

Republic of Croatia

# National Reform Programme 2015

April 2015

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## Foreword

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The National Reform Programme 2015 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 2014.

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 2015 was prepared by the Working Group for Coordination of Participation of the Republic of Croatia in the European Semester. The Government of the Republic of Croatia adopted the National Reform Programme 2015 at its 225th session held on 23 April 2015.

# 1. Executive Summary

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The Croatian economy is recovering from a deep economic crisis, burdened with increasing and unsustainable levels of public debt. The Country Report of the European Commission for Croatia 2015 informs about the progress in implementing the recommendations of the EU Council from July 2014 and lists a number of structural problems, such as weak growth, long-term restructuring of companies, low level of employment, vulnerable external sustainability, high foreign liabilities and public debt, as well as reduction of consumption and investments<sup>1</sup>. Therefore, the Government expresses its commitment, not just regarding continuation of the process of implementation of economic reforms, but also the intensification of reforms in areas that are crucial for economic progress and improvement of social condition.

Croatia formally participates in the cycle of the European Semester for the second time by submitting the National Reform Programme (hereinafter: NRP). We are in the process of intensive monitoring in the framework of the procedure for macroeconomic imbalances and excessive deficit procedure (hereinafter: EDP). 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 appropriate measures for correction of budgetary imbalances. The European Commission postponed the decision on possible initiation of corrective procedure within the procedure for macroeconomic imbalances, until it receives and evaluates the NRP. Plans and procedures of the Government in terms of correction of macroeconomic imbalances should be strong and determined, and the most important measures should be initiated or implemented by the end of 2015. The NRP contains descriptions of the most important structural policies in the medium-term.

The Convergence Programme, which will be presented one week after the NRP, describes the macroeconomic context and fiscal consolidation. The NRP describes the measures taken by the Government to achieve sustainable economic growth, job creation and 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.

With the aim to provide a complete and comprehensive approach to economic reforms, the Government has set **three main objectives** of structural policies described in the NRP 2015. These are:

- Promoting growth, external competitiveness and re-establishing balance in the Croatian economy
- Resolving weaknesses in public sector governance and increasing public sector efficiency
- Increasing the sustainability of the general government debt and strengthening management of public finances

There are **ten specific reform areas** that stand out within these main objectives, concentrating the efforts in the following short and medium-term, and which are emphasised in this NRP. These are (1) strengthening the fiscal framework and management of public finances, (2) rationalisation and improvement of expenditure control, (3) improving the efficiency of the pension system, (4) reducing fiscal risks in the health care system, (5) reform of the social benefits system, (6) improving the functioning of public administration, (7) improving the management of public companies, (8) reducing the administrative burden and business costs for companies, (9) improving the quality of new legislation, and (10) strengthened framework for the implementation of bankruptcy proceedings.

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<sup>1</sup> Staff Working Document of the European Commission's services, Country Report Croatia 2015 With detailed review on the prevention and correction of macroeconomic imbalances (COM(2015) 85 final)

### **Promoting growth, external competitiveness and re-establishing balance in the Croatian economy**

This is the most important objective to which the Government strives. Reducing the administrative burden and business costs of companies is determined as a priority. The Government is preparing the publication of the register of para-fiscal levies and commits to reduce para-fiscal levies paid by the largest number of companies, which mostly burden the economy by 0.1 % of GDP in 2015 and by further 0.1 % of GDP in 2016.

The Ministry of Economy conducted a pilot project of measuring the administrative burden on basic regulations in the field of trade and mediation in real estate property sales, applying the Standard Cost Model (SCM) methodology. Based on the results of the pilot project, the plan is to reduce the administrative burden in these fields by 20 % by the end of 2015. Also, during 2015 the application of SCM methodology will be expanded to measurement of the administrative burden of the economy in further 5-7 regulatory areas that are important for significant facilitation of business operations of companies. According to the results of the measurement, there will be further simplification and cheapening of the regulatory framework for the business sector with the aim to reduce administrative burden by 20 % in selected areas by the end of 2016.

*SME test* which analyses the impact of legislative proposals on small businesses shall enter into application by the end of 2015. The processes of *ex ante* and *ex post* analysis of the regulatory impact assessment shall be strengthened continuously, with the aim to reduce the number of legislative proposals being adopted by urgent procedure and without regulatory impact assessment. Emphasis shall be placed on better quality of regulations and more favourable effects on the business sector, especially on SMEs, preventing hyperinflation of regulations, as well as stabilization and organisation of the regulatory environment.

In times of extreme economic crisis, the need for more efficient solution to the problem of insolvency of business entities has occurred. The Government submitted the new Bankruptcy Act to parliamentary procedure, with the main goal to accelerate the bankruptcy proceedings with lower costs of proceedings that applicants are obliged to pay, and to encourage companies to restructure in an early phase in order to prevent insolvency and strengthen the financial discipline. At the same time, with the reintroduction of the bankruptcy plan, reaching of settlement after opening bankruptcy proceeding is enabled, giving additional possibility for debtors to continue their business operations, while preserving jobs.

After foundations were laid for reorganisation of the network of judicial authorities during the last year, further reform is focused on strengthening the capacity of courts with the greatest backlog, through relocation of judges from less burdened courts and further development of e-file. The objectives are to shorten the duration of the proceedings and achieve greater efficiency through better organisation of work processes. The result is faster and better legal protection.

In addition to increasing the efficiency of use of European Structural and Investment Funds, which are becoming the main source of financing for development projects from the State Budget in the period of fiscal consolidation, all these changes will reflect in the increase of the level of regulatory and legal protection and consequently contribute to increasing investment, competitiveness and rebalancing of the Croatian economy.

### **Resolving weaknesses in public sector governance and increasing public sector efficiency**

The Croatian public sector and public administration have relatively high costs compared to other EU countries, however, they show low efficiency indicators. Efficiency in provision of various public services and performance of public functions is low due to the high level of fragmentation of the system, particularly at levels of local and regional self-government, but also due to excessive rigidity in the organisational structures and inappropriate system of salaries in the public sector, which does not stimulate or reward the achievement of results. In-depth analysis of expenditures for employees who are paid from the State Budget, from March 2015, pointed to unfairness and lack of logic in the system of salaries, and therefore the Government decided to implement a comprehensive reform of the system of salaries in the public administration and public services. The basic thesis of the new Act on Salaries is an integral part of the NRP, and the aim is to establish the system of salaries in the civil service, legal persons with public authorities and public services in accordance with the principles of transparency and unified approach to equal remuneration for equal work, through introduction of pay grades and variable parts of salary, which will allow the differentiation of higher quality and lower quality work. The Ministry of Labour and Pension System shall initiate a discussion with the social partners and a public debate with the aim of preparing a legislative proposal for parliamentary procedure in October 2015. Before that, the Ministry shall prepare a simulation of systematization of existing jobs according to the new classification, but it is important to point out that financial savings are not the motive of these changes. The motive is creation of more efficient and more professional staff in public administration and public services.

In accordance with the findings of in-depth analysis of business operations of agencies, institutes, funds and other legal persons with public authorities, the Government is initiating the rationalisation of the system of legal entities with public authorities and commits to reduce their number by at least 15 %, as well as to introduce a unique law that lays down and regulates criteria for their establishment, internal organisation, operation and supervision by October 2015. Also, the aim is to rationalise the regional units of central state administration bodies and reduce their number by 20 % (the first instance state administration bodies will merge with state administration offices in counties, starting from regional units that perform inspections). In this way, the fragmentation will be reduced and efficiency of treatment of citizens will be increased.

The Government is determined to improve e-business of public administration and provision of electronic services for citizens and business entities, and in this sense a comprehensive strategy for development and implementation of e-services is being prepared. Issuance of e-ID cards shall start in October 2015, which will enable citizens to use various online services with the mechanism of authentication (identity) check. From the second quarter of 2016, mandatory use of e-signatures and e-invoice (receipt and issuance) shall be introduced in state administration's business operations. Completion of a prototype service for e-commerce and integration of finished e-services for business entities is expected in October 2015, which will allow faster and cheaper business operation of business entities and greater availability of necessary information of special importance for daily operations of enterprises, especially SMEs.

The Government is aware that division of responsibilities and decentralised public services is suboptimally distributed to a total of 576 municipalities and cities at local level and counties at regional level, which in many cases fail to successfully ensure effective implementation of public functions in their jurisdiction due to level of their development, fiscal and administrative capacity or size. Therefore, incentive mechanism of voluntary mergers and better coordination of local and county (regional) self-government units (hereinafter: LC(R)SGUs) shall be established by October 2015, along with parallel development of the new, more rational model of allocation of tasks and authorities regarding activities of LC(R)SGUs, based on the assessment of fiscal capacity and size.

The state aims at effective management and disposal of assets in its property in the service of economic growth, while protecting national interests at the same time. Large companies in the state portfolio are in the process of restructuring. Payments to the State Budget in 2014 on the basis of achieved business results in 2013 amounted to over HRK 627 million. 22 companies and other legal entities of strategic importance for the Republic of Croatia in 2014 achieved the profit of 3.81 billion (250 % more than in 2013). Reduction of the state portfolio of companies will continue, which refers to the companies of special interest in which Croatia has majority or minority shares, and other companies in which Croatia has business shares and stocks, and whose management is under the responsibility of the Restructuring and Sale Centre (RSC). By September 2015, additional options shall be determined for offering of minority packages of shares on the stock exchange of companies of strategic and special interest. Clear medium-term objectives and performance measurement indicators shall be set, which will strengthen transparency and responsibility of the state as the owner in the state property management, and level of managerial salaries and remunerations shall be associated to success in achieving the set objectives. This will further strengthen the requirements for competence of candidates and transparency in procedures of selection and appointment of managing boards.

### **Increasing the sustainability of the general government debt and strengthening management of public finances**

Fiscal consolidation and progress towards the objectives in accordance with the recommendations of the EU Council from January 2014 will be described in the Convergence Programme. Short-term and medium-term fiscal policies have been set with the aim of achieving the required fiscal effort.

The Government is taking measures to improve the fiscal framework and strengthen fiscal rules in line with EU rules, and until September 2015 a new draft proposal of the Fiscal Responsibility Act shall be adopted, which will introduce the debt rule, define handling and application of fiscal rules in EDP circumstances and strengthen the accountability and independence of the Fiscal Policy Committee. By June 2015 the Ministry of Finance shall issue Instructions for expenditure planning for all budgetary and extra-budgetary users, which will regulate the upper limit of expenditures by type and application. The number of jobs in general and support services shall also be determined for agencies, institutions, funds and other legal persons with public authorities, budgetary and extra-budgetary users in order to harmonize the number of employees with actual needs. In-debt analysis of expenditures shall be carried out periodically for major expenditures of the State Budget, as a basis for further rationalisation in the public sector.

Further improvement of expenditure control system is planned through strengthening the capacity and role of the State Audit Office, i.e. defining the system for sanctioning failure to act upon the recommendations of the State Audit Office in order to further enhance the financial statement credibility control system, compliance with laws and regulations and strengthening the efficient use of budgetary funds. Further improvement and expansion of internal financial controls is planned, especially regarding companies owned by the Republic of Croatia and LC(R)SGUs and other legal persons founded by the state and/or LC(R)SGUs.

In order to reduce the risks on state guarantees activation, stricter criteria shall be introduced and additional provisions shall be stipulated relating to preparation, approval and implementation of the restructuring plans for users of state guarantees as necessary prerequisites for issuance of state guarantees.

Reform of the health care system is in progress and its implementation should prevent emergence of new debt and enable repayment of old debts, primarily for hospital system, by the end of 2017. At the same time, implementation of the National Development Plan for clinical hospital centres, clinical hospitals, clinics and

general hospitals in the Republic of Croatia has started focusing on its objectives regarding the rationalisation of occupancy rate of hospital beds, reduction of hospital treatment duration, improvement of access to hospital treatment and increasing the quality and outcomes of health care services. Together with the implementation of the National Plan, a project was launched to strengthen the role of family medicine physicians through a new system for contracting primary health care. Reform of the health care system is supported by the EU funds.

In June 2015 the Ministry of Social Policy and Youth shall present the Action Plan for consolidation of the social protection system based on conclusions of the analysis of social benefits at national and local levels. The objective is to more effectively direct social benefits to the poorest groups in society, and this action plan shall be based on the following principles: (i) integration and reduction of the number of social benefits, (ii) increasing the efficiency of administration (unified administration fee through the existing network of state administration offices in counties) and (iii) introduction of means-testing for certain benefits if this is rational and if it will enable better quality and a higher level of social security for the poorest. It is important to emphasize that the objective is to improve targeted implementation of social expenditure in terms of fairness through introduction of transparent and uniform criteria, and not to reduce or terminate assistance to citizens who need help the most.

#### *Other reform areas*

It would be wrong to conclude that the reform efforts focus exclusively on reducing costs and raising the efficiency of the public sector. Significant efforts are being made to increase employment, through measures of active labour market policies, for which significant funding from EU funds has been provided. The national campaign for visibility and availability of activities, which are supported through the Youth Guarantee, is currently being implemented, and this will, together with other measures in the implementation, improve the labour market outcomes for young people.

The Strategy for Education, Science and Technology has been adopted in October 2014 emphasising the education and science as development priorities. Special Expert Committee for implementation of the Strategy for Education, Science and Technology elaborates the Action Plan which will be adopted by the Government in May 2015. The Plan elaborates activities for comprehensive curricular reform that brings content and structural changes in the education system in order to acquire relevant competencies and skills in accordance with the needs of the labour market and economy. The Ministry of Science, Education and Sports piloted the introduction of program funding through conclusion of three-year funding agreements with publicly funded higher education institutions. On the basis of the recommendations that will result from the project with the World Bank, introduction of comprehensive and more efficient system of financing is planned based on the program funding and achieved results.

The objective is to create conditions for improving the quality of scientific work and stimulate the creation of new knowledge and innovation through better management and allocation of resources for research and development. By the end of 2015, introduction of a new way of financing in science is planned, as well as creation of a model for restructuring the network of public research institutes with the aim of optimization of the use of human and material resources, better connectivity with the economy and increased international visibility, which will increase productivity and competitiveness of the entire system in the medium term and in international environment.

NRP also contains a review of the progress achieved in implementing the recommendations of the EU Council from 2014 and the progress made in achieving the national Europe 2020 targets.



## 2. Macroeconomic outlook for the period covered by the programme

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The macroeconomic scenario described in the Convergence Programme shows a change in the trend of economic activity in 2015, after six consecutive years of negative real year-on-year changes in gross domestic product and gradual acceleration of economic growth towards the end of the observed period<sup>2</sup>.

The source of growth throughout the observed period, except in 2015, shall be domestic demand, despite the fact that the same is limited with high relative indebtedness of domestic sectors and modest incorporated expectations regarding dynamics of the recovery. Thus, looking at individual components of GDP, government spending shall be affected by the necessity of fiscal consolidation in the framework of EDP. Also, public companies are characterised by high indebtedness and the need for restructuring, while the positive contribution of private investment spending will derive from EU funds. Continuation of the process of deleveraging and existing imbalance in the labour market shall limit the consumption of households whose significant contribution to growth is expected only at the end of the projection period. Although the last available projections of relevant international institutions indicate favourable trends in the international environment, contribution to economic growth by net exports will remain attenuated due to accumulated structural limitations of the Croatian economy. Namely, as a result of existing deficiencies of domestic export sector, further decline in the share of Croatian exports on foreign markets is expected in the medium term. In addition, a significant positive contribution of foreign demand to economic growth will be shackled by considerable import dependence of the domestic economy, which in recent years, primarily as a result of the crisis conditions, recorded further increase. The Croatian economy will remain in the zone of negative output gap in the short term. Despite the described dynamics of gross domestic product, closing of output gap will be affected by low growth of potential product, as a result of weak contributions of all components, primarily labour factor. As regards developments on the labour market, decline of the working age population affected by unfavourable demographic trends will primarily affect the expected stabilisation of the participation rate in the medium term. In addition, employment recovery, intensity of which will be affected by projected developments of economic activity, will begin in 2016.

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<sup>2</sup> Quantification of the trends described above is presented in the Convergence Programme of the Republic of Croatia for the period 2015-2018.

### 3. Implementation of the country-specific recommendations

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On 8 July 2014 the European Council has adopted the following recommendations for Croatia:

1. Fully implement the budgetary measures adopted for 2014. Reinforce the budgetary strategy, further specifying announced measures for 2015 and 2016, and considering additional permanent, growth-friendly measures in order to ensure a sustainable correction of the excessive deficit by 2016. At the same time, ensure that the structural adjustment effort as specified in the Council recommendation under the Excessive Deficit Procedure is delivered. Align programme projections with ESA standards and Stability and Growth Pact requirements. Take measures to reinforce control over expenditure. By March 2015, carry out a thorough expenditure review. Reinforce the budgetary planning process, in particular by improving the accuracy of macroeconomic and budgetary forecasts and strengthening the binding nature of the annual and medium-term expenditure ceilings and improve the design of fiscal rules. By October 2014, ground in law the newly established Fiscal Policy Commission, strengthen its independence from all budgetary authorities, broaden its mandate, in particular with respect to the monitoring of all fiscal rules and the ex ante and ex post assessment of forecasts, and ensure adequate resourcing. Building on plans outlined in the National Reform Programme, present a concrete strategy to reform recurrent property taxation. Initiate a process of reporting and reviewing of tax expenditures. Improve tax compliance, in particular by further enhancing the efficiency of the tax administration; present an action plan to this end by the end of 2014.
2. Reduce access to early retirement. Adopt legislation by March 2015 to accelerate the planned harmonisation of statutory retirement ages of women and men and to advance the planned increase of the statutory retirement age to 67 years. Ensure enforcement of tighter disability pensions assessments and controls and accelerate the integration of pensions under special schemes into the general pension system. Strengthen the cost-effectiveness of the healthcare sector, including hospitals.
3. Implement the second phase of the labour law reform, following consultation with the social partners, in particular as regards conditions for dismissals and working time, and with a view to preventing further labour market segmentation including for young people, by March 2015. Review the wage-setting system with a view to better aligning productivity developments and wage conditions. Present the conclusions of this review by the end of 2014. Strengthen the effectiveness and reach of active labour market policies by reinforcing the administrative capacities of the public employment services, including at regional level, and by increasing the coverage of the young, long-term unemployed and older workers. Prioritise outreach to non-registered youth and mobilise the private sector to offer more apprenticeships, in line with the objectives of a youth guarantee. Outline plans, by the end of 2014, to address undeclared work. Implement measures to improve the labour market relevance and quality of education outcomes by modernising the qualification systems, by putting in place quality assurance mechanisms and by improving school-to-work transitions, in particular through strengthening vocational education and work-based learning.
4. Review tax and benefits systems by the end of 2014, and present an action plan to improve the reactivation of inactive and unemployed persons. Strengthen the effectiveness and transparency of the social protection system by further consolidating benefits, unifying eligibility criteria and linking data from all relevant levels and government entities in the "one-stop shop". Improve the effectiveness and adequacy of social assistance benefits through their better targeting.

5. Take further measures to improve the business environment. In particular, by March 2015 set a target for considerably lowering administrative requirements, including para-fiscal charges. Address the high level of fragmentation and overlapping responsibilities by streamlining administrative processes and by clarifying the decision-making and accountability framework across various levels of government and at central government level between ministries and agencies. Improve administrative capacity and strategic planning of units entrusted with the management of European Structural and Investment Funds and provide them with adequate and stable staffing levels.
6. Present, by October 2014, a detailed plan for public property management for 2015. Ensure that companies under state control are governed in a transparent and accountable manner, in particular, strengthen the competency requirements for members of management and supervisory boards nominated by the State and introduce a public register for appointments. Reinforce prevention of corruption in public administration and state-owned and state-controlled enterprises, including by increasing the verification powers of the Conflict of Interest Commission. Strengthen transparency and efficiency of public procurement at both central and local levels, and the capacity to monitor implementation and to detect irregularities.
7. By the end of 2014, reinforce the role of commercial courts in the monitoring of transparency and legality in the application of the corporate pre-bankruptcy procedure. Review the compulsory test of insolvency/illiquidity to access pre-bankruptcy settlement proceedings and streamline the insolvency/liquidation process to reduce its length. Improve the quality and efficiency of the judicial system, in particular by providing incentives to resolve proceedings in litigious civil and commercial cases and in administrative cases in a timely manner and to resort to out-of-court settlement especially for smaller claims.
8. Complement the 2014 European Central Bank's asset quality reviews and stress test exercises, undertake a comprehensive portfolio screening exercise designed specifically for the Croatian financial sector, with a focus on important portfolios that are not covered by the European Central Bank exercise and including key mid-size and smaller banks.

These recommendation also reflect the Council's recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.

## 3.1 Addressing the fiscal imbalances

### Sustainable public finances

#### **Recommendation 1**

Fully implement the budgetary measures adopted for 2014. Reinforce the budgetary strategy, further specifying announced measures for 2015 and 2016, and considering additional permanent, growth-friendly measures in order to ensure a sustainable correction of the excessive deficit by 2016. At the same time, ensure that the structural adjustment effort as specified in the Council recommendation under the Excessive Deficit Procedure is delivered. Align programme projections with ESA standards and Stability and Growth Pact requirements. Take measures to reinforce control over expenditure. By March 2015, carry out a thorough expenditure review. Reinforce the budgetary planning process, in particular by improving the accuracy of macroeconomic and budgetary forecasts and strengthening the binding nature of the annual and medium-term expenditure ceilings and improve the design of fiscal rules. By October 2014, ground in law the newly established Fiscal Policy Commission, strengthen its independence from all budgetary authorities, broaden its mandate, in particular with respect to the monitoring of all fiscal rules and the ex ante and ex post assessment of forecasts, and ensure adequate resourcing. Building on plans outlined in the National Reform Programme, present a concrete strategy to reform recurrent property taxation. Initiate a process of reporting and reviewing of tax expenditures. Improve tax compliance, in particular by further enhancing the efficiency of the tax administration; present an action plan to this end by the end of 2014.

#### *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 reduction of the structural budget deficit of 0.5 % in 2014, 0.9 % in 2015 and 0.7 % in 2016. Based on the above scenario, it was suggested to Croatia to adopt consolidation measures in the total amount of 2.3 % of GDP in 2014, and 1 % of GDP in 2015 and 2016.

Croatia has so far submitted to the European Commission two reports on the implementation of recommendations of the Council in order to address the excessive budget deficit correction. Based on the First Report submitted by the Republic of Croatia in the framework of the Convergence Programme for the period 2014-2017, the European Commission established that Croatia undertook appropriate measures in order to correct budgetary imbalances and EDP was therefore put on hold.

At the end of October 2014, Croatia submitted to the European Commission the **Second Report on the Implementation of the Council Recommendations**, on the basis of which the European Commission adopted the assessment that Croatia has failed to meet the nominal targets given in the recommendations of the EU Council, since negative macroeconomic risks have been materialised. However, taking into account the bottom-up approach, the European Commission established that Croatia in 2014 achieved a fiscal effort of 2.4 %, which is higher than the requirement under the recommendation of the Council, and assessed that Croatia had taken effective action, thereby the EDP was put on hold again.

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

In order to meet part of the recommendations relating to alignment of fiscal projections with the ESA standards and requirements of the Pact on Stability and Growth, the Ministry of Finance has adopted the **Rules on budgetary accounting and chart of accounts** (NN No. 124/14). The new Rules apply to accounting records as of 1 January 2015, provided that the economic classification based on the new Chart of Accounts was already used in drawing up the budget for 2015 and projections for 2016 and 2017. Key changes refer to introduction of accrual principle regarding expenditures for subsidies and capital aid, special principles of revenue recognition for funds from the EU and new revenue and expenditure accounts that follow the implementation of EU programs and projects, transfer accounts for funds transferred from the budget to budgetary users in its jurisdiction, new accounts in the Chart of Accounts on which the Croatian Institute for Health Insurance specially follows the obligations and related expenditures that it has towards health care institutions that are budgetary users. This amendment to the Rules enables introduction of user data in the planning and monitoring process, particularly those who by ESA 2010 methodology constitute a part of general government sector (central government subsector) and which do not have the status of budgetary or extra-budgetary users according to the national methodology.

