and regional self-government units, social partners, the academic community, and civil society, the Government will choose one of the proposed models by the end of 2016, striving to reach a broad political and social consensus regarding the chosen model.

[Improving human resource management in public administration and public services](#)

Key reform measures

1. Revision of salary determination system and regulation of the system of salaries in public administration and public services
2. Further development of a central coordination system in collective bargaining in public administration

Given that the current system of determining wages and remuneration does not provide a high-quality and transparent system of remuneration and incentives for employees in public administration and public services, work will begin on **revising the wage determination system** by adopting a new Act on Salaries in the Public Sector. By establishing new standard criteria for the classification of jobs, existing jobs in the public service will be evaluated and a new systematisation of jobs will be prescribed. Workplace value and new complexity coefficients will be determined based on the uniform criteria for determining the price of the workplace and by comparing similar and comparable jobs with jobs available on the market for the purpose of drafting a new Act on Salaries in the Public Sector. As an integral part of employee performance management, a competency framework will be developed to enable a transparent evaluation of employees on the basis of objective assessment of work efficiency and quality.

Audits of salaries of employees in local and regional self-government units will be implemented based on the described audit model for determining the salaries of employees in public services.

In order to formulate a central coordination system in collective bargaining in the public administration, Guidelines for the conclusion of collective agreements will be adopted and a central authority for keeping records, coordinating, and monitoring collective agreements and negotiations in public administration will be established. Work will begin on concluding a single collective agreement for civil servants which will include employees from state and public services with the aim of providing a coordinated definition of workplaces, basic concepts of the salary system, and a framework for determining coefficients and salary bonuses that are not subject to the Act.

Quality and computerised public services

Key reform measures

1. Increase the quality and digitisation of public services

There are plans to expand the number of services offered by the e-Citizens system to both the citizens and entrepreneurs in 2016. With regard to the introduction of additional services for citizens; these will include the e-Visitor service which enables the registration of facilities that provide accommodation services to tourists, issuing CRB certificates as well as other e-services provided under the jurisdictions of the city of Split, Rijeka, and Zagreb. Existing e-services for businesses will be linked and upgraded by the end of 2016 into a single point of contact: e-Business. Services included in the pilot project:

Financial Agency:

1. Enterprise ID
2. RKON - recording and accessing information on the concession registered in the Register of concessions
3. WEB-BON
4. e-Blokade

HZMO:

5. Overview of Persons with disabilities
6. e-Registration HZMO

Ministry of Finance:

7. Tax accounting card

REGOS:

8. REGOS e-services system (ENA)

The implementation of the eIDAS Regulation (Electronic identification and trust services for electronic transactions in the internal market) will enable the use of electronic signatures, electronic registered delivery as well as electronic stamps, thus creating the conditions for a predictable legislative environment for conducting online cross-border transactions and using services for companies, citizens, and public administration.

Due to the fact that the digitisation of public services is currently being performed by 4 state administration bodies (APIS, AKD, FINA, CARnet), a Centre of Shared Services (CSS) will be established under the Ministry of Public Administration as a single point for managing the digitisation of public administration. This measure will enable the integration of state information infrastructure and harmonisation of activities carried out by the public sector bodies. The central registry of office management with administration of documents, objects and workflows will be established in the first half of 2017, under the CSS, and will act as a shared service for public sector bodies. A "cloud infrastructure" functional model will also be developed. All services of the CSS will be available under the same conditions and local and regional self-government bodies for performing tasks related to own business activities and the provision of public services

This measure will enable the sharing of the same network resources, hardware, and applications which will ultimately streamline the use of existing resources, reduce the need for investing in information systems, provide an equivalent

level of security for storing, processing, and making data available on public administration information systems and ultimately increase the availability of data to citizens.

Strengthen strategic planning and policy coordination and improve the quality of legislative planning

Key reform measures

1. Improving legislative planning
2. Strengthening the regulatory impact assessment system
3. Improving the quality of legislation
4. Improving the strategic planning system on the national level

The planned legislative measures of the National Reform Programme will be harmonised with the Annual Plan of normative activities for the purpose of **improving legislative planning**. A mechanism for monitoring the execution of the Annual Plan of normative activities will be implemented with planned legislative measures under the National Reform Programme in a way that will add the execution of the Annual Plan of normative activities with particular emphasis on legislative proposals that are covered by the National reform Programme to the agenda of the permanent working bodies of the Government as a special item. This measure guarantees the predictability of changes to the legislative framework and the stabilisation of legislation.

The regulatory impact assessment system will be strengthened by establishing a strategic framework for strengthening the regulatory impact assessment, creating the Strategy for regulatory impact assessment and implementing amendments to the Regulatory Impact Assessment Act. An important element of changing the legal framework as part of the *ex-ante* regulatory impact assessment is the inclusion of the SCM methodology in the regulatory impact assessment process. To further simplify *ex-ante* regulatory impact assessment, amendments to the Small Business Development Promotion Act and creation of the Regulation on the procedure of implementation of the SME test by July 2016 will introduce the mandatory application of the SME test in the regulatory impact assessment methodology. One of the elements of sustainability of said measures is the strengthening of the capacity of civil servants by developing and upgrading educational programmes in the field of regulatory impact assessment.

In order to **improve the quality of regulations** drafted by persons authorised to prepare legal cases, the State School for Public Administration will upgrade its educational programme to include the application of the rules of legislative technique in legislative drafting.

In the context of better integration for drafting strategic plans, budgets, and drafting documents under the European Semester, the **annual cycle of strategic and budget planning will be revised** such that it will provide better coordination between the process of drafting national documents from the European Semester with the budget planning process. The objectives set under the strategic plans of ministries, as well as success in meeting strategic objectives from the previous period, will both be applied to ensure better budget preparation and clearer connection between reform objectives of the National Programme. Revision to the budget planning cycle is one of the objectives set under the **Support for the establishment of strategic planning system on a national level** project. The completion of project activities is expected in early July 2016. This project will propose an institutional framework for strategic planning and standardised procedures for the preparation and monitoring of the implementation of strategic documents. The Strategic Planning Act will be adopted by December 2016, a strategic planning unit will be established under the various ministries, and capacities for the establishment and implementation of strategic objectives will be strengthened on a national level for the purpose of achieving the aforementioned objectives.

Combating corruption in the public sector

Key reform measures

1. Improving strategic framework and implementation framework for the fight against corruption

Overcoming the risks of corruption in public administration will be achieved by strengthening the prevention, accountability, and transparency of priority areas. For this purpose exclusively, a Register of public companies in majority ownership of local and county (regional) self-government units will be established; anti-corruption programmes for public companies in the ownership of local and county (regional) self-government units and state, codes of conduct within the framework of political system and normative framework for the establishment of ethical system will be adopted; the area of the protection of “whistle-blowers” will be analysed and conditions for the verification of financial disclosure forms of judicial officials will be applied.

Improvement of court operations

Key reform measures

1. Harmonisation of case law
2. Reorganisation of court operations
3. Reducing the duration of court proceedings, the number of pending cases and the influx of new cases

This measure will be implemented in several stages and begin by analysing the situation in the judiciary, statistical tools, effects of the implementation of judicial network reorganisation project, as well as the management and organisation of court operations and case complexity. The planned analysis of misdemeanour justice system will be carried out with the aim of rationalising the misdemeanour's court network. Given the size of certain judicial areas as well as the scope and complexity of tasks confronting leaders of judicial bodies in the new system, it was proven necessary to transfer a part of their managerial authority to new managerial positions that will be established in the judiciary. **Managerial roles** and in particular the role of court administration director, as well as the **coordination of judicial bodies**, will be **redefined and strengthened** by amendments to the Courts Act introduced in 2016. The possibility of also introducing such function in the state attorney structure, by introducing the role of judicial administration director who would perform both court and state attorney required tasks, will be considered within the framework of reorganisation project. Amendments to the State Judiciary Council Act will strengthen the system for the control of work and responsibility, transparency, and efficiency of judge appointment and transfer procedures as well as the appointment of court presidents (the introduction of deadlines for the completion of appointment/transfer procedures), and incorporate additional criteria for the objective evaluation of judges' work. Appropriate legislative amendments will simultaneously professionalise the work of the State Judiciary Council.

An analysis of the available human resources applied to all judicial bodies stressed the need to **establish a new human resources management system**; the conclusion about the necessity to implement such a system was also confirmed by projections about the **greater mobility of personnel** in main judicial areas. Specifically, the new organisation of municipal and misdemeanour's court network, as well as municipal state attorney's offices, created necessary conditions for commencement of certain services that are jointly provided by judicial bodies, primarily accounting services, IT services and court (judicial) delivery systems. To this end, **some officials and employees will be reassigned to work** in shared services that will support several judicial bodies. In order to improve the quality of work, the Ministry of Justice will implement a work quality management system, which will eventually be introduced into all judicial bodies. A transparent and centralised management system for judicial bodies' and Ministry of Justice infrastructure will also be implemented.

In accordance with the results of a 2017 study on case complexity, **the methodology for determining the adequate number of judges and officials in courts, as well as the evaluation of performance and the definition of priority actions, will undergo a change** in order to ensure efficiency. Specifically, poor methodology and a non-analytical approach have caused an imbalance in the system and led to an increase in the number of pending cases. In addition, the methodology for calculating court fees will be redefined. The aforementioned activities should shorten the duration of proceedings and reduce the backlog of pending cases.

During 2016 and 2017 the **mechanisms for** defining and implementing **targeted training** specifically designed to achieve the objectives of work reorganisation will be **improved** and the **Judicial Academy reorganised** in order to gain professionalism and expertise. Furthermore, an intensive **development of information technologies** that will ultimately lead to the establishment of methodological, systematic and timely procedure management benefiting judicial bodies and their operations, as well as the opportunity to statistically monitor the entire system, will continue through 2016 and 2017.

The High Commercial Court of the Republic of Croatia and the Supreme Court of the Republic of Croatia will introduce a unique system called eSpis in 2016 and finalise the implementation of an information system for the publication of case law in 2017, as well as enable electronic communication and the submission of documents in digital form within the framework of the 2012 IPA project “Further Improvement of the eSpis System”, which will increase efficiency and reduce costs.

We strive to continuously take measures that give positive results within the framework of procedural rules. However, the **improvement of civil proceedings** will require our further efforts. Amendments to the Civil Procedure Act planned for 2016 will therefore primarily redefine the jurisdiction of commercial courts with an emphasis on an increase in workload by introducing a new framework for preliminary bankruptcy proceedings and bankruptcy proceedings, as well as the economic importance of certain types of disputes.

The introduction of model dispute resolution and the revision of the principle of auditing will enable the Supreme Court of the Republic of Croatia to perform its constitutional role and effectively resolve civil cases, and thus raise the quality of judicial decisions and ensure case law uniformity. Furthermore, the aforementioned principles are expected to significantly reduce the influx of cases in which the Republic of Croatia, which is also one of the largest litigants in the courts, constitutes an interested party, as well as increasing the peaceful settlement of disputes. Given that the concentration of proceedings introduced in 2013 significantly accelerated the resolution of civil cases, the application of these rules will apply to the older pending proceedings as well.

Over the past years, great attention has been paid to the effort to relieve judicial officials from performing activities that are not directly related to the performance of their duties to as great an extent as possible. We expect to achieve their further relief by extending the authority of court counsellors, primarily those acting in commercial courts. Enabling remote hearings and using appropriate audio-visual equipment, revising of the principle of delivery, strengthening procedural discipline, and strengthening the principle of literacy in proceedings before commercial courts will decrease the length of court proceedings, and thereby reduce the number of pending cases.

A number of reasons indicate the necessity to **reform Croatian extra-contentious procedural law**, beginning with the practical inapplicability of obsolete provisions dating from 1934, to the lack of sources on the function of general legal rules and the non-compliance of existing legal sources. All of this leads to case law inconsistency. The Extra-Contentious Proceedings Act that will modernise the process, implement principles based on the rule of law, allow citizens easier access to the courts, and ensure the quality and transparency of legal protection, as well as case law uniformity, will be introduced in 2016.

Extending the authority of notaries public in enforcement proceedings is expected to significantly reduce the influx of cases to courts, which will simultaneously reduce their work load and allow resolution of older cases.

A legal framework for assessing the performance and supervising the expertise and responsibility of permanent court expert witnesses, assessors and interpreters that will ensure their uniform performance, compliant with the rules of profession and specialisation, which will in turn bring about case law uniformity and encourage the peaceful settlement of disputes, will be **introduced** in 2016.

Conducting reviews of rulings and decisions issued by the European Court of Human Rights against the Republic of Croatia concerning Croatian legislation will provide an important tool for acquiring knowledge about resolutions that exert impact on the case law of the Republic of Croatia.

Since **alternative means of dispute resolution** are underused, their promotion will strengthen through procedural rules, strengthening the role of the Committee for the Encouragement of Alternative and Out-of-Court Settlements, and informing the public.

4.4. Education for the labour market

Implementation of comprehensive curricular reform

Key reform measures:

1. Passable and efficient system of early and preschool, primary and secondary education

We plan to adopt 55 national curriculum documents in 2016 with the aim of matching education to interests, human needs, and the abilities of students, as well as matching the harmonisation of education to needs of society and the economy. Their adoption will depend on the outcomes of expert and public discussions that will take place during April and May. Upon the adoption of these curricular documents, a public call for participation in the experimental implementation of curricular documents' introduction in 48 primary and 12 secondary schools will be announced. In the first phase of the experimental implementation in the 2016/2017 school year, we plan to introduce a new curriculum for primary school years 1, 3, 5, and 7 (for subjects biology, physics and chemistry) and secondary school year 1, including vocational schools. In order to prepare teachers for the experimental implementation, we will provide human resources in education with professional training. In the second phase of the experimental implementation, in school year 2017/2018, we plan to introduce a new curriculum for the primary school years 2, 4, 6, and 8 and secondary school year 2. The ultimate goal of curricular reform is to increase the level of students' functional literacy, clearly define educational outcomes, encourage the application of teaching and learning methods that give students a more active role in the development of knowledge, skills and attitudes with the support of teachers/instructors and through interaction with other students, and a radical change of assessments, evaluations and reporting on student achievements directed at evaluation as an integral part of the learning process.

Harmonisation of educational programmes with needs of the labour market at the level of vocational and higher education

Key reform measures:

1. Further implementation of the Croatian Qualification Framework (CROQF)
2. Adoption and implementation of the Vocational Education and Training Development Programme
3. Development of the validation of the non-formal and informal learning system
4. Increase the representation of traineeship in higher education

The implementation of the CROQF aims to harmonise educational programmes at all levels with relevant occupational standards and qualifications. During 2016, we will complete the development of the CROQF information system to enable sector councils to implement the evaluation of proposals for various categories of learning outcomes, occupational standards and qualifications standards based on the Guidelines for the Development of Occupational Standards and Instructions for Establishing Qualification Standards, in accordance with the Croatian Qualifications Framework Act. We plan to appoint all sector councils (a total of 25) by March 2017, and, in the meantime, during 2016, inform sector councils on procedures for evaluation of occupational standards and qualifications. During 2016 the first set of occupational and qualifications standards that will be subject to evaluation by sector councils will be established. Upon the completion of the evaluation, the first 10 qualifications and occupational standards will be entered into the CROQF Register, while additional occupational standards will be established in accordance with the Guidelines for the Development of Occupational Standards until the first quarter of 2017. The harmonisation of study programmes with standards entered into the CROQF Register will be prescribed by the Act on Quality Assurance in Science and Higher Education and the first voluntary harmonisation of study programmes with qualifications standards entered into the CROQF Register will begin in the first quarter of 2017. The harmonisation of study programmes with standards entered into the CROQF Register will allow higher education institutions recognition among the population of future students.

The adoption of the Vocational Education and Training Development Programme is scheduled for July, and its implementation will strive to increase the number of students in vocational education and harmonise learning outcomes in vocational education with labour market needs. The application of vocational curricula for sector that are based on workplace learning is planned for September 2016. Activities related to the improvement of the system of continuous professional development of teachers of vocational subjects will be carried out throughout 2016, while a model of teaching competencies acquired by mentors in employment will be developed in 2017. In order to increase the mobility of students in vocational education, a model of vertical and horizontal mobility of students in vocational schools will be developed. The promotion of the European Credit system for Vocational Education and Training (ECVET) for principals, teachers and professional associates in vocational education will be carried out during 2016 with the aim to increase the understanding of ECVET.

The measure of the development of the **validation of non-formal and informal learning system** is aimed at faster employment of unemployed and hard-to-employ persons, while ensuring scarce and other professions required by the Croatian economy simultaneously. Specifically, the starting point will be the fact that adults, especially middle-aged persons and the elderly, learn everyday activities by previous work experience and in some other ways. Furthermore, adults can acquire knowledge by participating in organised learning processes by which they cannot acquire qualifications, but whose purpose is to acquire different skills and foster personal development. The recognition of informal and non-formal learning based on qualifications standards and categories of learning outcomes entered into the CROQF Register therefore aims to shorten the duration of formal education of individuals who have already achieved certain learning outcomes. In order to implement this measure, we will encourage the development of occupational standards, qualifications standards and programmes for the evaluation of non-formal and informal learning in priority sectors in accordance with the list of scarce professions and data derived from projections of movements on the labour market. The objectives of this measure will be achieved by adopting the Strategic Plan for the development of the validation of non-formal and informal learning system, which will be adopted by the National Human Resources Development Council in December 2016. We will subsequently adopt the Rules on Recognition and Validation of Non-formal and Informal Learning in March 2017 in accordance with the Croatian Qualifications Framework Act, by which the legal framework required for the implementation of this measure will be established. Funds in the amount of HRK 131,201.00 for the implementation of this measure will be provided by the 2016 Republic of Croatia State Budget and funds in the amount of HRK 450,000.00 for the period 2016-2018 by the Operational Programme Effective Human Resources 2014-2020.

In order to ensure greater **representation of professional practice in higher education institutions' programmes** and thus increase students' skills that are needed on the labour market, we will prepare recommendations for the model of cooperation between higher education institutions and employers, based on an analysis of data on the representation of professional practice at universities and consultation with employers, teachers and students. In the first quarter of 2017, as a part of tender within the Operational Programme "Effective Human Resources", a call for the participation in ESF project for the performance of professional practice will be issued to higher education institutions.

Better implementation of adult education programmes, lifelong learning, and worker retraining schemes

Key reform measures

1. Increase the availability of educational programmes for adults and encourage participation in lifelong learning
2. Improve the system of worker retraining, additional training, and training

The measure Increase the availability of educational programmes for adults and encourage participation in lifelong learning aims to implement the following projects based on the Operational Programme Effective Human Resources 2014-2020:

- a) promotion of lifelong learning,

- b) inclusion of adult learners in educational priority programmes in accordance with labour market needs. These are, for example: training programme for performing activities of caregiver to elderly and disabled persons, family farm manager training programme, training programme for performing simple activities within the occupation of waiter, training programme for performing simple activities within the occupation of butcher, welder training programme for performing MIG-MAG welding, welder training programme for performing REL welding, training programme for performing activities of computer operator, professional training programme for performing activities of mobile application - Android - programmer, professional training programme for performing activities of independent accountant, training programme for performing simple activities within the occupation of bricklayer, dry wall installer training programme, programme for acquiring the secondary professional qualification and retraining within the occupation of confectioner, programme for acquiring the secondary professional qualification and retraining within the occupation of plasterer, programme for acquiring the secondary professional qualification and retraining within the occupation of chef, and programme for the completion of primary education for adults.
- c) improving literacy as the foundation of lifelong learning.

The normative framework for the implementation of these measures will be regulated by the Adult Education Act, whose adoption procedure is planned for September 2016. A public call for tenders for a project entitled Improving Literacy as the Foundation of Lifelong Learning is planned to be issued in the third quarter of 2016. A public call for the project for supporting the education of adult learners by including them in educational priority programmes will subsequently be issued in March 2017. By March 2017 we also plan to prepare a draft Curriculum for Primary Adult Education. We have provided funds in the expected amount of approximately HRK 69 million for the implementation of these projects (ESF/Erasmus+). The implementation of this measure is expected to increase the rate of participation in lifelong learning of adult learners and participants with pre-tertiary and tertiary education by allocating funds to adult education institutions, i.e. the number of vouchers allocated to participants.