Due to changes in the Chart of Accounts and adaptation of the content of financial statements to statistical needs, but also due to the need for shortening submission deadlines of financial statements, in early 2015 the new **Ordinance on Financial Reporting in Budgetary Accounting** (NN No. 3/15) was adopted. These Rules regulate the form and content of financial statements, periods for which such statements are compiled and obligations and deadlines for their submission. All budgetary users of the State Budget and of the budget of LC(R)SGUs, as well as extra-budgetary users of LC(R)SGUs have been compiling shortened Reports on revenues and expenditures of budgetary users (Form: S-PR-RAS) for periods from 1 January to 31 March and from 1 January to 30 September. Due to the need for additional data for statistical analysis, these obliged entities from 1 January 2015 compile Reports on revenues and expenditures, receipts and expenses (Form: PR-RAS) for all reporting periods (excluding monthly), as LC(R)SGUs and extra-budgetary users of the State Budget were prior obliged. The Rules significantly amend provisions on deadlines for submission of financial statements for fiscal year. All deadlines have been shortened for the period of 15 days up to one month, depending on the obliged entities. These provisions have already been applied to financial statements for 2014.

The process of aligning fiscal projections with the ESA methodology continued by adoption of the Act on Amendments to the Budget Act (NN No. 15/15), according to which definition of extra-budgetary users was extended. The extended scope of extra-budgetary users of the State Budget includes Croatian Roads, Croatian Waters, Environmental Protection and Energy Efficiency Fund, State Agency for Deposit Insurance and Bank Rehabilitation, Restructuring and Sale Centre and Croatian Radio-Television, Croatian Motorways, Rijeka-Zagreb Motorway and Croatian Railways – Infrastructure.

Also, the adopted **amendments to the Budget Act aligned the national budget planning process with the process of the European Semester** by including the Convergence Program and National Reform Programme. In order to ensure medium-term budgetary objective, amendments to the Budget Act strengthen the importance of projections adopted by the Croatian Parliament along with the budget, and regulate the new 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 which shall be applicable from the budget for 2017. Another key method for strengthening the medium-term fiscal framework is introduction of dual

limits. According to the adopted amendments, one limit shall be determined depending on the means necessary for implementation of existing programs or activities (resulting from the currently applicable regulations), and other depending on the means necessary for implementation of new or amendment to existing programs or activities. Also, the adoption of the Act on Amendments to the Budget Act created a legal basis for the adoption of the Public Debt Management Strategy for the period 2017-2019.

In the section of the recommendation relating to a detailed review of expenditures, the Government adopted a **Decision on conducting in-depth analysis of expenditures of the State Budget of the Republic of Croatia** (NN No. 124/14). The aim of applying this in-depth analysis of expenditures of the State Budget was to develop versions of the package of measures that will lead to reduction of public spending while simultaneously increasing the efficiency of budget expenditures with least possible negative impact on the existing level of public services. In-depth analysis of expenditures of the State Budget included the following categories: expenses for employees who are being paid from the State Budget, subsidies, health care system, business operations of agencies, institutes, funds and other legal entities with public authorities, and tax expenditures.

The aforementioned Decision determined the establishment of a committee to be responsible for conducting in-depth analysis, as well as establishment of the Central Committee for in-depth analysis of expenditures of the State Budget of the Republic of Croatia, body responsible for coordination and supervision of activities of committees responsible for conducting the said analysis. By the Government's Decision of 20 November 2014 presidents and members of committees for conducting in-depth analysis of expenditures of the State Budget of the Republic of Croatia (NN No. 139/14) have been appointed and the Ministry of Finance adopted the **Instructions on methodology of conducting in-depth analysis of expenditures of the State Budget and the contents of report on the results of in-debt analysis of expenditures**.

In order to achieve quality preparations for the said in-depth analysis of expenditures of the State Budget and to develop a methodology for its implementation, a workshop was held at the Ministry of Finance in early September 2014, intended for presidents and members of committees for conducting in-depth analysis of expenditures of the State Budget of the Republic of Croatia and the president and members of the Central Committee for in-depth analysis of expenditures of the State Budget, in collaboration with the International Monetary Fund and the World Bank.

In order to further improve the fiscal framework, a new **Fiscal Responsibility Act was drafted** introducing the rule of debt, along with new proposals which strengthen the independence and role of the Fiscal Policy Committee in accordance with the provisions of the Council Directive 85/2011 on requirements for budgetary frameworks of the Member States. In accordance with Council recommendations from July 2014 and by the Proposal of the Act, the tasks and authorities of the Fiscal Policy Committee have been expanded in the part relating to determination of realistic macroeconomic projections and actions of the Government in case of significant deviations. The said Proposal of the Act also defines the application of fiscal rules in EDP circumstances.

In the section of the recommendation relating to the analysis of monitoring of tax expenditures (expenses), the Ministry of Finance (Tax Administration) has developed a **Catalogue of Tax Expenditures** at the state level, and prepared the **Instruction on the content, time period, scope and manner of publication of information on the effect of tax expenditures on revenues**, which shall be issued after the adoption of the Fiscal Responsibility Act. The next phase concerning execution of the said measure shall include in-depth

analysis of tax expenditures (expenses) envisaged under the aforementioned Decision on conducting in-depth analysis of expenditures of the State Budget of the Republic of Croatia.

In order to meet the recommendations relating to introduction of property tax, the Ministry of Finance issued a **Decision on the appointment of the working group for drafting the Fiscal Register for the purposes of the 'property tax' project**. Until now, targeted source systems (data on property and data for assessing the value of property) which shall form a base for the Fiscal Register have been analysed, and an analysis of alternative records which would serve as a corrective to the data from source records is in progress.

In order to meet the recommendation relating to the improvement of the efficiency of the Tax Administration, the Ministry of Finance (Tax Administration) has adopted an internal document '**Measures for improving payment collection**', by which priorities for action measures are determined based on the results of systematic analysis in order to execute revenues of annual budget. In accordance with the said document, collection measures shall continuously be implemented by the Tax Administration.

Furthermore, the **Regulation on Internal Structure of the Independent Sector for Tax Fraud Detection** (ISTFD) was adopted in November 2014. The Independent Sector for Tax Fraud Detection is an organisational unit of the Ministry of Finance, which already began to implement its operations regarding tax fraud detection.

In order to **improve corporate governance through reorganisation of the Tax Administration**, the Regulation on Amendments to the Regulation on the Internal Structure of the Ministry of Finance was adopted pursuant to the Act on Amendments to the Tax Administration Act (NN No. 141/14).

Within the framework of informatization process of the Tax Administration, a system of support to taxpayers for connecting payments by Reports on receipt, income tax, surtax and contributions for compulsory insurance (JOPPD form) - the application '*Unmatched payments specification*' (UPS application) was put into full production on 12 March 2015. Key risks have also been defined, as well as IT monitoring of the fiscalisation system, and the proposal of changes to the CRMS project (IT support to risk management system in the Tax Administration) is currently on hold.

## Sustainability of pension and health care systems

### Recommendation 2

Reduce access to early retirement. Adopt legislation by March 2015 to accelerate the planned harmonisation of statutory retirement ages of women and men and to advance the planned increase of the statutory retirement age to 67 years. Ensure enforcement of tighter disability pensions assessments and controls and accelerate the integration of pensions under special schemes into the general pension system. Strengthen the cost-effectiveness of the healthcare sector, including hospitals.

### Achieved progress

Reduction of opportunities for early retirement in the past period was primarily addressed by measures to reduce disability pensions, i.e. by implementation of the new process of determining disability, as well as stricter implementation of *ad hoc* controls of previously acquired pensions on the basis of disability. In the period from 2012 to 2014, the inflow of new disability pensions was reduced by three times compared to the period from 2008 to 2011.

Table 3.1.1 Overview of disability pension trends in the period from 2008 to 2014

	2008	2009	2010	2011	2012	2013	2014
Number of new disability pension beneficiaries	13 317	13 139	9 257	7 878	3 616	2 706	<b>3 475</b>
Total number of disability pension beneficiaries	308 689	322 598	326 982	327 729	322 186	305 008	<b>302 332</b>
Share of disability pensions in total pensions	26.9 %	27.5 %	27.2 %	27.0 %	26.5 %	25.6 %	<b>24.7 %</b>

Source: Croatian Pension Insurance Fund

The total number of new pension beneficiaries is reducing, the average age of new pensioners is increasing, as well as their average years of service. In 2011, the average age of new old-age and early retirement pensioners was 61 years and 10 months and 32 years and 10 months of pensionable service, while at the end of 2014, the average age of new old-age and early retirement pensioners was 62 years and 3 months of age and 34 years and 6 months of pensionable service.

Table 3.1.2 Overview of trends in total number of new pension beneficiaries, their average age and average pensionable service

	2008	2009	2010	2011	2012	2013	2014
Total number of new pension beneficiaries	54 386	56 970	60 669	50 455	47 459	48 761	51 526
Average age of new old-age and early retirement pensioners (number of years and months)	61 02	62 01	61 02	61 10	62 02	61 10	62 03
Average pensionable service of new old-age and early retirement pensioners (number of years and months)	33 09	31 10	33 01	32 10	33 02	34 00	34 06

Source: Croatian Pension Insurance Fund

In 2014, there was a decline in the number of new beneficiaries of early retirement in comparison to the previous year, and their number in 2014 was 13 432 compared to 15 684 in 2013. An increase was recorded in terms of average pensionable service of new beneficiaries, which in 2014 was 38 years compared to 37 years and 4 months in 2013. According to current legislation (Pension Insurance Act, NN Nos. 157/13, 151/14 and 33/15), early old-age pension can be achieved 5 years before acquiring conditions for old-age retirement, but with the condition of longer pensionable service. In 2015, such pensionable service for men is 35 years and for women 31 years and 3 months. Pensionable service condition for women is increasing 3 months per year until it equals with men at 35 years of service, until 2030. In the current system, penalisation implies permanent reduction of early retirement pension for each month of early retirement in range of 0.1-

0.34 %, depending on the duration of pensionable service. The longer the pensionable service, the reduction is lower, and vice versa. Therefore, reduction for 1 year of early retirement may amount between 1.2 and 4.08 %, for 2 years between 2.4 and 8.16 %, for 3 years between 3.6 and 12.24 %, for 4 years between 4.8 and 16.32 % and for 5 years between 6 and 20.4 %.

The pension system is being harmonised. Early retirement under special conditions is regulated through 16 groups, and there is no more inflow of new pensioners in 9 of these groups. The new Act on Pension Insurance Rights for Active Military Personnel, Police Officers and Authorised Officials is being drafted, which will continue harmonisation of pensions earned under special regulations in the general pension system.

With the aim of changing the existing system of insurance with increased duration pursuant to the Act on Insurance with Increased Duration (NN Nos. 71/99, 46/07, 41/08, 61/11), Committees were established for the purpose of analysing existing jobs and occupations where pensionable service is calculated with increased duration in order to reduce such occupations by 50 %. Pursuant to the current Act, there are 107 jobs and occupations for which pensionable service is calculated with increased duration. Currently, there are 30 410 employees on such positions, which represents 2.17 % of total number of employees.

Decree on the Methodologies of Expertise for Determining Physical, Intellectual, Sensory and Mental Impairments, Disability, Functional Ability, Level of Support and Working Capacity entered into force on 1 January 2015. The said Regulation determines the manner and process of expertise for the purpose of exercising rights in the field of social welfare, pension insurance, vocational rehabilitation and employment of persons with disabilities, rights arising from maternity and parental benefits, protection of war victims and civilian victims of war, and for the purpose of determining psychological and physical condition of a child to exercise rights in the education system, or for the purpose of conducting control checks and examinations, as well as to exercise rights in other areas in which the rights are exercised on the basis of findings and opinions of bodies of expertise, in accordance with the Act on the Single Body of Expertise or special regulations. It is applied by the Single Body of Expertise for conducting expert analysis in all systems.

Part of the recommendation related to enactment of legislation to accelerate the planned harmonisation of certain statutory retirement age for women and men and acceleration of increase in statutory retirement age to 67 was not accepted. The Decision was based on projections of the pension system made in the context of drafting the Ageing Report 2015. (*Ageing Report 2015*). Calculation was made on the basis of common single technology, and projections were accepted by the European Commission.

Baseline projection scenario of the pension system anticipates continuous **reduction of expenditures for pensions in the public system, measured as a share of GDP, from 10.8 % in 2013 to 6.9 % in 2060**. Trends in demography of the Republic of Croatia have been unfavourable; share of elderly in the total population is increasing, as well as life expectancy, which affects the increase of expenses in the pension system. On the other hand, there are important factors that will reduce expenses of the pension system. These are:

- 1) A large share of the population is already retired. Currently, 28.6 % of the total Croatian population is in retirement, which significantly **reduces the population base for new pensioners**.
- 2) From 2027 onwards, the majority of new pensioners will receive basic pension from the 1st pillar and the pension from 2nd pillar. This means that **expenditures for pensions paid from the 1st pillar will gradually reduce**. This reduction will be all the more important because pensioners who will receive pensions from both pillars will not have fringe benefits of 27 % to a pension which is paid from the 1st pillar.

- 3) **Statutory age for old-age pension for women is gradually increasing** for three months annually, until 2038 when it will be 67 years. Statutory age for old-age pensions for men shall be increased from 65 to 67 years in the period from 2030 to 2038. This measure will **reduce the inflow of new pensioners and increase the average age of pensioners**.
- 4) **Significant reduction of the number of disability pension beneficiaries by 2060** is projected. This is the result of a more stringent implementation of rules that allow use of disability pensions. Disability pensions of war veterans have reached its peak and gradual decrease in their number is expected. The **share of family pensions** will also **gradually decrease in the total number of pensioners**. This is due to demographic trends and increasing rate of female employment.
- 5) Harmonisation of pensions in the future will be lower than the growth of salaries and GDP.
- 6) **Reduction of the share of pensions realised under more favourable terms** in total expenditures for pensions due to natural outflow of these pensioners.
- 7) **Increase of employment rate, especially for older persons**, which has a positive effect on GDP growth, share of employees and pensioners and share of pension expenditures in GDP.

Steps have been taken to strengthen the cost-effectiveness of the health care sector. As of 1 January 2015, the **Croatian Health Insurance Fund exited from the State Treasury** and started to function as an extra-budgetary fund which financially supports medical services of its insurees. At the same time, by initiated reforms (a new model of contracting primary and hospital health care, the National Hospital Development Plan, new referencing of medicine prices, computerization, stricter control of sick leaves and cash pooling) savings were planned through rationalisation of the final expenses of provided health care, higher level of service for patients and harmonisation of the system for health care financing with best EU practices.

The **National Development Plan for clinical hospital centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia for the period from 2014 to 2016** was adopted by the Government in December 2014 and by the Croatian Parliament in February 2015. It is expected that the implementation of the National Plan will ensure increased efficiency and rationalisation of operating costs of hospital institutions. The objectives of the National Plan by the end of 2016 are reducing the rate of acute hospital treatment for 10 %, the average hospital bed occupancy rate of 85 %, duration of hospital treatment would be reduced by 10 to 40 % and the number of outpatient services would increase, as well as cases treated in day care hospitals and day care surgery by at least 10 %. The concept of the National Plan is based on four regions of health care planning (the City of Zagreb and the Central, Eastern, South and West Region). One clinical hospital centre is in each of these regions as a central hospital institution, with which all other hospitals are connected.

In 2014, **significant savings have been realised in expenditures for medicines**. The share of expenditures for medicines in total expenditures for health care was reduced to 20.4 % (in 2013 it was 26.9 %). Although there was an increase regarding expensive medicines (from HRK 609 million in 2013 to HRK 634 million in 2014), expenditures for prescription medicines were significantly reduced (from HRK 5.4 billion in 2013 to HRK 3.3 billion in 2014), and the total expenditures for medicines fell from HRK 6 billion in 2013 to HRK 3.9 billion in 2014; public tender was also carried out to determine new reference prices of medicines, and in February 2015 a new list of medicines prices was established.

Implementation of the **new model of contracting and payments for hospitals**, designed as a key element to further increase in the rationalisation and efficiency of the hospital sector (together with the National Plan) started as of 1 April 2015. Key features of the new model are abandoning the system of advance payment for each hospital in accordance with monthly lump sum, improving the system of 'e-offer' for planning and billing of health care services offered by hospitals (which is the basis for contracting), revision of existing diagnostic and therapeutic groups (DTG) and prices, gradual introduction of payments per

provided service, introduction of management contracts for management staff in hospitals, additional funds if target key performance indicators and quality indicators are achieved (stimulation of results and quality), etc. Unique price list (diagnostic and therapeutic procedures - DTP) was defined, with revision of working hours and personnel standards and revision (increase) of prices; day care surgery procedures were defined and partial revision of prices in DTG categories and coefficients was conducted.

The **new model of referral to secondary and tertiary health care**, particularly for patients with chronic diseases, is carried out with the aim of reducing the rate of hospital referral by primary health care. This model is fully implemented in all hospitals and clinics. Compared to 2013, referral to secondary health care in 2014 was reduced by about 500 000 or 8 %.

After significant reduction of the rate of sick leave during 2013 and 2014 (31 December 2012 = 3.22; 31 December 2013 = 2.85; 31 October 2014 = 2.73), mainly due to higher frequency and stricter control of sick leave, further savings in 2015 are planned through the implementation of a new system for business intelligence based on daily processing of data which should enable better planning and analysis, and thus increase the efficiency of sick leave control (less random controls and more targeted controls).

#### **Box 3.1.1 The National Development Plan for clinical hospital centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia 2015-2016**

The National Plan is key planning and operational document that is envisaged by the National Strategy of Health Development 2012-2020. It is based on two principles: principle of subsidiarity and principal of functional integration. According to the principle of subsidiarity, health problems should be resolved at the lowest possible level of provided health care services. The principal of functional integration involves cooperation between hospitals, where necessary, in order to achieve established objectives. Functional integration, with restructuring and modernisation of hospitals on the basis of common development; improves and coordinates management, diagnostic and therapeutic procedures, good clinical practice, as well as all other forms of operational methodologies aimed at better quality of services, health outcomes, increased efficiency, customer satisfaction, health care providers and consequent long-term rationalisation of expenses. Functional integration will result in certain positive financial effects and better access to health services because concentration of medical personnel and equipment in one place enables the implementation of more effective health care.

Objectives of the National Hospital Development Plan are: reducing the number of acute hospital treatments and increasing the number of patients in outpatient specialist/conciliar health care and day care hospital, which should ultimately result in the rationalisation of bed occupancy rates, reduce duration of hospital treatment, improve access to hospital treatment and increase the quality of health care services. Objectives of the National Plan in 2015 are: to reduce the rate of acute hospital treatment by 5 %, bring the average bed occupancy rate to 80 % (with permitted variations depending on the activity), reduce the duration of hospital treatment by 5-20 % (depending on the activity and institution), increase the number of outpatient services by a minimum of 5 %, increase the number of cases in day care hospital and day care surgery by a minimum of 5 %.

Implementation of the National Plan started with drafting the proposals for the implementation plan, which hospitals needed to submit to the Ministry of Health within a month after its adoption by the Parliament. Consultations for drafting implementation plan for achieving 2015 objectives were carried out in collaboration with all hospitals during March 2015, and final proposals of the implementation plan were submitted by hospitals on 30 March 2015. During April, the Ministry of Health will analyse and correct these

proposals, if necessary. Hospitals must submit the Implementation Plan of objectives of the National Plan for 2016 until the end of June 2015. The first phase of the National Plan implementation begins upon approval of the plans, and the second phase begins on 1 January 2016 by commencing the functional integration of hospitals. Where all preconditions for this implementation exist, functional integration shall be carried out before the planned date, i.e. during 2015, with support of local and regional self-government units.

## 3.2 Potentials of the labour market and employment

### Reduction of unemployment

#### **Recommendation 3**

Implement the second phase of the labour law reform, following consultation with the social partners, in particular as regards conditions for dismissals and working time, and with a view to preventing further labour market segmentation including for young people, by March 2015. Review the wage-setting system with a view to better aligning productivity developments and wage conditions. Present the conclusions of this review by the end of 2014. Strengthen the effectiveness and reach of active labour market policies by reinforcing the administrative capacities of the public employment services, including at regional level, and by increasing the coverage of the young, long-term unemployed and older workers. Prioritise outreach to non-registered youth and mobilise the private sector to offer more apprenticeships, in line with the objectives of a youth guarantee. Outline plans, by the end of 2014, to address undeclared work. Implement measures to improve the labour market relevance and quality of education outcomes by modernising the qualification systems, by putting in place quality assurance mechanisms and by improving school-to-work transitions, in particular through strengthening vocational education and work-based learning.

#### *Achieved progress*

The **new Labour Act** entered into force on 7 August 2014 (NN No. 93/14) and part of implementing regulations<sup>3</sup> related to this Act (NN No. 146/14) entered into force in December 2014. The objective of the new Act is to increase employment and internal mobility of workers, enable more flexible business operations and reduce labour costs, encourage more effective and faster restructuring of employers and combat undeclared work. Furthermore, the Act on Representativeness of Employers' Associations and Trade Unions entered into force in August 2014 (NN No. 93/14).

#### **Box 3.2.1 Overview of changes introduced by the new Labour Act**

The new Labour Act entered into force on 7 August 2014 (NN No. 93/14) reducing the existing employment protection legislation index in Croatia from 2.32 to 2.23.

The main objectives to be achieved by the new Labour Act are as follows:

- modification of provisions on the organisation of working hours to encourage internal flexibility of employer's work organisation,
- contracting salary compensation to leased workers employed in agencies for temporary employment for periods when they were not leased to users, and to encourage employment of such workers for indefinite period,
- modification of the institute of part-time work to stimulate part-time employment, for which additional aid is provided by active labour market measure 'Job sharing' implemented by Croatian Employment Service,
- modification of work organisation on separate place of work,

<sup>3</sup>The Ordinance on the manner of publication of employment rules, the Ordinance on the manner of publication of collective agreements, the Ordinance on the method of delivery of notices for representative trade unions to enter into record and the Ordinance on the amount and method of fee payment for the work of the Commission for determination of representativeness.

- reduction of the employment protection legislation index to encourage new employment, especially young persons, by simplifying and accelerating the employment termination process, modification of the institute of interrupting employment termination flow, reducing the number of categories of workers protected against termination, modification of the level of compensation in case of judicial termination of employment, simplifying and accelerating the process of collective workers' surplus,
- modification of the statute of limitation by prescribing general limitation period and encouraging workers employed for a definite period to exercise labour rights through court practice,
- reducing the maximum amount of damage compensation in case of judicial termination of the employment contract, in the amount of 8 average salaries,
- unburden labour courts and reduce the costs of long-lasting court proceedings by prescribing compulsory arbitration procedure,
- enable termination of employment to workers who use maternity and parental rights in case of death of employer as natural person, termination of craft by force of law, deletion of sole traders from the register and in the employer liquidation process,
- prevent realisation of legal consequences of termination after a very long period has passed from the delivery of employment termination decision,
- simplify and accelerate the process of collective surplus of workers enabling rapid restructuring of employers by market and business conditions,
- align the rights of unions to strike with the Act on Representativeness of Employers' Associations and Trade Unions (NN Nos. 93/14, 26/15) and enable initiation of strike due to non-payment of salaries immediately after the expiry of the due date of its payment.

Act implementation monitoring is ensured by informal common body comprising representatives of the Government and representatives of trade unions, the Croatian Employers' Association and the Croatian Chamber of Economy. The Plan of cooperation on monitoring the implementation of the Labour Act is defined, and implementation of monitoring activities commenced in four key areas (restructuring of employers, flexible regulation of working hours, flexible forms of work and collective labour relations).

**Salary policy analysis**, which included an overview of institutional framework, effect of collective bargaining on the salary system, overview of the level and structure of salaries, has been conducted. Proposal of conclusions and recommendations was adopted on the basis of the analysis. Among other things, the importance of continuous monitoring of development of salaries, employment and competitiveness of Croatia is pointed out, as well as establishment of a research program that would bring together representatives of social partners and the Government and through which the mentioned areas would be monitored. Implementation of an additional research on the minimum salary is encouraged, as well as strengthening of coordination within the framework of collective bargaining. Finally, it is recommended that changes to the salary system in the public sector should not be linear and that most effective employees and parts of the system should be rewarded. Based on the recommendations from conducted analysis, discussions with social partners regarding establishment of a framework for salary policy are in progress. At the same time, discussions with relevant ministries are being held regarding establishment of centralised coordination for collective bargaining in public sector and public enterprises.