The aim of the measure Improve the system of worker retraining, additional training and training will enable the faster employment of unemployed persons on the basis of real needs and implement the education of unemployed persons based on employers' feedback and in accordance with identified needs. An unemployed person will thus be motivated to participate in retraining, additional training and training, and employers will in accordance with their needs be guaranteed the necessary workforce. The implementation of this measure will be performed in accordance with the Plan of the Croatian Employment Service for the Implementation of Measures for 2016 and terms and conditions for the use of resources for the implementation of this measure. Moreover, its implementation will be performed in accordance with the Plan for the Education of Unemployed Persons for 2016, which will be adopted in June 2016. The training of unemployed persons for scarce occupations will be implemented throughout 2016. In December 2016 we will draw up specifications for public procurement related to the implementation of education in 2017. The total cost of education of unemployed persons amount to HRK 73,666,810.03. This measure will ultimately increase the competencies and qualifications of unemployed persons in accordance with labour market demands, and thus contribute to reducing the number of unemployed persons.

5. Progress towards National Europe 2020 Targets

5.1. Target 1 – Employment

Conclusion of the European Council 2010:

Increase the employment rate to 75 % for men and women between the ages of 20 and 64, including greater participation of youth, older workers and persons with lower education.

Achieved progress

Indicator	Previous value	Current value				Objective 2020
	2008	2012	2013	2014	2015	
Employment rate of the total population, men and women, between the ages of 20 and 64, %	64.9	55.4	57.2	59.2	60.5	65.2

Source: Eurostat

An increase in employment was accompanied by the reduction of annual unemployment rate, which compared to 17.3 % in 2014, amounted to 16.3 % in 2015.

Table 5.1.2 Active labour market policy measures implemented during 2015 with number of beneficiaries until 31 December 2015.

Measure	Active beneficiaries at the beginning of 2015	Newly included persons until 31 December 2014	Total number of beneficiaries during 2015	Active beneficiaries 31 December 2015
TOTAL	23,165	41,595	64,760	33,021
Employment and training aid	4,697	7,120	11,817	6,747
Self-employment aid	2,109	2,776	4,885	2,647
Education of unemployed persons	54	1,552	1,606	1,095
Public works	1,771	9,961	11,732	3,217
Vocational training without commencing employment	13,897	18,597	32,494	18,307
Aid for Job Preservation	637	1,589	2,226	1,008

Box 5.1.1 Conclusions of external evaluation of active labour market policy measures in the period 2009-2013

The number of AEP users has increased more than eight times in the mentioned period - from 6,296 in 2009 to 56,632 in 2013. Likewise, the rate of coverage, i.e. the scope of measures in relation to the number of unemployed persons increased from 2.49 % to 17.26 %.

Employment and training aid

The results of the implementation and the cost of employment and training measures aid regarding the overall impact indicate that instead of changing them, these measures should be better managed, i.e. CES should be given a final decision in choosing persons who are to be included in this measure.

Self-employment aid

If we consider both the cost and the number of persons remaining in employment we can conclude that self-employment aid has a positive effect; however, the eligibility criteria, in order to ensure a longer stay in self-employment and facilitate the expansion of business and hiring new people, necessitates the strengthening of the advisory role and the provision, in cooperation with other bodies and institutions, of technical and other assistance during the first few years of employment.

Education of unemployed persons

Because the education of unemployed persons is not harmonised with needs and planned needs of the labour market, it does not have a significant impact on the employability of students and does not provide the necessary workforce, primarily in sectors that have been affected by the crisis or for activities that are rapidly growing, such as tourism, hospitality, construction, services, transport, education, etc. It is necessary to amend or change laws because the implementation of education leads to various problems in terms of public procurement of education services and legislation relating to adult education.

Public works

The application of public works measures should be limited only to those employers who cannot organise the implementation of certain types of activities and take better care of public works programmes from regular resources in order to avoid the negative effect of replacing regular activities of public works, especially considering that this measure requires significant funds from the state budget.

Vocational training without commencing employment

The results of external evaluation pointed to the need for changing vocational training measures for work without employment due to facts that due user categories greatly expanded in recent years and that a substitution of regular jobs and employment, particularly in the public sector, occurred. It is necessary to limit the availability of these measures in both state and public sector. Furthermore, the measure is not sufficiently accessible to persons who have acquired secondary education, i.e. it favours persons who have completed higher education and prevents access to lower positioned persons, which affects the creation of unequal conditions for access to the labour market. It is therefore necessary to introduce a new target group for the implementation of these measures, specifically persons who have completed a four year secondary education. The measure should be available to people with no work experience and people who do not have enough work experience to be eligible to compete for advertised job opportunities, specifically a minimum of 12 months of work experience.

Aid for Job Preservation

A part relating to permanent and seasonal workers of job preservation measures must be revised to adjust amounts of financial assistance to the amount and calculation of payments in order to avoid discrimination against unemployed persons in favour of persons who have secured an income because they continuously partake in the pension insurance system based on pensionable service with increased duration, or are in employment. The amount of financial support is not limited and is not related to the basis for calculation of salary but includes a total amount of salary during due season, which means that the average includes the redistribution of working time, overtime, etc.; specifically the financial impact of an individual is thus more favourable than using aids during unemployment.

Measures to achieve the objective

Promote employment of disadvantaged persons on the labour market — older persons, long-term unemployed and persons with few qualifications through active labour market policy measures and increase incentives for hiring unemployed and inactive persons

During 2016 we will **increase the scope of the measures of additional education, training, additional training and retraining**. In 2016, we have allocated HRK 268,520,43.00 at Active Employment Policy (AEP) position and HRK 10,785,000.00 at Programme for Roma Nationals position within the state budget for the implementation of active employment policy measures, with additional aid related to the implementation of active employment policy measures amounting to HRK 444 million. The financing of AEP measures planned for 2016 will be secured from EU funds, specifically by using HRK 384,993,430.00 within the framework of the Operational Programme Effective Human Resources 2014-2020 and HRK 65,429,000.00 within the framework of the Operational Programme for Human Resource Development 2007-2013. **The total budget secured for active employment policy measures**, including all related aids planned for 2016 amounts to **HRK 1,183,727,893.00**.

Improving labour market outcomes for young people who are not in employment education or training (NEET) system

A report on the status of the implementation of measures within the Youth Guarantee (YG) and projects financed from the State Budget, including those funded in the previous financial perspective (2007-2013), shall be prepared by the end of July 2015. According to the report, the Implementation Plan for Youth Guarantee will be revised in line with the Operational Programme Effective Human Resources 2014-2020 in order to harmonise the final expenditures of individual projects, as well as the projects themselves, defined during the drafting phase of the Operational Programme. Furthermore, we will continue to raise the overall quality of services provided by the Croatian Employment Service (CES), especially activities concerning the young and the strengthening of CES capacities for the effective implementation of active employment policy measures. The relevant institutions (Ministry of Labour and Pension System, CES, Ministry of Science, Education and Sports and the Croatian Pension Insurance Institute) signed an agreement related to the establishment of a system for tracking people in NEET status, while in November 2016 a **comprehensive system for monitoring of persons in NEET status will be established** on the basis of which the analysis of persons with NEET status shall be conducted, as well as the preparation of measure for access and activation.

Improving efficiency of labour market institutions

In 2016 we plan to increase the number of specialised employment counsellors working with the unemployed and other job seekers and redefine their role with an emphasis on the better formulation of professional job search plan. Furthermore, we will increase the specialisation of consultants in order to provide services tailored to each individual target group on the labour market so as to enhance the effectiveness of CES to users. The establishment of new CISOK centres in 2016, that will continue throughout 2017, and the additional training of CES advisors will contribute to increasing the efficiency of labour market institutions.

Implementation of activities for overcoming unemployment by sectors

We will strengthen the system of career development based on the Strategy for Lifelong Career Guidance and Career Development in the Republic of Croatia 2016-2020, adopted in October 2015. The adoption of the Strategy is the first step in the systematic determination of the role of lifelong guidance and career management, as well as the implementation of lifelong guidance in education systems and systems of employment and social inclusion. The Operational Plan of the Strategy and further improvements of customer services via CISOK centres are currently being implemented. Furthermore, we will continue to develop standards within the Croatian Qualification Framework in 2016 and 2017; this will result in the establishment of a database for development of sector profiles, labour market analysis, enrolment at universities, employment projections, and impact assessment of the policies for employment, education, and economic development.

5.2. Target 2 - Research and development

Conclusion of the European Council 2010:

Improve the research and development environment, particularly with the goal of raising the level of combined public and private investments in the R&D sector by 3 % of the GDP.

Strengthening of the economy through research and innovation has been established as one of the priority areas with the framework of the **Operational Programme Competitiveness and Cohesion 2014-2020**. The main funding priorities under the public policy measures by 2020 are as follows:

- organisational reform of scientific organisations and modernisation of the R&D infrastructure,
- strengthening scientific excellence and efficiency,
- creating conditions for business sector investments in research, development and innovation, directing the focus of public research organisations to applied research activities suiting the needs of industry and economy,
- supporting innovation and knowledge transfer,
- support spending on research, development and innovation in companies in order to increase the overall level of spending on research and development,
- inciting common interest in the implementation of development, research and innovation projects among institutions for research and development, including the academic sector, public authorities and companies,
- creating a favourable environment for companies in the areas of development, research and innovation.
- supporting the implementation of socially useful innovation.

Achieved progress

Indicator	Previous value	Current value				Objective 2020
	2008	2012	2013	2014	2015	
Gross domestic research and development expenditure (GDRD) as % of GDP	0.88	0.75	0.82	0.79	not applicable	1.4

Source: Eurostat

Measures to achieve the objective

Strengthening the national innovation system and innovation potential of the economy

Strengthening the absorption potential of scientific organisations with a view to withdraw funding from EU funds represents an ongoing process of equipping the new Incubation Centre for Bioscience and Technology Commercialisation – BIOCENTRE, which is aimed at companies in the field of biological sciences and biotechnology. We are also supporting an ongoing project Research Infrastructure Development at the University of Rijeka campus aimed to equip four research centres and thus ensure the implementation of new methodologies and technologies in interdisciplinary and multidisciplinary fields of science and research, all in order to increase research capacity and achieve excellence in the development, innovation and research in the Republic of Croatia. The funds from these Operational Programmes will support further investment in scientific infrastructure and organisational reform, scientific centre of excellence projects, synergy with the programme Horizon 2020, activities of various Technology Transfer Offices (TTOs) and science and technology parks, with the aim to encourage cooperation between scientific and business sector within the regional and national innovation system. In order to achieve that objective, we will support projects conceived in partnership with public research organisations and private sector sections such as “Research, Development and Innovation Fund” and “Capacity Building for Research, Development and Innovation”.

Project activities within the framework of the OP Competitiveness and Cohesion 2014-2020 - 1a "Improvement of the infrastructure and research capacities and innovation for the development of research and innovation success and promotion of competence centres, in particular those of European interest" are aimed at improving scientific organisations' capacities for the implementation of cutting-edge research for the further transfer of knowledge and skills that can significantly contribute to social and economic development related to priority areas and intersectoral themes within the Smart Specialisation Strategy.

In order to achieve these objectives, interventions will focus on:

- (i) strengthening of organisational reforms and infrastructural capacities in scientific organisations
- (ii) providing support to Scientific Centres of Excellence
- (iii) supporting research and development projects and cooperation between the scientific and business sectors through knowledge and technology transfer.

The expected final result, which measures scientific productivity and the quality of research carried out within planned calls, is represented by an increase in the total number of scientific publications published in journals indexed on the portal "Web of Science". Within this specific objective, we will promote a research system which is open to innovation and meets the needs of the economy, performance excellence through support for projects that integrate organisational reform, infrastructure investment and human resource development attracts best talent. Accordingly, our intention is to encourage the conduct of ground-breaking scientific research and thus stimulate further transfer of knowledge and technologies that will contribute to social development and economic growth.

Improving the quality, management and funding system for scientific organisations and encouraging scientific excellence

We plan to continue the project "Crossing Borders - Scientific cooperation" in 2016. The "Scientific Cooperation Programme" encourages ground-breaking scientific research by financing medium size projects conducted in cooperation between scientists from Croatia and Croatian diaspora. The objective of this project is to enable Croatian scientists to raise their scientific excellence to the next level and become more competitive and able to attract sources of international and European funding through this type of cooperation with scientists from Croatian diaspora. This programme also encourages projects that create new knowledge useful to the private sector or allow the transfer of knowledge and technology from world's leading institutions, where scientists from Croatian diaspora work, to the private sector in the Republic of Croatia, through the cooperation between Croatian scientists, scientists from Croatian diaspora and private sector. This type of support should facilitate the return of scientists from Croatian diaspora to Croatia through the networking of scientists and experts from Croatian diaspora with colleagues from Croatia. The total value of the programme which amounts to EUR 5.8 million is secured by OP Effective Human Resources 2014-2020 funds that should be allocated to the Foundation in the form of a direct allocation of funds during 2016.

The Foundation, as a focal point for the competitive funding of national research projects during 2016, plans to announce a new call for competitive research projects. The fund "Unity Through Knowledge", which was in 2014 allocated to the Foundation, is currently financing nine projects within the programme "Crossing Borders - Scientific Cooperation". These are highly competitive scientific projects whose objective is to establish scientific cooperation between Croatian scientists and scientists from Croatian diaspora.

In addition, the Government of the Republic of Croatia has in November 2015 adopted a programme which aims to encourage research and development activities in the area of climate change for the period from 2015 to 2016, which awarded additional HRK 17 million to scientific projects. This programme was designed as the first in a series of programmes that will be specifically designed to finance scientific research activities in order to facilitate challenges of climate change we are facing. It is expected that this measure will become permanent, since it uses funds that the Republic of Croatia realised by selling CO₂ emission units. The tender is currently open.

In line with the further restructuring of public research institutes, the Government will appoint a new Committee which will, upon completion of its sessions and on the basis of previous analyses (thematic evaluation, re-accredited, independent international evaluation of public research institutes, In-Depth Analysis of Expenditures of the State

Budget of the Republic of Croatia, etc.), submit a **model for the restructuring of public research institutes** to the Government by the end of 2016.

5.3. Target 3 - Climate change and energy

Conclusions of the European Council 2010:

Reduce greenhouse gas emissions by 20 % compared to 1990 levels; increase the share of renewable energy in final energy consumption to 20 %; improve energy efficiency by 20 %.

Reduced greenhouse gas emissions

Member States have demonstrated a joint commitment to reducing emissions by 20 % at the level of the European Union that will be achieved through the European Union Emission Trading System (EU ETS) for trading greenhouse gas emission units. The EU ETS system imposes a joint quota that includes 53 plants from the Republic of Croatia. Emissions and sectors that are not covered by the EU ETS system (part of industrial processes, use of solvents and other products, agriculture, forestry, waste management, household services, transport, etc.), and limits imposed on Member States and the Republic of Croatia are all determined by an annual national quota which is not to be exceeded. This quota is established on the basis of solidarity between European Union Member States and, in accordance with the quota, the Republic of Croatia will, in comparison with the level for 2005, until 2020, be allowed to increase greenhouse gas emissions from these sectors by 11%.

The Air Protection Act (Official Gazette, nos. 130/11, 47/14) regulates the fulfilment of Croatia's obligations related to the retention of emissions in the context of annual national quotas for sectors outside the trading system, while the Act prescribes that competent government authorities hold authority over emissions for due sectors. The Ministry of Environmental and Nature Protection supervises the execution of the aforementioned obligation and proposes, if necessary, additional measures.

The measures implemented in Croatia for the period from 2013 to 2017 include measures to reduce greenhouse gas emissions determined by the Air Protection Plan, measures for ozone layer protection and climate change mitigation (Official Gazette, nos. 139/2013).

The Strategy for the Low-Carbon Development of the Republic of Croatia until 2030 with a view to 2050, planned for adoption by the end of 2016, will represent a comprehensive economic, developmental and environmental strategy that will enable growth of industrial production, development of new activities, economic competitiveness, and job creation through innovation, the transfer of advanced technologies, and significant structural changes in all sectors.

The Strategy for Adaptation to Climate Change in the Republic of Croatia until 2040 with a view to 2070 is planned for adoption by the end of 2017.

As part of the Common Agricultural Policy 2015-2020, the Republic of Croatia has been implementing measures to protect the environment and climate within the rules of cross-compliance framework that create a direct link between the exercise of the right to support agriculture and adherence to basic rules relating to environmental protection, food safety, animal and plant life, animal welfare, and the maintenance of agricultural areas that are used for economic purposes in good agricultural and environmental conditions. This applies to all agricultural producers, users of direct aid and users of integrated administrative control measure system for rural development.

We anticipate the adoption of the Short Rotation Crops Act in the third quarter of 2016, of the Forest Act in the fourth quarter of 2016, and of the National Forestry and Wood Industry Strategy in the first half of 2017. The adoption of these Acts and the aforementioned National Strategy will further improve the existing legal framework for sustainable forest management, which will contribute to the increasing of CO₂ sinks that bind additional CO₂ quantities into wood pulp and ultimately result in the reduction of greenhouse gas emissions into the atmosphere. The adoption of the new Forest Area Management Plan during 2016 will significantly enhance the ability and accuracy of reporting by competent authorities in the Republic of Croatia to the EU and other international institutions.

The planned Environmental Action Plan for the Republic of Croatia in the period from 2016 to 2023 will be adopted by the end of 2016.

We will promote and encourage the importance of the synergy of environmental policy in all aspects of circular economy as a contribution to achieving sustainable development of the knowledge-based and competitive economy with low carbon emission and efficient use of resources within the framework of the consumption and production measures for 2016.

In August 2015, a Government Decision adopted the First National Action Plan for Green Public Procurement for the period from 2015 to 2017, with its sights set on 2020. The development of measures and activities within this Plan will introduce measures and activities to be implemented in order to encourage the practice of introducing and improving the standards of green public procurement in public procurement procedures, which will contribute to the reduction of greenhouse gas emissions.

The Strategy of Marine Environment and Coastal Area Management in Croatia will be completed by the end of 2016.

A new Waste Management Plan for the period up to 2022 and the corresponding Waste Prevention Plan are expected to be created by the end of the second quarter of 2016.

In 2016 we plan to co-finance projects for infrastructure, street lighting and infrastructure, industry and tourism within the Competitiveness and Cohesion 2014-2020 Operational Programme and have secured EUR 531.8 million for this purpose.

In order to reduce greenhouse gas emissions in the context of the establishment of sustainable transport vehicles and vessels powered by alternative fuels (electric vehicles, hydrogen vehicles, vehicles/vessels powered by natural gas) in 2016, we plan to pass the Act on the Establishment of Infrastructure for Alternative Fuels and adopt the National Policy Framework for the Establishment of Infrastructure and Market Development of Alternative Fuels in Transport in accordance with the European Parliament and Council Directive 2014/94/EU on the establishment of infrastructure for alternative fuels of 22 October 2014.

Increased share of renewable energy sources in gross total energy consumption

1. Promoting renewable energy sources in order to reduce greenhouse gas emissions

The estimated amount of savings on greenhouse gas emissions achieved by using renewable energy, compared to the 2005 amounts (tCO₂eq):

Environmental aspects	2011	2012	2013	2014
Total estimated net savings on greenhouse gas emissions achieved by using renewable energy	495,150	683,336	1,050,575	881,687
- Total estimated net savings on greenhouse gas emissions achieved by using electricity from renewable energy sources	525,458	580,241	986,341	1,050,575
- Total estimated net savings on greenhouse gas emissions achieved by using renewable energy for heating and cooling	-42,274	-11,251	-37,066	-489,790
- Total estimated net savings on greenhouse gas emissions achieved by using renewable energy in transport	11,966	114,347	101,300	92,530

2. State incentives for stimulating the production of energy from renewable energy sources - Guidelines on Environmental Protection and Energy State Aid for the period 2014-2020 (2014/C200/01) determine means of encouraging the usage of renewable energy sources; they defined new rules for aids by entering into force on 28 June 2014
3. Tariff System for the production of energy from renewable energy sources and cogeneration

4. System of market premium stimulation and investment support projected by the proposed Act on Renewable Energy Sources and Highly Effective Cogeneration

Increasing energy efficiency

The Implementation of the Third National Action Plan for Energy Efficiency in the Republic of Croatia for the period 2014-2016:

Total energy consumption in Croatia in 2014 decreased compared to realised total consumption in the previous year by 3.1 %. The largest increase was achieved by consumption of other renewable sources by 36.4 %. Hydro power was increased by 4.8 % due to favourable hydrological conditions, and the import of electricity amounted to 2.2 %. The consumption of other forms of energy was reduced. Reducing the consumption of natural gas amounted to 11.4 %, of wood fuel and biomass to 11.3 % and of liquid fuels to 2 %. The consumption of thermal energy from heat pumps was reduced by 15.9 % and the consumption of coal and coke by 1.8 %.

Indicator	Previous value	Current value		Objective 2020
	2008	2012	2013	
Greenhouse gas emissions, index 1990 = 100	88.54	72.66	69.89	N/A*

Source: Eurostat

* the national objective is not shown, the goal for 2020 was determined at the level of EU28, amounting to 80 % compared to the level of emissions in 1990

Increased share of renewable energy sources in gross total energy consumption

Indicator	Previous value	Current value		Objective 2020
	2008	2013	2014	
The share of renewable energy sources in final energy consumption, %	22.00	28.1	27.9	20

Source: Eurostat

Increasing energy efficiency

Indicator	Previous value	Current value		Objective 2020
	2008	2013	2014	
Primary energy consumption, TOE	9.1	8.0	7.7	11.15
Final energy consumption, TOE	7.4	6.6	6.2	7.0

Source: Eurostat

In 2016, we will create a new Energy Development Strategy for the Republic of Croatia and adopt a new National Action Plan for Renewable Energy Sources. The Act on Renewable Energy Sources and Highly Effective Cogeneration (Official Gazette, nos. 100/2015) entered into force on 1 January 2016. This implies the obligation to adopt the Rules on Renewable Energy Use, the Regulation on Quotas for the Promotion of the Production of Electrical Energy from RES and the Regulation on RES fees. We also plan to develop a Programme for the encouragement of production from RES in accordance with the new EC Guidelines, which came into force on 1 July 2014.

In 2017, we will be obliged to adopt the Fourth National Action Plan for Energy Efficiency.

5.4. Target 4 - Education

Conclusions of the European Council 2010:

Improve the level of education, particularly by reducing the rate of school drop-out to less than 10 % and increasing the share of population aged between 30-34 who have completed tertiary education to at least 40 %.

Achieved progress

Indicator	Previous value	Current value				Objective 2020
	2008	2012	2013	2014	2015	
School drop-out, %	4.4	5.1	4.5	2.7	3.0	4
Percentage of population with tertiary education, %	18.5	23.1	25.6	32.2	not applicable	35

Source: Eurostat

Measures to achieve the objective

In addition to measures described in section 4.4 Relevance of education to the labour market; a priority in the field of education in 2016 and 2017 will be to develop measures aimed at raising the quality of education, including **better student monitoring system and the inclusion of students in the labour market**. Within this framework, we will implement the following activities:

- in the domain of higher education

Establishing a high-quality binary system of higher education in line with national needs and the principle of effective management of higher education institutions

We will develop a methodology for anticipating the need related to social competency and determining of quotas by fields and study programmes for all three levels of higher education. We will define a system in which the selection of teachers is based on curriculum content and not the type of educational institution. Each teacher must hold adequate teaching competencies that are required to share certain curriculum content, regardless of the type of educational institution where he teaches.

Ensuring effective and developmentally stimulating system of financing higher education institutions

By the end of 2016 we will introduce the evaluation of pilot programme contracts in cooperation with the World Bank, within the framework of the project "Capacity Building for Financing of Higher Education Institutions' Programmes". The World Bank will evaluate seven universities for their readiness to enter into a comprehensive funding programme, support four public universities in the establishment of a mechanism for the implementation of a comprehensive funding programme, and prepare a draft legal framework in order to enable effective programme financing.

Improving the student standard with special care given to the social dimension of education process

In 2016 we will hold the application procedure to award a large number of scholarships financed by the European Social Fund to students of lower socioeconomic status and students in STEM fields. A large number of subsidies granted to the students are indirect aids that are not socially sensitive. We are planning a gradual transition from indirect to direct aids based on the socio-economic status and in accordance with the Strategy for Education, Science and Technology. The National Group for Improving the Social Dimension of Higher Education will prepare an Action Plan for Improving the Social Dimension of Higher Education, which will be based on a document that identifies under-represented and disadvantaged groups and factors that contribute to a lesser involvement of students from these groups.

Internationalisation of higher education and stronger integration with the European and international higher education spaces

By using the resources of the European Social Fund, higher education institutions will develop courses/modules and entire study programmes in foreign languages, including joint study programmes performed in cooperation with foreign universities.

Improvement of initial education and training of teachers and continued education

In 2017 we will develop programmes for the continuous education of teachers and instructors, as well as a licensing system for teachers and instructors. In December 2017, the profession of a licensed teacher will be entered into the CROQF Register and occupational standards and qualifications for trainee teachers will be developed. The aforementioned activities will increase the degree of professionalisation of the teaching profession and will improve the quality of study programme and other programmes for the initial and continuous education and training of teachers. Based on the draft professional development plans a systematic mechanism for the continuous education of teachers shall be developed, which will directly affect the modernisation and quality of teaching and learning at schools and increase the level of achievements related to the education of students.

Development of a student monitoring system (the results of employability analysis for graduates of polytechnics and colleges on the basis of quantitative and qualitative indicators)

The Faculty of Law at the University of Zagreb performed an employability analysis for graduates of polytechnics and colleges in the Republic of Croatia. The analysis was made on the basis of information on all persons who attained a degree from a college or polytechnic in the period from 2008-2013 (39 public and private colleges and polytechnics, i.e. 23,052 persons). The collected data included 81.47 % undergraduate professional study programmes and 18.54 % specialist graduate study programmes. Their findings demonstrated that “old” programmes that entered the new Bologna system after being transformed had the best employability. They not only had greater recognition on the labour market, but the business sector had a clearer awareness of their competency in the division of labour. Based on this integrated analysis, the Faculty of Law of the University of Zagreb professional team made an individual reports for each higher education institution that participated in the study and the Ministry of Science, Education and Sports will forward due report as a recommendation for improvement. The Agency for Science and Higher Education will develop an analysis of the employability of study programmes that will be financed through the Effective Human Resources OP. We also plan to improve records of graduates from a particular higher education institution and systematically connect them.

Increase of student enrolment in the STEM area through funding incentives

Given the strategic objective of strengthening natural, biotechnical, biomedical, and technical fields (STEM fields), beginning in 2016, funds will be allocated to subsidise school fees for regular students who first entered the first year and for full-time students who have successfully fulfilled their educational obligations, i.e. achieved 55 or more ETCS points. Subsidies are allocated to higher education institutions in a way that is calculated based on the number of students who qualify for an exemption from schooling fee and the amount for each student. For the first time, subsidies are related to the area of the study programme and are expected to set out measures to encourage higher education institutions to enroll more students in STEM fields and increase the completion of available study programmes by empowering higher education institutions to have an impact on the amount they could obtain. In the scientific field of technical sciences each professional study student will receive HRK 5,000.00, while university study students will receive HRK 5,600.00 a year. In the scientific field of biomedicine each professional study student will receive HRK 5,200.00, while university study students will receive HRK 6,600.00 a year. In the field of humanities each professional study student will receive HRK 3,900.00, while university study students will receive HRK 4,500.00 a year.

5.5. Target 5 - Poverty

Conclusion of the European Council 2010:

Promote social inclusion, in particular through the reduction of poverty, in order to reduce the number of persons at risk of poverty and social exclusion by 20 million.

The Government has adopted the **Strategy for Combating Poverty and Social Exclusion of the Republic of Croatia 2014-2020**. The Strategy gives a snapshot of the current poverty and social exclusion situation, the factors that cause it, and a social and economic projection as a basis for action. The Strategy is based on securing conditions for the achievement of three main objectives:

- 1) The fight against poverty and social exclusion and the reduction of inequalities in society;
- 2) Reductions to and prevention of the emergence of new categories of poor and socially excluded people;
- 3) The establishment of a coordinated support system for groups at risk of poverty and social exclusion.

To achieve the objectives, implementation activities are focused on eight strategic areas which are outlined in detail in the **Strategy Implementation Programme**:

- 1) education and lifelong learning,
- 2) employment and access to employment,
- 3) housing and availability of energy,
- 4) access to social benefits and services,
- 5) access to the healthcare system,
- 6) care for the elderly,
- 7) financial independence and the fight against debt,
- 8) balanced regional development.

The implementation programme is financed with funds allocated from the State Budget and EU funds and international funds and other available means. According to the Measure Implementation Report for 2014, of a total of 79 measures were planned for 2014, 56 measures were fully realised, 17 measures were partially realised, and 6 measures were not realised. Implementation activity expenditures amounted to:

- HRK 32,871,786,608.51 from State Budget funds
- EUR 12,181,165.00 from other sources of financing
- HRK 68,578,414.03 from other sources of financing.

The Measure Implementation Report for 2015 is currently being prepared.

Achieved progress

Indicator	Previous value	Current value				Objective 2020
	2008	2012	2013	2014	2015	
Persons at risk of poverty and social exclusion, in thousands		1,384	1,271	1,243	not applicable	1,220

Source: Eurostat, 18 April 2016

Measures to achieve the objective

1. Providing humanitarian aid in kind and other support programmes to the most deprived - Fund for European Aid to the Most Deprived (FEAD)

Objective:

FEAD supports EU Member States' activities in the provision of material aid to those who need it most.

Justification:

The main reason for the implementation is a high rate of poverty risk and material deprivation in Croatia, which requires additional measures to help the most deprived, and which will be implemented through activities of providing assistance in the form of food (as a meal or food package) and/or basic material necessities (such as school supplies and equipment, hygiene products and other basic necessities). The Fund will represent added value to existing national programmes because the help will be available to many users at risk of poverty and social exclusion, and to people whose income threshold prevents them from claiming their rights from the social welfare system.

Status:

Calls for project proposals are in preparation: "Reducing poverty by providing help to the most deprived by provision of food and/or basic material aid" and "Provision of school meals to children at risk of poverty". A public tender announcement is expected in early May 2016 and the signing of projects is expected in the second quarter of 2016. The budget has provided funding for 2016 in the amount of HRK 13,333,333.00.

2. The development of quality foster care and even distribution of accommodation in foster families in Croatia

Objective:

Enable children without parental care, children with behavioural problems, and children with disabilities to live in a family environment.

Justification:

The Foster Care Development Plan for the period 2016-2017 was devised in order to improve foster care in Croatia. According to the above, the Plan will introduce the implementation of activities aimed at the development of quality foster care as a support to the process of deinstitutionalisation and prevention of institutional accommodation for groups at risk of social exclusion and other vulnerable groups (especially children) and regional/even distribution of accommodation in foster families in Croatia.

Status:

According to available data, there were a total 1,476 foster families (499 related and 977 unrelated) in the Republic of Croatia (as of 31 March 2015). Foster care accommodation was provided for 2283 children. Since foster families had 530 vacancies in that period, in the following period we plan to deinstitutionalise 70 children and place them in foster families, as well as avoid accommodating 150 children in institutions by ensuring their placement in foster families. Funds for the realisation of aforementioned activities are provided within the State Budget funds allocated for the performance of regular activities.

3. Intensifying the process of deinstitutionalisation and transformation of social welfare homes

Objective:

Protecting the rights and interests of children and young people without parental care, children and young people with behavioural problems, children and adults with disabilities, primarily by ensuring their right to live in a family environment and community.

Justifications:

The placement of children in institutions should be an exception (and used only in situations where it is necessary). In order to intensify the process of deinstitutionalisation and transformation of social care based on *the Operational Plan for Deinstitutionalisation and Transformation of Social Welfare Homes and Other Legal Entities that Provide Social Care in the Republic of Croatia 2014-2016*, we plan to implement a series of activities.

Status:

By the end of 2016 the implementation of the Operational Plan should enable the deinstitutionalisation of a total of 1,043 persons, including all user categories (children and adults with disabilities, children without parental care and children and young people with behavioural problems), of which 653 children and adults with disabilities, and 390 children without parental care and children and young people with behavioural problems.

Funds for the realisation of the aforementioned activities are provided within State Budget funds allocated for the performance of regular activities and World Bank and the EU funds for the period 2014-2020: European Social Fund - in the amount of EUR 51,764,705.89 (planned amount of EUR 25.882.352.94 during the first stage/planned tender -

EU and national funds) and the European Regional Development Fund in the amount of EUR 101,764,705.90 (planned amount of EUR 33,265,660.90 during the first stage/planned tender - EU and national funds).

4. Financing of multi-annual civil organisations' programmes with the aim of developing and expanding the network of social services

Objective:

The establishment of a new framework for programme and financial support for the development of social services provided by civil organisations in the field of social welfare financed by available resources obtained from a portion of revenue generated by gambling activities in the period from 2014 to 2017.

Justifications:

One of the key problems is the lack of access to social services by users in need and too much emphasis on the institutional approach in the management of users.

The aforementioned Call by the Ministry of Social Policy and Youth is intended to encourage the following:

- Development of complementary and alternative services as a part of regular service provided by state institutions;
- Development of services that directly contribute to overcoming gaps in the existing network of services, expansion of the existing network of services for a specific user categories in local community;
- Greater availability of services to residents of rural areas, mountain areas and islands;
- Greater cost-effectiveness of the cost of services accompanied by the increase in the quality of services;
- Systematic inclusion of associations as the most numerous civic organisations of social service providers;
- Development of cooperation between various service providers, county and local (regional) government units, social welfare institutions, associations, and different systems (education, healthcare, employment).

Status:

- from 1 June 2014 to 31 May 2015 - paid amount of HRK 30,250,000.00
- from 1 June 2015 to 31 May 2016 - paid amount of HRK 30,250,000.00
- from 1 June 2016 to 31 May 2017 - planned amount of HRK 30,250,000.00

During 2015, financing for the implementation of the second year of a three year programme was allocated in the amount of HRK 22,750,000.00 to 92 associations for persons with disabilities and associations working for the benefit of persons with disabilities, while the amount of 7,500,000.00 was allocated to 40 organisations that deal in social and humanitarian activities.

5. Co-funding the cost of education for students of lower socio-economic status and students with disabilities

The Strategy for Combating Poverty Implementation Programme, as part of strategic areas related to education and lifelong learning, introduced the Provision of Co-Funding the Cost of Education for Students of Lower Socio-Economic Status and Students with Disabilities measures.

Objective:

Improving the conditions of access to the educational process in order to ensure equal opportunities to education and the acquisition of basic competencies for further education or access to the labour market for vulnerable groups of students.

Justifications:

The main reason for the implementation of these measures is to reduce the school drop-out rate among vulnerable students and children whose rights are exercised in accordance with other regulations and thus have a direct impact on the reduction and prevention of the emergence of new categories of poor and socially excluded people. The measure includes: providing free textbooks to students who are members of guaranteed minimum benefit households users and students who receive benefits based on the veteran status of their parents, children of war invalids, and Croatian War of Independence invalids, and deceased de-miners; financing of transport costs and ensuring financial support to students with disabilities in secondary education; the introduction of support for auxiliary education workers (assistants) to students with disabilities; ensuring the co-financing of education expenditures for students of lower socio-economic status and students who are in accordance with special regulations entitled to receive support; increasing the share of children belonging to the Roma minority in educational programmes from preschool to higher education, and other measures. The measure holder is the Ministry of Science, Education and Sports.

Status:

For the realisation of these measures, the State Budget has allocated funds amounting to HRK 21,675,000.00 per year of implementation that will be used to finance/co-finance textbooks for approximately 1,200 higher education students and 10,000 primary and secondary school students, and about 14,000 students who receive guaranteed minimum benefits or social welfare assistance.

6. Use of European Structural and Investment Funds

In the period from 2014-2020, Croatia will gain access to EUR 10.7 billion for the implementation of four programmes that establish a strategy for the use of European structural and investment funds (ESIF) and EUR 1.7 billion (sources ERDF and IPA) for the implementation of 13 European Territorial Cooperation Programmes.

Of these amounts, EUR 8.4 billion will be allocated to the objectives of cohesion policy, EUR 2 billion to agricultural and rural development and EUR 253 million to the development of fisheries.

EU funds represent the basis of the Croatian development strategy, the focus of which is on investments, the real sector, sustainable growth, and human resource development. Croatia wants to utilise the investments received from EU funds to strengthen competitiveness, develop environmentally friendly economy, encourage the efficient utilisation of resources, support active labour market measures and reduce social exclusion.

Framework for the use of EUR 10.676 billion from the European Structural and Investment Funds for growth and jobs in the period 2014-2020

The Partnership Agreement, the main strategic document for the use of European Structural and Investment Funds (ESI) which is to serve as the basis for sustainable economic growth and employment in the next seven years, was adopted in October 2014. The agreement provides a framework for the use of EUR 8.377 billion from the EU budget in the period 2014-2020 for cohesion policy objectives and EUR 2.026 billion for agriculture and rural development, which will be primarily directed towards the real sector. In addition, EUR 253 million from the European Fund for Maritime Affairs and Fisheries are available to Croatia for the development of fisheries. Investments from the European budget represent only a fraction of total funds that will focus on the objectives described in the Partnership Agreement, which are mainly associated with strengthening the competitiveness of the economy.

The Republic of Croatia has prepared four mainstream programmes for the period 2014-2020 that form the basis for the use of European Regional Development Fund (ERDF), Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD), and the European Fund for Maritime Affairs and Fisheries (EFPR):

- Operational Programme 'Competitiveness and Cohesion 2014-2020'
- Operational Programme 'Effective Human Resources 2014-2020'
- Rural Development Programme
- Operational Programme for Fisheries

The Operational Programmes 'Competitiveness and cohesion 2014-2020' and 'Effective Human Resources 2014-2020', through which funds from the ERDF and ESF are programmed, will **significantly support the reform efforts** described in earlier chapters, especially strengthening the efficiency of public administration, in terms of developing human resources and IT, the cost-effectiveness of the healthcare system, active employment policy measures (in addition to youth employment), and educational reform.

Apart from strengthening economic competitiveness, emphasis is placed on increasing the competitiveness and innovation of companies, so funds will be made available in order to increase the number of innovations and companies that are actively engaged in research and development, enhance the cooperation of companies with scientific research communities in areas of research that are relevant for the technological competitiveness of the Republic of Croatia, facilitate access to funding for SMEs with a view to the normalisation of the lending economy, and encouraging the establishment of new businesses and increasing the rate of sustainability of existing companies, especially in sectors that have good growth potential.

Likewise, the transition to a sustainable economy must be seized as an opportunity to strengthen competitiveness, so the ERDF will provide support for achieving energy efficiency of industrial enterprises and the use of renewable energy

in the manufacturing and service sectors of the economy. In this case, ESI funds will be used as a lever to encourage private sector investment in energy efficiency with a simultaneous contribution to competitiveness.

By investing EUR 210 million from the ERDF and the same amount from national and other sources of financing, the goal is to increase the next generation access network coverage in Croatia to over 50 % by 2020.

Croatia wants to reduce its primary energy consumption. Two thirds of energy consumption in Croatia is used in buildings (heating and cooling) with low energy efficiency. Therefore, EUR 392 million will be allocated from the ERDF to improve the energy efficiency of buildings within the framework of priorities for the transition to a low carbon economy.

To meet the conditions set out in the Accession Treaty, significant investments are required in the waste water and solid waste sector, which requires a large part of the funds from the Cohesion Fund to be redirected towards investments in these two sectors. The Republic of Croatia has predicted an envelope of HRK 1.525 billion for ensuring compliance with the relevant EU directives in water management and waste management (to reduce the amount of disposed waste and increase recycling, landfill compliance, ensuring the quality of drinking water, connection to public sewerage systems and water utility systems, etc.).

A total of EUR 1.310 billion (400 million from the ERDF and 910 million from the CF) will be invested in the development of a modern and sustainable transport infrastructure, with the priorities set on improving basic rail and road network connections with the TEN-T, removing road transport bottlenecks (including the border with Bosnia and Herzegovina in Dubrovnik-Neretva County) and improving urban and suburban mobility and connectivity.

Croatia wants to increase the employment rate from the current 55.4 % to 65.2 % by 2020. The main challenges to be addressed through ESI funds are youth unemployment and the better integration of young persons into the labour market, improving skills for employability through the better alignment of the education system and labour market needs, solving long-term unemployment and the unemployment of disadvantaged persons in the labour market (e.g. persons with lower education, elderly and women). For aforementioned priorities of employment and a better quality and more accessible education for everyone, ESF has allocated EUR 918 million, ERDF has allocated EUR 271 million and EAFRD EUR 138 million.

For objectives set on reducing poverty and social exclusion, a total of EUR 991 million has been allocated from the ERDF, ESF and EAFRD. The Government aims to reduce the number of impoverished persons by 150,000 by 2020. The Government is determined to promote social and economic equality so it will offer a package of social measures considered as priorities related to inclusive growth through the ESI funds, such as reducing barriers to employment for vulnerable groups of society, transitioning from institutional to community welfare, improving access to education for disadvantaged students and those of lower socio-economic status, and launching integrated pilot programmes for the reconstruction and revitalisation of war affected areas in the Republic of Croatia. A special package of about quarter of a billion euros from the ERDF and the ESF will be directed towards increasing the cost effectiveness of the healthcare system, including hospitals.