In order to strengthen the effectiveness and scope of active labour market policies, the **Guidelines for Development and Implementation of the Active Labour Market Policy in the Republic of Croatia for the period from 2015 to 2017** were adopted.

In order to strengthen the capacity of institutions in the labour market, **reorganisation of the Croatian Employment Service** is being conducted, based on the Action Plan for Restructuring adopted in November

2014. Restructuring activities shall partially be co-financed from the European Social Fund (ESF) under the Operational Programme 'Effective Human Resources 2014-2020'.

Implementation of the external evaluation of previous cycle of active labour market measures implemented by the Croatian Employment Service in 2010 has commenced. The aim of the project entitled '**External evaluation of the active labour market policy measures**' is to determine the actual effectiveness of active labour market policies and determine if the intervention achieved its goal of evidence-based and economically rational approach in relation to the invested funds, and to provide a basis for further planning of the same.

### **Box 3.2.2 Guidelines for Development and Implementation of the Active Labour Market Policy in the Republic of Croatia for the period from 2015 to 2017**

The national strategic document for the next three-year period, which sets the priorities and objectives in the field of overall labour market policy, was prepared in Croatia for the first time in order to enable further development of interventions of active labour market policy, evaluation of their effect and improvement thereof. Preparation of the document Guidelines for Development and Implementation of Active Labour Market Policy in the Republic of Croatia for the period from 2015 to 2017 resulted in highest level of involvement of all relevant stakeholders on the labour market who conduct various interventions, measures, services and support, and the accompanying interventions of various state administration bodies, institutions, chambers and associations of employers show the presence of synergy in Croatia aimed at meeting the priorities and objectives in the implementation of active labour market policy, arising from European and national requirements.

The Guidelines are important baseline for the use of EU funds, development of annual plans of all bodies that implement interventions, as well as for monitoring and reporting on the implementation of activities in accordance with Eurostat methodology.

Based on strategic documents, key challenges and recommendations of the EC, it is possible to define measures and activities to be implemented in the period from 2015 to 2017 in order to achieve the following priorities:

#### **1. Increasing the employment rate**

- 1.1. Increasing the employability of young persons in the labour market
- 1.2. Increasing the employability and participation rate of older persons in the labour market
- 1.3. Increasing the employability and participation rate of persons with disabilities in the labour market
- 1.4. Increasing the participation of women in the labour market
- 1.5. Reducing and preventing long-term unemployment in order to prevent poverty and social exclusion
- 1.6. Strengthening the support for unemployed persons who start their own business
- 1.7. Removing barriers for first employment and ensuring first work experience for participation in the labour market
- 1.8. Strengthening interventions in the field of activation of inactive working age population
- 1.9. Increasing participation rates of socially vulnerable groups (the Roma national minority, persons that came out of alternative care systems, socially excluded, etc.)
- 1.10. Encouraging employment of less employable groups through social entrepreneurship
- 1.11. Increasing employment in the civil society organisations
- 1.12. Strengthening the system of local partnerships for employment

## **2. Increasing the competitiveness**

- 2.1. Support to persons employed by flexible employment contracts
- 2.2. Improving adaptability of workers and enterprises
- 2.3. Strengthening the competencies of employers regarding planning and management of human resources in order to strengthen competitiveness
- 2.4. Support to employers in strengthening competencies for managing changes (support to restructuring processes)
- 2.5. Support to job preservation / creation of new jobs
- 2.6. Support to development of programs for adjusting working conditions to older workers in order to facilitate active aging (life-long learning, adjustment to other jobs, mentoring system)

## **3. Increasing labour mobility through professional, educational and geographical mobility**

- 3.1. Development of lifelong career guidance and career development
- 3.2. Activation of young persons in NEET status
- 3.3. Promoting geographical mobility
- 3.4. Encouraging mobility of students, development of international internships and opportunities of practices in the EU
- 3.5. Encouraging vertical mobility within the education system and re-entering into education system from the labour market

## **4. Ensuring compliance of supply and demand in the labour market**

- 4.1. Increasing investment in human resources by raising the share of persons with higher education in the population
- 4.2. Prevention of early drop-outs from education system
- 4.3. Ensuring minimum qualifications for participation in the labour market for persons without primary or secondary education or occupation
- 4.4. Utilization of CROQF mechanism to create relevant educational programs according to the needs of the labour market
- 4.5. Encouraging adult education and acquiring skills in accordance with the needs of the labour market
- 4.6. Integration of work and learning (gaining practical experience during education, 'work-based learning', apprenticeship, learning in the workplace)
- 4.7. Encouraging development of vocational education
- 4.8. Encouraging recognition of knowledge and skills from previous work experience (recognition of prior learning) and volunteer work, as well as knowledge and skills acquired through non-formal and informal learning.

Interventions in the labour market according to EUROSTAT methodology include all public labour market interventions aimed at achieving effective actions and correcting imbalances, which differ from other general labour market policy interventions by acting selectively to the benefit of particular groups in the labour market which are called targeted groups.

Labour market policy interventions can be divided into three types:

1. Services

Services are labour market interventions where main activity of participants is searching for jobs, and where participation usually does not result with change of status on the labour market. They also include functions of public services for employment, such as mediation, services for employers and other activities.

## 2. Measures

Services are labour market interventions where main activity of participants is different from job search, and where participation usually does result in changing the status on the labour market. Measures primarily include interventions that enable temporary support to disadvantaged groups in the labour market. Measures that do not provide temporary but continuous support refer to persons with permanently reduced working capacity.

## 3. Aid

Aid includes support and various types of monetary benefits for unemployed, as well as early retirement.

In order to meet priorities and objectives, each holder of individual interventions is obliged under its jurisdiction to monitor the implementation thereof on the basis of annual plans, and to redefine interventions and submit annual report to the competent labour ministry, no later than 31 March of the current year for the previous year. The Ministry of Labour and Pension System shall collect the results of activities of all relevant bodies responsible for implementation of measures from certain strategic areas, based on which it shall submit annual reports to the Government. Before submission of such reports, the Ministry shall discuss with the Committee for Development and Monitoring of the implementation of the Guidelines for Development and Implementation of the Active Labour Market Policy in the Republic of Croatia from 2015 to 2017.

The Committee for combating undeclared work was established, and consolidated **Report on the measures taken for combating undeclared work** was drafted. Areas of activity (employment in the fisheries sector, institute of student work, combating undeclared work in the field of unregistered business activities and business activities of cooperations) have been identified, which regulate the measures to combat undeclared work.

**Measures aimed at improving the quality and alignment of educational results with labour market needs** are being conducted. The National Human Resources Development Council was established, which will organise its work through five thematic working groups: programs, analysis, removing obstacles, visibility and evaluation. Drafting of the Rules on Recognition and Validation of Non-formal and Informal Learning is currently in progress. The Forum for Lifelong Career Guidance and Career Development was established and continues to conduct its operations actively.

Priority is given to contacting unregistered young persons and activation of the private sector in order to enable better occupational practice in accordance with the objectives of the Youth Guarantee. The **Council for Youth Guarantee Implementation Plan** was established and Youth Guarantee website was launched ([www.gzm.hr](http://www.gzm.hr)). With the aim of more efficient access and monitoring of persons in NEET status (unemployed persons who are not in the education or training system and are not registered in the unemployment register of the Croatian Employment Service), a detailed plan is defined and conclusion of Agreements on cooperation between the relevant authorities is being prepared.

### Box 3.2.3 Youth Guarantee Implementation Plan

Youth Guarantee Implementation Plan contains a complete description of reforms and measures to be implemented in order to facilitate the transition of young persons from education system to employment, and to establish a system of Youth Guarantee.

The implementation plan is divided into two main parts. The first part refers to reforms and measures that should **prevent early abandonment of education and promote activation of inactive young persons** (persons who are not registered as unemployed and are not within the education or training system). The second part refers to reforms and measures that are aimed at **activating young persons in the labour market** through strengthening job creation for young persons through subsidies, empowering employers to offer high-quality schemes for learning at work (internships, professional trainings) and to encourage youth entrepreneurship, etc.

For the purpose of implementation of Youth Guarantee measures in the period from 2014-2020, almost **EUR 600 million** is provided - EUR 66.36 million from the European Social Fund (ESF) for establishment of structural reforms and support systems; EUR 66.18 million from the Youth Employment Initiative (YEI) for the period from 2014 to 2015 aimed at individual young persons (for education, contributions for employment, benefits for education or training, travel expenses, etc.), national co-financing and existing projects that are financed from the State Budget and from previous financial periods and instruments.

The Decision on amendments to the **Decision on the amount of financial assistance for unemployed person included in vocational training without commencing employment by the Croatian Employment Service**, was adopted. As of 1 January 2015 the amount of financial assistance was increased and it amounts to a net HRK 2 400 per month. Furthermore, the **Act on Amendments to the Contributions Act** (NN No. 41/14) entered into force on 1 January 2015. The Act, among other things, regulates the issue of the amount of contributions for young persons up to 30 years of age with whom the employer concludes an employment contract for an indefinite period, in a way that employer is not obliged to calculate base contributions, i.e. contributions for health insurance, occupational health care and employment in the period up to five years from the commencement of employment. At the very beginning, this measure showed extremely good results - according to the Croatian Pension Insurance Institute data, by 31 March 2015 more than 10 400 young persons have been employed for indefinite period.

When it comes to **vocational education**, requirement analysis was conducted regarding new vocational curricula for apprenticeship as part of vocational training which relates to education for trades. An analysis was also conducted regarding demands and representation of occupational practice in secondary schools. Namely, work-based learning in secondary vocational schools is realised through subject curriculum of practical classes, and involves learning through work in school, new technology centres and in real working process. The program of occupational practice differs from the program of practical classes. The same is adopted by a school in agreement with a company or institution in which practice takes place, and includes contents of vocational subjects and practical classes in academic year completed by the student, and in connection with the work programme of the company, or institution in which the same is conducted. Therefore, representation of practical classes is more important in secondary vocational schools.

## Efficient social protection

### Recommendation 4

Review tax and benefits systems by the end of 2014, and present an action plan to improve the reactivation of inactive and unemployed persons. Strengthen the effectiveness and transparency of the social protection system by further consolidating benefits, unifying eligibility criteria and linking data from all relevant levels and government entities in the "one-stop shop". Improve the effectiveness and adequacy of social assistance benefits through their better targeting.

### Achieved progress

The framework of guaranteed minimum benefit has so far included social assistance benefits, Homeland War civilian disability benefits, World War II and post-war period participant and victim benefits, permanent rights and unemployed persons' extended unemployment benefits. The total amount reimbursed for these benefits in 2013, before consolidation, amounted to HRK 792 277 324. In 2014, 49 174 users (singles or families) received guaranteed minimum benefit, amounting to HRK 646 099 321. In financial terms, at annual level, the consolidation of benefits achieved savings of HRK 146 178 003, that is 18.45 % less resources was disbursed. Within the guaranteed minimum benefit framework, means-testing of consolidated social assistance benefits continued to be screened as a criterion for benefit entitlement.

The **Working Group for the Analysis of Tax and Benefits Systems**, whose aim is to review tax and benefits systems, was established in 2014. Furthermore, the implementation of the **'Synergistic social system' co-financed from the EU Progress Program**, under which a catalogue of social benefits including those in the field of education, started for the period 2013-2014.

According to preliminary data for 2014, there were over 1 955 million benefit users, while their total number amounted to 2 935. Benefit expenditure amounted to over HRK 5.6 million.

In view of tax reliefs, in 2013 there was a total of 28 recorded tax reliefs in the amount of HRK 4.4 million.

An agreement with the World Bank for the preparation of investment and action plans for development of social protection systems was signed. The aim of the project was to consolidate social benefits through a **One Stop Shop** and **Management Information System One Stop Shop**. In March 2015, the investment and action plan to develop a One Stop Shop, in which the future activities and investments necessary to transfer benefits to state administration offices were identified, was established. One Stop Shop implies creation of a single central point for payment and administration of monetary benefits within the existing network of state administration offices in the counties.

### Box 3.2.4 Results of analysis of tax-benefit system

To perform an analysis of tax-benefit system, data on social benefits at national and local level were collected. This data included information about the type and content of social benefits, conditions and criteria for their use, users or user groups the benefits were intended for and the total funds that were designated for certain benefit. Data on tax expenditures by state tax type and year were also collected.

The obtained data will be used for the analysis (report) on social protection funded by LC(R)SGUs and central government. The goal of the analysis is to obtain a picture of social protection benefits and expenses according to user groups, criteria for their realisation, and to determine territorial differences, as well as the role of LC(R)SGUs and civil society organisations in social protection programs and the social welfare tax system. The number of benefits conditioned by means testing will be determined, as well as whether there is 'overlapping' of certain benefits at the national and local level, and recommendations for further rationalisation of social benefits for the purpose of fair distribution of resources and greater focus on the most vulnerable user groups will be made. This will provide insight into the **possibilities of further consolidation of benefits in order to reduce their number, simplify them and harmonise the criteria for their receiving by introducing**, where appropriate, means-testing.

Preliminary analysis results have determined **28 benefits at national and 2907 benefits with social component at local level**, intended for primary user groups: family (parents, children and other members); persons with disabilities; unemployed persons; persons participating in 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 local level were provided for a total of 724 076 users, for which in 2014 LC(R)SGUs settled a total of HRK 1 736 661 301. The tax relief analysis identified 28 reliefs amounting to HRK 4 405 944 933 in 2013.

One of the benefit and assistance packages, which is subject to further analysis, includes 26 social benefits and 9 tax reliefs. Out of these 26 social benefits, 7 are subject to means-testing, 6 are subject to income but not asset screening, and 13 are neither subject to income nor asset screening. 9 tax reliefs are also exempt from means testing.

In accordance with given recommendations based on the analysis of social protection system, the Working Group for the Analysis of Tax and Benefits Systems will by June 2015 prepare the **Action Plan for consolidation of the social protection system for the period 2015-2018**.

## 3.3 Recovery of economic activity and investments

### Improving the business environment

#### Recommendation 5

Take further measures to improve the business environment. In particular, by March 2015 set a target for considerably lowering administrative requirements, including para-fiscal charges. Address the high level of fragmentation and overlapping responsibilities by streamlining administrative processes and by clarifying the decision-making and accountability framework across various levels of government and at central government level between ministries and agencies. Improve administrative capacity and strategic planning of units entrusted with the management of European Structural and Investment Funds and provide them with adequate and stable staffing levels.

#### *Achieved progress*

Activities related to the identification of targets for significantly reducing the administrative requirements, including para-fiscal charges, applied mainly to **reduction/elimination of para-fiscal charges and the implementation of the measurement of administrative burdens using the Standard Cost Model (SCM) methodology.**

**Para-fiscal burden on the economy has been reduced by HRK 409.44 million** by reducing the amount charged within 28 charges and by total abolishment of 26 para-fiscal charges.

In October 2014 the Government adopted the Decision on the Application of Standard Cost Model (SCM) **methodology for implementation of measurement of administrative burdens pilot project.** The pilot project was carried out in areas covered by the Mediation in Immovable Property Transactions Act and the Trade Act. It was reported that the basic regulations governing trade and immovable property mediation cost these 2 service sectors slightly more than HRK 90 million. Trade Act and the Rules on Minimum Technical and other Conditions cost more than HRK 70 million, while the Mediation in Immovable Property Transactions Act, including 3 related Rules, cost about HRK 22 million. The outreach to private sector determined that the basic regulations governing the trade and immovable property mediation do not substantially burden the freedom to conduct business. It is, of course, important to simplify, reduce the price and digitize the administrative procedure of their application. Results of the measurement will be the basis for defining measures to reduce the administrative burden by 20 % in pilot areas by the end of 2015.

Currently, a **Joint Information System of Land Registry and Cadastral Data (JIS)** consisting of 15 land-registry offices and 13 cadastral offices is in production. A contract for the introduction of Joint Information System for all locations in Croatia was signed between the contractor of Joint Information System Ericsson Nikola Tesla d.d. and the client, namely the Ministry of Construction and Physical Planning and the Ministry of Justice.

**E-permit module for issuance of electronic construction permits** for the whole territory of the Republic of Croatia has been prepared and implemented. **E-citizens service**, which is currently used by 150 000 users and provides 22 services, was established. The **Act on the State Information Infrastructure** (NN No. 92/14)

and the Act Implementation Plan, whose purpose is to rationalise, develop and coordinate all activities and projects regarding the application of state information infrastructure, were adopted.

The proposal of the **Strategy for Development of Public Administration 2015-2020** was formulated and is expected to be **adopted** in May 2015. The objectives set out in the Strategy represent a major part of public administration reform measures for 2015 and 2016.

### **Box 3.3.1 Strategy for Development of Public Administration 2015-2020**

The Strategy for Development of Public Administration 2015-2020 represents a fundamental document that sets out long-term goals and guidelines for modernisation of public administration in the Republic of Croatia. A competent public administration is essential for the development of democratic and efficient public policies that drive the overall social and economic development. The Croatian Government is firmly committed to create favourable conditions for achieving the vision of modern public administration, which will contribute to economic and sustainable development of Croatian society by providing public services in a reliable, predictable and socially responsible manner. In addition, the Strategy will harmonise public administration development with Europe 2020 objectives, i.e. the European strategy for the development of sound, sustainable and inclusive economy by 2020.

The Strategy aims to provide users with timely, reliable and high-quality public services in order to enable high living standards for all citizens and create a stimulating business environment. In particular, the achievement of the Strategy's objectives implies:

- 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 competence 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.

Monitoring of Strategy implementation will be ensured by establishing a separate Government Office responsible for drafting a Framework for Implementation Monitoring which will include indicator verification sources, monitoring methods and reporting, as well as the necessary financial resources and external expert support conducive to monitoring activities. The Strategy will be implemented through periodic Action Plans, and each year a Government report will be prepared on achieved Strategy measures, which will be submitted to parliamentary committee responsible for Strategy implementation monitoring. The Strategy Implementation Report will be submitted every three years (after execution of due scheduled Action Plan). At the end of Action Plan implementation period, an evaluation of executed measures with future recommendations will be made.

In order to strengthen the administrative capacity and strategic planning of departments accountable for EU fund management, the Croatian Government adopted the **Decision prescribing the employment of 349 additional officials within the ESIF management system for the period 2015-2017**. An **agreement with the European Investment Bank** on granting loans for joint financing of operative programs for the

2014-2020 period was signed. Such operative programs were adopted at the end of 2014 in the amount of EUR 300 million with the option of receiving additional EUR 300 million.

## Wiser state involvement in the economy

### Recommendation 6

Present, by October 2014, a detailed plan for public property management for 2015. Ensure that companies under state control are governed in a transparent and accountable manner, in particular, strengthen the competency requirements for members of management and supervisory boards nominated by the State and introduce a public register for appointments. Reinforce prevention of corruption in public administration and state-owned and state-controlled enterprises, including by increasing the verification powers of the Conflict of Interest Commission. Strengthen transparency and efficiency of public procurement at both central and local levels, and the capacity to monitor implementation and to detect irregularities.

### Achieved progress

In late 2014, the 2015 **State Asset Management Plan** was adopted (NN No. 142/14).

In the context of improving the corporate governance of strategic and trading companies of special interest, the Plan provides for continuous collection and analysis of documents submitted by companies and relevant ministries, which refer to **periodic and annual business reports** prepared in accordance with the **Instructions on Reports on Business Operation of Trading Companies and Other Legal Persons of Strategic and Special Interest for the Republic of Croatia**, in cooperation with the Ministry of Finance. In September 2014, the first Report on Business Operation of Trading Companies regarding semi-annual results was prepared. In March 2015, a Report on results achieved during nine months of 2014 was compiled and published. Both Reports were in compliance with the Instructions. What is more, both Reports were published on the websites of the Government, the State Office for State Property Management and the Ministry of Finance. According to the Instructions, companies are required to submit quarterly data with detailed explanations with Reports, which include as follows:

1. profit and loss account,
2. financial results achieved in a given period, their comparison with the same period of the previous year and a Plan, accompanied by business assessment,
3. financial results achieved by activities/sectors,
4. number of employees and gross operating costs for due period,
5. production results - in-kind indicators,
6. the scope and structure of inventories (if applicable and if it significantly affects the business operations),
7. current investments (realised and planned),
8. restructuring plan (projection and results),
9. projects planned for the business year and their results,
10. results achieved during a three-year period, their comparison with due plan and results (Note: within annual report),
11. ownership structure,
12. business plan,
13. grants and subsidies.

The annual 2014 **Report on Business Operation of Trading Companies and Other Legal Persons of Strategic and Special Interest** is currently being prepared. According to preliminary data on business operation, in 2014 22 strategic companies achieved HRK 3.81 billion profit, i.e. 250 % more than in 2013, when realised profit amounted to HRK 1.09 billion. At the same time, 22 strategic companies reduced operating expenses by 11 %.

2014 State Budget deposit realised on the basis of 2013 business results amounted to HRK 627.1 million, and the 2015 projection amounts to HRK 1.6 billion.

These good results are associated with the process of restructuring that is currently under way in a number of companies. Such Programs are clearly directed towards increasing the efficiency of future business operations.

The indicators of results driven by restructuring of selected trading companies in 2014 state portfolio are presented in Annex 3.

### **3.3.2 Sales and privatisation**

The Restructuring and Sale Centre (RSC) manages the stocks and equity shares in trading companies owned by the Republic of Croatia which are not established as companies of strategic and special interest for the Republic of Croatia, as well as the stocks and equity shares in trading companies owned by the Croatian Pension Insurance Institute and the State Agency For Deposit Insurance and Bank Rehabilitation for stocks and equity shares in trading companies which it acquired during the rehabilitation and privatisation of banks, except the trading companies whose management and use are regulated by special law. The sale of stocks and business shares is realised through public tenders, public auctions, public bidding, stocks offered on regulated capital market, acceptance of offer during the acquisition of joint stock companies, direct sales and minority stockholder squeeze-outs.

In 2014 the Restructuring and Sale Centre announced the sale of stocks/business shares of 112 companies in total, resulting in the sale of stocks/business shares of 57 companies in total. At the same time 24 companies commenced bankruptcy or liquidation proceedings. Annual sales revenue in 2014 amounted to about HRK 64 million. In the first quarter of 2015 the sale of 3 companies by public tender, the sale of 16 companies by public auction and the sale of stocks of 14 trading companies on regulated capital market were announced. Furthermore, on 30 March 2015 advertisement for the final public auction sale of stocks and business shares owned by the Republic of Croatia intended to cover capital expenditures on stocks and business shares of 94 companies divided into 130 packages (auctions will be held in the period from 14 April to 7 May 2015) was announced. At the same time 7 trading companies commenced bankruptcy or liquidation proceedings. The sales revenue for the same period in the amount of about HRK 130 thousand was generated (conclusion of the agreement for the sale of Hoteli Plat d.d. Dubrovnik stocks worth HRK 118 million is still pending).

In 2014 three trading and strategic companies of special interest for the Republic of Croatia managed by State Administrative Office for State Property Management, Luka Vukovar d.o.o., Končar elektroindustrija d.d. and Imunološki zavod d.d. commenced due sale proceedings.

In 2014, a Program concerning consulting services for the interested public titled 'Projects 100' was launched. Its aim is to create new values and increase economic gain by handling state owned immovable property

through public tenders. The Program includes 100 properties spread across approximately 20 million square meters of undeveloped and developed construction land, and facilities, throughout the Croatian territory, which are through the Program offered to potential and interested investors, citizens, companies, corporations and LC(R)SGUs. 720 initiatives were submitted for the project. The preparation of immovable property put out to public tender is currently under way, and so far the following three tenders for immovable property have been published: Češka vila, Kumrovec residence and Galožana property. Public tender for 10 more immovable properties is planned for May 2015, and 10 new tenders will go out in June.

The **State Asset Management Plan Implementation Report for 2014**, which contains data on the comparison of projected and realised indicators which include revenue, expenses, profit and number of employees was compiled.

With the aim to achieve transparent and accountable management of state owned companies, the following drafts were prepared: **drafts of the Regulation on Terms, Selection and Appointment of Presidents and Management Board Members and Decision on Terms and Appointment of Supervisory Board Members of Trading Companies in which the Republic of Croatia Partakes in Capital Stock Shares**. The Regulation specifies the criteria for selection of headhunting agencies authorized for the selection of presidents and management board members of trading companies with majority ownership belonging to the Republic of Croatia, and the Decision specifies the conditions for selection of supervisory board members.

In order to increase business transparency in public administration and state-owned companies, Croatian Government established a **public register of appointments which contains all presidents, management and supervisory board members of trading companies** published at the Digital Information Documentation Office website.

Furthermore, in order to create favourable conditions for the prevention of corruption at all levels, the State Administrative Office for State Property Management website regularly **uploads Public Property State Registry data** and information on the management of state owned immovable property, and provides information on the management of stocks and equity shares in trading companies.

In February 2015 the Parliament adopted the **Anti-Corruption Strategy for the period 2015-2020** (NN No. 26/15). The Strategy aims at preventing corruption, i.e. managing the risks of corruption in public administration, LC(R)SGUs, bodies governed by public law, trading companies in which the Republic of Croatia and LC(R)SGUs are shareholders, private sector and civil organisations.

In terms of **strengthening the efficiency of public procurement**, pursuant to the Decision of the Government of the Republic of Croatia of 19 March 2014, the total number of central public procurement taxpayers increased to approximately 600 users divided in four purchase categories: electricity, fuel, mobile and fixed telecommunication services. Framework agreements for fuel and electricity supply were concluded in 2014. The savings of about HRK 60 million for a two year period (2015 and 2016), with additional administrative savings for users, are expected.

## More effective regime for resolving insolvency and deleveraging

### Recommendation 7

By the end of 2014, reinforce the role of commercial courts in the monitoring of transparency and legality in the application of the corporate pre-bankruptcy procedure. Review the compulsory test of insolvency/illiquidity to access pre-bankruptcy settlement proceedings and streamline the insolvency/liquidation process to reduce its length. Improve the quality and efficiency of the judicial system, in particular by providing incentives to resolve proceedings in litigious civil and commercial cases and in administrative cases in a timely manner and to resort to out-of-court settlement especially for smaller claims.

### Achieved progress

During 2014 and early 2015 significant conditions to enhance the quality and efficiency of the justice system and rationalise the whole judicial system were achieved. First and foremost, further efforts in the **rationalisation of court network** were taken. The **new Act on Territories and Location of Courts and the Act on Jurisdictions and Seats of State Attorney's Offices** (NN No. 128/14) and corresponding **amendments to the Courts' Act** (NN No. 33/15) **and the Act on State Attorney's Offices** (NN No. 33/15) represent the basis for the implementation of reorganisation and significant reduction of court network commencing from 1 April, that is 1 July 2015.

The new court network will consist of the Supreme Court of the Republic of Croatia, 15 county courts, 24 municipal courts, the High Commercial Court of the Republic of Croatia, 8 commercial courts, the High Administrative Court of the Republic of Croatia, 4 administrative courts, the High Misdemeanour Court of the Republic of Croatia, 22 Magistrates' Courts, the State Attorney's Office of the Republic of Croatia, 15 county State Attorneys' Offices and 22 municipal State Attorneys' Offices.

### 3.3.3 Judicial Network Reform

The main implementation objectives of judicial system reorganisation and reducing the number of courts are as follows: higher efficiency of justice system, better and faster legal protection, shortening the duration of court proceedings and reducing the number of violations of the right to a trial within the reasonable period, balancing the workload of judicial bodies and judicial officials, uniform judicial practice, greater opportunities for specialisation of judges, greater mobility of judicial officials, better utilization of existing resources and reducing the total overhead costs and the costs of maintaining the judicial bodies' infrastructure, better organisation of judicial bodies' work processes, reducing the total number of judicial managerial positions and the number of judicial officials entrusted with specific tasks which are considered the basis for exemption from the performance of judicial duties, and smooth implementation of court, state attorney and judicial administration supervision. In addition to the territorial reorganisation of municipal and misdemeanour's court network, and municipal state attorney's offices, the reorganisation will also finalize the organisational restructuring of judicial system by improving the efficiency of auxiliary services related to judicial bodies, reform of appeal proceedings by electronic random case assignment to all county courts regardless of their territorial jurisdiction, and the completion of judicial bodies' computerisation process.

The new court network includes as follows: the Supreme Court of the Republic of Croatia, 15 county courts, 24 municipal courts, the High Commercial Court of the Republic of Croatia, 8 commercial courts, the High Administrative Court of the Republic of Croatia, 4 administrative courts, the High Misdemeanour Court of the Republic of Croatia, and 22 Magistrates' Courts.

The expected reduction in operative costs achieved by the necessary reorganisation of court network in 2015 amounts to HRK 21 million for employee expenses. The reduction of other operative costs (overhead costs, operating costs - office supplies, business trips, ongoing maintenance, etc.) in first years of reorganisation is not expected. Such reduction is expected only in the next few years, after the expected physical connection of permanent services with courts.

A new network of State Attorneys' Offices includes as follows: the State Attorney's Office of the Republic of Croatia, 15 county State Attorneys' Offices and 22 municipal State Attorneys' Offices.

Monitoring the effectiveness of judicial system reorganisation will be ensured by regular monitoring and analysis of statistical data on the number of received, resolved and unresolved cases, the number of referred cases, the number of cases assigned to particular judges, the number of cases burdening certain county courts, the structure and type of cases assigned to particular judges, the time required to process cases (disposition time), overhead and infrastructure costs of judicial bodies, and the reports on completed administrative tasks prepared by court presidents, as well as operative administrative judicial plan.

The **process of informatization** is resumed through introduction of the Integrated Court Case Management System, Case Tracking System and Wide Area Network (WAN). From the total of 250 locations, wide area network is yet to be installed at 10 locations, while the installation at other 240 locations was successfully implemented.

In the area of **improving the civil litigation**, the process of drafting amendments to the Civil Procedure Act, which would eliminate current shortcomings and implement new solutions, including the promotion of alternative ways to resolve disputes was initiated.

With the aim to **improve the land registry system**, the adoption of amendments to the Act on Land Registry intended to facilitate the acceleration of changes in land registries, the definition and implementation of the Joint Information System of Land Registry and Cadastral Data, and incorporation of redesigned individual cadastral parts within the harmonised parts of Joint Information System of Land Registry and Cadastral Data and Land Database are pending.

In the area of **reforming the pre-bankruptcy and bankruptcy legal framework**, as a prerequisite for more transparent and efficient process of restructuring trading companies, **drafting of the new Insolvency Act**, which will regulate and define the criteria for the pre-insolvency and insolvency procedures, and strengthen the role of commercial courts, was initiated. The Draft Proposal of the Act is being prepared for the second Parliament reading.

The Draft Proposal of the **Consumer Bankruptcy Act** is also being prepared for the second Parliament reading. Consumer bankruptcy institute was introduced with the aim of creating a system which would result in the creation of opportunity to reprogram the commitments or provide a new start for insolvent consumers, and provide appropriate compensation of creditors' claims. Additional objectives include creating opportunities to reach agreement between creditors and debtors through informal (non-institutional) and formal (institutional) framework, and creating opportunities for responsible and economically rational consumer behaviour, as well as relieving the system from multiple unsuccessful

enforcement proceedings. Consumer bankruptcy institute gives for a new accountable beginning to over-indebted consumers a chance and a chance for satisfactory settlement to creditors, even when a consumer has no access to funds needed to settle creditors' claims.

### **Deleveraging process**

In the period before the great financial crisis, a large number of household and corporate loans attached to the Swiss franc was granted in Croatia. Over the past few years the Croatian Government has repeatedly intervened in the relations between the loan beneficiaries and commercial banks in order to help alleviate negative consequences caused by the strengthening of Swiss franc on such loans.

Following the Decision of the Swiss National Bank on the abolition of fixed exchange rate for Swiss franc against euro and the consequent rapid growth of the exchange rate of Swiss franc against kuna of 15 January 2015, on 23 January 2015 the Parliament passed a temporary measure of freezing the exchange rate for conversion of such loans in kunas at 6.39/1. This freeze applies only to loans for natural persons (consumers, craftsmen and freelancers) in Swiss francs.

This measure intended to prevent panic caused by the negative consequences and a disproportionate burden on the population after the rapid growth of the exchange rate and the subsequent rise of instalments and principle. Approximately 60.000 loans were affected. The volume of these loans amounts to about HRK 22 billion of which 80 % are housing loans. Immediately after the Decision to temporary freeze the exchange rate (for one year) was passed, a Working Group led by the Ministry of Finance, as the mediator in the process of finding a lasting solution between loan holders and banks, and which, except contracting parties, also gathers other participants in legal, economic, social and political issues (Croatian National Bank, Ministry of Justice and Ministry of Social Policy and Youth) was established.

The goal of this Working Group is to find a compromise which is acceptable to both banks and loan holders, which would, in long-term, solve the problem of loans attached to Swiss franc and at the same time be in accordance with the principles of European Union law, particularly the free movement of capital and the principle of proportionality. Croatia will consult the European Commission on the aforementioned solution.

## 3.4 Preserving stability of the banking sector

### Quality of the banking system

#### **Recommendation 8**

Complement the 2014 European Central Bank's asset quality reviews and stress test exercises, undertake a comprehensive portfolio screening exercise designed specifically for the Croatian financial sector, with a focus on important portfolios that are not covered by the European Central Bank exercise and including key mid-size and smaller banks.

#### *Achieved progress*

The Croatian National Bank has conducted a comprehensive review of banks' portfolio based on two main activities: i) complementing the Asset Quality Review on important portfolios of large banks that were not included in Asset Quality Review performed by the European Central Bank, within the framework of Single Supervisory Mechanism, and ii) conducting a portfolio screening of key medium and small banks. These activities were carried out by large banks' direct (on-site) supervision of business operations and review of portfolios that were not reviewed by the European Central Bank, mid-size and small banks' direct supervision of business operation, and indirect (off-site) screening of selected banks' portfolios.

The results of this comprehensive review of portfolios confirmed the image of stable financial sector which is facing the challenges of weak economic climate. The capital adequacy ratio, as one of the most important indicators, is still well above the regulatory minimum and regulatory requirements of the Croatian National Bank. Screening the key portfolios of mid-size and small banks involved the use of methodology similar to the methodology applied in asset quality review within the Single Supervisory Mechanism framework, but which, nonetheless, differs in certain aspects, such as approach to sampling. Total results appear to be rather comforting for large banks that are part of international groups, but point to certain weaknesses in risk management and governance for a small number of surveyed mid-size and smaller banks.

The Croatian National Bank completed the activities aimed at meeting the recommendations within the prescribed deadline, and at the end of January 2015 submitted a final Report on the Progress in Implementing the Recommendations to the European Commission. The European Commission subsequently issued a positive opinion on the activities performed, determining the recommendation 8 completed.

## 4. Main objectives and reform priorities in 2015-2017

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The Government has set **three main objectives** of structural policies described in the NRP 2015. These are:

- Promoting growth, external competitiveness and re-establishing balance in the Croatian economy
- Resolving weaknesses in public sector governance and increasing public sector efficiency
- Increasing the sustainability of the general government debt and strengthening management of public finances

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

### 4.1. Increasing the sustainability of the general government debt and strengthening management of public finances

Strengthening the fiscal framework and management of public finances

and

Rationalisation and improvement of expenditure control

#### Measures

1. Improving the fiscal framework and strengthening fiscal rules
2. Improving the budgetary framework
3. Strengthening the capacity of the State Audit Office (SAO) and stricter implementation of audit recommendations
4. Improvement of internal financial control system and expansion of the scope of internal financial controls regarding companies owned by the Republic of Croatia and LC(R)SGUs and other legal entities established by the Government of the Republic of Croatia and/or LC(R)SGUs
5. Improvement of control over the issuance of state guarantees
6. Improvement of public debt management system
7. Improvement of calculation and collection of municipal charges

Within the package of measures concerning the strengthening of public finances management, a special emphasis is placed on measures concerning the **improvement of control over expenditures of budgetary and extra-budgetary users**.

Proposed amendments to the **Fiscal Responsibility Act** concerning further harmonisation of fiscal policies with the provisions of the Directive 85/2011 on requirements for budgetary frameworks of the Member States, and strengthening of independence and role of the Fiscal Policy Commission will include changes concerning further improvement of budgetary framework that will establish **better control over the planning and execution of expenditures of budgetary and extra-budgetary users**. The new proposal of the Fiscal Responsibility Act, whose adoption is planned for September 2015, and the Acts of relevant ministries (whose adoption is planned to be carried out by the end of 2015) proposes to ensure the

**consistency of strategic and financial plans, and realistic planning of fiscal expenditures with establishing a mechanism to sanction non-compliance with planned budgetary limits.** In order to ensure compliance with the established budgetary limits by users, the proposed changes will apply to the introduction of provisions in accordance with which, in the case of creation of obligations with maturity above the amount provided for in the State Budget, the amount provided for in the financial plan in the next fiscal year for users will be reduced by the amount of obligations created above the amount provided for in the State Budget. In line with the above, in order to strengthen the fiscal discipline, the **adoption of Instructions for Expenditure Planning**, which aim to determine the optimal level of costs according to their type and application, is also proposed. Furthermore, the standards for the number of workplaces in general (support) services will be determined in order to harmonise the real needs of agencies with other budgetary and extra-budgetary users.

In accordance with the Decision on the Implementation of In-Depth Analysis of Expenditures of the State Budget of the Republic of Croatia, and based on the Central Committee Report on the Implementation of In-Depth Analysis of Expenditures of the State Budget of the Republic of Croatia, the Croatian **Government will define the appropriate selection of measures based on the results of in-depth analysis** of expenditures, what will result in reducing the total public spending and which will be incorporated in medium-term budgetary documents.

The in-depth analysis of expenditures for the most significant expenditures of the State Budget will be carried out periodically, as a basis for further rationalisation in public sector.

Further improvement of the system of control over expenditures will be realised through **strengthening the role** of SAO, that is by defining the sanctioning system for the failure to act upon SAO recommendations in order to further improve the system of control of the credibility of financial statements, the compliance of business procedures with laws and other regulations, and strengthening the efficiency of budgetary fund use.

The existing legislative framework, namely the State Audit Office Act (OG, No. 80/2011), allows SAO to conduct follow-up audits after establishing the occurrence of irregularities, and the State Audit Office will, starting with 2013, after the implementation of audit requires that each audited subject submits 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 the implementation plan. Further upgrading of the system and the role of SAO shall therefore be realised through:

1. the process of strengthening of the SAO capacity and related professional education and training, for which the adoption of the Action Plan for the development of SAO is planned in April 2015,
2. the adoption of the model for the development of sanctioning the failure to act upon SAO recommendations and the draft proposal of amendments to the existing legislative framework is expected by the end of 2015.

The process of **strengthening the internal financial control system for public sector** will be completed through the adoption of a new Public Internal Financial Control System Act, which is scheduled for June 2015.

Pursuant to the proposed amendments to the legislative framework, the obligation to comply with the applicable Act will **include companies owned by the Republic of Croatia, that is one or more LC(R)SGU,**

**and other legal entities founded by the Republic of Croatia, that is one or more LC(R)SGU.** The practical implementation of the internal control system shows the need to further strengthen the management responsibilities of managers. The provisions of the new Act, namely the part regulating the internal control system will therefore 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 municipality, mayors, heads of county, 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.

Also, the aforementioned amendments to the Act will define the role of the administrative units responsible for the finance of budget users more clearly, in order to coordinate the development of internal control systems. It is necessary to do so in order to enable them to provide adequate support to other managers who should develop a system of internal controls within their jurisdiction, for the purpose of better management of the business related financial effects. A framework for the development of the internal control system, which will include components of the internal control system including an overview of major internal control principles, methods and procedures, based on the internationally accepted internal control framework (COSO) will be adopted. With regard to the establishment of internal audit, the relationship between budget users partaking in the state budget, i.e., LC(R)SGU and competent institutions, will be more clearly defined in view of the obligation that the internal audit established for partakers in the State Budget, i.e., LC(R)SGU performs such internal audit in due competent institutions as well. This will be appropriately applied to companies owned by the Republic of Croatia, that is one or more LC(R)SGUs, and other legal entities founded by the Republic of Croatia, that is one or more LC(R)SGUs and their subsidiaries.

In the period of six months from the adoption of the Internal Control System for Public Sector Act, due implementing regulation which will stipulate the obligations of administrative units responsible for finance of budget users will be adopted, the content of framework for the development of internal control systems will be determined and the methodology of internal audit within the framework of risk assessment will be improved. Also, the focus will be placed on the assessment of internal control systems in areas that contribute substantial financial resources which generate income, in order to enable the internal audit to direct its activities on the improvement of the internal control systems and management processes in areas with significant financial impact.

The system of improving the public debt management will be ensured through the **adoption of the Strategy for Public Debt Management for the period 2017-2019**, which is planned to be adopted at the end of 2016, pursuant to the provisions of the amended Budget Act (OG, no. 15/2015). The aforementioned Strategy will include a plan of public debt management for the 2017-2019 medium-term period and will provide a comprehensive view of the optimization of the maturity and currency debt structure and the financing of government debt framework.

In order to **reduce potential risks incurred by the activation of state guarantees** concerning budgetary and extra-budgetary users and in order to encourage the process of restructuring of business operation among existing and potential users of state guarantees and warranties, the Act on the Execution of the State Budget for 2015 will be prepared (the Proposal of the Act will be adopted by 15 November 2015). The proposed amendments will prescribe that the process of issuing state guarantees and warranties will depend on the implementation of the restructuring plan concerning potential users of government guarantees and warranties.

An integral part of the reform package concerning the area of control over expenditures titled **Improving the System of Billing and the Collection of Municipal Fees** refers to measures aimed at local self-government units and will focus on the review and implementation of the Public Utilities Act in parts concerning the efficiency of collecting municipal fees.

Local units acquire revenues from three sources: their own resources (including their own taxes), common taxes and grants from the State and County Budget. Their own revenues include municipal charges, determination and collection of which is entirely under the jurisdiction of local units. Out-dated records and a wide range of exemptions and reliefs narrow the base for collection of municipal charges. This measure therefore aims to encourage the maximum utilization of collecting possibilities regarding municipal fees in the revenue of units of local self-government and the establishment of the efficient system of municipal fee management.

The proposal for the implementation of this measure will be carried out in several phases and will start by analysing the share of revenue originated from municipal fees in the overall revenue structure of units of local self-government as of June 2015, and the adoption of the Action Plan for units of local self-government that deviate from the average established in September 2015. Completing the implementation of the proposed measure applies to the adoption of the Act on the Amendments to the Public Utilities Act and the Decision on Municipal Fees for Units of Local Self-government and is planned to be realised by the end of 2015.

## Improving the efficiency of the pension system

### Measures

1. Introduction of occupational pension system
2. Redefining of pension systems of active military personnel, police officers and officials

In order to encourage longer stay of persons with extended duration of pensionable service on the labour market, in June 2015 and in September 2015 the **Act on Pension Insurance Rights for Active Military Personnel, Police Officers and Officials** and the **Act on Labour Categorisation and Occupational Pension** shall be adopted respectively. Their main goal is to ensure longer stay of persons, whose retirement is regulated under special conditions or to whom the extended duration of pensionable service applies, on the labour market.

The amendments to both Acts for this type of insurees will introduce the **occupational pension** as a new institute within the system of compulsory generation solidarity retirement scheme (1st pillar). They will adequately protect insurees who work on jobs/occupations who, after a certain age and a certain amount of accrued pensionable service, perform particularly heavy work and work hazardous to health and the ability to work, in spite of available occupational health and safety measures, cannot be expected to perform such work until the age of 'regular old-age pension'.

Also, by adopting the aforementioned Acts, the funds from mandatory capitalized savings (2nd pillar) of such persons will be transferred to the 1st pillar. In future, all of their pension insurance contributions will be paid into the 1st pillar only.

The adoption of the new Act on Pension Insurance Rights for Active Military Personnel, Police Officers and Officials represents a continuation of the current system reforms that regulate the retirement of active military personnel, police officers and authorized officials through further harmonisation of the criteria for

the realisation of their rights. Substantial rationalisation has already been achieved in 2012 and 2013 when the reduction of the number of workplaces and the degree of increased pensionable service for this category of insurees was implemented.

Occupational health and safety and medical experts will until July 2015 review the list of jobs and occupations defined by the existing Act on Extended Duration of Pensionable Service which will represent the basis for a new **Act on Labour Categorisation and Occupational Pension**. Also, the age to which a particular job included in the list can be performed will be determined. This will represent the key element to determine the conditions to qualify for occupational pension when the prescribed pensionable service on such jobs was achieved. The aim of introducing the new list of jobs with special working conditions is to **reduce the number of such jobs by 50 %**. The amount of occupational pension will depend on whether the persons who realise the conditions for occupational pension remain or do not remain on the labour market.

## Reducing fiscal risks of the health care system

### Measures

1. The new model of contracting and payments for health care services for hospitals
2. The new model of hospital management
3. Improving the control of expenditures of the hospital system
4. Implementation of the National Plan
5. Further development of e-health
6. Expanding the scope of joint public procurement
7. Strengthening of the primary health care role
8. More efficient management of human resources in health care

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

The **new model of contracting and payments for health services at hospitals**, which has been in force since 1 April 2015 focuses on the financing of health care services (according to the model 'money follows the patient') instead of the current financing model practices which is carried out by health care institutions themselves. The contracting procedures in place of activities, the redefining of lists and service price lists by updating and expansion of diagnostic therapeutic groups and diagnostic therapeutic procedures, and financial rewards for quality service will be introduced. The model is based on a payment of fixed advance payment, non-fixed advance payment and payment after the execution. Because it represents a considerable change, it will be introduced gradually, that is the monthly funds that are paid to hospitals in advance will be gradually reduced, to 65 % by the end of 2015, and to 25 % by the end of 2016. At the same time the maximum monthly (and annual) amount of funding available for each hospital will remain the same, but it will no longer be fixed, i.e., it will need to be justified by the services provided. Particular hospital can generate revenue in the excess of contracted funds provided from the unused funds designated for another hospital which in turn provided fewer services than the contracted amount of its basic funds. This will encourage hospitals to achieve higher revenue by increasing efficiency (which up to now was not possible), as well as the competition between health care institutions, which in turn increases the quality of provided

health services because 'money follows the patient' and because hospitals consider important the ways in which they can attract more patients (shorter waiting lists, increased availability, etc.). Stricter control of issued invoices for provided health care services, in accordance with the new model of contracting, will improve the quality of billing for medical services and therefore contribute to more efficient collection of provided health care services and greater revenue generation.

For this measure to succeed, the changes in the way financial operations in hospitals are run is of the utmost importance. Therefore, a **new model of hospital management**, which involves separation of business (financial) and medical affairs at hospital administration level, shall be introduced. From May 2015, a system of controlling and obligatory monthly reporting on the execution of contractual obligations, i.e. all hospitals will submit both financial and in-kind reports, based on which the Ministry of Health will compile due benchmark analysis, will be introduced in all hospitals. In order to consolidate financial management, accounting systems and processes, a software solution, i.e. a unified record keeping and a system of budget management, procurement plan, framework agreements, purchase orders, etc. will be introduced. IT solution for connecting financial applications of hospitals, which will make available all hospital operational data (financial, material, personnel, etc.), will also be implemented. Harmonisation with the new Regulation on job titles and job complexity coefficients in public services of the Government shall define the new (lower) salary increments primarily for non-health personnel and regulate the payment of bonuses for scientific titles (abolition of double calculation of bonuses for doctorate and masters). Savings will also be made by better organisation of business processes and jobs, which is at the same time expected to reduce the number of on-duty shifts and overtime hours. Given that health care institutions, in compliance with the EU Directive on Cross-border Health Care, must insure their health care professionals from professional liability, the additional payment for separate liability of doctors, for everybody for whom the employer bears the cost of insurance against separate liability, will be discontinued. The harmonisation of good relationship between administrative and non-administrative staff, according to the number of used beds, but taking into account the specificity of certain institution, will be achieved by the introduction of control and benchmark systems. Hospital management should stop implementing provisions regarding internal regulations of institutions concerning the salaries of employees which are not in accordance with the Act on Salaries, the Basic Collective Agreement, the Branch Collective Agreement and the Regulation on Job Titles and Job Complexity Coefficients. It is estimated that the new model of hospital management will bring annual savings of HRK 75 million.