EUR 191 million from the ESF will be directed on strengthening the institutional capacity of public administration on a central and local (regional) level for concrete improvements and targeted measures that should result in better services for citizens, by reducing the administrative burden for businesses and citizens, a more efficient and transparent public administration and judiciary system, and better social dialogue with civil sector partners.

Sustainable urban development will be supported through the mechanism of integrated territorial investment (ITU) for which a special envelope of EUR 365 million has been reserved, and which will initially be offered to seven Croatian cities (Zagreb, Split, Rijeka, Osijek, Zadar, Slavonski Brod, and Pula) for integrated measure packages as follows: progressive cities (cities initiating a smart and sustainable growth), clean cities (healthier environment, energy efficiency and adaptation to climate change) and inclusive cities (fighting against poverty and supporting social inclusion). The specificity of the ITU mechanism is that the cities will select projects for funding on their own (in

accordance with integrated strategies for sustainable urban development) and this mechanism represents a first step towards the decentralisation of EU fund management.

6.1. Contribution to EU initiatives and reforms

Croatia will use the allocated EU funds for the contribution to major EU initiatives (Table 6.1.1).

Table 6.1.1 EU initiatives supported by EU funds for Croatia

EU Initiatives	Croatian strategies supported by EU funds
Digital Agenda for Europe (DAE)	DAE aims to provide maximum use of possibilities that digital technology offers to the economy and EU citizens. In this regard, Croatian investment priorities in using EU funds associated with the use of ICT are: increase of national coverage of next-generation broadband network (NGA); improving ways of managing ICT infrastructure - unified strategic management and coordination of the development of IT infrastructure in state ownership, integration of IT infrastructure at the level of the entire public sector, standardisation of business processes, reducing and streamlining information infrastructure expenditures; and addressing the issue of low access to e-services.
Innovation Union	The objective of the Innovation Union is to create jobs and growth through research and innovation. In this regard, the Croatian investment priority in using EU funds associated with innovation is to create and improve a research system open to innovation that will achieve performance excellence and attract best talents in accordance with the needs of the economy. This will be achieved through organisational reform-driven infrastructure investments; human resource development in the field of research, development and innovation; and support of research activities designed to further stimulate the transfer of knowledge and skills that can effectively contribute to social development and economic growth. EU funds will also be used to support the development of new products and services resulting from research, development and innovation activities in the business sector, which will directly raise investment in R&D and encourage additional private sector investment in R&D. Based on the Smart Specialisation Strategy we aim to direct public and private investment, as well as EU funding, to those areas where Croatia has the greatest opportunities for economic growth.
Youth on the Move	The objective of the Youth on the Move initiative is the mobility for the purpose of learning and training, employment, volunteering and youth exchanges. Croatia has received EU funds to increase employment and allow the faster integration of young people into the labour market, especially those who are not in employment, education or training.
Resource efficiency in Europe	The Resource efficiency in Europe initiative supports the shift towards a resource-efficient economy with low carbon emissions in order to achieve sustainable development. In this context, operations supported by EU funds will contribute to the efficient and sustainable use of energy and reduction of greenhouse gas emissions. Measures relating to energy efficiency and renewable energy in infrastructure, the manufacturing industry, the service sector, and improving public energy infrastructure, i.e. heating and public lighting sector, will directly contribute to achieving

	<p>energy climate objectives (20-20-20) contained in the Europe 2020 strategy.</p> <p>Through the improvement of the system for monitoring and assessing the impact of climate change, improvement of management system for the protection against disasters and major accidents, and investment in reducing priority risks primarily associated with floods, EU funds will contribute to the objectives of the Europe 2020 strategy concerning the adjustment of natural and economic systems to climate change and reducing the risk of natural and technological disasters and accidents.</p> <p>Support from EU funds will also finance the sustainable use of cultural and natural heritage related to local development, assisting in the establishment of areas of the Natura 2000 network, and the protection, preservation, and re-establishment of biodiversity, as well as addressing specific environmental issues associated with air quality and the restoration and reuse of former industrial areas.</p>
An Agenda for New Skills and Jobs	<p>Priorities for the use of EU funds in line with the Agenda for New Skills and Jobs include increasing the skill level of general population, providing solutions for the challenge of reconciling the supply and demand of skills on the labour market, improving the results of vocational education and training, and increasing participation in the educational system.</p>
European Platform against Poverty	<p>Croatia's objective is to reduce the rate of risk of poverty and social exclusion to 150,000 by 2020. In order to support social inclusion and the right of people to live in the community, EU funds are invested in the process of de-institutionalisation and expansion of the network of community services. Also, we support projects that contribute to a higher level of employability and create better conditions for the employment rate of disadvantaged groups, as well as greater availability of social services.</p>

EU funds are also used to support reform efforts in order to meet specific recommendation (Table 6.1.2).

Table 6.1.2 Reform measures supported by EU funds

Relevant recommendations and/or reform priorities	Description of EU fund investment	Contribution
Reducing the fiscal risks of the healthcare system	<p>EU funds are invested in improving access to primary and emergency healthcare and improving the efficiency and availability of hospital treatment.</p> <p>"Soft" measures are aimed at sustainable improvement of access to healthcare in underdeveloped areas and for vulnerable groups, as well as the promotion of health.</p>	cost-effectiveness of the healthcare system
Harmonisation of educational programmes with the needs of the labour market	<p>Measures supported by EU funds in the field of education are aimed at increasing investment in human capital through the development and implementation of human resource development policies and the national qualifications</p>	increase in the relevance of vocational education achieved by improving the conditions for the acquisition of practical skills in targeted sectors of vocational education;

	framework, improving the efficiency and quality of education and training according to the needs of the labour market, increasing the level of participation in lifelong learning, access to lifelong learning, and the improvement of human resources in research and development.	improving the quality, relevance and effectiveness of higher education; modernisation of available vocational education and raising its quality in order to increase the employability of students and provide opportunities for further education; increase in acquired higher education rates
Quality and availability of public services	EU funds support the strengthening of the efficiency and development of human resources in public administration and judiciary. Support of measures that should result in better services for citizens, by reducing the administrative burden for businesses and citizens, more efficient and transparent public administration and the judiciary system and better social dialogue with civil sector partners.	increase in public administration efficiency and capacity achieved through the improvement of service delivery and human resource management; improving the capacity and functioning of the judiciary by improving management and competencies

6.2. Increasing the efficiency of EU fund use

Croatia needs to increase its currently poor absorption of European Structural and Investment Funds in the period 2014-2020. By the end of May 2015, the Government plans to adopt a national priority Action Plan for increasing the efficiency of EU fund use, which is based on the following three objectives:

- 1) reducing the administrative burden,
- 2) ensuring reliable asset management,
- 3) ensuring a sufficient number of well-prepared projects.

Reducing the administrative burden

One of the biggest obstacles when applying projects for EU funds is the complex and tortuous procedure for awarding grants, from the time of submitting project proposals to signing Grant Agreements.

The Ministry of Regional Development and EU Funds performed an analysis that established the existence of a need to simplify certain procedures in order to ensure the greater effectiveness and efficiency of bodies included in the system of control and the use of EU funds.

Examples of undertaken changes in procedures and processes that concern users
The abolition of compulsory deposition of own funds, which is currently used as a guarantee of entrepreneur's own share in a project before the signing of due contract.
Reducing the number of stages in the process of project assessment and the awarding of grants, which will promote an overall reduction in the duration between the submission of application and the signing of due contract from 160 to 100 days.

The simplification of funding opportunities for specific project expenditure activities that reduce the scope of documents required to justify such expenditures.

Changes in the area of procurement procedures for Public Procurement Act non-participants - changes in procedures and advertising procurement procedures in order to simplify the implementation of procurement in proportion to its value.

We intend to take additional measures to streamline and standardise procedures for the use of EU funds and reduce the complexity of management and control systems for ESIF 2014_2020, including cash flow.

Following the ESIF MIS system, we plan to activate a new system in January 2017 that would allow the e-filing of applications and the implementation of e-signatures in order to fully facilitate the exchange of information between systems and users in electronic form. Further improvements and data integration that will eliminate the need of non-electronic document delivery at the time of application and expenditure control and accelerate the pace of implementation are planned for 2017. The full automation of reporting to all levels will further eliminate the need of document flow within the system, contribute to the accuracy and reduce errors.

Reliable management of funds

Croatia will take steps to facilitate employment in jobs related to the management of EU funds and strengthen the policy of retaining employees in these jobs because experience reduces the risk of unreliable resource management. Simultaneously, steps will be taken to reduce the number of irregularities and financial corrections, including the strengthening of cooperation between the applicant (user) and bodies that provide support. An important measure is to improve the model for the *ex-ante* control of public procurement projects financed with EU funds by the central authority, which will reduce the number of irregularities, complaints and delays in procurement procedures.

Ensuring a sufficient number of quality projects

The preparation and selection of projects can be improved. The introduction of teams to assist in the preparation of inventories of projects that are ready for investments, the selection of good selection criteria, and the establishment of a uniform methodology for evaluating the socio-economic impact of investment projects will increase the focus on results.

Croatia has already established a (regional) development project database. Steps have been taken to strengthen cooperation and collaboration between central and local levels, systematic programme promotion, and continuing education, which also contributes to faster and better preparation of projects.

In the coming period, the focus will also be on facilitating complementary funding sources for projects, especially for key infrastructure and in sectors with rapid productivity growth. Simultaneously, strategic thinking will be empowered by establishing a system for strategic planning and development, systematic control, monitoring, and evaluation.

7. Institutional issues and stakeholder involvement

The success of the implementation of the National Reform Programme is directly related to the support that the measures proposed in the programme provide to all relevant social stakeholders, especially those working in fields covered by the reforms. Therefore, in the context of the European Semester, we aim to establish a social dialogue with all stakeholders in Croatia. The main objective of social dialogue and partnership is to respect, trust, and promote the reaching of consensus related to the harmonisation and achievement of common and general interest objectives, and take mutual responsibility for economic and social growth and development.

Representatives of trade unions and employers' associations (hereinafter: social partners) are involved in the course of preparation of the National Reform Programme in order to become aware of the direction in which to propose specific reform solutions and actively contribute to achieving the best solutions by their comments and suggestions.

The partnership process established during the preparation of the National Reform Programme 2016 will continue on the foundations of cooperation started in the previous period by the session of the Economic and Social Council, held on 9 March 2016. At this session, we presented a model of cooperation within the framework of the European Semester and scheduled future meetings related to the preparation of the National Reform Programme 2016.

At the session held on 22 March 2016, the Ministry of Labour and the Pension System presented the main directions of pension reform to social partners. We discussed improving the efficiency of the pension system by encouraging a longer stay in the world of work as well as possible solutions to issues addressing pensionable service with increased duration (so-called accelerated pensionable service) with the goal of making the pension system sustainable. Social partners did not express support for the direction of reform measures in the area of pension insurance, because they believe that the life expectancy in Croatia is lower than the EU average and that the working environment and system of adult education and training are not encouraging enough to promote older workers to remain on the labour market.

At the session held on 31 March 2016, social partners presented the guidelines for reform measures aimed at the harmonisation of educational programmes with the needs of the labour market. In subsequent reasoned discussion, social partners proposed a number of measures that are in line with measures identified in the National Reform Programme. They supported the reform of curriculum, and among other things emphasised the need to make educational programmes for adults more accessible and encourage participation in lifelong learning in order to increase the probability that older persons will remain on the labour market and adapt their capabilities to needs of the labour market. They also emphasised the need for a larger share of practical classes in the education process.

We presented the Public Administration Reform and due considerations related to salary policy in public administration to social partners at a session held on 5 April 2016. Social partners stressed the need to harmonise salary policy in both state and local governments and called for effective public administration in the service of citizens.

At a session held on 19 April 2016, we presented the main group of reform measures (in the field of healthcare, pension system, education, social benefits, management of public companies, the judiciary, public administration and reduction of fiscal charges). Although employers' representatives stressed that some areas were headed in a very good direction, union representatives were more restrained and did not fully support measures in the areas of the pension and healthcare systems. Furthermore, social partners showed great interest in the possibility of reviewing the final draft of the National Reform Programme and advocated their involvement in all stages of adoption process.

It is important to emphasise that the National Reform Programme was also presented to representatives of the Croatian Parliament, which is the legislative body of the Republic of Croatia.

In addition, it is also necessary to emphasise that the implementation of many measures proposed in the National Reform Programme will require the adoption of new laws or amendments to existing ones. All regulations will be adopted in a procedure that includes consultation with interested parties and represents a typical procedure for the

adoption of laws, other regulations, and acts. This will enable social partners, other stakeholders, and interested parties to participate in decision-making and influence the content of final decisions before their adoption. This means that the implementation of all measures will be conditioned by the participation of all stakeholders, thus achieving transparency in the exercise of public policies.

Annexes. REPORTING FOR THE ASSESSMENT OF COUNTRY-SPECIFIC RECOMMENDATIONS AND KEY MACROSTRUCTURAL REFORMS

Annex 1 Description of measures in reform areas with an overview of the main obligations in the next 12 months

	REFORM MEASURE	MAIN OBJECTIVE AND DESCRIPTION OF THE MEASURE	LEGAL /ADMINISTRATIVE INSTRUMENTS	IMPLEMENTATION SCHEDULE — KEY MILESTONES AND DEADLINES	FISCAL EFFECT — TOTAL AND ANNUAL CHANGE OF GOVERNMENT REVENUE AND EXPENDITURE	QUALITATIVE EFFECT — DESCRIPTION OF PROJECTED IMPACTS	COMPETENT BODY
I. MACROECONOMIC STABILITY AND FISCAL SUSTAINABILITY							
(1) IMPROVING PUBLIC FINANCIAL MANAGEMENT AND IMPLEMENTATION OF FISCAL CONSOLIDATION							
1.	Improve the public debt management	<p>Provide a framework for enhanced fiscal control and proper long-term planning by adopting the Strategy for Public Debt Management 2016-2018 The Strategy is adopted for a three-year period, and will be updated every year.</p> <p>Strengthening the capacity of the Department of Public Debt Management of the Ministry of Finance</p>	Strategy for Public Debt Management 2016-2018	<p>Adoption of the Strategy for Public Debt Management 2016-2018 - May 2016</p> <p>Strengthen the organizational unit for public debt management of the Ministry of Finance through additional employment, reallocation of resources and internal reorganization activities - September 2016</p> <p>Updating of the Strategy for the period 2017-2019 - May 2017</p>		Ensure meeting the needs of borrowing and repayments of debt at the lowest possible cost in the medium and long-term, with a satisfactory level of risk.	MF
2.	Improve budget planning and expenditure control	<p>Introduce the mechanism for monitoring of the implementation of measures from the Guidelines for the Establishment of Standard Material Costs for Budgetary and Extra-budgetary Users of the State Budget.</p> <p>Amendments to the Budget Act will introduce a mechanism for adaptations in compliance with the fiscal rule on deficit referred to in Article 39a of the Budget Act since there are currently no exceptions to its application in emergency situations, strategic planning process will be audited and adapted to the pace of preparation of the National Reform Program,</p>	<p>Semi-annual reports of the Ministry of Finance on the success of the implementation of measures from the Guidelines</p> <p>The Budget Act</p>	<p>Define a mechanism for monitoring the implementation of measures from the Guidelines - June 2016</p> <p>Publication of the first report on the implementation of the Guidelines on the website of the Ministry of Finance - July 2016</p> <p>Adoption of Amendments to the Budget Act — December 2016</p> <p>Implementation of ex-post evaluation on 2-3 selected programs / activities / projects, which will after the amendments to the Budget Act become mandatory on an</p>	<p>Potential reduction of material expenditure in 2016 for a minimum of HRK 100 million compared to 2015 based on the implementation of the Guidelines.</p> <p>Potential savings based on ex-post evaluation will be determined after the implementation of the evaluation.</p>	<p>Improvement of expenditure control, which will contribute to reduction of the budget deficit.</p> <p>Improvement of budget planning.</p> <p>Improvement of fiscal statistics</p>	MF

	REFORM MEASURE	MAIN OBJECTIVE AND DESCRIPTION OF THE MEASURE	LEGAL /ADMINISTRATIVE INSTRUMENTS	IMPLEMENTATION SCHEDULE — KEY MILESTONES AND DEADLINES	FISCAL EFFECT — TOTAL AND ANNUAL CHANGE OF GOVERNMENT REVENUE AND EXPENDITURE	QUALITATIVE EFFECT — DESCRIPTION OF PROJECTED IMPACTS	COMPETENT BODY
		the medium-term budgetary framework will be reinforced by introducing one and/or more new measures, such as changes in adopted projections with mandatory detailed explanation of reasons for such changes, framework for evaluating the effects of (ex-post evaluation) of selected programs, activities or projects in the State Budget will be prescribed on an annual basis. Further improvement of fiscal statistics through creation of binding tables for conversion of records of business events according to the rules of entrepreneurial accounting in the budgetary accounting for certain extra-budgetary users in order to strengthen statistical reporting in accordance with ESA 2010 methodology.		annual basis - November 2016 Establishment of the working group for the improvement of fiscal statistics - June 2016			
3.	Further standardization of material expenditures	Reduction of material costs.	Decision on the Conditions of Use of Company Cars, Mobile Phones, Regular Airlines, Business Credit Cards, Means of Representation and the Method of Approving Business Trips Guidelines for Fleet Management (within 60 days of the adoption of the above Decision)	Adoption of the Decision on the Conditions of Use of Company Cars, Mobile Phones, Regular Airlines, Business Credit Cards, Means of Representation and the Method of Approving Business Trips - April 2016 Adoption of the Guidelines for Fleet Management - June 2016 Budget users, legal entities with public authorities and companies in majority ownership are obliged to implement the decision	The Decision includes a minimum of about HRK 50 million per year (including legal entities with public authorities).	Strengthen dedicated, cost-effective and efficient use of funds from the State Budget of the Republic of Croatia.	(MPA/MF)

	REFORM MEASURE	MAIN OBJECTIVE AND DESCRIPTION OF THE MEASURE	LEGAL /ADMINISTRATIVE INSTRUMENTS	IMPLEMENTATION SCHEDULE — KEY MILESTONES AND DEADLINES	FISCAL EFFECT — TOTAL AND ANNUAL CHANGE OF GOVERNMENT REVENUE AND EXPENDITURE	QUALITATIVE EFFECT — DESCRIPTION OF PROJECTED IMPACTS	COMPETENT BODY
				within 30 days of the entry into force of this Decision.			
4.	Reduce expenditures for employees in the public administration and public services	Reduce expenditures for employees in public administration and public services by 2% by 2018 compared to 2015 through: (1) employment freeze (except employees of the EU funds and other funds by the categories defined by the Government of the Republic of Croatia), (2) modification of terms of final deadline for retirement of civil and public servants and through (3) reduction of bonuses for years of service.	The Decision of the GRC on Prohibition of New Employment in Public Administration and Public Services (and through the Admission Plan) Amendments to the Civil Servants Act (in terms of requirements for retirement) Amendments to Basic Collective Agreement for civil servants and employees in public services Amendments to Collective Agreement for civil servants and employees	Decision of the GRC on Prohibition of New Employment in Public Administration and Public Services – May/June 2016 Amendments to the Civil Servants Act – May/June 2016 Unified Basic Collective Agreement for employees in public administration and public services - December 2016	Reduction of general government expenditures by HRK 600 million in the period from 2016-2018 compared to 2015	Reduction of the general government deficit	(MPA/MF)
5.	Further development of the unified public procurement system	Expanding the number of institutions and procurement categories for which the unified public procurement procedure is implemented by the State Office for Central Procurement. New procurement categories of the State Office for Central Procurement: Printing solutions Security services Airline tickets and hotel accommodation Vehicle maintenance Natural gas supply	The Government's Decision on Expanding the Number of Users of Public Procurement and Procurement Categories The Government's Decision on Procurement Categories	Adoption of the Decision of the GRC - July 2016 Amendments to the Government's Decision on Procurement Categories	The exact amount of expenditure reductions will depend on the value of public procurement which will be implemented through the State Office. The expected level of savings is within the range of 10-15% of the procurement value.	Expenditure reduction of the users of unified public procurement system	SDJUN
6.	Improving the fiscal framework	Adoption of the new Fiscal Responsibility Act, which will be in line with the proposals of the European Commission, will strengthen the independence of the Fiscal	Fiscal Responsibility Act	Adoption of the Fiscal Responsibility Act — September 2016		Objective and transparent macro-fiscal projections and monitoring of fiscal rules, which will contribute to overall	MF