The measure to **improve the expenditure control of hospital system** is closely linked to the new model of hospital management because hospital management is responsible for the implementation of activities through the system of financial and medical control. The improvement of financial planning and reporting should lead to greater transparency and greater control of cost-effectiveness in hospitals. The introduction of control of all expenditures (both included and not included in public procurement) and the introduction of hospital reporting systems covered by the National Hospital Development Plan is carried out on a monthly basis and should prevent the emergence of new debt, lead to greater efficiency and rationality of business operation, and contribute to the financial consolidation of hospital sector in order to settle outstanding obligations. It is estimated that this will bring annual savings of HRK 98 million.

The objectives of the **National Plan** are presented as a part of the description of measures indicated in Annex 1. Implementation of the National Plan started with drafting the proposals for implementation plan, which hospitals needed to submit to the Ministry of Health within a month after its adoption in the Parliament (end of February). Consultations for drafting implementation plan for achieving 2015 objectives were carried out in collaboration with all hospitals during March 2015, and final proposals of the implementation plan were submitted by hospitals on 30 March 2015. During April, the Ministry of Health

will analyse and correct these proposals, if necessary. The Implementation Plan of objectives of the National Plan for 2016 must be submitted by the hospitals until 30 June 2015. The first phase of the National Plan implementation begins upon approval of the plans, and the second phase begins on 1 January 2016 by commencing the functional integration of hospitals. Where all preconditions for this implementation exist, functional integration shall be carried out before the planned date, i.e. during 2015, with support of local and regional self-government units. The implementation of the National Plan and the adjustment of health care institutions to new modalities of treatment (the establishment and equipping of day hospitals and day surgeries) is financed from EU funds in the amount of HRK 532 million.

The realisation of more intensive application of **joint public procurement** model in order to rationalise costs shall be possible due to the new model of hospital management. In 2015, the objective of the implementation of public procurement system in hospitals covered by the National Plan is to cover at least 30 % of the total consumption of drugs and consumables by the joint public procurement. Changes in the organisation and authorities of the Agency for Quality and Accreditation in Health and Social Care (which becomes the Agency for Quality and Logistics) shall in September 2015 assume the duties of public procurement and assessment of medical technologies significant for capital investment planning with the objective of cost rationalisation. It is estimated that joint model for public procurement of medical supplies will bring savings of HRK 40 million on annual basis.

The Central Health Information System already enables the prescription of medicine in digital form (e-prescription), and electronic appointment booking (e-appointments). Digitalization of medical treatment of patients will be completed by the end of 2015, and all referrals, findings and discharge papers will gradually begin to be communicated in electronic form between all participants in the health care system. Financial software applications of hospitals will also be interconnected in order to achieve better controlling of the hospital system. The implementation of **e-referrals, e-findings and e-discharge letters** is expected to result in savings, and the realisation of a higher quality of health care (for example, findings which are currently not collected will be available to the primary care physician). Reduction in referrals to secondary health care level is expected with the introduction of A5 referrals related to consultations without patient presence. Developing and linking the financial software applications of hospitals will enable easier access to specific operating data of hospitals (financial, material, personnel, etc.).

Through the **new model of contracting primary health care**, incentives were introduced to prescribe medicine within the defined rate and according to the type of population in the care of individual physician. Prescribing is electronically monitored every day, in view of the fact that e-prescription was introduced nationally and that 98 % of all medicines are prescribed electronically, providing the information to which patient was prescribed which medicine by which physician, at all times. The Croatian Health Insurance Fund implements continuous control of prescribing medicines in primary health care facilities based on the established medicine prescription index per team, and conducts trainings for doctors who over-prescribe medicines. Special panels for monitoring the prescribing of antibiotics and polypragmasy increase the efficiency of such prescribing and reduce the cost. The consumption of particularly expensive medicines is contracted with each hospital as a separate item and monitored through monthly reports, in order to control spending. More complex control of authorization to apply for particularly expensive medicine, initiated by hospital's medical specialist, was also introduced. Such proposal is submitted to the hospital committee for medicines of the institution in which treatment shall be received. If the hospital committee approves the proposed treatment, the hospital will initialize the procurement of medicine and start treating the patient. Medical documentation is submitted to the Health Insurance Fund accompanied by the opinion of the hospital committee for medicines. After receiving due documentation, the Health Insurance Fund will inspect whether the application of medicine is in accordance with formulary guidelines. If the application complies

with formulary guidelines, the medicine will be reimbursed under specially contracted clause for particularly expensive medicine in due health care institution. If the application does not comply with due guidelines, the cost of application of such medicine will be charged to endowment within the hospital budget. Public tendering procedure for determining the reference prices of medicines is expected to decrease expenditures of medicines in 2015 in the amount of HRK 100 million (last published list of medicines with established reduced prices was published in February 2015 and should demonstrate the effect in medicine consumption). Through the new model of contracting primary health care, incentives to prescribe temporary incapacity for work within the defined Health Insurance Fund rate were introduced. In addition, the Croatian Health Insurance Fund continuously monitors instances of temporary incapacity for work (sick leave) in general/family practices as both regular controls and, on request, unscheduled controls, all with the aim of reducing the rate of temporary incapacity for work (sick leave) to an optimum level. Since significant savings were already achieved in 2013 and 2014 by incorporating a series of measures and activities, as well as number of actions related to supervision and control of prescribing the temporary incapacity for work, it is not realistic to expect the continuation of the trend to significantly reduce expenditures every year (especially when taking into account the current economic situation in which employed persons are more reluctant to take sick leave in order to keep their job). The Croatian Health Insurance Fund will work on maintaining the trend to increase savings by conducting regular controls and actions related to the control of temporary incapacity for work, which should lead to the lowering of expenditures by 3-5 %. The savings planned for 2015 amount to HRK 50 million.

Strengthening the role of primary health care should lead to reduction in the number of referrals to specialist/conciliar health care, as well as reducing 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 health care (family medicine, gynaecology, paediatrics, polyvalent dental medicine), and referral to specialist/conciliar health care. For this purpose, it is planned to equip primary health care facilities with diagnostic and therapeutic equipment, mainly in deprived areas, as well as small scale infrastructural interventions in primary health care facilities and health care centres by using HRK 140.6 million from EU funds.

Compared to the 2014 budget, the budget for health care in 2015 projects a reduction of HRK 1.19 billion and, at the same time, the increase in liquid funds for key areas such as providing health care in hospitals, caused by reductions in previous years which fully demotivated savings and caused new debts (Annex 4 Financial plan of the health care system 2015-2017).

Table 4.4.1 Plan for repayment of due health care system liabilities

Liabilities due	31.12.2014	2015		2016		2017		TOTAL
		30.6.2015	31.12.2015	30.6.2016	31.12.2016	30.6.2017	31.12.2017	
Croatian Institute for Health Insurance	933,752,946	600,000,000	362,000,000	100,000,000	0	0	0	
Hospitals	1,735,541,742	1,700,000,000	1,656,565,590	1,200,000,000	900,000,000	400,000,000	0	
Other health care institutions	180,873,316	130,873,316	80,873,316	0	0	0	0	
<b>TOTAL</b>	2,850,168,004	2,430,873,316	2,099,438,906	1,300,000,000	900,000,000	400,000,000	0	
Repayment of debts		-750,729,098		-1,199,438,906		-900,000,000		-2,850,168,004

Outstanding liabilities (the total of HRK 2.85 billion at the end of 2014) are to be repaid in full by the end of 2017, with no further help (financial rehabilitation) from the State Budget, pursuant to the schedule presented in Table 4.2. It is planned to recover HRK 750.7 million of old debts in 2015, more than HRK 1.2 billion in 2016, and the rest of the HRK 800 million outstanding obligations in 2017. It is intended to enforce the statutory payment deadlines of 60 days throughout the health care system as of 31 December 2017. Detailed explanation of the repayment of outstanding obligations in health care by 2017 can be found in Annex 5.

**Human resources management** harmonised with particular demands of health care system, scheduled education and training, financing of deficient medical sciences experts, particularly in deprived areas, and the establishment of continuous training of health care professionals will be defined by the National Plan to Develop Human Resources which should be adopted by June 2015. Alongside the National Plan, the National Health Care Provider Registry was established. The Central Body for planning and management of human resources, which should be appointed by the end of this year, will be essential in addressing the planning of human resources infrastructure throughout the health care system. This year's plans include financing of scarce specialisations (family medicine, gynaecology, paediatrics and emergency medicine) in deprived areas, through which specialisations and scholarships will be offered to practitioners for coverage of life expenses in order to encourage them to work in these areas. In addition to the above, EU funds in the amount of HRK 266 million are to include the implementation of e-learning for health care professionals. All of the above should improve the availability of health care services.

## Reform of the social benefits system

### Measures

1. Consolidation of social benefits through Guaranteed Minimum Benefit (GMB)
2. Consolidation of social benefits through the One Stop Shop

Continuation of the implementation of reform measures in this area aims at **increasing the efficiency of the system** of social benefits, further **stimulation of activation of inactive and unemployed persons**, strengthening **transparency of the system** and **increasing the adequacy of social welfare benefits**. This will be achieved with consolidation of social benefits through the Guaranteed Minimum Benefit (GMB) and One Stop Shop

The ultimate objective of consolidation of social benefits through Guaranteed Minimum Benefit (GMB) is creation of a **Guaranteed Minimum Standard (GMS)**, a new kind of benefit which will ensure higher and better level of protection of the poorest groups in society.

By the end of June 2015, the Government will adopt the **Action Plan for Consolidation of Social Protection System for the period 2015-2018**. Action Plan shall address the social welfare benefits with their expenditures and program beneficiaries, as well as tax policy measures. The Action Plan shall cover the current situation in the area of benefits at levels of central government and LC(R)SGUs, distribution of social welfare expenditures per groups of beneficiaries, conditions and criteria to exercise the rights and the role of social planning at local and regional level. Furthermore, the Action Plan shall present recommendations for rationalisation and the future role of social welfare benefits, i.e. integration of benefits and programs in the future period.

Within this Action Plan it shall be determined which benefits will become part of the Guaranteed Minimum Standard (GMS) and in which time period, which benefits would effectively protect the most vulnerable beneficiaries; further handling of benefits and allowances that are not covered by GMS; which benefits are to be transferred to the One Stop Shop for administration and in which time period, and to which benefits the criterion for means-testing would be applied. Since the aforementioned changes imply modification of acts and subordinate legislation, the Action Plan shall cover elaboration of workflow of amendments to legal regulations for each benefit.

The objective sought to be achieved is **more equitable distribution of resources** of the social welfare system to the most vulnerable citizens by consolidating benefits, **simplifying the procedure of realisation of benefits** and **harmonizing the criteria for their exercise by introducing**, where opportune, the process of **means-testing**. Transparency of the system, greater control and cost savings shall also be established through establishment of benefits administration from a single point and data exchange with other systems through a single application.

Savings which will be achieved on the basis of the consolidation of the system are estimated at 15 % of total funds for benefits that will be consolidated under the GMS and their administration on an annual basis.

During the following period, implementation of activities aimed at consolidating social benefits through a **One Stop Shop** shall continue in order to establish a single administrative point in relation to the citizens and to strengthen the control system of social payments. This also implies administration through a single application. Funds for implementation are ensured through a World Bank loan IBRD8426-HR. During 2015, amendment of relevant acts (Social Welfare Act, Act on Maternity and Parental Benefits in the part regarding the transfer of authority for issuing decisions to acquire rights from Croatian Pension Insurance Institute, Croatian Health Insurance Fund and social welfare centres to the One Stop Shop, Act on Mediation in Employment and Rights during Unemployment and Act on Child Allowance) is planned, which will enable further operationalization of the One Stop Shop.

In 2015 all necessary technical preparations shall be executed with the aim to equip the offices of state administration and educate their employees about all skills that are necessary for quality administration of Guaranteed Minimum Benefits through the One Stop Shop. Administration of other benefits (maternity and parental benefits, unemployment benefits, child allowances, etc.) shall be introduced continuously during 2016 and 2017.

With consolidation of GMB, maternity and parental benefits, unemployment benefits and child allowances through One Stop Shop (in the first phase of consolidation until 2017), we expect savings in the amount of HRK 600 million per year.

## 4.2. Resolving weaknesses in public sector governance and increasing public sector efficiency

### Improving the functioning of public administration

#### Measures

1. Rationalisation of the system of legal entities with public authority and unified legal regulation thereof
2. Rationalisation of regional units of state administration central bodies
3. Commencing the process of functional, fiscal and territorial decentralisation aimed at rationalisation of the LC(R)SGU system
4. Revision of wage setting and regulation of the system of salaries in public administration and public services
5. Improve human resource management in public administration
6. Improve the e-business of public administration and provision of electronic services for citizens and businesses
7. Development of the Open Data Portal at the web address data.gov.hr

In accordance with the findings of in-depth analysis of business operations of agencies, institutes, funds and other legal persons with public authorities, the Government is initiating the **rationalisation of the system of legal entities with public authorities and unified legal regulation thereof**. The Government commits to reduce their number by at least 15 %, as well as to introduce a unique law that lays down and regulates criteria for their establishment, internal organisation, operation and supervision by October 2015. Action Plan for implementation of the rationalisation of the system of legal entities with public authorities of agencies shall be established by May 2015, which will reduce the number of agencies by 9 from the existing 57. The list of agencies involved in a merger, for which an assessment of the savings due to status change was prepared, is shown in Table 4.3.1.

Table 4.6.1 List of agencies involved in a merger

Name of Agency	Merging institution	Competent Ministry	Estimated reduction of operating costs in 2016 (in million HRK)
<b>State Institute for Nature Protection</b>	Croatian Environment Agency	Ministry of Environmental and Nature Protection	2.15
<b>Croatian Standards Institute</b>	State Office for Metrology	Ministry of Economy	0.7
<b>Croatian Accreditation Agency</b>	State Office for Metrology	Ministry of Economy	
<b>Croatian Metrology Institute</b>	Ruđer Bošković Institute	Ministry of Science, Education and Sports	0.4

<b>Agency for Vocational Education and Training and Adult Education</b>	Croatian Education and Teacher Training Agency	Ministry of Science, Education and Sports	2.6
<b>Agency for Science and Higher Education</b>	National Centre for External Evaluation of Education	Ministry of Science, Education and Sports	1
<b>Agency for Regional Development</b>	Central Finance and Contracting Agency for EU projects	Ministry of Regional Development and EU Funds	1
<b>Agency for Inland Waterways</b>	Croatian Waters	Ministry of Maritime Affairs, Transport and Infrastructure, Ministry of Agriculture	10
<b>Croatian Food Agency</b>	Croatian Veterinary Institute	Ministry of Agriculture, Ministry of Science, Education and Sports	6.5

It is estimated that with reduction of material expenditures and status changes in 2015 and 2016, a total of about HRK 500 million will be saved in the budget. Amendments to acts under which agencies and other legal entities with public authorities have been established, as well as establishment of a single legal framework, shall ensure the supervision of financial operations of agencies and other legal entities with public authorities. Implementation of rationalisation will reduce labour costs and accelerate decision-making, which will ultimately enable better provision of services to other bodies of state administration and private sector.

**Rationalisation of regional units of central state administration bodies** shall also be implemented and their number shall be reduced by 20 %. In this way, the fragmentation will be reduced and efficiency of treatment of citizens will be increased. By January 2016, on the basis of functional and fiscal analysis of regional units and setting the criteria for merging the same with state administration offices, the merging process of first instance state administration offices and state administration offices in counties shall commence, starting with the regional units that perform inspections. Implementation of these measures will save about HRK 25 million in 2016, while transfer of authorities to settle first instance cases from ministries to state administration offices shall provide more effective treatment of citizens by the state.

Division of responsibilities and decentralised public services is suboptimally distributed to a total of 576 municipalities and cities at local level and counties at regional level, which in many cases fail to successfully ensure effective implementation of public functions in their jurisdiction due to level of their development, fiscal and administrative capacity or size. Therefore, the process of functional, **fiscal and territorial decentralisation aimed at rationalisation of the system of local and county (regional) self-government units shall commence. Incentive mechanism of voluntary mergers and better coordination of LC(R)SGUs** shall be established by October 2015, along with parallel development of the new, more rational model of distribution of tasks and authorities regarding activities of LC(R)SGUs, based on the assessment of fiscal capacity and size. For instance, this incentive mechanism could be based on the redistribution of tax revenues, in such a way to ensure additional revenues to units which decided to merge

and/or jointly provide public services according to the needs and with direct positive effects on citizens and business entities.

Efficiency in provision of various public services and performance of public functions is low due to excessive rigidity in the organisational structures and inappropriate system of salaries in the public sector, which does not stimulate or reward the achievement of results. In-depth analysis of expenditures for employees who are paid from the State Budget, from March 2015, pointed to unfairness and lack of logic in the system of salaries, and therefore the **revision of wage setting and regulation of the system of salaries in public administration and public services**, i.e. implementation of the comprehensive reform of the system of salaries shall be initiated and is to be implemented in the medium-term. The aim is to establish the system of salaries in the civil service, legal persons with public authorities and public services in accordance with the principles of transparency and unified approach to equal remuneration for equal work, through introduction of pay grades and variable parts of salary, which will allow the differentiation of higher quality and lower quality work.

The objective, method and structure for revision of the system of salaries in public administration and public services according to common principles shall be determined on the basis of expert analytical background and results of discussions between social partners and the interested public. Basic thesis of the Proposal of the Act on Salaries are presented in Annex 6. Simulation of existing jobs in public administration and public services according to the new classification shall be prepared by September 2015. The new Proposal of the Act should be submitted to parliamentary procedure in October 2015. Adoption of the new Act on Salaries in Public Administration and Public Services, which is planned by March 2016, shall provide a unified approach to equal remuneration for equal work and establish common basis and framework for regulation of pay grades and variable parts. The objective is to improve coordination of collective bargaining in the public administration and public services and to ensure consistent application of bargaining standards in all areas of public administration and public services. It is important to point out that financial savings are not the motive of these changes. The motive is creation of more efficient and more professional staff in state administration and public services.

Another objective is to **improve human resource management in public administration**. The number of members of the Civil Service Committee shall increase, which will accelerate the procedures for addressing complaints in the employment process, while the adoption of the Act on the Amendments to the Civil Servants Act shall abolish Civil Service Tribunals, which will shorten the process of employment in the civil service. Analysis of competencies required for performance of public administration activities shall be made, and development of the competence framework for employees in public administration shall in the medium term define the key competencies of employees and officers in all work positions in the public administration, which will contribute to the overall professionalization of public administration.

**E-business of public administration and provision of electronic services for citizens and businesses shall be improved.** As a basis for further development of e-services for citizens and businesses entities, e-Croatia 2020 Strategy shall be adopted by November 2015, as a precondition for providing electronic services in public sector. Commencement of issuing e-ID cards is planned in September 2015. Further development of e-citizen system shall enable reliable and easy use of online services for citizens, with identity authentication mechanism. Application of e-signatures and introduction of e-invoices in business operations of state administration bodies, as well as obligation of issuing structured e-invoices to business sector by April 2016, shall facilitate the communication of the users of administrative services with public legal bodies, while the full implementation of e-Business, which is planned in December 2016, shall improve the provision of electronic services to businesses entities.

A central online **Open Data Portal** (at the web address data.gov.hr) shall be established by May 2015, with at least 100 data sets, which will provide citizens with easier search of open data in public sector, intended for reuse.

## Improving the management of public companies

### Measures

1. Redefine the concept and scope of state property records
2. Establish a system for reporting on business operations for companies owned by one or more LC(R)SGUs
3. Reducing the state portfolio of companies
4. Define and publish specific company targets for the purpose of conducting responsible business operations and strengthening the performance assessment of companies
5. Strengthen the competence requirements for candidates and transparency in the management board appointment process of companies in state ownership

In order to strengthen the **financial supervision of companies owned by LC(R)SGUs**, the amendments to the Act on Sound Management of Public Property will **expand the scope of public property** in a way that companies governed by LC(R)SGUs will constitute basic part of the companies owned by the state. The amendments to the Act on Management and Disposition of the Property Owned by the Republic of Croatia and the adoption of the Regulation on the organisation, procedure of maintaining and the contents of the Central Registry of State Assets, scheduled for July 2015, will prescribe the obligation to submit financial information pertaining to companies governed by local and regional self-government units and their affiliated companies to the Ministry of Finance. The method of reporting will be prepared by July 2015 and will include, in addition to data on financial operations and results, the number of employees, the cost of labour, current investments, future restructuring plans, etc.

**Reduction of the state portfolio of companies** will continue, which refers to the companies of special interest in which the Republic of Croatia has majority or minority shares, and other companies in which the Republic of Croatia has business shares and stocks, and whose management is under the responsibility of the Restructuring and Sale Centre (RSC). The amendments to the Decision of the Government of the Republic of Croatia on Establishing the List of Companies of Strategic and Special Interest for the Republic of Croatia whose adoption is expected in June 2015 will reduce the number of companies of special and strategic interest. By September 2015, additional options shall be determined for offering of minority packages of shares on the stock exchange of companies of strategic and special interest.

**One of the key objectives is to define and publish specific company targets for the purpose of conducting responsible business operations and strengthening the performance assessment of companies.** Clear medium-term objectives and performance measurement indicators shall be set, which will strengthen transparency and responsibility of the state as the owner in the state property management, and level of managerial salaries and remunerations shall be associated with success in achieving the set objectives. The establishment of clear objectives and success monitoring indicators in public companies will contribute to strengthening the transparency and accountability of the state as the owner in public property management process. A pilot project shall be implemented from May to October 2015 with the aim to create transparent medium-term business goals for a small number of companies in majority state ownership, which will be based on comparison of performance indicators in meeting the objectives of similar

companies. Based on the pilot project, the Action Plan for the establishment of medium-term business objectives in companies with majority state ownership shall be adopted by the end of 2015.

Also, **competence requirements for candidates and transparency in the management board appointment process of companies in state ownership shall be strengthened.** Decree on the Selection and Appointment of Management and Supervisory Board Members, whose entry into force is expected in June 2015, provides the framework for hiring a headhunting agency to assist in finding candidates whose qualifications best meet the needs of a company. For this purpose, Guidelines for companies in state ownership for developing internal acts for linking the amount of compensation and remuneration with performance measurement in achieving set medium-term goals shall be drafted by June 2015. The Code of Corporate Governance for companies in majority ownership will be similarly adopted by September 2015.

### 4.3. Promoting growth, external competitiveness and re-establishing balance in the Croatian economy

#### Reducing the administrative burden and business costs for companies

##### Measures

1. Measuring the administrative burden on the economy by applying the 'Standard Cost Model' (SCM) methodology
2. Reduction of para-fiscal levies

The continued measurement of administrative burdens using the SCM methodology in the field of regulations from the economy domain is one of the key measures for improving the business environment in 2015. Pursuant to the results of the pilot project, the **Plan for the implementation of measures to reduce the administrative burden by 20 % in pilot areas (trade and real estate) by the end of 2015** will be adopted in May.

An additional 5-7 regulatory areas relevant to the economy will be defined to further remove administrative burdens and measurements using the SCM methodology will be performed in said areas during 2015 and 2016. Priority will be given to regulatory areas governing the starting of business, i.e., the registration of establishment for companies and crafts, work and work safety, the marketing of products, renewable energy sources, construction, administrative procedures, etc.

In May 2015 the Government will issue a decision determining the regulatory areas for the implementation of further measurements. After establishing the aforementioned priority areas, an **Action plan for the expansion of SCM measurements to identified regulatory areas** will be adopted in June 2015. At the end of 2015 the Government will adopt the **Plan for the implementation of measures to reduce the administrative burden by 20 % in stated priority regulatory areas by the end of 2016**.

The establishment of a horizontal model for the continuous implementation coordination of the business environment reform using the SCM methodology is planned for June 2015 with the Government's Coordination for Economic Affairs being appointed as a coordinating body.

This measure will improve planning and decision-making on public economy policies and remove administrative burdens which present a major financial and time burden for the economy.

##### Reduction of para-fiscal levies

In the field of para-fiscal levies, the **Decision of the Government on the reduction of para-fiscal levies in 2015 and reduction goals in 2016 and the establishment of the Commission for the monitoring of implementation of the reduction of para-fiscal levies** establishes liability for the reduction of such levies in the amount of 0.1 % of gross domestic product from 2014 during 2015 and an additional 0.1 % of GDP in 2016.

A list of para-fiscal levies has been established for reductions to be implemented in 2015 and for which amendments to the regulations which govern these para-fiscal levies will be adopted by 1 January 2016,

reduction of which has been established in the amount of HRK 278 million (Table List of parafiscal levies with the established reduction value in 2015).

Parafiscal levies within the jurisdiction of the Ministry of Environmental and Nature Protection will also be reduced in 2015 in the amount of HRK 69 million and levies of the Ministry of Health in the amount of about HRK 2 million.

Commission for the monitoring of implementation of the reduction of para-fiscal levies will establish by September 2015 additional para-fiscal levies to be reduced in 2016 and will, after establishing the target group of para-fiscal levies, assume liability for their abolition in the amount of 0.1 % in 2016.

Furthermore, in order to simplify the **collection of quasi-fiscal levies**, the Commission will identify opportunities for a unified collection of para-fiscal levies by the end of 2015. In order to increase the transparency of the **Register of Para-fiscal Levies** it will be **published** on the Ministry of Finance website by June 2015, and will include a list of all levies that are part of entrepreneurs' operational business expenditures.

Therefore, reducing the entrepreneurs' operational business expenditures by reducing the para-fiscal levies will enable the possibility of reinvesting funds which would encourage the growth and development of the private sector.

Table 4.8.1. List of para-fiscal levies with established reduction value in 2015

<b>Name of para-fiscal levy</b>	<b>Competent Ministry</b>	<b>Targeted levy reduction level (%)</b>	<b>Estimated reduction of payments (in HRK millions)</b>
<b>Water contribution</b>	Ministry of Agriculture	25	40
<b>Membership fees for Croatian Chamber of Economy</b>	Ministry of the Economy	10	15
<b>Membership fees Croatian Chamber of Trades and Crafts</b>	Ministry of Entrepreneurship and Crafts	10	4.3
<b>Membership fee for Tourist Boards</b>	Ministry of Tourism	15	30
<b>Fees for the education on hygiene for staff who work in direct contact with food</b>	Ministry of Health	50	7.6
<b>Medical examinations for the germs carrier state of persons who should be under med. supervision</b>	Ministry of Health	50	42

<b>The annual fee for the use of public roads</b>	Ministry of Maritime Affairs, Transport and Infrastructure	10	100
<b>Packaging and packaging waste fee</b>	Ministry of Environmental and Nature Protection	7	30
<b>Revenue from monument annuity</b>	Ministry of Culture	10	10

## Improving the quality of new legislation

### Measures

1. Strengthening the legislative planning and coordination in the adoption of regulations on a national level
2. Strengthening the Regulatory Impact Assessment system

Increased predictability of the business environment will be achieved for the corporate sector by strengthening the legislative planning and coordination in the adoption of regulations on a national level. In order to enable **controlling of unplanned normative activities**, Amendments to the Rules of Procedure of the Government adopted by May 2015 will **increase jurisdiction of the Coordinating Committee for the Economy, Investments and EU funds and the Coordinating Committee for Internal Affairs and State Property Management** in terms of controlling the timely implementation of the Annual Plan of Normative Activities and exceptional referral for adoption of unplanned legislative proposals, while respecting the Regulatory Impact Assessment Procedure. In accordance with Amendments to the Rules of Procedure, central state administration bodies will be able to propose the expedited adoption of acts when required by particularly justified reasons, specifically justified within the proposal, or if the expedited adoption of acts fulfils obligations arising from the implementation of the National Reform Programme for the current year. Extending the jurisdiction of the two aforementioned Coordinating Committees will increase the control of exceptional referrals for adoption of unplanned legislative proposals, which will **reduce the number of unplanned acts in 2015 by 25 % compared to 2014, and by 50 % in 2016 compared to 2014.**

In the context of better planning of legislative activities, mechanisms for ex-post act impact assessment will be introduced, and on the basis of the application evaluation of the Regulatory Impact Assessment Act for the three-year period (2015-2015), recommendations for improving the legislative framework of the Regulatory Impact Assessment will be developed by October 2015.

In order to reduce the adverse legislation impact on small and medium enterprises (SMEs), 'SME testing' is expected to be introduced by December 2015 as a mandatory procedure in the regulatory impact assessment on SMEs.

To familiarize participants involved in the process of adopting normative activities with the use of analytical tools in the regulatory impact assessment, including the SCM methodology and SME testing, educational cycles will be implemented through the Twinning Light project '**Capacity building for the implementation of Regulatory Impact Assessment Strategy for the period from 2013 to 2015**' for which EUR 225 000 has been allocated from the IPA component 1.

## Strengthened framework for the implementation of bankruptcy proceedings

### Measures

1. The strengthened framework for the implementation of bankruptcy and pre-bankruptcy proceedings of entrepreneurs for the purpose of facilitating debt restructuring
2. Establishment of a consumer bankruptcy/personal bankruptcy system

**The adoption of the new Bankruptcy Act will strengthen the framework for the implementation of bankruptcy and pre-bankruptcy proceedings** which will encourage sustainable entrepreneurs to perform restructuring at an **early stage** to prevent insolvency and removal from the market of entrepreneurs who are not insolvent.

The biggest change is that initiating and managing pre-bankruptcy proceedings falls under court jurisdiction only when it is objectively possible and probable that the debtor, with the partial write-off of debts, can continue to operate. On the other hand, in accordance with legal requirements, the bankruptcy proceedings will be initiated ex officio after 120 days of blockade.

**Limiting the time** period within which an insolvent debtor can operate increases the ability to collect debt which will lead to an increased and improved protection of creditors and more efficient management of bankruptcy proceedings. At the same time, possibility of implementing a bankruptcy plan is again introduced, i.e., the **ability to reach a settlement (reorganization) after the initiation of bankruptcy proceedings**, creating an additional possibility for the debtor to continue with business activities. Continuous **monitoring and analysis of the effectiveness of the new Bankruptcy Act** and the judicial system burden is also planned as an essential sustainability element of the entire system of effective handling of insolvency and the deleveraging process.

Establishing a **quarterly monitoring and analysis system of the effectiveness** of the new Bankruptcy Act and efficiency of Commercial Courts in its enforcement involves the following actions:

1. specifying a person/team to track effectiveness
2. determining monitoring criteria based on data from e-files: burden on Commercial Court judges from bankruptcy (and other) proceedings, the number of new bankruptcy cases sorted by groups (preliminary bankruptcy proceedings, bankruptcy proceedings, shortened bankruptcy proceedings), number of resolved bankruptcy cases and resolution methods as well as duration of such proceedings.
3. establishing communication with courts for early detection of possible deficiencies in regulations and/or application thereof
4. monitoring judicial practices (collection and analysis of first and second instance decisions)
5. monitoring subjective impressions on the effectiveness of bankruptcy proceedings (surveying involved parties and judges conducting the proceedings)
6. making recommendations for improving the proceedings

Adoption of the new Bankruptcy Act is expected in May 2015 and its entry into force on 1 July 2015.

The adoption of the **Consumer Bankruptcy Act** will enable the introduction of consumer bankruptcy in case of his **insolvency**, or if the consumer cannot meet one or more of his outstanding financial obligations, totalling more than HRK 30 000, for more than 90 consecutive days.

The Act provides for the introduction of a new consumer bankruptcy institute which would enable citizens to reschedule their obligations and creditors to uniformly collect claims out of court, i.e., via extra-judiciary procedures. The introduction of such amicable resolution of relationships between consumers and creditors will reduce the number of insolvent citizens and involvement of public institutions and will ultimately lead to the **disburdenment of courts**. Adoption of the Act in the Parliament is expected by June 2015, and its entry into force by September 2015.

#### 4.4. Other reform measures

Measures will be implemented in the domain of public finance relating to the **improvement of budget planning** and measures for **improving tax collection efficiency and tax policy impact on economic activities**.

In order to improve the fiscal effect as an essential element for improving the creation of total budget expenditure limits, the **improvement of the Standard Methodology Form for Fiscal Effect Assessment** (PFU Form) is planned together with the introduction of systematic selection of capital projects on the basis of clearly defined criteria. This measure will be operationalized through Amendments to the Decision on the Standard Methodology Form for Fiscal Effect Assessment which will be adopted in the second quarter of 2015 and by issuing a regulation of the Government which will stipulate the assessment method and the approval process for investment projects by the end of 2015.

Further activities are planned within the framework for **improving the efficiency of the Tax Administration** (TA), in the part related to risk management in tax proceedings, where the introduction of highly automated process of risk management of established tax liabilities and taxpayers is planned. The project is financed by a loan granted by the World Bank.

The aforementioned measure will be implemented in several phases during 2015, which will include the analysis and definition of risk in determining tax liabilities and taxpayers, followed by a gradual implementation of a risk management system for each tax type, risk identification in all relevant tax forms and creation of a reporting system. Preconditions for changing all business processes related to activities of the Tax Administration will be created through the project's implementation which will contribute to transparency and efficiency of Tax Administration activities.

With the purpose of improving **instruments for combating illegal employment**, a more active involvement of the Tax Administration is planned through the adoption of the Action Plan which will define the area of implementation and guidelines for combating all types of earning income by 'moonlighting' without legitimacy and payment of taxes (by the end of 2015). In implementing these measures the Tax Administration will collaborate with other institutions in possession of data essential for the proper establishment of tax liabilities, which include the identification of areas with a risk of illegal employment and methods of combating such undeclared employment, as well as the establishment of methods of communication with the public with regard to educating the public about the effects of undeclared illegal employment.

Further development of **e-communication with taxpayers** will aim to simplify the fulfilment of tax obligations by determining the methods and models of cooperation with stakeholders in the business environment.

In the preceding period, the Tax Administration has invested significant efforts in creating a partnership relations with taxpayers. The submission of almost all accounting applications can be performed electronically using the ePorezna system. Important notices are delivered to taxpayers via the ePorezna system. Further development of e-communication with taxpayers will aim to simplify the fulfilment of tax obligations by determining the methods and models of cooperation with stakeholders in the business environment. The goal of this cooperation is to identify areas that the taxpayers believe represent administrative burdens for business operations, identify ambiguities in the implementation of procedures, and enable reporting of such ambiguities and potential barriers. These measure will enable the timeliness of receiving necessary information for the implementation of procedures through the development of systems for providing binding opinions to existing and potential stakeholders in the business environment. A certain number of taxpayers will be able to enter into an agreement through horizontal monitoring that will enable them to properly fulfil tax obligations.

**Amendments to the Administrative Fees Act** are planned for 2015, regulating electronic payment of administrative fees regardless of the amount, the 'ePristojbe system'. The aforementioned represents one of the measures of the Government for establishing a quicker, more streamlined and easier communication between entrepreneurs and the public sector.

**Amendments to the Act on the Croatian Bank for Reconstruction and Development** (HBOR) are also planned so that this national development bank could support development priorities even more vigorously. The role and importance of the Croatian Bank for Reconstruction and Development has increased over the last few years during which commercial banks with operations in the Republic Croatia significantly reduced their lending activities. It is expected that the Croatian Bank for Reconstruction and Development will play a key role in the implementation of the Investment Plan in Croatia. The Draft of the Act proposes the inclusion of best European models and experiences to operational activities of national development banks. During its search for solutions, the Government has consulted with European Commission bodies, national development banks of other Member States and other European institutions. According to the new European System of National Accounts (ESA2010), the Croatian Bank for Reconstruction and Development is included in the government sector. Inclusion in the government sector has created major operational limitations for this institution considering that any increase in the debt of Croatian Bank for Reconstruction and Development also increases the total public debt (the inclusion of the Croatian Bank for Reconstruction and Development in the government sector has increased the public debt by almost 5 % of the GDP, up to 85 % of the GDP). This has greatly reduced the possibility of granting loans that are necessary for ensuring the economic recovery and development at the present time when credit activities of Croatian banks are reduced in scope.

**The system of using state property for the promotion of investments** will strive to ensure that the leasing and use of unused state property under favourable conditions is available to entrepreneurs who invest a minimum of HRK 10 000 000 in fixed assets and employ at least 5 new workers with university degrees. The goal of this measure is to increase investments in new economic activities and promote employment of highly qualified workforce.

The **Anti-corruption Action Plan 2015-2016** will establish priority implementing measures for achieving measurable results of neutralization of corruption risks in critical areas identified by the Anti-Corruption Strategy 2015-2020. With each activity, the competent bodies for implementation of planned activities shall be defined, along with clearly defined implementation deadlines, necessary financial assets and activity implementation indicators. Adoption of the Anti-corruption Action Plan will actively manage corruption risks

in public administration, units of local and regional self-government and other stakeholders of the Action Plan, with the main objective of preventing the realisation of corruption risks.

With regard to the current reorganization and restructuring of the judicial system in the Republic of Croatia as well as the commitment to the horizontal mobility of judges in courts exhibiting a sharp reduction in the influx of new cases, the number of judges of the Administrative Courts in Zagreb, Rijeka and Split will be increased in accordance with the **increase of efficiency of the judicial system, especially Administrative Courts**. The aforementioned should shorten the duration of proceedings before the Administrative Courts and reduce the backlog of pending cases.

Furthermore, **increasing efficiency of the judicial system in the field of civil and commercial law and improving civil proceedings** will possibly redefine the role of Commercial Courts, proceedings before Commercial Courts and the provision on costs of the proceedings and encouraging mediation. The goal is to increase efficiency while reducing the duration of the proceedings before the Commercial Courts, greatly decreasing costs, and reducing the load on the High Commercial Court of the Republic of Croatia in combination with the effects of the bankruptcy proceedings reform.

With regard to the reorganization of the judicial network during 2015 the **effects of its implementation** will be monitored and analysed and any inconsistencies will be timely removed.

In 2015, measures will be implemented for further improvement of the labour market. **Implementation monitoring and impact analysis of the Labour Act** shall continue, as well as drafting of the Rules in accordance with the Labour Act. Impact analysis of the Labour Act implementation shall focus on the areas of employers restructuring, flexible working time arrangements and flexible forms of work in the area of collective labour relations. Furthermore, **flaws in the system which encourage labour market segmentation** shall be identified by conducting statistical monitoring and inspection. **Implementation of measures for preventing occurrence of undeclared work** shall continue, especially in the segments of changes to regulations in the field of student work regulation and prevention of performance of unregistered activities, as well as systematic inspection of competent authorities.

Additional strengthening and targeting of incentives for **employment of disadvantaged persons in the labour market** (older persons, long-term unemployed and persons with low qualifications) through active labour market policy measures and increasing of incentives for hiring unemployed and inactive persons. The total amount for implementation of active labour market policy measures in 2015 is HRK 1.5 billion.

Commenced evaluation of the impact and active measures process shall continue in 2015, and its completion is planned by February 2016.

Furthermore, activities shall continuously be carried out with the aim of **including unemployed young people who are not in the education system to the labour market**. In accordance with the Guidelines for Development and Implementation of the Active Labour Market Policy in the Republic of Croatia for the period from 2015 to 2017, it is planned to include 24 050 young persons in active labour market policy measures in 2015. Establishment of a database for monitoring persons in NEET status shall significantly contribute to the above, and specific measures for admission and activation of these persons shall be developed according to that database.

The **process of restructuring of the Croatian Employment Service** shall continue in 2015 in order to improve the efficiency thereof. Restructuring shall continue to be focused on the establishment of a high quality individualised services of preparation and mediation regarding employment, and expansion of service network.

In order to **strengthen the career development system**, the Strategy for Lifelong Career Guidance and Career Development shall be adopted in 2015. It shall be continued with the development of the tool for professional orientation and career development ALMIS (*Advanced Labour Market Information System*) which connects data on employment, unemployment and education programs, shows rates of employment by occupation, salary, education program at the level of higher and secondary education and description of occupations. Programming of the Croatian Qualification Framework (CROQF) IT programme is currently in progress, and 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.

In order to improve the quality of the education system, the **National Curriculum Framework shall be established, as well as subject curricula** for primary education and secondary education (gymnasium programs, vocational programs and arts programs). **Extension of overall general compulsory education from 8 to 9 years** is planned, with the aim of extending the general education of the entire population of students, and acquisition of basic skills for further education and/or inclusion in the labour market. Furthermore, improving the quality of study programmes and other programs for initial and continuous education and training of teachers shall continue, which will contribute to **further professionalization of the teaching profession**.

With the aim of achieving better inter-sectorial connectivity between education and economy, further **harmonisation of educational programmes shall continue at all levels with relevant occupational standards and qualifications**.

Development of the **system for continuous monitoring of employability of graduates and complying study programmes with the needs of the labour market** shall continue on the basis of employability analysis performed on a group of graduates over a longer period and analysis of the relevance of study programmes in relation to occupations of graduates.

On the basis of the analysis on representation of traineeships within study programmes offered by higher education institutions in the Republic of Croatia, the **quality and scope of professional practice in study programmes shall be improved**.

Increase in the number of students enrolled in the STEM (*science, technology, engineering, mathematics*) field shall be stimulated by awarding scholarships to high school students who select degree programmes from the STEM field and by increasing the amount of grants scholarships for full-time students on relevant degree programmes from the STEM field.

In order to further encourage **involvement of adults in lifelong learning**, 70 short professional training programs are planned at the level of higher education intended for target groups on the labour market.

The **introduction of Joint Information System of Land Registry and Cadastral Data** at all locations is planned by the end of 2015 which will speed up procedures for registering property, harmonization of land registry and cadastre and will thus enable the full establishment of the *One Stop Shop*. The establishment of the *One Stop Shop* will enable electronic submitting of the request for the land registry registration through public notaries, attorneys and other legal entities and issuance of land certificates regardless of territorial jurisdiction.

The adoption of the Spatial Development Strategy of the Republic of Croatia is expected by December 2015. The development of the Information System of Physical Planning (ISPP) and its modules (e-permit, e-plans, e-catalogue, e-archive, and e-inspection) will continue for the purpose of enabling customers to easily submit electronic forms, receive information on the validity of certain documents and get insight into current resolution state of their cases.

Further development of the **Point of Single Contact** [www.psc.hr](http://www.psc.hr), and, as part of the Central State Portal, will enable faster access to information for starting a business in the services market and will contribute to the liberalization of the services market.

The establishment of the Unified Entrepreneurial Portal in January 2016 will enable integration of all available information on the operations of SMEs in a single location.

Enabling micro-loans for start-up beginner entrepreneurs, awarding grants under the Programme for the stimulation of business and trade and encouraging investments through warranty programmes will enable a more favourable access to financing for small and medium enterprises (SMEs), starting new businesses for unemployed persons and creation of new jobs. The amount of HRK 4.37 billion has been secured in 2015 for programmes for stimulating SMEs through property investments, awarding grants and guarantees.

The **Strategy of Broadband Access Development in Croatia for 2016-2020** is planned for adoption by December 2015. Co-financing from EU funds will enable the development of the **broadband access network in accordance with the National Framework Programme for the Development of Broadband Infrastructure** (NFP), with the objective of reducing the digital gap, inclusion in the digital society and achievement of the Digital Agenda for Europe objectives. NFP is an implementing programme which includes instructions and guidelines for LC(R)SGUs who are holders of individual projects, and also represents a state aid scheme for the construction of a broadband infrastructure in white NGN areas. The National Programme for Broadband Backhaul Infrastructure (NP-BBI), with the objective of reducing the digital gap, inclusion in the digital society and achievement of the DAE objectives, represents the National NGN Plan together with the NFP. Construction of the broadband backhaul infrastructure, on locations for which it is established that have no infrastructure with necessary capacities (white NGA areas), and connecting public institutions in targeted neighbourhoods. The plan is to adopt these programmes by October 2015.

The project for the establishment of a strategic planning system for the period of 2015 to 2016 will **establish an institutional framework for strategic planning** through standardized procedures for the preparation and monitoring of the implementation of strategic documents.

Within the context of **strengthening administrative capacity for managing EU funds**, tenders for recruiting 349 employees in accordance with the Decision of the Government of November 2014 will be implemented by October 2015. New training modules will be prepared by September 2015 and other training programmes will be continuously carried out for employees whose work activities include the management and control of use of EU funds.

Furthermore, in order to increase the **absorption of EU funds**, thereby accelerating economic growth, a plan for the use of Technical Assistance funds for the period 2015-2017 will be prepared within all operational programmes, regional coordinators for the implementation of education on a local and regional level related to the efficient preparation and use of funds will be selected and the number of on-the-spot checks by intermediate bodies will be increased. In order to simplify procedures for the submission of project

proposals, and thus secure a greater number of submitted projects, a **Joint National Rules for the Programming Period 2014-2020** will be adopted by May 2015 and the existing management information system will be enhanced in order to accommodate the requirements of the Programming Period 2014-2020.

Extending the jurisdiction of the **State Office for Central Public Procurement** for categories of postal services and the new electricity supply method by an additional 600 users (in addition to the existing four categories), as well as the application of **e-tendering through the Electronic Public Procurement Classifieds** will reduce costs and facilitate handling of cases for a large number of additional users of public procurement.

Further implementation of procedures related to the unified public procurement for telecommunications services in mobile and fixed telephony, and new methods of supplying electricity and postal services, with the overall value of about HRK 620 million (excluding VAT), are expected to incur **savings of about HRK 120 million** in the two-year period (2016 and 2017).

Additionally, the State Office for Central Public Procurement conducts regular public procurement procedures for 34 participants of the central public procurement, in other procurement categories, and execution of procedures in additional 12 procurement categories with a total value of about HRK 400 million (excluding VAT) is planned for 2015 with expected **savings of about HRK 60 million** (15 %) for the two-year period.

## 5. Progress towards National Europe 2020 Targets

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### 5.1. Target 1 — Employment

#### **Conclusion of the European Council 2010:**

To 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.

#### Strategic background

**Operational Programme 'Effective Human Resources 2014-2020'** has been adopted at the end of 2014. Its objectives are promoting sustainable and quality employment, supporting labour mobility, promoting social inclusion and combating poverty and all forms of discrimination. Two priority axis of five directly relate to employment increase.

In the period after Croatia's accession to the EU, active labour market policy measures have been further strengthened and harmonized, in accordance with Europe 2020 Strategy and EU strategic documents in the field of employment. In its **Programme Strategy for the period from 2014 to 2016**, the Government defined active labour market policy measures as an instrument to achieve more developed and competitive labour market, and adopted the **Guidelines for Development and Implementation of the Active Labour Market Policy in the Republic of Croatia for the period from 2015 to 2017**. The Guidelines serve as a basis for the use of EU funds, development of annual plans of all bodies implementing active labour market policy measures, as well as monitoring and reporting on the implementation of activities in accordance with Eurostat methodology.

**Restructuring Plan of the Croatian Employment Service** was adopted in September 2014, with the aim of greater activation of inactive population due to expansion of service network and the establishment of high-quality and individualized service of preparation and mediation regarding employment.

**Industrial Strategy of the Republic of Croatia 2014-2020** was adopted in October 2014. (NN, No. 126/14) which, among other things, anticipates the growth in the number of newly employed persons for 85 619 by the end of 2020, of which a minimum of 30 % are persons with higher education.

The **Act on the Amendments to the Contributions Act (NN, No. 143/14)** was adopted in November 2014, regulating a relief in the form of exemption from the commitment of paying salary contributions, for a period of 5 years, for those employers who enter into contract of employment for indefinite period with young persons. The objectives are keeping young persons in employment, safety of young persons from the position of demographic and social aspects, economic independence and safety of young persons, and involvement of people with NEET status in the labour market.