	REFORM MEASURE	MAIN OBJECTIVE AND DESCRIPTION OF THE MEASURE	LEGAL /ADMINISTRATIVE INSTRUMENTS	IMPLEMENTATION SCHEDULE — KEY MILESTONES AND DEADLINES	FISCAL EFFECT — TOTAL AND ANNUAL CHANGE OF GOVERNMENT REVENUE AND EXPENDITURE	QUALITATIVE EFFECT — DESCRIPTION OF PROJECTED IMPACTS	COMPETENT BODY
		Policy Committee and ensure complete consistency of national fiscal rules with the relevant EU framework.				sustainability of public finances.	
7.	Ensure stricter implementation of the recommendations of the state audit	Amendments to the State Audit Office Act will introduce financial penalties for failure to comply with audit findings and recommendations to audited entities and responsible persons of the auditees.	The State Audit Office Act	Adoption of Amendments to the State Audit Office Act - July 2016		Legal, dedicated and purposeful use of budgetary funds. Effective and efficient functioning of financial management and control system.	MF
8.	Introduction of property tax	<p>The objective is to introduce value property tax on real property in the medium-term.</p> <p>The value property tax will be introduced in two stages.</p> <p>In the first stage, the existing system of municipal fees will be transformed into "simple" tax on real property, in a way that the calculation of tax will include two additional coefficients: the age and condition of the property, together with the existing utility fee coefficients. Implementation of "simple" property tax by 1 January 2018</p> <p>The second stage will be implemented during the application of the simple property tax in a way that all preconditions for transition to the value property tax will be met. Implementation of value property tax by 1 January 2020</p>	<p>For the implementation of the first stage:</p> <ol style="list-style-type: none"> 1. Adoption of the Public Utility Act - with deletion of the provisions on the obligation to pay municipal fees 2. Adoption of the Property Tax Act (with validity period) <p>For the implementation of the second stage:</p> <ol style="list-style-type: none"> 1. Adoption of the Regulation on Mass Assessment of Property Values 2. Amendments to the Act on Ownership and Other Proprietary Rights 3. Amendments to the Act on Real Property Transfer Tax 4. Amendments to the Act on Financing of Local and Regional Self-Government Units 5. Adoption of the Property Tax Act 	<p>Adoption of the Action Plan with deadlines and responsibilities for the introduction of real property tax - April 2016</p> <p>Completion of the registration of all real property in the area of LSGU and updating of data on payers of municipal fees - during 2016</p> <p>Data supplements: coefficient of condition and age to calculate the "simple" property tax - during 2017</p> <p>Implementation of "simple" property tax - during 2018 and 2019</p> <p>Adoption of the Regulation on Mass Assessment of Property Values - during 2017</p> <p>Fulfilment of preconditions for transition to value property tax - during 2017, 2018 and 2019</p>	<p>The final objective is to collect property income in the amount of 1% of GDP in the future by introducing property tax.</p>	<p>Introduction of value property tax strengthens the third pillar of taxation (work, consumption, property).</p> <p>Collection of revenues from property tax will enable reduction of labour taxation rate.</p> <p>Mass assessment of property values enables more transparent real property market and administrative procedures, in which the value of the property presents the criterion to exercise the rights and obligations, become simpler and more efficient.</p> <p>Development of the system of property assessment is of particular importance in judicial proceedings and expropriation procedures.</p>	MF – TA (in cooperation with MCPP and MJ)

	REFORM MEASURE	MAIN OBJECTIVE AND DESCRIPTION OF THE MEASURE	LEGAL /ADMINISTRATIVE INSTRUMENTS	IMPLEMENTATION SCHEDULE — KEY MILESTONES AND DEADLINES	FISCAL EFFECT — TOTAL AND ANNUAL CHANGE OF GOVERNMENT REVENUE AND EXPENDITURE	QUALITATIVE EFFECT — DESCRIPTION OF PROJECTED IMPACTS	COMPETENT BODY
				Preparation of tax system for property tax - during 2018 and 2019 Implementation of value property tax - 1 January 2020			
(2) IMPROVING THE DISPOSITION AND MANAGEMENT OF STATE ASSETS							
1.	Better definition of owner policies in strategic companies owned by the Republic of Croatia	<p>Improve the procedure for appointment of management and supervisory boards of strategic companies owned by the Republic of Croatia - strengthen the competence requirements for candidates and transparency in the appointment process.</p> <p>Improve medium-term planning and monitoring of fulfilment of medium-term objectives for strategic companies. Medium-term business plans will also include the strategy for company restructuring.</p> <p>Aligning the policy of rewarding of management and supervisory boards with the achieved results, i.e. associating the amount of compensations and awards with performance measurement in achieving mid-term objectives.</p> <p>Improving corporate governance practices.</p>	<p>Decision on Terms and Procedure for Election of Supervisory Board Members of Trading Companies in which the Republic of Croatia or Legal Entities Established by the Republic of Croatia Partake in Capital Stock Shares</p> <p>Regulation on the Criteria for the Implementation of Public Tenders for Appointing Presidents and Board Members of Trading Companies and Other Legal Entities of Strategic and Special Interest for the Republic of Croatia</p> <p>Corporate Governance Code</p> <p>Guidelines for Drafting Internal Documents of Strategic Companies in Terms of Wage Policy</p>	<p>Define the methodology for identification and monitoring of medium-term objectives of strategic companies and conduct a pilot project on a small number of companies (1-2) - July 2016</p> <p>Implementation of the analysis of the current system of planning in strategic companies - June 2016</p> <p>Adoption of the Action Plan for Determining Strategic Business Objectives in Strategic Companies - July 2016</p> <p>Adoption of the Corporate Governance Code — September 2016</p> <p>Adoption of the Guidelines for Drafting Internal Documents of Strategic Companies in Terms of Wage Policy - July 2016</p> <p>Develop methodologically standardized medium-term business plans for all strategic companies for the period 2017-2020 - November 2016</p> <p>Strengthen the administrative capacity of the State Office</p>	There will be no effect on the State Budget in the short-term.	More responsible management and successful operation of companies	SOAGO

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				for Administration of Government Property (SOAGO) for monitoring of strategic business companies through additional employment and education - December 2016			
2.	Financial restructuring of strategic companies experiencing difficulties	<p>Implementation of the financial restructuring of strategic companies (with the highest levels of indebtedness and repayment difficulties on the basis of the Business Analysis and importance of strategic companies with the help of external experts from the measure on Re-evaluation of strategic assets and data of companies).</p> <p>Adopt new restructuring plans and ensure strict supervision in the implementation of restructuring plans.</p>	<p>Decision of the GRC on Establishing a List of Companies and Other Legal Entities of Strategic and Special Interest to the Republic of Croatia</p> <p>Conclusion of the Government on the adoption of Restructuring Plans of strategic companies experiencing difficulties</p>	<p>SOAGO will define the methodology for monitoring of the implementation of restructuring in strategic companies - June 2016</p> <p>Adoption of restructuring plans - November 2016</p> <p>Start the implementation of restructuring plans - November 2016</p>	Assessment is possible only after the restructuring plans are drafted	Reducing the level of indebtedness of strategic companies, and thus the general government debt	SOAGO MF strategic companies
3.	Re-evaluation of strategic assets and reducing the state portfolio of companies	<p>Revision of the list of companies and other legal entities of strategic and special interest to the Republic of Croatia based on business analysis and importance of strategic companies.</p> <p>Identification and preparation for privatization of non-strategic companies from the portfolio of SOAGO and RSC.</p> <p>Sale of non-strategic companies from the portfolio of SOAGO and RSC.</p>	<p>Act on Management and Disposition of the Property Owned by the Republic of Croatia</p> <p>Regulation on the Method of Sales of Stocks and Business Shares</p> <p>Decision of the GRC on Establishing a List of Companies and Other Legal Entities of Strategic and Special Interest to the Republic of Croatia</p> <p>Conclusion of the Government on the adoption</p>	<p>Sale of non-strategic companies - June 2016 - continuously</p> <p>Analysis of business and importance of strategic companies with the help of external experts - June 2016</p> <p>Amendments to the Decision of the GRC on Establishing a List of Companies and Other Legal Entities of Strategic and Special Interest to the Republic of Croatia - July 2016</p> <p>Amendments to the Act on Management and Disposition</p>	approximately EUR 500 million in 2016 and the first half of 2017 from sales of apartments, office spaces, land, payment of dividends, sales of stocks and shares	Reducing the budget deficit and public debt and increase of credit rating	SOAGO

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		Amendments to the Act on Management and Disposition of the Property Owned by the Republic of Croatia in the part relating to the management and disposal of stocks and shares will enable effective reduction of the state's portfolio by selling stocks and shares of not-strategic enterprises.	of Privatization Plans of non-strategic companies Implementation of tenders for sale of stocks and business shares of non-strategic companies	of the Property Owned by the Republic of Croatia - July 2016 Adoption of the Privatization Plan of non-strategic companies (including companies in RSC portfolio) - August 2016 Amendments to the Regulation on the Method of Sales of Stocks and Business Shares - September 2016 Simpler procedure for publication of tenders - October 2016			
4.	Reducing the state portfolio of apartments, office spaces and land	Amendments to the Act on Management and Disposition of the Property Owned by the Republic of Croatia in the part relating to management and disposal of real property will enable effective reduction of the state's portfolio of ownership over apartments, office spaces and land, and the activation of unused state property (e.g. assigning functions to former army barracks).	Decision of the GRC on the Sale of Apartments Owned by the Republic of Croatia Act on Management and Disposition of the Property Owned by the Republic of Croatia Regulation on Disposal of Properties Owned by the Republic of Croatia Implementation of tenders for sale of real property	Adoption of the Decision of the GRC on the Sale of Apartments Owned by the Republic of Croatia - June 2016 Adoption of the Amendments to the Act on Management and Disposition of the Property Owned by the Republic of Croatia - July 2016 Amendments to the Regulation on Disposal of Properties Owned by the Republic of Croatia - September 2016 Publication of tenders - October 2016		Reducing the budget deficit and public debt and increasing credit rating	SOAGO
5.	Redefining the concept and structure of comprehensive state property records	Ensure transparent insight into the scope and structure of property owned by the Republic of Croatia through data and software upgrade of the existing Registry of State	Act on Management and Disposition of the Property Owned by the Republic of Croatia	Amendments to the Act on Management and Disposition of the Property Owned by the Republic of Croatia – July 2016		Enhanced normative framework as infrastructural presumption of project operationalization.	SOAGO

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		Assets and implementation of the State Property Management Information System (ISUDIO). Long-term transformation of the Registry of State Assets from administrative into management system	Regulation on the Organization, Procedure of Maintaining and the Contents of the Central Registry of State Assets	Completion of the application system of the first phase of the project ISUDIO - July 2016 Public tender for the implementation of the second phase of ISUDIO - July to September 2016 Adoption of the Regulation on the Organization, Procedure of Maintaining and the Contents of the Central Registry of State Assets – September 2016 Introduction of the system (by the first project phase) into operation - 31 December 2016		Comprehensive coverage of updated and authentic legal, physical, economic and financial data on the assets owned by the Republic of Croatia, in the medium and long-term. Contribution to computerization of public administration. Electronically connecting with fundamental and public registers and electronic data entry in the medium and long-term.	
(3) REDUCING THE FISCAL RISKS OF THE HEALTH CARE SYSTEM							
1.	Changes in the health insurance system	Increase revenue in the health care system through different models of insurance.	Amendments to the General Act of the Croatian Health Insurance Fund by which the premium for supplementary health insurance is regulated Amendments to the Act on Compulsory Health Insurance and Amendments to the Act on Voluntary Health Insurance	Modification of the existing supplementary health insurance and introduction of the new type of insurance for non-standard medical services, in consultation with the relevant stakeholders Increasing the price of supplementary health insurance from HRK 70 to HRK 89 - May 2016 Increasing the maximum amount of participation in health care costs from HRK 2,000 to HRK 3,000 for those who do not have supplementary health insurance - June 2016 Introduction of additional health insurance - September 2016	HRK 1 billion of additional revenue by the end of 2019, in the following way: 2016 - HRK 100,000,000 2017 - HRK 300,000,000 2018 - HRK 300,000,000 2019 - HRK 300,000,000	Financial stability of the health system	MH

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2.	Emergency medicine reform	Straightening the system and financial relief of the hospital system and rational use of human and material resources in order to enable access to emergency medical services.	Ordinance on the Minimal Conditions Concerning Space, Staff and Medical and Technical Equipment for Providing Emergency Medicine Services New Emergency Medicine Network Ordinance on the Conditions, Organization and Methods of Emergency Medicine	Reorganization of integrated emergency hospital admission - June 2016 Reorganization of outpatient emergency medical services - June 2016 Involvement of primary health care with a view to relieve the burden put on the integrated emergency hospital admission system June 2016 Adoption of the Ordinance on the Minimal Conditions Concerning Space, Staff and Medical and Technical Equipment for Providing Emergency Medicine Services - June 2016 Adoption of the new Emergency Medicine Network - June 2016 Adoption of the Ordinance on the Conditions, Organization and Methods of Emergency Medicine – June 2016	Reduction of expenditures by HRK 50 million in the period from 2016-2019. (includes: price of unnecessary intervention of IHMS instead of selected primary health care physician; price of unnecessary examinations and medical tests; price of repeating similar examinations and medical tests; price of measures for reducing unnecessarily long waiting lists (overtime work of health workers, utilization of medical devices, additional overhead expenses of health institutions; price of treating diseases that were diagnosed late)	Financial stability of the health system; improving the quality of health care; greater availability of health care services; aligning access to emergency services with access to primary health care.	MH
3.	Hospital network reorganization	Improving the quality, implementing rationalization and achieving financially sustainable system, order and transparency of the same, and eliminating debt in the hospital system by implementing reorganization and rationalization measures.	Decision on the Suspension of the Rehabilitation Process of Public Health Institutions Agreement between the Ministry, founders and medical institutions in order to determine the ways for settling liabilities and arrears (since rehabilitation did not achieve results, debts of individual institutions, methods of settling debts and settlement dates will be indicated in the agreements)	Adoption of the Decision on the Suspension of the Rehabilitation Process of Public Health Institutions – April 2016 Drafting and adoption of Operational Rationalization Plan by establishing the dynamics of repayment of hospitals' outstanding debts - June 2016 Objective survey of the existing condition and Reconstruction Plan of	Reduction of expenditures by HRK 1,050,000,000 in the period from 2016-2019 (includes: reduction of acute care capacity; increasing the capacity of day care hospitals; increasing the capacity for long-term and palliative care; ensuring rational and sustainable levels of resources; price of unnecessary hospitalization	Improving the quality of health care; greater availability of health care services; rational use of all resources of the hospital health care system (staff, equipment, space)	MH

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			Act on the Quality of Health Care	<p>hospital system network (implementation by the MH) - June 2016</p> <p>New determination of institutions' activities (implementation by the MH) - June 2016</p> <p>Functional interconnection between institutions (implementation by the MH, founder) - September 2016</p> <p>Implementation of new personnel and spatial adjustments and conversion of activities - September 2016</p> <p>Equipping of day hospitals and day surgeries (implementation by the MH, EU funds) - 2016-2020</p> <p>Support for possible redundant employees (implementation by MH, founder, institution) - continuously</p> <p>Conclusion of the Agreement between the Ministry, the founders and medical institutions in order to determine the ways for settling liabilities and arrears (since rehabilitation did not achieve results, debts of individual institutions, methods of settling debts and settlement dates will be indicated in the agreements) – May 2016</p> <p>Drafting of the new Act on the Quality of Health Care – December 2016</p>	of chronic patients due to delay in recognizing deterioration of their health)		

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4.	Rationalization and reorganization of non-medical services in hospitals	Improve the provisional organization of non-medical services, increase staff productivity, introduce more efficient operational models and rationalize use of medical services.	Alignment of existing acts in order to implement planned activities (e.g. the Statute and other general acts of health care institutions)	Reorganization of security services - June quarter 2017 Reorganization of laundry services - June 2017 Reorganization of cleaning services of non-medical surfaces - September 2017 Reorganization of administrative and financial services – December 2017 Rationalization of technical services - December 2017 Support for redundant employees - 2016-2020 Determination of reference prices of meals	HRK 100 million of expenditure reduction in the period 2016-2019	Reduction of unnecessary expenditures, financial stability of the health system	MH
5.	Primary health care reform	Improved access to health care and rationalization within the system. Limit the number of patients per physician (500-1500) in primary health care. Establishment of palliative care institutions. Increase of home care services	Adoption of the new primary health care (PHC) network Adoption of the new public health care service	Reorganization of PHC network - 1-10 years Equipping PHC practices - 4 years Education of practitioners in PHC - 4 years Rationalization of the network of biochemical laboratories - 1 year	HRK 50 million of expenditure reduction in the period 2016-2019	Greater availability of health care services; rational use of all resources	MH
6.	Further implementation of unified public procurement, stricter control of prescription medicines and system computerization	Rationalization of medicine consumption through control, unified procurement and other measures.	Alignment of existing acts in order to implement planned activities Development of the new Ordinance on the Criteria for Determining Prices of Medicines	Changing the reference countries for determination of prices of medicines - June 2016 Unified procurement of generic, innovative and expensive medicines - December 2016 More intensive application of unified public procurement model in order to rationalize the system - December 2016 Control of hospital medicines consumption - continuously	Reduction of expenditures by HRK 350 million in the period from 2016-2019	Financial stability of the health system; reduction of unnecessary expenditure; achieving cost savings on an annual basis, which should be invested in improving services and treatment of patients	MH

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				Control of particularly expensive medicines - continuously			
(4) IMPROVING THE SUSTAINABILITY OF THE PENSION SYSTEM							
1.	Encouraging a longer working life	Slow down the inflow of new old-age pensions by: shortening the deadline for increasing the age for eligibility for early retirement in relation to the current Pension Insurance Act (PIA) (aligning the age for acquiring the right to early retirement pension between women and men would last until 31 December 2024; of 1 January 2028 the right to early retirement pension would be realized by insured persons of 62 years of age and with 35 years of pensionable service) shortening the deadline for increasing the age for eligibility for old-age retirement in relation to the current Pension Insurance Act (PIA) for men and women (of 1 January 2028 the right to old-age pension would be realized by insured persons of 67 years of age) introduction of a unified monthly rate of penalization for early retirement in the amount of 0.3% further extension of the deadline for old-age retirement for deficit occupations and persons who decide to use this extension	Pension Insurance Act	Adoption of Amendments to the Pension Insurance Act - December 2016	Potential slowing of expenditures of the State Budget	Longer participation in the labour market and reduction of incentives for early retirement	MLPS
2.	Improving the system of pensionable service with increased duration	Reduction in the total number of jobs and professions to which pensionable service with extended duration is	Act on Extended Duration of Pensionable Service	Revised list of professions and job positions to which pensionable service with	Potential slowing of expenditures of the State Budget	Longer participation in the labour market	MLPS

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		applied by approximately 50%.		extended duration is applied - April 2016 Amendments to the Act on Extended Duration of Pensionable Service - December 2016			
3.	Ensuring the consistency of criteria related to the definition of disability/invalidity	<p>Establishment of improved medical expertise algorithm by developing guidelines and precisely defining objective diagnostic methods and functional abilities' testing of insured persons.</p> <p>Ensure new systematization (classification) of disability/invalidity and associated pension and social benefits that is adjusted to legal and economic changes and the modern labour market in the Republic of Croatia and the European Union.</p>	<p>Written guidelines in the assessment of working capacity, and a new list of functional abilities and physical disability</p> <p>Regulation on the Methodology of Expertise;</p> <p>Act on Single Expertise Body</p> <p>Act on Vocational Rehabilitation and Employment of Disabled Persons</p> <p>Ordinance on Determining Employment Quotas for Persons with Disabilities</p>	<p>Adoption of the Regulation on the Methodology of Expertise – December 2016</p> <p>Adoption of Amendments to the Act on Single Expertise Body – December 2016</p> <p>Adoption of Amendments to the Act on Vocational Rehabilitation and Employment of Disabled Persons – December 2016</p> <p>Adoption of the Ordinance on Determining Employment Quotas for Persons with Disabilities – December 2016</p>	<p>Potential reduction of budgetary expenditures due to objective and far more productive and efficient expertise - it is not possible to estimate the precise fiscal effects at this time</p> <p>Fiscal impact will be calculated after overall restructuring of the system of expertise and total costs of the future Institute for Vocational Rehabilitation and Employment of Persons with Disabilities.</p>	<p>Equalization of criteria, while maintaining the working capacity rating audit institute and ensuring the continuous education of expert staff will be achieved by improvement of expertise procedure through standardization and development of algorithms.</p> <p>Computerization of business processes and establishment of management system and document archiving.</p> <p>Significantly more efficient investments of collected fees and purpose of payment of incentives and rewards when employing persons with disabilities and implementing projects and programs for the employment of persons with disabilities (rehabilitation and role of rehabilitation centres), provided by the Department of Expertise, Vocational Rehabilitation and Employment of Persons with Disabilities</p>	MLPS

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						(purpose-specific revenues). Monitoring and control mechanisms in the expertise system have a deterring effect and reduce the possibility of corruption.	
(5) IMPROVING THE EFFICIENCY OF THE SOCIAL BENEFITS SYSTEM							
1.	Consolidation of benefits in the social welfare system on a national level	<p>Definition of fees to which income threshold and means test will be applied and standardization of criteria for allocation of social benefits (benefits from the social welfare system and other systems).</p> <p>Ensuring exchange of information on social benefits awarded by units of local and regional self-government and encouraging the introduction of income threshold and means test for the realization of these benefits.</p>	<p>Act on the Amendments to the Social Welfare Act</p> <p>Action Plan for Consolidation of Social Benefits for the period 2016 -2020</p> <p>Amendments to the Act on Child Allowance</p> <p>Formalization of relations between the Government of the Republic of Croatia and Croatian Association of Counties and the Association of Cities regarding One Stop Shop's delivery of data on social benefits granted by units of local and regional self-government, beneficiaries who use them and other significant indicators, i.e. data collection on social benefits of municipalities.</p>	<p>Adoption of the Act on the Amendments to the Social Welfare Act – June 2016</p> <p>Adoption of the Action Plan for Consolidation of Social Benefits for the period 2016-2020 – September 2016</p> <p>Adoption of Amendments to the Act on Child Allowance – September 2016</p>	Fiscal impact is expected only as of 2017, based on simulation of introduction of means test in exercising right to child allowance (e.g. second car, other property not used for basic needs).	Standardization of criteria and the introduction of means test and/or income threshold on the exercise of certain social benefits will result in fairer system of allocation of social benefits, better targeting of the most vulnerable groups of society and generally greater transparency of the social benefits system.	MSPY
2.	Establishing One Stop Shop by integrating data and unified administration of benefits	Unification of benefits administration under the social protection system will provide control of social protection receipts, prevent abuse of the system in the form of “not reporting” individual changes by beneficiaries, and increase	Act on the Amendments to the Social Welfare Act	Adoption of the Act on Amendments to the Social Welfare Act regarding postponement of the deadline for introduction of One Stop Shop due to redefinition of its establishment – June 2016	<p>Annual allocation for administration (GMB, DD, RRP) 2014 – HRK 4,100,046.000</p> <p>Annual allocation for system administration One Stop Shop 2018 – HRK 3,499,488.000</p>	Simplification of the process of exercising the right, ensuring the standardization of process, introduction of guaranteed minimum standard, ensuring real time checks of rights, enabling analysis through	

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		the transparency of payments of benefits and greater availability to users.		Changes to regulations governing other rights (social benefits) – December 2016	Annual savings (after the establishment of administration of all benefits in One Stop shop): HRK 600,598,000	micro-simulation and cost control as a basis for adoption of public policies.	
3.	Prescribing a guaranteed minimum standard	Prerequisite for determination and supervision of the implementation of guaranteed minimum standard is to establish One Stop shop and MISOSS applications. Determination of limits for cumulation of social benefits or income that is (not) counted as income when determining the conditions for achieving social benefits, so that the total amount of achieved social benefits would not be higher than the income that could be achieved by working (especially by low-paid workers), i.e., so that social benefits would not undermine the work motivation of beneficiaries of working age.	Social Welfare Act Other legislation necessary for the implementation of standardized criteria and means test and income threshold in accordance with the Action Plan for the Consolidation of Social Benefits for the period 2016-2020	Publication of tenders for the design, development and implementation of Information Management System for administration and payment of fees in One Stop Shop (MISOSS) - August 2016 Adoption of other legislation necessary for the implementation of standardized criteria and means test and income threshold in accordance with the Action Plan for the Consolidation of Social Benefits for the period 2016-2020 – September 2016 Adoption of the new Social Welfare Act – March 2017 Development of business analysis, system architecture and design solutions of Information Management System for administration and payment of fees in One Stop Shop (MISOSS) - May 2017 Completed test phase of the new developed system - November 2017		Increasing of work motivation of working age users of social benefits and creation of preconditions for determining the minimum amount required to meet the basic needs of vulnerable groups in order to achieve more equitable distribution of social benefits and prevent poverty.	
II. EASIER BUSINESS CONDITIONS AND BETTER INVESTMENT CLIMATE							
(6) REDUCING THE ADMINISTRATIVE BURDEN AND OPERATING COSTS OF COMPANIES							
1.	Removal of regulatory and administrative	Improve the mechanism for identification and elimination	Decision of the GRC on the Establishment of Working	Establishment of the Working Group for Business Climate and Investments and	No fiscal impact on expenditures.	Positive impact by facilitating business conditions and	ME

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	barriers and burdens for business and investments	<p>of barriers and burdens to business and investments.</p> <p>Facilitate business conditions and investments and increase legal certainty by removing barriers and burdens and open consultative dialogue between administration and the business sector, through the Working Group for Business Climate and Investment.</p> <p>Operation of the Working Group will be based on the Action plans with measures for removing all kinds of barriers and burdens imposed on the economy, including measures (1) proposed as a result of the implementation and extension of <i>Standard Cost Model (SCM)</i> measurements, (2) aimed at improving the ease of doing business (<i>Doing Business</i>), (3) for reducing regulatory restrictiveness of the market/economy (OECD <i>Product Market Regulation</i>), (4) for reforming the EU services market and regulated professions.</p>	<p>Group for Business Climate and Investments</p> <p>Conclusion of the GRC on Adoption of the Action Plan for Reducing the Administrative Burden in the Economy by the end of 2016</p> <p>Conclusion of the GRC on Adoption of the Action Plan for Reducing the Administrative Burden in the Economy by the end of 2017</p>	<p>Amendments to the Decision on the Establishment of Working Group for Business Climate and Investments - June 2016</p> <p>Adoption of the Action Plan for Reducing the Administrative Burden in the Economy by the end of 2016 - June 2016</p> <p>Adoption of the Action Plan for Reducing the Administrative Burden in the Economy by the end of 2017 - November 2016</p> <p>Amendment of the regulations based on the adopted Action Plan for Reducing the Administrative Burden in the Economy by the end of 2016 - December 2016</p> <p>Amendment of the regulations based on the adopted Action Plan for Reducing the Administrative Burden in the Economy by the end of 2017 - April 2017</p> <p>Reporting the Government of the Republic of Croatia on the progress by the Working Group - once a month</p>	<p>We can expect positive fiscal impacts on revenues due to an increase in economic activity enabled by facilitating business conditions and investment</p>	<p>investment, based on open dialogue with the business sector.</p> <p>Contribution to the annual GDP growth, especially investments, can exceed 2 percentage points, directly dependent on the level of administrative unburdening and the number of removed regulatory barriers.</p>	
2.	Measuring the administrative burden on economy by applying the Standard Cost Model (SCM) methodology	Reduction of administrative business costs by a minimum of 20 % by the end of 2016 in the field of starting a company and craft business, occupational health and safety, health and sanitation, and energy efficiency in	Amendments to regulations and procedures governing activities within these 6 areas, as well as other regulatory areas of the economy, following the implementation of the extension of SCM measurements	Report on the implementation of the Action Plan for Reducing the Administrative Burden in the Economy, including measures to reduce the burden for at least 20 % by the end of 2016 in the field of business start-	<p>No fiscal impact on expenditures.</p> <p>We can expect positive fiscal impacts on revenues due to an increase in economic activity</p>	Positive effect on the increase in economic activity, an increase in the number of jobs, export and the development of innovation enabled by stimulating business environment.	ME

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		<p>construction, and also in the field of trade and real estate brokerage.</p> <p>Expansion of SCM measurements on all existing regulations in the field of economy and successful reduction of perceived administrative burden by June 2018 for a minimum of 25 %.</p>		<p>up of companies and crafts, safety at work, health and sanitation standards and energy efficiency in construction, and additionally in the field of trade and mediation in real property sales - June 2016.</p> <p>Adoption of the Decision of the Government of the Republic of Croatia on the expansion of SCM measurements on all existing regulations in the field of the economy and a successful reduction of perceived administrative burden by June 2018 for a minimum of 25 % - June 2016.</p> <p>Implementation of measures in accordance with the Action Plan for reducing the administrative burden in the economy by the end of 2016 and the Action Plan for Reducing the Administrative Burden in the Economy by the end of 2017.</p>	stimulated by the reduction of administrative burden.	Contribution to the annual GDP growth, especially investments, may exceed 2 percentage points since it is directly dependent on the level of administrative unbundling and the number of removed regulatory barriers.	
3.	Continued liberalization and reform of the services market	<p>We strive to provide easier access to services market in accordance with the EU rules of freedom on the internal market by removing remaining regulatory barriers.</p> <p>Ministry of Economy has in cooperation with the European Commission been keeping a database of remaining regulatory barriers to the freedom of the services market that need to be</p>	<p>EU Services Directive, i.e. Services Act</p> <p>EU Single Market Strategy</p> <p>Amendments to laws and by-laws governing the services market of auditors, tax consultants, accountants, lawyers, auto-schools, architects and engineers.</p>	We strive to remove remaining barriers related to the services market of auditors, tax consultants, accountants, lawyers and auto-schools in accordance with the Action Plan for Reducing the Administrative Burden on the Economy by the end of 2016.	<p>No fiscal impact on expenditures.</p> <p>We can expect positive fiscal impacts on revenues due to an increase in economic activity on the services market enabled by simulating business environment.</p>	Positive effect on prices and increased quality for customers, as well as increased business efficiency due to increased competition. By reducing the administrative burden for accessing the services market we will increase business opportunities, including opportunities to freely develop new types of services, business	ME

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		removed on the basis of the EU Services Directive.				models and digital platforms. Estimated contribution to annual GDP growth of the EU following the liberalization of the services market amounts to approximately 0.8 to 1.5 percentage points, with additional potential that can be realized if we undertake a more ambitious deregulation of the services market.	
4.	Development of electronic procedures for starting and doing business	<p>Encouraging the development of electronic processes for simple start up of businesses and obtaining permits for providing services.</p> <p>Electronic Single Point of Contact for services psc.hr is being developed under the EU Internal Market Centre cut.hr as a portal that consolidates key information on the requirements for starting up businesses on the services market and provides links to electronic procedures in order to facilitate the registration of companies and obtaining documentation for performing services upon the integration of the aforementioned services into the e-Citizen i e-Business systems.</p> <p>Implementation of the EU principle of “once-only” that forbids competent authorities to ask for the same</p>	<p>EU Services Directive, i.e. Services Act</p> <p>EU Single Market Strategy</p> <p>Decision of the Government of the Republic of Croatia on the introduction of electronic procedures for registration of business establishment and obtaining of documentation related to providing services (pursuant to the Services Act)</p> <p>Legislative changes reflecting the introduction of a simple electronic registration of business: Phase I Act on the Amendments to the Court Register Act Phase II Companies Act Court Register Act Court Fees Act Notarial Tariffs Act Ordinance on the Manner of Registration in the Court Register</p>	<p>Adopting the Decision of the Government of the Republic of Croatia on the introduction of electronic procedures for registration of business establishment and obtaining of documentation related to providing services - May 2016</p> <p>Amendments to regulations: introducing online establishment of d.o.o. and j.d.o.o. companies, revision of company activities and obligation of court officers to fully implement simpler registration procedures (Phase I) - September 2016 simplifying the entire company registration procedure (Phase II) - January 2017</p> <p>Court registry’s information system upgrade - December 2016</p> <p>Improving the quality of content related to</p>		<p>Simplifying the business start up procedure will reduce the high level of administrative burden and ensure a simpler, faster and cheaper access to the market.</p> <p>Integrating the information on regulatory requirements and developing electronic procedures for establishing services reduces the time needed to collect the necessary information and perform administrative formalities for starting a business on the services market by approximately 80 %.</p>	ME/MJ

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		information from businesses more than once, instead they have to exchange such information between themselves.	Ordinance on the Temporary Notarial Tariff	information on requirements for starting up businesses and adding links to electronic procedures on the portal Point of Single Contact - December 2016			
5.	Further reduction and elimination of non-tax payments	<p>By the end of 2016 we intend to reduce the para-fiscal burden on the economy in the amount of at least HRK 330 million, i.e. 0.1 % of GDP in 2014, by eliminating or reducing para-fiscal levies with greatest impact on business.</p> <p>Introduction of ex-ante control mechanisms in prescribing new and changing the existing non-tax payments, and the identification of administrative relief opportunities relating to the collection of non-tax payments.</p>	<p>Decision on the regulation of the non-tax payments system</p> <p>Amendments to regulations governing para-fiscal relief</p>	<p>Adoption of Para-fiscal Burden Plan and compiling a list of para-fiscal levies whose reduction or elimination will be regulated by amendments to regulations adopted by the end of 2016 - May 2016</p> <p>Entry into force of amendments to regulations governing para-fiscal relief - December 2016</p>	<p>No fiscal impact on expenditures (since para-fiscal levies do not represent fiscal revenues in methodological sense).</p> <p>We can also expect positive fiscal impacts on revenues due to an increase in economic activity stimulated by para-fiscal relief.</p>	Time and financial savings for the economy that will release more capital for investment in jobs, exports, innovation, etc.	MF
6.	Public procurement reform including simplification and digitization of procedures	Reducing the administrative burden on the economy by introducing electronic tendering (e-procurement), European Single Procurement Document (ESPD) and linking key public registers (court and craft register, tax administration, etc.) with the Electronic Public Procurement Classifieds of the Republic of Croatia (EOJN RH) published by the Official Gazette.	Public Procurement Act	<p>Drafting proposals of the Public Procurement Act - June 2016</p> <p>Implementation of the European Single Procurement Document (ESPD) that will be based on the standard form of the Electronic Public Procurement Classifieds of the Republic of Croatia (EOJN RH) - June 2017</p> <p>Linking public registers with the EOJN portal through the implementation of interoperable solutions - September 2017</p>	<p>No fiscal impact on expenditures.</p> <p>We can also expect positive fiscal impacts on revenues due to an increase in economic activity.</p>	<p>Increasing the efficiency of businesses' participation, especially small and medium-sized enterprises, in public procurement procedures.</p> <p>Further reduction of administrative costs caused by obtaining different certificates issued by various competent authorities.</p> <p>Encourage the participation of larger number of businesses on</p>	ME

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				Development of a new module within the EOJN portal which will enable automatic lookup of data on business entities kept in public registers that are required in public procurement procedures while preparing an e-offer		the public procurement market, which will contribute to a higher level of competition and thus more efficient spending of public money.	
(7) FACILITATION OF FINANCING, DELEVERAGING AND RESTRUCTURING OF COMPANIES							
1.	Accelerated deleveraging by encouraging write-off of receivables	<p>Amendments to the legislative framework will create a more stimulating framework for addressing the problem of irrecoverable and non-performing loans, and reduce the number of civil cases that are raised to collect debt in order to accelerate the whole process of deleveraging, as well as reduce the number of non-performing loans in banks' balance sheets.</p> <p>Amendments will focus on encouraging out of court settlements in order to reduce the number of civil cases and thus accelerate the process of deleveraging / reducing the number of non-performing loans</p> <p>Measure would be temporary, that is it would be applied for only one year and limited to current irrecoverable loans.</p>	Corporate Income Tax Act - an option to write-off receivables as a tax deductible expense for already established irrecoverable/bad loans	<p>Adoption of amendments to the Corporate Income Tax Act - July 2016</p> <p>Application: as of 1 January 2017 - 31 December 2017</p>	We expect a neutral impact on revenues from corporate income tax.	Allowing banks to reduce the number of non-performing loans in balance sheets.	MF TA
2.	Activation of financial instruments	We strive to ensure an easier and better access to financing of business entrepreneurs by introducing financial instruments that are based on	Signing of the agreement with HBOR and CASB to open new credit and guarantee lines for the financing of small and medium-sized enterprises	Adoption of selection criteria for the selection of operations by the Monitoring Committee - May 2016	Indirect increase of state budget revenues resulting from increased investments in economic activities by	Facilitate small and medium-sized enterprises' access to financing by improving conditions of existing and strengthening	MRDEUF

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		<p>the use of EU funds, especially for products that are underrepresented on the market: self-employment micro-loans; social entrepreneurship loans; small development loans; guarantees; interest subsidies; larger loans for the development of SMEs, venture capital funds</p> <p>Total investment effect of this action, including the investment of private bank capital and other investors amounts to more than EUR 600 million in the period until the end of 2020</p>	<p>with conditions that are more favourable than current lines</p> <p>Signing of the agreement with selected financial partners for the launch of financial instruments based on equity - venture capital funds</p>	<p>Signing of the Financial Instruments Financing Agreement - June 2016</p> <p>Selection of commercial banks - partners for the implementation of financial instruments - October 2016</p> <p>Start of issuing funds through new financial instruments - November 2016</p>	small and medium-sized enterprises	new financial instruments on the market, such as venture capital funds	
(8) INCREASING INVESTMENT IN RESEARCH AND DEVELOPMENT IN THE PRIVATE AND PUBLIC SECTOR							
1.	Increase public and private investments in research and development and directing public and private investments to areas where we have the greatest opportunities for achieving economic growth on the basis of the Smart Specialization Strategy (S3)	<p>Create strong financial and coordination mechanisms that will better harmonize policies of investment in research and development by the public and private sectors.</p> <p>Secure at least EUR 1 billion of additional investment in R&D by the end of 2020 by the public and private sectors based on resources we have at our disposal from EU funds and tax reliefs.</p> <p>Publishing calls for tenders for the allocation of EU funds in the amount of EUR 390 million in 2016</p>	<p>Decision of the Government of the Republic of Croatia on the establishment of the National Innovation Council as a key coordinating body for the implementation of the Smart Specialization Strategy and other relevant strategic documents</p> <p>Publishing tenders to award grants for supporting research and development activities in the business and public sector</p> <p>New Act on the State aid for research and development projects</p>	<p>Publishing calls for tenders to award grants for supporting research and development activities in the business and public sector - continuously since May 2016</p> <p>Adoption of the Act on the State aid for research and development projects - September 2016</p> <p>Drafting the Annual report on the implementation of the Smart Specialization Strategy - March 2017</p>	<p>Additional budget revenues based on additional investments in research and development activities in 2017 in the amount of HRK 150 million, and by the end of 2020 in the amount of HRK 1.5 billion (increased revenues from VAT and other taxes)</p> <p>Increased tax expenditures (expenses) due to tax reliefs for research and development activities in the amount of HRK 150 million per year by the end of the 2020</p>	<p>Increasing long-term economic competitiveness of the Republic of Croatia based on increased investments in research and development.</p> <p>Improving economic relevance and operational quality of the scientific and research community in the Republic of Croatia by engaging in a more intensive cooperation with the overall economy.</p> <p>Main performance indicators: - Increasing investments in research and development (from 0.8% to 1.4% of the GDP by 2020)</p>	ME MSES

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(9) IMPROVING THE CADASTRE AND LAND REGISTRY SYSTEM AND SPATIAL PLANNING							
1.	Improving the cadastre and land registry system	<p>Establishing a land system which ensures legal security in the real property trade.</p> <p>This will include the revision of legislation, digitization of cadastral and land registry data and reorganization of work activities with special emphasis on the functional integration of existing registers and institutions in order to expand the authority of civil servants and transfer certain authorities to non-institutional persons.</p> <p>This measure will ensure compliance of cadastral and land registry data with the actual situation.</p> <p>By simplifying the procedures of expropriation and introducing a single-instance judicial proceedings we will shorten the their duration and ensure uniform jurisprudence.</p>	<ol style="list-style-type: none"> 1. Act on Land Registry 2. Act on State Survey and Real Property Cadastre 3. Geodetic Activities Act 4. Court Fees Act 5. Act on the Amendments to the Notarial Tariffs Act 6. Act on the Amendments to the Act on Expropriation and Determining Compensation 7. Land Registry Rules of Procedure 8. Rules and Regulations on criteria for land registry clerks 9. Rules and Regulations on Linking the Land Registry and the Book of Deposited Contracts, and on the registration of condominium unit ownership 10. Ordinance on the Temporary Notarial Tariff 11. Tariff for Attorney' Fees and Cost Compensation 	<p>Drafting a Detailed plan of cadastral surveys and the establishment and renewal of land registries - June 2016</p> <p>Implementing the Joint Information System of Land Registry and Cadastral Data in all cadastral offices and land registry departments - July 2016</p> <p>Creating a Program of cadastral surveys and the establishment and renewal of land registries - August 2016</p> <p>Amendments to the Act on Expropriation and Determining Compensation - September 2016</p> <p>Drafting and adopting the Functional Integration Plan - October 2016</p> <p>Making changes to regulations that simplify land registry processes and implement electronic communication - Phase I - December 2016</p> <p>Modification of other legislation - Phase II - February 2017</p> <p>Making changes to regulations establishing the legal framework for the implementation of functional integration - Phase I - December 2016</p> <p>- Phase II - December 2017</p>	Expenditures HRK 10,880,000 (JIS - in total for both institutions in 2016)	Ensuring the completeness and accuracy of Land Registry entries will encourage the investment environment and provide a foundation for the implementation of a broader reform regarding the taxation of real property.	MJ MCPP