#### Achieved progress

Indicator	Previous value	Current value			Objective 2020
	2008	2012	2013	2014	

Employment rate of the total population, men and women, between the ages of 20 and 64, %	64.9	55.4	57.2	59.2	65.2
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Source: Eurostat

According to the latest available Eurostat <sup>4</sup> data, the employment rate increased by 2 percentage points compared to 2013, and for 2014 amounts to 59.2 %. The data also show that unemployment rate remains stable on annual level and amounts to 17.3 % for 2013 and 2014<sup>5</sup>. Subsequently to changes in medium-term projections, strategic documents and calibration of the Labour Force Survey, the national objective 2020 has increased to 65.2 % (explanation is in Annex 8).

### **Strengthening the efficiency and scope of active labour market policies**

The Interdepartmental Commission for Development of Guidelines for Development and Implementation of Active Labour Market Policy was established by the decision of the Government of the Republic of Croatia in August 2014. Guidelines for Development and Implementation of the Active Labour Market Policy in the Republic of Croatia for the period from 2015 to 2017 were adopted in December 2014. In June 2014, the Croatian Employment Service established a Working Group to define and create criteria for implementation of ALMP measures. This working group consists of representatives of the Ministry of Labour and Pension System, the Croatian Employment Service and social partners (trade unions, employers' associations, representatives of the Croatian Chamber of Trades and Crafts and Croatian Chamber of Economy).

In January 2015, the Croatian Employment Service reached a Decision on the conditions and manner of using the funds for the implementation of Active Labour Market Policy measures within their competence, which defines an increase in the number of participants in interventions in which the representation of less employable groups is higher (especially education of unemployed persons) and facilitated criteria for access to measures designated for older persons and long-term unemployed persons<sup>6</sup>. Intensity of aid for older persons and long-term unemployed persons has been strengthened (intensity of aid amounts to 50 %, noting that aid is higher for persons with disabilities and amounts to 75 %). Implementation of external evaluation of ALMP measures in Croatian Employment Service is currently in progress.

### **Youth Guarantee Implementation**

Council for Youth Guarantee Implementation Plan was established in September 2014. The Plan and method of data exchange for access to and monitoring of persons with NEET status were established in September. Youth Guarantee website was launched in November as central information portal on which employers and young persons have the possibility to quickly access all information related to opportunities regarding education, labour and employment, and other support options available to them upon choosing a career or entering the labour market<sup>7</sup>. YG National Campaign, promotion of youth employment stimulation measures and new fiscal reliefs for youth employment commenced in November. Communication with interested

<sup>4</sup> <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec420&plugin=1>

<sup>5</sup> <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec450&plugin=1>

<sup>6</sup> Registration in the unemployment register is sufficient for older persons to use aid, and if an older person is in period of notice based on reasons conditioned by business, the Croatian Employment Service may provide employment mediation services to such person and such person may immediately after expiry of the notice period be employed by a new employer who will receive the appropriate support for hiring such person. Access to public work is facilitated and access to aid for co-financing of education of persons employed in terms of introducing new technologies, higher standards and changes in employer's production program is made more flexible.

<sup>7</sup> [www.gzm.hr](http://www.gzm.hr)

persons was established in December through activated email address (gzm@mrms.hr). Criteria for implementation of the measure for vocational training without commencing employment were modified in order to ensure greater availability of measures to employers in private sector. The Decision on amendments to the Decision on the amount of financial assistance for unemployed person (from HRK 1 600 to 2 400) was adopted in November 2014, and Croatian Employment Service included the conclusions of this Decision in vocational training without commencing employment. Act on the Amendments to the Contributions Act was adopted. The Act regulates a relief in the form of exemption from the commitment of paying salary contributions, for a period of 5 years, for those employers who enter into contract of employment for indefinite period with young persons. Two new Centres for lifelong career guidance were opened in 2014 (total of 11 Centres for lifelong career guidance in 10 cities).

Table 5.1.1 The number of beneficiaries of active labour market policy measures in 2013 and 2014

	Jan-Dec 2013	Jan-Dec 2014
<b>Active labour market policy measures — total number of beneficiaries</b>	<b>53 656</b>	<b>56 632</b>
Employment aid	9 413	10 856
Self-employment aid	5 737	7 068
Training aid	337	148
Education of unemployed persons	2 132	2 149
Public works	15 405	6 777
Vocational training without commencing employment	19 322	28 039
Aid for Job Preservation	1 310	1 595

In 2014 there is an increase of 5.5 % regarding the persons who use active labour market policy measures in comparison to 2013. The largest increase of 45.1 % applies to vocational training without commencing employment, which is particularly important for young persons without work experience, who in this way acquire the first condition to increase their competitiveness in the labour market. Increase of 23.2 % in the use of aid for self-employment is also important, and this increase is explained by better Croatian Employment Service in providing support in counselling, assistance in drafting business plans and monitoring of new entrepreneurs in the first year of their business operation in order to prevent early closing of companies. However, analysis of business plans of persons who are entering into a self-employment process show the emerging trend of legalisation of business activities of persons who have, until now, conducted their undeclared business operations. Increase of 15.3 % is also recorded regarding the use of employment aid intended exclusively for real sector (this refers to actual employment in private sector since this type of reliefs amounting to 50 % of gross salary may only be used by private sector and in the period of one year) and 21.8 % regarding aid for job preservation. In 2014, entry into unemployment is reduced by 6.6 % (compared to the same period in 2013). In addition to reducing entry into the unemployment register in 2014, positive trends have also been recorded regarding exiting from the unemployment register. Exiting from the unemployment register was increased by 8.9 % in 2014. Entry into unemployment caused by dismissal of workers has been reduced by 17.7 %, while total employment rate increased by 3.8 % and employment based on labour relationship by 5.3 %. Based on the new fiscal relief for youth employment for an indefinite period, employers have concluded contracts of employment for indefinite period with 10 460 young persons until the end of March 2015. Vocational training without commencing employment recorded

total employability of 48.2 %, however this percentage is much higher regarding persons who attended vocational training in the private sector and amounts to 65.6 %.

Table 5.1.2 Active labour market policy measures implemented during 2014 with number of beneficiaries until 31 December 2014.

Measure	Active beneficiaries at the beginning of 2014	Newly included persons until 31 December 2014	Total number of beneficiaries during 2014	Active beneficiaries 31 December 2014
<b>TOTAL</b>	28 293	28 339	56 632	23 178
Employment and training aid	5 973	5 022	10 995	4 697
Self-employment aid	4 800	2 277	7 077	2 109
Education of unemployed persons	327	1 822	2 149	54
Public works	2 821	3 956	6 777	1 784
Vocational training without commencing employment	13 776	14 263	28 039	13 897
Aid for Job Preservation	596	999	1 595	637

### Other contributions to achieving the targets of EU2020 in the field of employment

#### Improving the efficiency of the pension system

It is expected that pension legislation shall have positive effect on retaining the insured persons in the labour market for a longer period of time and later retirement of such persons, which shall be encouraged by a gradual increase of age limit for retirement and early retirement pension for women, corresponding penalty of pensions in case of early retirement, i.e. increase of old-age pension in the event of later retirement, part-time working possibilities for beneficiaries of old-age pensions, changes in the definition of disability, acquisition and control of disability pensions, as well as broader use of vocational rehabilitation of insured persons with partial loss of working capacity. The number of new pension beneficiaries in 2014 increased by 2 700, i.e. 5.7 % compared to 2013. This increase is caused by continuation of unfavourable economic developments in 2014, which continue to adversely affect the trends in the pension system. In addition, due to announcement of the pension system reform, a certain number of insured persons retired at the end of 2013 rather than in 2014, and certain number of insured persons delayed their retirement and achieved retirement in 2014 instead of 2013, which affected the increase in the inflow of pension beneficiaries in 2014. Nevertheless, long-lasting positive trend of increasing average age and average pension service of new old-age and early pension beneficiaries continued during 2014, and this increase amounted to five or six months compared to 2013, which demonstrates longer retention of insured persons in the labour market and later retirement. Due to improvement of the implementation of medical expertise, the number of new disability pension beneficiaries in the last three years has been reduced several times in comparison to the previous period, which to some extent affected the increase in the inflow of early and old-age pensions in this period.

## Measures to achieve the objective

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

The Ministry of Labour and Pension System, in collaboration with its implementing body Croatian Employment Service, continuously during 2015 promotes fiscal relief for hiring long-term unemployed persons in accordance with the provisions of the Employment Incentives Act. Active labour market policy programmes are continuously being implemented in accordance with the Guidelines for Development and Implementation of the Active Labour Market Policy. Due to the circumstances in which employment of older and long-term unemployed persons is becoming more difficult, a special focus of measures is oriented towards their activation through additional education or employment on the basis of facilitated criteria and greater aid intensity. Contracting of active labour market policy projects financed by the ESF shall commence at the end of 2015. At the beginning of 2016, the 'External evaluation of the active labour market policy measures in the Croatian Employment Service' project shall be completed to determine the efficiency of the measures and the effect on employment opportunities for the purpose of preparing the basis for further development and enhancement of active labour market policy.

### **Improving labour market outcomes for young persons who are not in employment or part of the education system**

At the end of November 2014, Croatia submitted to the European Commission the number of participants in Youth Guarantee (YG) programme using the table of indicators for monitoring its implementation. Operational Programme 'Effective Human Resources 2014-2020' was adopted in December of 2014, within the framework of which YG projects shall be financed. Defining of criteria and methodology for selection of operations is currently in progress, as well as drafting a summary of operations, whose approval is the foundation for further development of tender documentation within OP EHR. Report on the status of the implementation of measures within 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 April 2015. National campaign aimed at visibility and accessibility of measures, activities and projects of YG shall continue during 2015, as well as activities towards registered persons with NEET status that are being implemented by the Croatian Employment Service. In the first half of 2015, a database of persons with NEET status shall be established on the basis of which analysis of persons with NEET status shall be conducted, as well as preparation of measure for access and activation. By the end of 2015, 20 new Youth Centres shall be established within the Croatian Employment Service, which will consolidate the existing services of the Bureau specially adapted to young persons.

### **Improving efficiency of labour market institutions**

Employment of counsellors who collaborate with unemployed persons and employers shall continue. Additional trainings for counsellors are being conducted due to introduction of new services and specialisation of counsellors regarding specific groups in the labour market. At the same time, employment of new counsellors shall reduce the number of unemployed persons per counsellor, which will further contribute to the higher quality of service.

### **Strengthening of the career development system**

In order to strengthen the career development system, the Strategy for Lifelong Career Guidance and Career Development shall be adopted in 2015. It shall be continued with the development of the tool for professional orientation and career development ALMIS (*Advanced Labour Market Information System*) which connects data on employment, unemployment and education programs, shows rates of employment by

occupation, salary, education program at the level of higher and secondary education and description of occupations. Programming of the Croatian Qualification Framework IT programme is currently in progress, and 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.

### **Improving the efficiency of the pension system**

Introduction of the occupational pension system shall change the existing system of pensionable service with increased duration by the end of 2015. The existing list of professions and job positions to which pensionable service with extended duration is applied shall be revised with the purpose of decreasing the number of such professions by 50 %. The final objective of this reform measure is longer working life for people in these work positions or occupations.

## 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.

### Strategic background

**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:

- organizational reform of scientific organizations and modernization 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 organizations to applied research activities suiting the needs of industry and economy,
- supporting innovation and transfer of knowledge,
- 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 areas of development, research and innovation.
- supporting the implementation of socially-useful innovation.

Key strategic documents in the field of research and development have been adopted in 2014.

The **Strategy for Education, Science and Technology** has been adopted in October 2014 establishing the following six objectives in the area of science and technology: 1) Faster initiation of changes in the higher education and science system; 2) Internationally competitive public universities and public research institutes in Croatian higher education and research space that create new scientific, social, cultural and economic value; 3) Environment for enabling and encouraging interaction and transfer mechanisms of cooperation between the research community, innovative economy and social activities; 4) Universities, polytechnics and research institutes involved in smart specialization processes and related guidelines for technological development; 5) National research and innovation infrastructure with public access, with the inclusion and

connecting with the European infrastructure; 6) The increase of investments in research and development by improving the system of public funding and encouraging investments in research and development by business and social sectors.

**Industrial Strategy of the Republic of Croatia 2014-2020** was adopted in October 2014 on the basis of following four objectives: 1) The growth of industrial production volume at an average annual rate of 3 %; 2) Creation of 85 000 new jobs within the industry by 2020; 3) The increase of exports by 30 %; 4) Increase in productivity by 68 %. The strategy focuses on the most competitive sectors which are expected to grow.

**National Innovation Strategy of the Republic of Croatia 2014-2020** was adopted in December 2014 which will guide the long-term development and systematic promotion of innovation as the core values of economic performance and society as a whole. The Innovation Strategy will improve the innovation system, associated legal and fiscal framework, establish methods of communication and models of cooperation between the public, scientific-research and business sectors and procedures for applying results of scientific research in the economy and society. Adoption of Smart Specialization Strategy of the Republic of Croatia is planned by June 2015. The Strategy Draft was consulted with the European Commission.

### Achieved progress

Indicator	Previous value	Current value		Objective 2020
	2008	2012	2013	
Gross domestic research and development expenditure (GDRD) as % of GDP	0.88	0.75	0.81	1.4

Source: Eurostat

The selection and contracting of projects has been completed by the end of 2014 followed by the initial implementation of 19 projects within the grant scheme '**Capacity Building for Research, Development and Innovation**' from the Operational Programme Regional Competitiveness 2007-2013.

**Programme of state incentives for research, development and innovation for the period of 2015-2020** is currently being drafted. **Revision of rules governing the state incentives for research, development and innovation** was conducted during 2014. It included the standardization of criteria for granting incentives in accordance with EU directives (GBER), changing procedures and rules on state incentives and definitions for monitoring, evaluation and recovery of state incentives. The implementation of a pilot project involving the creation of applications for *online* submission of projects will begin in mid-2015.

The National Science Council and the National Council for Higher Education have merged into the National Council for Science, Higher Education and Technological Development. Members of the Council have been appointed in April 2014. The National Council is responsible for the development of the innovation system, scientific and technological activities, quality of research and monitoring the development and quality of higher education.

The Project planned to **improve the model for tracking statistics and indicators for monitoring research, development and innovation** is in the final stage of completion. The goal of this Project is to, among other things, establish a national information system for research, development and innovation (the

collection of statistical data, *input/output* analysis, capacity development (human and material), impact analysis, analytical tools for policy development and implementation activities, network tools and data collection, etc.). The Project will be financed from EU funds in the period 2016-2018.

An agreement on equipping centres with associated laboratories has been signed (Centre for Highpass Biomedicine Technology; Centre for Micro and Nano Science and Technology; Centre for Advanced Computing and Modelling and the laboratory of the Faculty of Civil Engineering) as part of the **research infrastructure development at the University of Rijeka campus**. The University of Rijeka is one of the best equipped research centres in the region that is able to conduct advanced research.

The construction and equipping of the new incubation centre within the Borongaj campus of the University of Zagreb is currently under way. The **BIOCENTRE** spans over 4 500 square meters, is designed for companies in the field of bioscience and biotechnology, and provides the necessary support for research and development in terms of infrastructure, incubation, technology transfer, education and networking. Planned BIOCENTRE infrastructure consists of business and laboratory spaces for small high-tech companies and the central laboratory for the development of bio-products. Opening of the BIOCENTRE is scheduled for June 2015. This Project is supported by financing from the EU funds.

A tender for submission of projects proposals for **research and development grant schemes** within the Operational Programme Competitiveness and Cohesion 2014-2020 is planned for 2015. The goal of grant schemes for entrepreneurs is to increase innovativeness of SMEs. The tender for the supply of services supporting the implementation of cluster initiatives within the framework of Croatian Competitiveness Cluster will support clusters and cluster initiatives with the aim of developing common and collaborative projects in the field of research and development and other related activities. The National project for the development of innovative industry networks and development of thematic innovation platforms has been identified as one of the priority areas and horizontal sectors within the Smart Specialization Strategy. Innovative industry networks will be focused on the development of long-term guidelines for research and innovation harmonized with the Smart Specialization Strategy and financed by private and public funds for research and development.

Furthermore, the following measures will be implemented in order to support the common European Research Area:

The **restructuring of public research organizations** is currently being executed for the purpose of rationalizing resources and raising the quality of teaching and research as well as accountability of public research institutions (by increasing efficiency, direct social influence and increasing transparency). Independent, international experts have performed evaluation and proposed recommendations for each institute in the period from July to October 2014. The fiscal effect analysis of potential restructuring measures on the State Budget has been concluded during 2014. The Government has adopted the Decision on establishing the Committee for drafting the model of restructuring of public research institutes in Croatia in December 2014. The Committee will develop a draft proposal of the restructuring model for public research institutes and submit the model to the Government for adoption.

**Seven Scientific Excellence Centres** have been announced (two in natural sciences, two in the field of biomedical sciences, two in the field of humanistic sciences and one in the field of social sciences). Agreements have been signed on cooperation in the implementation of activities between specific Scientific Excellence Centres and the Ministry of Science, Education and Sports. Tenders are currently being prepared

for funding scientific research activities of scientific excellence centres within the Operational Programme Competitiveness and Cohesion 2014-2020 framework.

**The Western Balkans Regional R&D Strategy** aims to strengthen cooperation among countries of the Western Balkans and establish a regional centre for the implementation of the Strategy in Croatia. The Declaration of the Ministerial Conference on Regional Strategy was signed in October 2013 and two meetings between countries participating in the Regional Strategy have been held with a view to draft the Contract on the Western Balkans R&D Centre - WISE. Preparations are underway for the signing of the Contract, while funding for the establishment of the Centre are allocated from the State Budget for 2015.

By signing the Agreement on the transfer of 'Unity Through Knowledge' fund programme in February 2014, the Croatian Science Foundation became responsible for monitoring and implementation of the Fund's programme. The Agreement on Merger of Croatian Agency for Small Business and Business Innovation Agency has been signed in April 2014. The **Second Technology Development Project** (STP II) has started the restructuring phase which was completed in early February 2015. New calls for project proposals under the Fund 'Unity Through Knowledge' and for the programme 'Cooperability' have been announced in early March. The total value of the Cooperability programme under STP II is EUR 1.4 million. New calls for proposals for programmes by the Croatian Agency for SMEs, Innovations and Investments whose value amounts to EUR 4.9 million have been announced in early February. The projects are supported by the World Bank.

Croatian Science Foundation announced in December 2014 the public tender for '**Partnership in research**'. This programme supports relevant scientific research that can accelerate the development of new and existing companies and attract those representatives of the industry and entrepreneurship which will significantly contribute to the economic and technological development of Croatia. Total value of allocated funds was EUR 660 000.

## Measures to achieve the objective

### **Strengthening the national innovation system and innovation potential of the economy**

It will be achieved through the implementation of measures from the National Innovation Strategy, Strategy of Education, Science and Technology and revision of tax deductions for research, scientific and technological development and innovation. Overall capacity for research, development and innovation in Croatia will be strengthened through the construction and equipping of infrastructure for research, development and innovation (including e-infrastructure) which includes organizational reform of private and public research organization on the basis of a defined plan for research, mission and development. The successful implementation of these projects will be ensured by the continual preparation of infrastructure projects through financing of development of project documentation required for the application and implementation of infrastructure projects related to research, development and innovation. The aforementioned measures will be financed under the Operational Programme Competitiveness and Cohesion 2014-2020.

Improving the existing fiscal framework for encouraging innovation and improving the system of state incentives will motivate the business sector to increase its investment in research, development and innovation. The state incentive policy can give an active and positive contribution for increasing investment in research and development, and implementation of a new State Incentives Programme for research, development and innovation is scheduled by the end of 2015. Its goal is to ensure a balanced development of the science system and consequently, balanced economic progress on a national level.

The convergence of science and economy will be realized by continued investments in science and innovation for the purpose of increasing market-oriented research, development and innovation activities and supporting collaborative projects of scientific organizations and dissemination of results to the business sector. The purpose is to create a stronger impact of research and development results on economic growth by enabling a faster access to the transfer of technology and knowledge. Strengthening the capacity for research, development and innovation aimed at addressing economic needs through applied research (industrial research and experimental development) of scientific organizations in collaboration with stakeholders from the business sector will also be encouraged.

Improving the transfer of knowledge and technology from research organizations to interested markets (SMEs, large companies, scientific organizations, local and regional governments, public corporations, individuals) will be achieved by fostering technology transfer offices and encouraging science and technology parks which seek to encourage research, development and innovation activities by improving specialized services and by transferring knowledge and technology between the research and business sectors.

Joint research projects of the scientific and academic communities and the economy, greater cooperation through joint mentoring of doctoral and graduate students and funding of doctoral research will contribute to increased investment in research and development and strengthening of mechanisms for the transfer of knowledge, technology, innovation and intellectual property of universities and institutes in the economy. The aforementioned will contribute to the commercialization of research results, and in particular the creation of innovative enterprises and cooperation in joint organizations focused on new ideas, methods, processes, prototypes or patents.

### **Improving the quality, management and funding system for scientific organizations and encouraging scientific excellence**

By strengthening the involvement of Croatian Research Area within the European Research Area (EEA), Croatian scientific community follows trends of adjusting to developed international criteria of scientific excellence. By defining, encouraging and strengthening of priority scientific research areas, we will create the foundation for strengthening the efficiency of existing infrastructure potentials with continuous guidance towards greater excellence, international significance and rational use, and thus indirectly influencing the research, development and innovation.

Introducing new ways of financing scientific activities and restructuring the public research institute network will lead to strengthening of scientific organizations' capacity. The restructuring objectives are achieving optimization of human and financial resources, increasing the scientific impact of public research institutes, making stronger connections between science and economic systems, increasing competitiveness of science and higher education institutions in order to increase the international visibility and competitiveness. At the same time, the introduction of new methods for financing scientific activity is likely to ensure the sustainability of scientific and higher education with the aim of rationalizing funding of institutions in science and higher education. A special working group will review existing indicators of scientific activity and, where necessary, develop new implementation indicators of scientific activities for the upcoming financial period. New agreements with science and higher education institutions will be signed by the end of 2015, which will represent the basis for funding of scientific activity in the next financial period.

To profile the Republic of Croatia in the absorption of EU funds in the research and innovation sectors, a greater emphasis on training public sector organizations and stimulating demand for these resources in the business and scientific community has been placed within the STP II. The project will finance **capacity building for absorption of EU funds** in a way that provides support for adapting operational procedures of relevant institutions to allow the withdrawal of finances from EU funds, and improves their ability to implement research and innovation policies and programmes in accordance with best practice.

Accordingly, the co-operation with countries outside the EU in research and development programmes and projects will continue to be encouraged.

### 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 %.

#### Strategic background

##### **Reduced greenhouse gas emissions**

**The Strategy for Low-Carbon Development of the Republic of Croatia until 2030 with a view to 2050, planned for adoption by the end of 2015**, 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, transfer of advanced technologies and significant structural changes in all sectors. While the **Strategy for Adaptation to Climate Change in the Republic of Croatia in 2040 with a view to 2070** is planned for adoption by the end of 2016.

The **National Program to Reduce Road Transport Emissions for the period 2015-2017 with a view to 2020** is planned for adoption by the end of 2015. The National Program to Reduce Road Transport Emissions, which will, together with existing measures, propose additional measures with clear steps for the implementation of specific measures, is aimed at reducing emissions and environmental impact of road transport by encouraging the economic development in accordance with sustainability principles, creating opportunities for new businesses and guiding society towards long-term sustainable development. The programme must define and implement a series of measures that will serve as a powerful tool in reducing emissions but also improve energy efficiency in the transport sector for the coming period.

**Strategy of Marine Environment and Coastal Areas Management in Croatia** will be completed by the end of 2015. **Waste Management Plan** and corresponding **Waste Prevention Plan** are expected to be created by June 2015. The new **Act on Energy Efficiency** (NN No 127/14) has been adopted which incorporates the Energy Efficiency Directive 2012/27/EU (EED), the **Third National Action Plan for Energy Efficiency in the Republic of Croatia for the period 2014-2016** and the **Long-term strategy for stimulating investments in the reconstruction of the national building fund of the Republic of Croatia**. By adopting the aforementioned documents a significant step forward has been made for achieving the transformation to a low carbon economy through the use of new, environmentally-friendly technologies and innovations.