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				<p>Establishment of the new institution - December 2018</p> <p>Physical integration of cadastre offices and land registry departments - December 2020</p>			
2.	Development of the Spatial Planning Information System (SPIS) and its modules	<p>Establishment and management of the information system for drafting, adopting, implementing and monitoring spatial plans, ongoing monitoring of spatial situation and spatial planning and creating reports on the spatial situation.</p> <p>This measure is part of the continuous development process for the creation of a system that consists of several modules represented by individual applications (ePermit, eCatalogue, ePlans, eProperty, eArchive, eInspection, etc.) and a geoportal for viewing spatial layers from individual modules and external sources.</p>		<p>Adjusting the Information System of Physical Planning (ISPP) geoportal according to the needs of individual modules - December 2016</p> <p>Reengineering the ePermit system in order to improve existing functionalities and comply with the e-Citizens system; establishing horizontal and vertical integration within the ISPP, inclusion of the remaining 3 offices in the ePermit module - December 2016</p> <p>Creating a unique model for the implementation of the existing spatial planning documentation and enabling network services - January 2017</p> <p>ePlans: this new generation planning module has been established within the agreed scope but the application can be completed only after the adoption of implementing regulations that are currently being drafted, as well as the new cadastral survey, at least for construction land - continuous</p>	At this point it is not possible to determine positive fiscal effects.	<p>Effective management of spatial data by digitizing spatial planning documents.</p> <p>Providing a better overview of the spatial situation.</p> <p>Improved quality and coordination and rationalization of the system for managing the process of issuance of electronic construction permits in the field of spatial planning and construction.</p> <p>Effective implementation of administrative procedures and quicker issuance of electronic construction permits and increased transparency of processes, which positively affects the investment climate and the business environment.</p>	MCPP

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				Developing submodules to be used in the transitional period until the full establishment of the new generation spatial planning system - Development of application solutions / January 2017 Data analysis of existing spatial plans - December 2017			
		Implementation of the eProperty application began in late 2015, and activities for completing the establishment of the Property Market Information System - eProperty - will continue in 2016 (Phase II and III of delivery and creation of the initial state of approximate value plans - price blocks).	Regulation on Mass Assessment of Property Values	Adoption of the Regulation on Mass Assessment of Property Values - July 2016 Creating project documentation for initiating a public procurement procedure regarding the creation of initial state of approximate value plans or price blocks - January 2017	Achieving a positive fiscal impact by increasing total revenues from the real property tax is expected following the full implementation of the eProperty module and implementation of the last Phase III - creation of approximate value plans (cartographic representation of price blocks).	Introducing clear criteria for assessing real property value that would ensure the collection of revenue, primarily to local self-government units, through fair real property transfer tax, which would make their budgets more efficient and independent, and thus indirectly affect and strengthen the overall fiscal framework of the Republic of Croatia and management of public finances.	MCPP
III. GREATER EFFICIENCY AND TRANSPARENCY OF THE PUBLIC SECTOR							
(10) RATIONALIZATION OF THE PUBLIC ADMINISTRATION SYSTEM AND OPERATIONS							
1.	Comprehensive regulation of the public administration system in order to reduce fragmentation and increase transparency	With outmost transparency (1) legally regulate the public administration system by functional criteria, (2) reduce the number of organizational forms of organization at the level of central state administration bodies, (3) consistently delineate responsibilities for the performance of administrative functions and tasks between ministries and state administration offices and determine the criteria for transfer of public authority,	Proposal of the (Public) Administration Act Regulations on the principles of the internal organization of central state administration bodies and state administration offices Regulations on the internal organization of central state administration bodies and state administration offices	Proposal of the Act entered the adoption procedure - October 2016 Adoption of Regulations on the principles of the internal organization of central state administration bodies and state administration offices - December 2016 Adoption of Regulations on the internal organization of central state administration bodies and state	Adoption of the Act will not have a direct financial impact. We expect to see lower costs of services provided to citizens and entrepreneurs due to the simplified procedures Standardization of business processes and implementation of the quality management system in state administration bodies based on the new	Creating conditions for a comprehensive and systematic transfer of first instance administrative and inspection activities from the ministries to state administration offices in counties. Increasing the capacity of central bodies for the development of public policies, strategies and developing standards of service quality and improving the	MPA

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		<p>and (4) reorganize the entire agency system (establishment criteria, legal status, activities, management structure and relationships with relevant ministries).</p> <p>Defining common criteria for the internal organization of central and regional state administration bodies and harmonizing their internal organization with such criteria.</p>		administration offices - December 2016	organizational structure should achieve estimated savings of HRK 65 million.	<p>coordination and supervision of the implementation of policies, strategies and regulations.</p> <p>Defining criteria for the establishment and operation agencies to be used for further rationalization and preventing unnecessary establishment of new agencies in the future.</p>	
2.	Rationalization of the system of legal entities with public authority	<p>Reduce the number of legal entities with public authority of the agency type and other legal entities whose operations that overlap with activities of legal entities of the agency type or state administration bodies for 12 legal entities.</p> <p>Rationalization of the system of legal entities with public authority in accordance with the Public Administration Act and defined criteria.</p>	<p>Action Plan for modernization of public administration</p> <p>Amendments to special acts and regulations of the Government of the Republic of Croatia</p>	<p>Action Plan for modernization of public administration which defines the plan for the rationalization of the system of agencies, institutes, funds and other legal entities with public authority of the agency type - May 2016</p> <p>Amendments to regulations establishing the agencies and other legal entities with public authority in accordance with the Action Plan for implementation of the rationalization of the system of agencies — October 2016</p> <p>Determining the list of legal entities with public authority that meet or do not meet conditions defined by Public Administration Act and the adoption of the Action Plan for further handling of such persons - March 2017</p>	Status changes and reduced material expenditures will result in budget savings in the amount of approx. HRK 5 million in 2016.	Reducing the public administration fragmentation, strengthening the capacity of agencies and other legal entities with public authority and improving their operational efficiency — quicker decision making, better service delivery and decreased costs of public administration.	MPA
3.	Rationalization of regional units of state administration central bodies	Reduce the number of regional units of central state administration bodies performing inspection	Amendments to the Act on the Organisation and Scope of Work of Ministries and Other	Adoption of the Implementation Plan for the transfer of work tasks from the central state	Estimated savings in 2017 equal to HRK 15 million	The merger of regional units will reduce the state administration fragmentation and ensure	MPA

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		activities and first instance administrative procedures by at least 20% compared to the current number (1072) following their merger with state administration offices in counties (first instance state administration bodies).	<p>Central State Administration Bodies</p> <p>Amendments to special acts regulating the scope of work to be transferred to State Administration Offices</p> <p>Amendments to the regulations on the internal organization of central state administration bodies</p> <p>Amendments to the Regulation on the Internal Organization of Public Administration Offices in Counties</p>	<p>administration bodies to regional state administration bodies (Phase I) - May 2016</p> <p>Amendments to relevant regulations pursuant to the Implementation Plan for the transfer of work tasks from the central state administration bodies to regional state administration bodies - October 2016</p> <p>Drafting the Action Plan for reducing the number of regional units of state administration central bodies - January 2017</p>		<p>a quicker and more efficient treatment of citizens by the state. Established standards in the internal organization of the public administration.</p> <p>Unit operating cost of civil servants will decrease due to a smaller number of regional units.</p> <p>The operational load of ministries will be relieved due to the conferral of authority for resolving cases in the first instance from the ministries to the public administration offices which will free up space for ministries to create and adopt new policies and quality standards.</p>	
4.	Improving the organizational model of local self-government operations	Determine the optimal organizational model for local self-government units from the perspective of availability, quality and price of services, financial efficiency of the entire system and adopt the Action Plan for model implementation.	Decision on the implementation of the new organizational model for local self-government units	<p>Defining the list of indicators (demographic, geographic, social, economic, fiscal) and collecting data necessary for conducting a comprehensive analysis of services provided at the local self-government level - June 2016</p> <p>Preparing the framework for creating the organizational <i>policy</i> model for local self-governments (functional and territorial dimension) with cost analysis - June 2016</p> <p>Analysis of indicators and development of the organizational model with implementation plan - October 2016</p>	Financial impact assessment of the organizational model according to implementation phases will be included in the cost analysis as an integral part of the accepted <i>policy</i> model.	By adopting one of the proposed <i>policy</i> models and the action implementation plan, conditions will be created for an optimal and cost-effective local self-government and main reform steps will be identified regarding holders, deadlines and expected financial impacts.	MPA

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				Decision on the implementation of the local self-government reform on the basis of the accepted model - December 2016			
(11) IMPROVING HUMAN RESOURCE MANAGEMENT IN PUBLIC ADMINISTRATION AND PUBLIC SERVICES							
1.	Revision of salary determination system and regulation of the system of salaries in public administration and public services	<p>Revise the salary determination system in the public sector in three stages - state and public services, local and regional self-governments and provide recommendations to publicly owned companies.</p> <p>The following must be implemented as a basis for drafting the new Act on Salaries in the Public Sector: Analyse existing jobs and establish a catalogue of jobs Based on new standard criteria for the classification of jobs, evaluate existing jobs in the public service a establish new systematization of jobs. Determine new uniform criteria for determining the price of the workplace and by comparing similar and comparable jobs with jobs available on the market determine workplace value and propose new uniform complexity coefficients. Change the evaluation system as the basis for monitoring work efficiency and stimulation and/or penalization of civil and public servants</p>	<p>Action Plan of the Government of the Republic of Croatia for the development of human resources in public administration 2016-2017</p> <p>Amendments to special acts and regulations of the Government of the Republic of Croatia</p> <p>Act on Wages in the Public Sector and implementation regulation on coefficients</p> <p>Acts regulating the salaries of employees in the public service of local and regional self-governments</p>	<p>Adoption of the Action Plan of the Government of the Republic of Croatia for the development of human resources in public administration 2016-2017 - April 2016</p> <p>Action Plan includes the following:</p> <p>Established a unified competence framework for the classification and systematization of jobs of civil servants and state employees - September 2016</p> <p>Drafted the proposal for the evaluation of jobs for the purpose of the new regulations on salaries - October 2016</p> <p>Proposed amendments to the regulations governing the procedure and criteria for evaluation of civil servants and state employees - November 2016</p> <p>Proposed amendments to the regulations governing the education and promotion of civil servants and state employees - December 2016</p> <p>Established a central management service for</p>		Established a unified system for monitoring and management of human resources in the public administration, which includes a high-quality classification system, introduced a transparent and objective recruitment system based on competencies and a stimulating and fair reward and promotion system based on an objective assessment of job performance and quality of work done by employees.	MLPS

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		<p>Establish a system of human resource management for employees of RSGU in accordance with similar systems in civil and public services.</p> <p>Create a unified system of human resource management in the public sector of the Republic of Croatia, as a basis for improving the efficiency, rationality and transparency of human resources in the public sector.</p> <p>Establish a unified and transparent recruitment process through the Internal public administration employment office.</p>		<p>employees of state and public services - December 2016</p> <p>Drafted the Proposal of the Act on Wages in the Public Sector and implementation regulation on coefficients - December 2016</p> <p>Adoption of the Act on Wages in the Public Sector - December 2016</p> <p>Revised acts regulating the salaries of employees in the public service of local and regional self-governments - August 2017</p>			
2.	Further development of a central coordination system in collective negotiations in public administration	<p>Establish a stronger coordination process for collective negotiations by appointing (1) a central authority for keeping records, coordination and monitoring of collective agreements and negotiations in public administration, and (2) adopting Guidelines for the conclusion of collective agreements.</p> <p>Guidelines will define the scope and subject of negotiations for the conclusion of collective and sectoral collective agreements in the public administration and establish a framework for negotiations for the conclusion of</p>	<p>Conclusion of the Government of the Republic of Croatia on the adoption of Guidelines for the conclusion of collective agreements:</p> <ul style="list-style-type: none"> - Amendments to Basic Collective Agreement for civil servants and employees in public services - Amendments to Collective Agreement for civil servants and employees - Amendments to sectoral collective agreements - Amendments to collective agreements in strategic companies <p>Decision of the Government of the Republic of Croatia on the establishment of a central</p>	<p>Adoption of the Guidelines - June 2015</p> <p>Conclusion of the Collective agreement for public servants - December 2016</p> <p>Adoption of the Decision of the Government of the Republic of Croatia on the establishment of a central authority for keeping records, coordination and monitoring of collective agreements and negotiations in public administration - December 2016</p>			<p>Office of the Vice President of the Government of the Republic of Croatia</p> <p>MLPS</p>

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		<p>collective agreements in strategic companies.</p> <p>Negotiations should be coordinated with the drafting of the Act on Wages in the Public Sector which will define jobs, basic concepts of the salary system, framework for determining coefficients, and fringe benefits which are not subject to the Act.</p>	<p>authority for keeping records, coordination and monitoring of collective agreements and negotiations in public administration</p> <p>Act on Wages in the Public Administration</p>				
(12) QUALITY AND COMPUTERIZED PUBLIC SERVICES							
1.	Increase the quality and computerization of public services	<p>Continued introduction of new services provided through the e-Citizens system.</p> <p>Implementation of the e-Business system (based on the e-Citizens system) ensuring easier and faster business operations for entrepreneurs.</p> <p>Implementation of a pilot project for the following services as potential services under the e-Business system: Business ID, RKON - recording and accessing information on the concession registered in the Register of concessions, WEB-BON, e-Blokade, Overview of Persons with disabilities, e-Registration HZMO, Tax accounting card, REGOS e-services system (ENA).</p> <p>Facilitating cross-border trade</p> <p>Creation of the Shared Services Centre (SSC) for</p>	<p>Harmonizing business and technical documents with legislative changes made due to the implementation of the eIDAS Regulation</p> <p>Implementing legislation necessary for the establishment of the e-Business system</p> <p>Amendments to the Electronic Signature Act and the Electronic Document Act in order to comply with the eIDAS Regulation (Electronic identification and trust services for electronic transactions in the internal market)</p> <p>Decree of the Government of the Republic of Croatia on the pricing of SSC services</p> <p>Adoption of necessary subordinate legislation in addition to the Act on the Right of Access to Information (Regulation of the Government of the Republic</p>	<p>Introduction of new e-services to the e-Citizens system (e-Visitor - registration of facilities that provide accommodation services to tourists, SocSkrb, CRB certificates -, e-services of the city of Split, e-services of the city of Rijeka, e-services of Zagrebački Holding) - December 2016</p> <p>Linking existing e-services for businesses entities and the Point of Single Contact in the e-Business system - December 2016</p> <p>Adoption of Amendments to the Electronic Signature Act and the Electronic Document Act in order to comply with the eIDAS Regulation - September 2016</p> <p>Adoption of the Regulation and ordinance on the criteria for setting the amount of fees for the re-use of information, Ordinance on the types and content of permits that</p>	<p>Annual cost in the amount of HRK 10 million for the e-Citizens system.</p> <p>Annual cost in the amount of HRK 10 million for the e-Business system.</p> <p>New activity has to be initiated in relation to the ERDF funds in the amount of HRK 95 million and secure funds in the amount of approximately HRK 15 million for co-financing these activities in 2016.</p>	<p>Improving the quality of public e-services for citizens and entrepreneurs.</p> <p>Linking public administration bodies over the Internet will enable rational use of existing resources and ensure institutional memory.</p> <p>Development of new electronic services based on open data and open data market development will facilitate creation of new values and products by citizens and the private sector with transparent and limited costs and improved creation of new jobs.</p>	

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		<p>providing common business solutions and common IT services to all users via IT “cloud” solutions.</p> <p>Creating an encouraging legislative environment for reusing open data sets on the Open Data Portal.</p>	<p>of Croatia on the criteria for setting the amount of fees for the re-use of information, Ordinance on the types and content of permits that stipulate conditions of re-use)</p>	<p>stipulate conditions of re-use with the Act on the Right of Access to Information - September 2016</p> <p>Developing the “Cloud infrastructure” functional model within the SSC and establishing a central registry of office management with administration of documents, objects and workflows as a shared service for public sector bodies, and implementation of said systems in the Ministry of Public Administration - December 2016</p>			
(13) STRENGTHEN THE STRATEGIC PLANNING AND POLICY COORDINATION AND IMPROVE THE QUALITY OF LEGISLATIVE PLANNING							
1.	Improving legislative planning	Harmonize planned legislative measures of the National Reform Programme 2016 with the Annual Plan of normative activities 2016	<p>The Annual Plan of normative activities 2016 which contains legislative measures from the National Reform Programme 2016.</p> <p>Monitoring the implementation of the Annual Plan of normative activities with special emphasis on the status of regulatory impact assessment procedures and the legislative proposals that are included in National Reform Programme - once a month by permanent working bodies of the Government</p>	<p>Adoption of the Annual Plan of normative activities 2016 with the adoption of the National Reform Programme 2016 - April 2016</p> <p>Regular inclusion of items to the agenda regarding the implementation of the Annual Plan of normative activities with special emphasis on the status of regulatory impact assessment procedures and the legislative proposals that are included in National Reform Programme - once a month by permanent working bodies of the Government - continuously</p>	Measures are of process/procedural nature and do not have a direct fiscal impact.	A mechanism is provided for monitoring the implementation of the Annual Plan of normative activities guaranteeing the predictability of changing the legislative framework and stabilization of legislation.	URED ZZ
2.	Strengthening the regulatory impact assessment system	Based on the analysis of the implementation of the Regulatory Impact Assessment Act in the period between 2013 and 2015, establish a strategic	Report on the implementation of the Regulatory Impact Assessment Strategy for the period from 2013 to 2015.	Creating the Report on the implementation of the Regulatory Impact Assessment Strategy for the period from 2013 to 2015 - May 2016	Measures are of process/procedural nature and do not have a direct fiscal impact.	Regulatory impact assessment system is strategically focused and aligned with strategic priorities of the Government.	URED ZZ ME

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		<p>framework for strengthening the regulatory impact assessment system in the next three-year period.</p> <p>Changing the legislative framework of regulatory impact assessment with the aim of simplifying the procedure and determining the possibility of including elements of the SCM methodology in the regulatory impact assessment procedure.</p> <p>Introduction of the SME test as part of regulatory impact assessment.</p> <p>Develop educational programs for strengthening knowledge and skills in the field of regulatory impact assessment.</p>	<p>Regulatory Impact Assessment Strategy for the period from 2016 to 2018.</p> <p>Amendments to the Regulatory Impact Assessment Act</p> <p>Developing and upgrading educational programs in the field of regulatory impact assessment to be implemented in the State School for Public Administration.</p> <p>Amendments to the Small Business Development Promotion Act</p>	<p>Drafting the Regulatory Impact Assessment Strategy for the period from 2016 to 2018 - July 2016</p> <p>Drafting the Amendments to the Regulatory Impact Assessment Act - December 2016</p> <p>Drafting special regulations that define and elaborate the SCM methodology and its mandatory application - October 2016</p> <p>Adoption of the Amendments to the Small Business Development Promotion Act - July 2016</p> <p>Adoption of the Amendments to the Act on the Organisation and Scope of Work of Ministries and Other Central State Administration Bodies - July 2016</p> <p>Drafting the Regulation on the implementation of the SME test - July 2016</p> <p>Developing and upgrading the educational program in the field of regulatory impact assessment - May 2016</p>		<p>The ex-ante regulatory impact assessment procedure is simplified and harmonized with the legislative procedure and upgraded by including elements of the SCM methodology.</p> <p>The ex-ante regulatory impact assessment procedure is simplified and harmonized with the legislative procedure and upgraded by including the SME test.</p> <p>Civil servants who are authorized to develop documents within the regulatory impact assessment system are adequately educated.</p>	MINEC
3.	Improving the quality of legislation	Develop educational programs for strengthening knowledge and skills for the application of rules of legislative technique in legislative drafting.	Developing and upgrading the educational program for the application of rules of legislative technique in legislative drafting to be implemented in the State	Developing the educational program for the application of rules of legislative technique in legislative drafting - May 2016	HRK 30,360.00 (<i>*amount covers the cost of education in the field of legislative technique and regulatory impact assessment on an annual basis</i>)	Civil servants who are authorized to develop legislative drafting documents are adequately educated.	URED ZZ

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			School for Public Administration.				
4.	Improving the system of strategic planning on a national level	<p>Drafting procedure for strategic plans should be used to improve the drafting process of the National Reform Programme and the Convergence Program and defining objectives should directly be linked with the budget.</p> <p>Use the results of successful strategic objectives from the previous period when creating the budget.</p> <p>Establish a strategic planning unit and ensure enough capacity for implementing strategic objectives in ministries.</p>	<p>Amendments to the Budget Act</p> <p>Strategic Planning Act</p>	<p>Adoption of Amendments to the Budget Act — December 2016</p> <p>Adoption of the Strategic Planning Act - December 2016</p> <p>Developing and implementing the educational program for strategic planning - November 2016</p>		<p>Functional connection between budget creation and the National Reform Programme and the Convergence Programme.</p> <p>Better connections between strategic objectives and financing sources.</p>	MRDEUF/MF
(14) COMBATING CORRUPTION IN THE PUBLIC SECTOR							
1.	Improvement of strategic and implementation framework for fight against corruption	<p>Overcoming risks of corruption in public administration by strengthening the prevention, accountability and transparency of priority areas. For this purpose exclusively, a Register of trading companies in majority ownership of local and county (regional) self-government units will be established; anti-corruption programs for trading companies in the ownership of local and county (regional) self-government units and state, codes of conduct within the framework of political system and normative framework for the establishment of ethical</p>	<p>1. Anti-corruption program for trading companies in the ownership of local and county (regional) self-government units for the period between 2016 and 2018</p> <p>2. Anti-corruption program for trading companies in the majority state ownership for the period between 2016 and 2018</p> <p>3. Code of Conduct of Representatives in the Croatian Parliament</p> <p>4. Code of Conduct of Members of the Government of the Republic of Croatia</p>	<p>Development and publication of the Registry of companies in majority ownership of local and county (regional) self-governments with the publication of data on management and supervisory board members - September 2016</p> <p>Development and implementation of the Anti-corruption program for trading companies in the ownership of local and county (regional) self-government units for the period between 2016 and 2018 - September 2016</p>	Expenditures HRK 200,000.00	<p>Establishing effective mechanisms for combating corruption, especially in priority areas with great economic and social impacts, will eliminate business barriers.</p>	MJ

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		system will be adopted; the area of protection of “whistleblowers” will be analysed and conditions for the verification of financial disclosure forms of judicial officials will be applied.	<p>5. Code of Conduct for Officials of the Office of the President of the Republic of Croatia</p> <p>6. Act on the establishment of an ethical system</p>	<p>Development of the Anti-corruption program for trading companies in the majority state ownership for the period between 2016 and 2018 (includes guidelines for creating a catalogue of rules on preventing conflicts of interest that contain instructions for members of the management board of companies in majority state ownership in situations that may lead to conflicts of interest, and its incorporation in codes of ethical conduct and internal acts of companies in majority state ownership) - September 2016</p> <p>Drafting and adoption of the Code of Conduct of Representatives in the Croatian Parliament - September 2016</p> <p>Drafting and adoption of the Code of Conduct of Members of the Government of the Republic of Croatia - September 2016</p> <p>Drafting and adoption of the Code of Conduct for Officials of the Office of the President of the Republic of Croatia - September 2016</p> <p>Analysis of the legislative and institutional framework and the effectiveness of protection with regard to "whistleblowers" and making recommendations for</p>			

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				<p>modifying the "whistleblowers" protection systems - September 2016</p> <p>Creating a database and application solutions for processing financial disclosure forms - September 2016</p> <p>Implementation of electronic forms for submission of financial disclosure forms of judicial officials - December 2016</p> <p>Adoption of the Act which will prescribe the obligation of establishment of an ethical system and methods of its implementation in public administration (which will include civil servants and officials in local and county (regional) self-governments) - December 2016</p>			
(15) IMPROVEMENT OF COURT OPERATIONS							
1.	Harmonization of case law	Creation of an effective judicial system will ensure uniform application of the law and equality of all citizens in civil and extra-judicial proceedings.	<ol style="list-style-type: none"> 1. Act on the Amendments to the Civil Procedure Act 2. Act on permanent judicial experts, assessors and interpreters 3. Extra-judicial Procedure Act 4. Judicial Academy Act 	<p>Adoption of the Act on the Amendments to the Civil Procedure Act - July 2016</p> <p>Adoption of the Judicial Academy Act - adoption in December 2017 (entry into force in January 2018)</p> <p>Adoption of the Act on permanent judicial experts, assessors and interpreters - adoption in January 2017 (entry into force in February 2017)</p>	Expenditures HRK 400,000.00	Uniform case law will increase the quality of the judicial system and ensure legal security of investors.	MJ

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				Adoption of the Extra-judicial Procedure Act - March 2017			
2.	Reorganization of court operations	Human resources will be reallocated in order to further rationalize the court network, and court operations will be reorganized to reduce the time and cost of processing court cases. Reorganization of court operations will be carried out by ensuring the coordination of judicial bodies and revising and ensuring the effectiveness of priority procedures.	<ol style="list-style-type: none"> 1. Act on the Amendments to the Courts Act 2. Act on the Amendments to the State Judiciary Council Act 3. Amendments to the Court Rules of Procedure 4. Ordinance on judicial statistics 5. General criteria for judges 	<p>Analysis of the status of the judiciary system and making recommendations for the rationalization of the court network - June 2016</p> <p>Adoption of the Act on the Amendments to the Courts Act - December 2016</p> <p>Adoption of the Act on the Amendments to the State Judiciary Council Act - December 2016 (entry into force in January 2017)</p> <p>Adoption of the General criteria for judges- December 2017</p> <p>Adoption of the Amendments to the Court Rules of Procedure - January 2017</p> <p>Adoption of the Ordinance on judicial statistics - January 2017</p>	Expenditures HRK 100,000.00	Reorganization of court operations will improve the efficiency of the judicial system by reducing the time and cost of processing court cases	MJ
3.	Reducing the duration of court proceedings, the number of pending cases and the influx of new cases	Simplifying procedures, expanding the authority of court advisors, encouraging alternative methods for dispute settlements as well as the introduction of the information system and the establishment of electronic communications in courts will increase public confidence in the courts and court efficiency in general.	<ol style="list-style-type: none"> 1. Decision on Amendments to the Decision on the establishment of the Commission for the promotion of alternative and out of court settlements 2. Act on the Amendments to the Execution Act 3. Act on the Amendments to the Civil Procedure Act 	<p>Drafting and adoption of the Decision on Amendments to the Decision on the establishment of the Commission for the promotion of alternative and out of court settlements - May 2016</p> <p>Implementing the Electronic Filing System eSpis in the High Commercial Court of the</p>	Expenditures HRK 7,101,500.00	Quicker judicial proceedings will create an environment that encourages development.	MJ

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			4. Act on the Amendments to the State Judiciary Council Act	<p>Republic of Croatia - June 2016</p> <p>Adoption of the Act on the Amendments to the Execution Act - June 2016 (entry into force in July 2016)</p> <p>Adoption of the Act on the Amendments to the Civil Procedure Act - July 2016</p> <p>Implementing the Electronic Filing System eSpis in the Supreme Court of the Republic of Croatia - December 2016</p> <p>Adoption of the Act on the Amendments to the State Judiciary Council Act - December 2016 (entry into force in January 2017)</p> <p>Establishing electronic communication and submission of documents in digital form via the eSpis system - November 2017</p>			
IV. EDUCATION FOR THE LABOUR MARKET							
(16) IMPLEMENTATION OF COMPREHENSIVE CURRICULUM REFORM							
1.	Passable and efficient system of early and preschool, primary and secondary education	<p>Linking education with interests, life experiences, needs and abilities of students.</p> <p>Linking education with the needs of society and economy.</p>	<p>National Curriculum documents</p> <p>Decision on the experimental implementation of the curriculum reform and evaluation in 48 elementary and 12 secondary schools</p>	<p>Expert discussion - April 2016</p> <p>Public discussion - May 2016</p> <p>Public call for the experimental implementation of the curriculum reform and evaluation in 48 elementary and 12 secondary schools - May 2016</p> <p>Adoption of National Curriculum documents</p>	HRK 6,392,428 from the State Budget	<p>Adopted curriculum documents in compliance with the needs of society and economy</p> <p>Professional training of human resources in order to prepare for experimental implementation of the curriculum reform</p>	MSES

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				<p>following the expert and public discussion - July 2016</p> <p>Adoption of the Decision on the experimental implementation of the curriculum reform and evaluation in 48 elementary and 12 secondary schools - July 2016</p> <p>Initialization of professional training for experimental implementation - July 2016</p> <p>Experimental implementation of Phase I - September 2016</p>		Experimental implementation and evaluation of the experimental implementation	
(17) HARMONIZATION OF EDUCATIONAL PROGRAMS WITH NEEDS OF THE LABOR MARKET AT THE LEVEL OF VOCATIONAL AND HIGHER EDUCATION							
1.	Further implementation of the CROQF	<p>The standardization of educational programs in accordance with the relevant analytics on labor market needs.</p> <p>Compliance of educational programs at all levels with the relevant occupational standards and qualifications (quality standards).</p> <p>Sector Councils evaluate first qualifications standards.</p> <p>Act on Quality Assurance in Science and Higher Education will ensure harmonization of study programs with standards entered into the CROQF Register.</p>	<p>Act on Quality Assurance in Science and Higher Education</p> <p>Adult Education Act</p> <p>Guidelines for the Development of Occupational Standards</p>	<p>Creation of the first set of occupational and qualifications standards - June 2016</p> <p>Appointment of additional 8 Sector Councils - June 2016</p> <p>Sector Councils evaluate occupational standards - September 2016</p> <p>Sector Councils evaluate qualifications standards - December 2016</p> <p>Adoption of the new Adult Education Act - September 2016</p> <p>Public call for development of (additional) occupational standards - October 2016</p> <p>Appointment of additional 5 Sector Councils - Deadline: December 2016</p>		<p>Begging of alignment between the education system and labour market needs</p> <p>Expected reduction of study programs</p>	MSES/MLPS

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				<p>Entering at least 10 occupational standards and qualifications in the CROQF Register - December 2015</p> <p>Submitting a Draft of the Proposal of the Act on Quality Assurance in Science and Higher Education to the Government of the Republic of Croatia - December 2016</p> <p>Harmonization of study programs with qualification standards entered into the CROQF Register - March 2017</p> <p>Appointment of the final 4 Sector Councils - March 2017</p> <p>Educating Sector Councils on the procedures for evaluation of occupational standards and qualifications and entry into the CROQF Register - continuous.</p> <p>Development of (additional) occupational standards in accordance with the Guidelines for the Development of Occupational Standards - March 2017</p>			
2.	Adoption and implementation of the Vocational Education and Training Development Program	<p>Improve the system of continuous professional development of teachers of vocational subjects.</p> <p>Strengthening the excellence and attractiveness of vocational education and training.</p>	<p>Amendments to acts and subordinate legislation pertaining to vocational education</p> <p>Decision on the implementation of the National Curriculum for Vocational Education</p>	<p>Adoption of the Program - July 2016</p> <p>Developed and published the methodology for developing sector curriculums for vocational education - June 2016</p> <p>Adoption of the Decision on the implementation of the</p>	<p>For the implementation of Programme priorities and measures it will be necessary to secure funding from the State Budget to a small extent and resources for co-financing projects through the Operational Programme - Effective Human Resources 2014-2020</p>	<p>Improved system for professional development of teachers of vocational subjects</p> <p>Increased mobility of students in vocational education</p>	MSES

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		<p>Achieving a better understanding of the European Credit system for Vocational Education and Training (ECVET) and the expanding its application in vocational schools.</p> <p>Improving the system of professional guidance for students before and during vocational education and training</p>	Amendments to the Vocational Education Act	<p>National Curriculum for Vocational Education - September 2016</p> <p>Promoting ECVET, holding workshops on ECVET for principals, teachers and professional associates in vocational education - during 2016</p> <p>Submitting the Amendments to the Vocational Education Act to the Government of the Republic of Croatia - December 2016</p>		Increasing the number of students in vocational education	
3.	Development of the validation of non-formal and informal learning system	<p>Achieve faster employment and ensuring scarce and other professions needed in the Croatian economy.</p> <p>Recognition of informal and non-formal learning based on qualifications standards and categories of learning outcomes entered into the CROQF Register.</p> <p>Encourage the development of occupational standards, qualifications standards and programs for the evaluation of non-formal and informal learning in priority sectors in accordance with the list of scarce professions and data derived from projections of movements on the labour market.</p>	<p>Strategic Plan for the development of the validation of non-formal and informal learning system (VNFIL)</p> <p>Rules on Recognition and Validation of Non-formal and Informal Learning in accordance with the Croatian Qualifications Framework Act.</p>	<p>Adoption of the Strategic Plan for the development of the validation of non-formal and informal learning system (VNFIL) by the National Council for Human Resources Development - December 2016</p> <p>Adoption of the Rules on Recognition and Validation of Non-formal and Informal Learning in accordance with the Croatian Qualifications Framework Act - March 2017</p>	Funding for the National Council for Human Resources Development has been secured from the State Budget 2016. (HRK 131,201.00 - work compensation) and under the Operational Programme - Effective Human Resources 2014-2020 (HRK 450,000.00 for the period between 2016 and 2018 - financing studies for the purposes of the National Council for Human Resources Development).	Shorter duration of formal education of individuals who have already achieved certain learning outcomes	MSES
4.	Increase the representation of traineeship in higher education	Analysis on the quantity and representation of traineeships within study programs offered by higher education institutions in the Republic of		Analysis on the representation of traineeships within study programs offered by higher education institutions - July 2016	Funds have been secured under the Operational Programme - Effective Human Resources 2014-	Greater representation of traineeship in higher education	MSES

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		Croatia will be used to develop models of cooperation between universities and employers to increase skills needed on the labour market.		<p>Presenting analysis results to teachers, students and employers and creating recommendations for a model of cooperation between higher education institutions and employers - September 2016</p> <p>Development of project documentation for the tender procedure regarding the organization and implementation of traineeship under the Operative Programme - Effective Human Resources 2014-2020 - (October to December 2016) - December 2016</p> <p>Call for the participation in the ESF project for the performance of professional practice to higher education institutions - March 2017</p>	2020 (in the total amount of HRK 48,750,000.00).		
(18) BETTER IMPLEMENTATION OF ADULT EDUCATION PROGRAMS, LIFELONG LEARNING AND WORKER RETRAINING SCHEMES							
1.	Increase availability of educational programs for adults and encourage participation in lifelong learning	<p>Projects will be implemented based on the Operational Program Effective Human Resources 2014-2020 with the following objectives:</p> <p>(1) promotion of lifelong learning (2) inclusion of adult education students in priority education programs (nannies, caretakers, caretakers of elderly and disabled, teaching assistants who work with people with developmental</p>	Adult Education Act	<p>Submitting the Adult Education Act to the Government of the Republic of Croatia - September 2016</p> <p>A public call for the project for supporting the education of adult learners by including them in educational priority programs - December 2016</p> <p>A public call for the project entitled Improving Literacy as the Foundation of Lifelong Learning - March 2017</p>		Increased number of participants in lifelong adult education by increasing the number of allocated vouchers Development of education plans	MSES

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		disabilities, beekeepers, farm managers) (3) improving literacy as the foundation of lifelong learning.		Drafting a Proposal of the Curriculum for Primary Adult Education - June 2017			
2.	Improve the system of worker retraining, additional training and training	Enable faster employment of unemployed persons based on market needs, directly contacting employers and educating the unemployed in accordance with the defined needs. Educate unemployed persons to perform wanted and scarce jobs.	Terms and conditions for using funds for the implementation of measures in 2016 have been adopted by the Management Board of the Croatian Employment Service	Adoption of the Plan for the Education of Unemployed Persons for 2016 - June 2016 Education of unemployed persons for scarce occupations - throughout 2016 Development of specifications for public procurement related to the implementation of education in 2017 - December 2016	The total cost of education of unemployed persons amount to HRK 73,666,810.	Segmentation and increased competences and qualifications of unemployed persons in accordance with the needs of employers and labour market trends. Reorganization of the CES will enable employers to solve all their worker-related needs with the help of one adviser - from selecting the unemployed to the conclusion of contracts.	MLPS

Annex 2 Implementation plan for reducing the number of agencies, institutes, funds, and other legal entities with public authority

Name(s) of legal entity(s)	Legal entity involved in the merger (or the name of the new legal entity)	List of regulations that need to be amended (for rationalization purposes)	Competent authority tasked with creating the list of regulations	Deadline for creating and submitting the list of regulations
Croatian Institute for Toxicology and Antidoping (CITA)	Croatian National Institute of Public Health	Health Care Act (new Draft)	Ministry of Health	30 September 2016
Croatian Institute for Health Protection and Safety at Work				
Croatian Institute of Telemedicine	Croatian Institute for Emergency Medicine	Health Care Act (new Act proposal)	Ministry of Health	30 September 2016
National Centre for External Evaluation of Education	Agency for Science and Higher Education (new name: Agency for Quality Assurance in Education and Science)	Act on the Agency for Quality Assurance in Education and Science (new Act proposal)	Ministry of Science, Education and Sports	28 September 2016
Agency for Vocational Education and Training and Adult Education	Education and Teacher Training Agency	Act on the Education and Teacher Training Agency (new Act proposal)	Ministry of Science, Education and Sports	28 September 2016
Croatia House	Termination procedure will be initiated	Act on termination of the Croatia House Foundation Act	Ministry of Culture	11 May 2016
Croatian Standards Institute	State Office for Metrology	Standardization Act Metrology Act Act on the Organisation and Scope of Work of Ministries and Other Central State Administration Bodies Regulation on the internal organization of the State Office for Metrology (Official Gazette, No. 42/12)	Ministry of the Economy	29 June 2016
Agency for pressure equipment	Agency for pressure equipment (as a company)	Amendments to the Ordinance on inspection and testing of pressure equipment (Official Gazette, No. 142/14) Government Decision on the transformation of the Agency for pressure equipment Amendments to the Regulation on the establishment of the Agency for pressure equipment	Ministry of the Economy	30 September 2016
Centre for Monitoring Business Activities in the Energy Sector and Investments (CEI)	Agency for Investments and Competitiveness (AIK) (Merging CEI with AIK - Service for attracting and supporting investments and HROTE d.o.o.)	Act on the Establishment of the Agency for Investments and Competitiveness (Official Gazette, Nos. 53/12, 56/13, 152/14), Act on Monitoring Business Activities in the Energy Sector and Investments (Official Gazette, Nos. 25/12, 112/12), Small Business Development Promotion Act (Official Gazette, Nos. 29/02, 63/07, 53/12, 56/13), Act on Strategic Investment Projects of the Republic of Croatia (Official Gazette, Nos. 133/13, 152/14),	Ministry of the Economy	30 September 2016

Name(s) of legal entity(s)	Legal entity involved in the merger (or the name of the new legal entity)	List of regulations that need to be amended (for rationalization purposes)	Competent authority tasked with creating the list of regulations	Deadline for creating and submitting the list of regulations
		Act on Investment Promotion (Official Gazette, No. 02/15)		
1. Hrvatski operator tržišta energije d.o.o. (HROTE) 2. Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of NEK radioactive waste and spent nuclear fuel 3. Croatian Hydrocarbon Agency	Croatian Energy Regulatory Agency (As the legal successor to HROTE d.o.o.)	Act on the Establishment of the Croatian Hydrocarbon Agency (Official Gazette, No. 14/14) Decision on the Establishment of the Croatian Hydrocarbon Agency Act on the Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of NEK radioactive waste and spent nuclear fuel (Official Gazette, No. 107/07) Act on the Centre for Monitoring Business Activities in the Energy Sector and Investments (Official Gazette, Nos. 25/12, 120/12) Energy Efficiency Act (Official Gazette, No. 127/14) Act on Strategic Investment Projects of the Republic of Croatia (Official Gazette, Nos. 133/13, 152/14) Energy Act Electricity Market Act Gas Market Act Transport Biofuels Act Act on Renewable Energy Sources	Ministry of the Economy	31 December 2016
Fund for the Compensation of Expropriated Property	Merged with the Ministry of Finance	Act on Compensation for, and Restitution of, Property Taken During the Yugoslav Communist Regime - Amended (30 June 2016) Act on the Fund for the Compensation of Expropriated Property - Repealed (30 June 2016) Regulation on Internal Organisation of the Ministry of Finance - Amended (30 June 2016)	Ministry of Finance	1 June 2016