## **Increased share of renewable energy sources in gross total energy consumption**

Within the context of increasing the share of renewable energy sources (RES) the **Act on Renewable Energy Sources** is planned for adoption by June 2015. A special act is regulating the field of renewable energy sources and high-efficiency cogeneration in Croatia for the first time in its history. The Act will, in addition to regulating other areas of energy production from renewable energy sources and high-efficiency cogeneration, include measures for encouraging production of electricity from renewable energy sources and high-efficiency cogeneration through market premiums. The Act is currently in the consultation process with the interested public. According to Eurostat data, the share of renewable energy in final consumption during 2013 in Croatia amounted to 18 %.

**The Decree on the promotion of biofuel for transport** has been adopted in 2014 and prescribes methods for encouraging production of biofuel for transport, the methodology for the calculation of the highest retail price of biodiesel and bioethanol, the method of determining the amount of financial incentives and the method of determining the scope of excise revenues intended for the promotion of biofuels and the use of revenues from excise duties assigned to encourage biofuel use.

## **Increasing energy efficiency**

The **Third National Action Plan for Energy Efficiency in the Republic of Croatia for the period 2014-2016** has been adopted on 30 July 2014. The related Action Plan shows that in 2012 Croatia has already achieved 61 % of target energy efficiency for 2016, and planned measures show that the aforementioned objective should be met in full. The Action Plan consists of 40 measures across all four sectors and has more than 180 taxpayer bodies which will participate in their implementation. The 'bottom-up' approach to collecting field data and measuring achieved savings has been used for the first time. The Energy Management Information System will be of great use for achieving a more efficient collection of data. Notification of meeting the Article 7 The Energy Efficiency Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 is incorporated within the Action Plan. Within this framework, the Republic of Croatia has decided to combine the mandatory schemes with 10 measures contained in the Action Plan.

The new **Act on Energy Efficiency** (OG 127/14) adopted in October 2014 meets the provisions of Energy Efficiency Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 and creates the necessary structural and political basis for planning energy efficiency and delivering cost savings through the implementation of energy efficiency measures. The Act, among other things, regulates the following areas: service contracts, planning energy efficiency and measuring energy consumption in buildings of public bodies, a national system for measuring and testing, eco-design, energy efficiency in public procurement, mandatory energy schemes, etc.

The **Long-term strategy for stimulating investments in the reconstruction of the national building fund of the Republic of Croatia** (NN No 74/14) has been adopted identifying the main obstacles to energy renovation of the national building fund (primarily financial, institutional and administrative lack of knowledge and motivation of investors, the public and interest groups) and provides measures to overcome existing barriers via the national policy of deep renovation of the national building fund. The **National Plan to increase the number of nearly-zero energy buildings** has been completed. Increasing the number of nearly-zero energy buildings is planned at the level of 10 % of all new residential and non-residential buildings.

## Achieved progress

### Reduced greenhouse gas emissions

Indicator	Previous value	Current value		Objective 2020
	2008	2012	2013	
Greenhouse gas emissions, index 1990 = 100	98.1	82.65	-	N/A*

Source: Eurostat

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

The Ministry of Environment and Nature Protection is making significant efforts to raise awareness about the preservation of clean air, especially in cities where the air pollution is commonly caused by traffic. The transport sector's share in GHG emissions amounts to around 25 %, of which over 70 % is generated by road transport. The following activities are being implemented for the purposes of reducing traffic CO<sub>2</sub> emissions: The Green public transportation Programme, Green line for ecological vehicles and vessels in national parks Programme, The Greening of public transport in cities Programme, encouraging production and use of biofuels in transport, development of charging station infrastructure for electric vehicles, and planned promoting integrated transport and development of sustainable transport systems in urban areas. Lower excise duties for environmentally friendly vehicles have been introduced in 2014. The acquisition of environmentally friendly vehicles for citizens and businesses is co-financed with HRK 15.5 million, while 'green' public transportation is subsidized. Pilot project for establishing an eco-driving training system for drivers of road vehicles has been completed in 2014, measure - informing consumers on fuel economy and CO<sub>2</sub> emissions of new passenger cars has been carried out since 2008, and an annual guide on fuel economy and CO<sub>2</sub> emissions is available to consumers, the new payment system for the special environmental fee for motor vehicles came into effect on 1 January 2015 as well as new financial incentives for the purchase of new electric vehicles and hybrid vehicles are being distributed since 2014. The implementation objective of these measures is increasing the share of renewable energy in the overall energy consumption by 2020, reducing greenhouse gas emissions, reducing the impact of traffic pollution on human health and the environment as a whole.

Environmental Protection and Energy Efficiency Fund provides subsidies for **greening of public transportation in cities and municipalities** in the range of 40-80 %. Since the reduction in emissions can be achieved through more efficient and environmentally friendly driving, an **eco-driving project** was launched intended for professional drivers, and will be open to ordinary drivers from 2015. Great public interest proves that the public and businesses have recognized project benefits and the purchase of environmentally friendly vehicles. Funding from the Environmental Protection and Energy Efficiency Fund has also increased from planned HRK 7 million to 15.5 million and of total 440 purchased vehicles 379 are hybrid, 53 electric, and 8 so-called *plug-in* hybrid vehicles.

The Government has adopted a **Plan for the use of financial resources obtained from the sale of emission units through auctions in the Republic of Croatia for the period from 2014 to 2016** in November 2014 which estimates HRK 688 million will be available from auctions in the following period. Funds raised from the sale of emission units will be paid to the Environmental Protection and Energy Efficiency Fund, which is the competent national auctioneer. These funds will be used to finance projects aimed at reducing greenhouse gas emissions and adapting to climate change, and the revenues will be used

for projects in the field of renewable energy, increasing energy efficiency, reducing greenhouse gas emissions in road transport and waste management, preparing and developing a support programme for industrial stakeholders in the emissions trading scheme and the allocation of funds for implementing measures under the incentives programme for promoting forest management, adapting to climate change, research and development.

### Increased share of renewable energy sources in gross total energy consumption

Indicator	Previous value	Current value		Objective 2020
	2008	2012	2013	
The share of renewable energy sources in final energy consumption, %	12.1	16.8	18	20

Source: Eurostat

Croatia continues to strive toward achieving the target 20 % of total energy consumption by 2020 by **building production plants using renewable energy sources** through state incentives and implementing amendments to spatial plans on a county and local level. **National Action Plan for energy production from renewable energy sources** defines objectives across three sectors: electric energy, traffic and thermal and cooling energy. New (sub)objectives for renewable energy sources for 2020 were calculated based on the revised programme as follows: 39.0 % share of renewable energy sources in gross final consumption of electricity; 10.0 % share of renewable energy in gross final energy consumption in traffic and a 19.6 % share of renewable energy sources in gross final consumption of thermal and cooling energy. Main renewable sources in electrical power generation are large hydro power plants, wind power plant, biogas and biomass facilities and small hydro, geothermal and solar power plants.

As of 31 March 2015 the Croatian incentives system encompassed 1 114 power plants running on renewable energy sources with a total installed power capacity of 415.6 MW. With regard to the installed capacity, wind power plants are in the lead with a total of 339.25 MW, followed by solar power plants with 35.4 MW, while the third place is occupied by power plants running on biogas with a total of 13.9 MW.

### Improving the use of refuse-derived fuel

Refuse-derived fuel has been included in the drafting the Reusable Energy Sources and Cogeneration Act. The Act shall propose that the reuse-derived fuel be included in the privileged production system and encouraged as part of the renewable energy sources policy. In relation to waste management, trial operation of county waste management centres Marišćina in Primorje-Gorski Kotar County and Kaštijun in Istria County is expected to begin in second half of 2015. Such centres will produce refuse-derived fuel (RDF) as part of their waste management process and the production of large quantities is expected after the completion of the probationary period at the end of 2015.

The promotion of biofuel in transport is executed by regulating mandatory marketing of biofuels (placing biofuel on the market) and obligatory purchase or leasing of cars that run on biofuel in public transport and the public sector. The total targeted amount of renewable energy in transport in 2020 equals to 162 ktoe. We anticipate that the cost of renewable energy sources in traffic in 2020 will mainly consist of biofuel energy (8.85 %), while the remaining 10 % relates to electricity (1.15 %) used in all types of traffic. It is suggested that biodiesel and bioethanol will be most commonly used biofuels, including biomethane from

2016 onward. Also, the second generation of biodiesel and bioethanol produced from lignocellulose will be introduced to the market in 2016.

### Increasing energy efficiency

Indicator	Previous value	Current value		Objective 2020
	2008	2012	2013	
Primary energy consumption, TOE	8.4	7.6	7.3	11.15
Final energy consumption, TOE	6.6	5.9	5.8	7.0

Source: Eurostat

By the Decision of the Government from February 2013 the **National Coordinating Body for Energy Efficiency** has been established as part of the existing Centre for monitoring business activities in the energy sector and investments. Pursuant to the new Act on Energy Efficiency this body is now officially the central authoritative body for planning, coordination and management of all energy efficiency activities.

**Programme of energy renovation of public sector buildings for the period 2014-2015** has been adopted by the Government in October 2013. The programme was drafted by the Ministry of Construction and Physical Planning and the body responsible for its implementation is the Agency for Transactions and Mediation in Immovable Properties. According to public procurement procedures initiated no later than 31 December 2014, 10 Energy Efficiency Contracts have been concluded with the total investment value of HRK 151 619 013 excluding VAT. Ten contracts are currently in the process of being concluded for which public procurement procedures were executed and have an estimated total value of HRK 67 593 527 excluding VAT. **Programme of energy renovation of public sector buildings for the period 2016-2020**, whose adoption is planned by the end of 2015, is currently being drafted. One of the objectives of Directive 2012/27/EU is meeting the renovation rate of 3 % of total heating/cooling systems of buildings in the ownership of and used by the central government.

**Programme of energy renovation of public sector buildings for the period 2014-2020** has been adopted by the Government in April 2014 (NN No 78/14). The programme was drafted by the Ministry of Construction and Physical Planning and the body responsible for its implementation is the Environmental Protection and Energy Efficiency Fund. Public call for co-financing energy audits and issuing energy certificates has been announced in 2014 for which contracts were signed for 418 buildings and HRK 1 926 980 has been allocated. Contracts for 138 buildings have been realized to date for which the Environmental Protection and Energy Efficiency Fund disbursed funds in the amount of HRK 684 171. Public call for co-financing the creation of project documentation has been announced for which contracts were signed for 169 buildings and HRK 5 547 583 has been allocated. Contracts for 142 buildings have been realized to date for which the Environmental Protection and Energy Efficiency Fund disbursed funds in the amount of HRK 5 123 886. A tender for the energy renovation of apartment buildings has also been announced for which contracts have been concluded for 83 buildings and on the basis of which HRK 34 065 549 has been allocated.

**Programme of energy renovation of residential houses for the period 2014-2020** has been adopted by the Government in March 2014 (NN No 43/14). The programme was drafted by the Ministry of Construction and Physical Planning and the body responsible for its implementation is the Environmental Protection and Energy Efficiency Fund. Two public calls have been announced in 2014 for LC(R)SGU, first for the implementation of energy efficiency measures and the second for integration of renewable energy sources

in residential houses. Co-financing of measures has been contracted for 6094 residential houses with funds in the amount of HRK 154 043 421 allocated by the Environmental Protection and Energy Efficiency Fund. So far, measures have been implemented in 806 residential houses with HRK 11 884 777 paid by the Environmental Protection and Energy Efficiency Fund. In March 2015 the Government adopted the Amendments to the Programme of energy renovation of residential houses for the period 2014-2020 containing a detailed renovation plan for the period from 2014 to 2016. Pursuant to these Amendments, the Environmental Protection and Energy Efficiency Fund will announce public calls directed to citizens on the entire territory of the Republic of Croatia. A public call announcement for 2015 is scheduled for April 2015.

**Programme of energy renovation of commercial non-residential buildings for the period 2014-2020**

has been adopted by the Government in July 2014 (NN No 127/14). The programme was drafted by the Ministry of Construction and Physical Planning and the body responsible for its implementation is the Environmental Protection and Energy Efficiency Fund. A single public call in accordance with the Programme has been announced in 2015 for which contracts were signed for 11 buildings and HRK 5 871 076 has been allocated by the Environmental Protection and Energy Efficiency Fund.

A web application for monitoring and verification titled **Energy Savings Measurement and Verification System (ESMVS)** has been created. ESMVS was created through a joint international project with the German Society for International Cooperation GIZ, Ministry of Economy is the project partner, and CEI the operational project manager. All savings realized through the implementation of energy efficiency measures of the National Action Plan will be measured by ESMVS which will serve as a tool for timely monitoring of energy efficiency plans and achieved savings.

The **National Information Platform for Energy Efficiency** is currently being developed and will serve as the central web site containing all available information on energy efficiency. The site will be maintained by the National Coordinating Body for Energy Efficiency and will serve as a central information point for all users, from small and medium enterprises to government agencies and citizens.

## 5.4. Target 4 - Education

### **Conclusions of the European Council 2010:**

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

### Strategic background

The **Strategy for Education, Science and Technology** has been adopted in October 2014 (NN No 124/14). By emphasizing education and science as well as development priorities, the Strategy will contribute to creating a modern and innovative education, science and technology system, thus supporting personal development, employability and competitiveness of individuals. Most important objectives outlined in the Strategy are as follows:

- improving the development potential of educational institutions,
- implementation of a comprehensive curriculum reform,
- changing the educational structure,
- raising the quality of work and social prestige of teachers,
- improving the quality of management of educational institutions,
- developing a comprehensive support system for students,
- ensuring optimal working conditions of educational institutions,
- establishing a quality assurance system of education,
- improving study programmes by consistent implementation of the Bologna reform and redefining competencies acquired by such programmes,
- establishing a high-quality binary system of higher education in line with national needs and the principle of effective management of higher education institutions,
- ensuring a quality personnel structure of higher education institutions as a basis for improving the quality of higher education,
- ensuring effective and developmentally stimulating system of financing higher education institutions,
- ensuring satisfactory spatial and information-communication resources of higher education institutions,
- improving the student standard with special care given to the social dimension of education process,
- internationalization of higher education and stronger integration with European and world higher education space,
- ensuring adequate quality and cultural importance of the accountability principle in higher education,
- ensuring preliminary conditions for increasing the involvement of adults in lifelong learning and education,
- improvement and expansion of learning, education, training and development through work,
- establishing a system of quality assurance in adult education,
- improving the organization, financing and management processes of adult education.

### Achieved progress

Indicator	Previous value	Current value			Objective 2020
	2008	2012	2013	2014	

Early school leaving, %	4.4	5.1	4.5	2.7	4
Percentage of population with tertiary education, %	18.5	23.1	25.6	32.2	35

Source: Eurostat

- in accordance with the national objective EU2020 for reducing the early school drop-rate

School and Programme Network Analysis has been prepared within the framework of the education system reform that provides guidelines and recommendations for the development of a rational network of schools and programmes and the identification of requirements of the education system.

**The National Curriculum for early and pre-school education** is a basic document introduced for the first time to the early and pre-school education in Croatia. The document regulates all significant curricular components that need to be reflected in the overall organization and implementation of educational activities in all kindergartens in Croatia. The Rules on the content and duration of pre-school education prescribing mandatory preschool programmes for all children a year before entry into primary education have been adopted.

The new **Crafts Act (NN No 143/13)** foresees **the adoption of new vocational curricula for apprenticeship with a focus on a significant proportion of workplace learning**. This will replace the old curricula and education programmes. The aim is to reinforce learning in the workplace through better connectivity of professional theory and traineeship acquired in employment. Users of said measure are students of secondary vocational education who will gain greater competitiveness, sustainability and mobility in the labour market, in Croatia and abroad, and an easier transition from education to work.

The Parliament has enacted the Act on Amendments to the Primary and Secondary Education Act in December 2014 (NN No 152/14), which regulates primary and secondary education activities in public institutions.

Analysis of the existing education framework is currently under way. Act on Amendments to the Adult Education Act will be drafted in 2015.

The implementation of measure **education for students** who have obtained a lower level of secondary education, as well as for students who have completed a three-year educational programme, is currently under way. According to the Act on Amendments to the Primary and Secondary Education Act students are provided with a period of two years after finishing high school to continue their education in order to gain a higher level of qualification, which has so far been possible only within the framework of adult education.

With the aim of preventing early school leaving, especially by students living in unfavourable socio-economic conditions, the Ministry of Science, Education and Sports has allocated funds for co-financing textbooks and accompanying supplementary teaching materials for primary and secondary school students, who are members of households that are beneficiary of the guaranteed minimum benefit and beneficiaries of social welfare assistance in accordance with regulation governing the field of social welfare and for students beneficiaries of free textbooks in accordance with the Act on the Rights of Croatian Homeland War Veterans and Members of Their Families (OG 174/04, 92/05, 2/07, 107/07, 65/09, 137/09, 146/10, 55/11, 140/12, 33/13 and 148/13) and the Rules on the Conditions, Procedure and Manner of Realisation of the Right to Free Textbooks of Croatian Homeland War Veterans and Members of Their Families (OG 73/14) and the Act on Protection of Military and Civilian War Invalids (OG 33/92, 57/92, 77/92, 27/93, 58/93, 2/94, 76/94,

108/95, 108/96, 82/01, 103/03 and 148/13) and the Ordinance on the Conditions, Procedure and Manner of Realisation of the Right to Free Textbooks of Military and Civilian War Invalids (OG 73/14). The Ministry has allocated funds for co-financing of textbooks for 26 724 users for the school year 2014/2015. The implementation of measure for co-financing textbooks for these student categories will continue in 2015 and 2016.

One of the measures for increasing availability of higher education is announcing tenders in June 2015 for awarding approximately 3000 scholarships to high school students who select degree programmes from the STEM field and increasing the amount of grants scholarships for full-time students enrolled in degree programmes from the STEM field for which HRK 40 million has been allocated from the European Social Fund (ESF).

- in accordance with the national objective EU2020 for higher education attainment

Development of the system for the recognition of outcomes of non-formal and informal learning represents a long-term objective that will be developed through further development of the **Croatian Qualifications Framework (HKO)**. HRK 1.91 million has been allocated for the education of Sector Councils on the procedures for evaluation of occupational standards and qualifications and entry into the CROQF Register; 2. Guidelines for the development of outcome recognition policies of non-formal and informal learning have been created within the framework of the Competitive Higher Education for Better Employability project.

Higher education institutions have committed themselves to **increasing enrolment quotas for students older than 25** in the period from 2012 to 2015. The first results of monitoring the implementation of measures will be known during 2015.

The draft of **Amendments to the Act on Quality Assurance in Science and Higher Education** has been prepared. The proposed amendments are based on strategic guidelines of the Strategy for Education, Science and Technology, trends in the Bologna process and those of the EU *Modernisation Agenda*.

A draft of the **Rules on higher education records** have been created. The Rules will prescribe a mandatory keeping of records in higher education for the purpose of determining the rights of students to education and other rights paid from public funds, policy planning and monitoring of higher education, informing the public, planning and monitoring of the higher education institutions network and programmes, for conducting analysis, gathering statistics and performing research in the field of higher education, implementation of external quality assurance and development of analysis and statistical reports on higher education.

University Computing Centre of the University of Zagreb (SRCE) is responsible for the development of software solutions for managing the central records in higher education (ISVU REG).

Based on the monitoring of the implementation of the pilot project of Financing Agreements, analysis was conducted for the purpose of preparing the basis for Financing Agreements based on results for the academic year 2015/2016. Ministry of Science, Education and Sports submitted a **model development project for more efficient financing of higher education** with technical support and assistance of the World Bank as part of the programming period 2007-2013. The project is in the early stages of evaluation. Preliminary analysis showed the need for capacity building in higher education institutions and creating criteria as a prerequisite for the establishment of financing agreements based on achievements.

Within the context of better integration between education and labour market needs, a **pilot project for tracking graduates of professional study programmes of colleges and universities for a period of 2005 to 2013** has been initiated. By linking databases of three institutions and analysing the employability of graduates, results of the data analysis will be gathered and presented. Data collected from the higher education institutions have been merged with data on unemployed and employed persons thus creating a unified database. Ministry of Science, Education and Sports has carried out a bargain procurement procedure and contracted with selected experts an elaboration of analysed data and creation of a study on the employability of graduates. The study will be completed by August 2015.

Furthermore, following the analysis of representation of traineeship within study programmes offered by higher education institutions, a tender will be announced in March 2016 to award a grant for the **improvement of traineeship quality and increasing traineeships in study programmes** for which EUR 10 million has been allocated under the Operational Programme 'Effective Human Resources 2014-2020'.

## Measures for achieving the objectives

### **Box 5.4.1 Comprehensive curriculum reform**

The goal of the curriculum reform is to establish a harmonized and efficient system of education through comprehensive content and structural changes in order to:

- provide useful and meaningful education to students, coordinated with their developmental age and interests and closer to everyday life, education that will enable them for contemporary life, the world of work and further education.
- enable greater involvement of parents in their children's education and school life, clearly stated expectations, objective assessment and evaluation, more meaningful and frequent feedback about the achievements of their children.
- ensure role empowerment and strengthening of professionalism to teachers, instructors and other employees of educational institutions, greater autonomy in work, more creative work, reduced administrative obligations, motivated students and reduced external pressures

The comprehensive curriculum reform is focused on:

- developing basic competences for lifelong learning,
- increasing the level of functional literacy of students,
- linking education with interests, life experiences, needs and abilities of students,
- linking education with the needs of society and economy,
- a clear definition of educational outcomes (learning outcomes) and not only of cognitive nature (knowledge), but also those that ensure the development of attitudes, skills, creativity, innovation, critical thinking, aesthetic evaluation, initiatives, entrepreneurship, responsibility, attitude towards oneself, others and the environment, governance, and many others,
- ensuring greater autonomy of teachers when choosing content, methods and forms of work, but also encouraging 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,
- a clear definition of criteria for development and acquisition of educational outcomes, which will create a basis for more objective and valid assessment and evaluation of student achievements,
- a radical change of assessments, evaluations and reporting on student achievements directed at regarding evaluation as an integral part of the learning process

Activities and the preparatory plan for the implementation of a comprehensive curriculum reform within the Strategy for Education, Science and Technology framework are defined and detailed in the proposal of the Action Plan of Activities of the Strategy for Education, Science and Technology of the Republic of Croatia, which will be submitted to the Government by June 2015.

### **Ensuring a passable and efficient system of early preschool, primary and secondary education and adult education**

Extending the entire general compulsory education from eight to nine years, while retaining the current duration of secondary education, will extend the duration of the whole pre-tertiary education which will increase student competitiveness after leaving school and Croatian economy as a whole.

### **Improvement of initial and continuous education and training of teachers**

The measure is aimed at ensuring the professionalization of the teaching profession. A systematic mechanisms for continuous education of teachers shall be developed which directly affects the modernization and quality of teaching and learning in schools. In order to improve the quality of study programmes and other initial education programmes 60 HRK million has been secured as part of the Operational Programme for Human Resource Development 2007-2013, while approximately HRK 40 million has been allocated from the Operational Programme 'Human Resources Development' 2014-2020 for the continuous education of teachers.

### **Further implementation of the Croatian Qualification Framework (CROQF)**

CROQF is a tool for achieving the quality and educational relevance objectives. Further implementation of the CROQF implies compliance of educational programmes at all levels with the relevant occupational standards and qualifications.

### **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)**

Measure is aimed at the development of the system for continuous monitoring of the employability of graduates and complying study programmes with the needs of the labour market.

### **Increasing and improving traineeship in higher education systems**

Increasing the share and opportunities for attending traineeship within and outside of study programmes offered by higher education institutions in Croatia.

### **Increase of student enrolment in the STEM area through funding incentives**

Awarding scholarships to high school students who select study programmes from the STEM field and increasing the financial amount of scholarships for full-time students enrolled in study programmes from the STEM field with the purpose of increasing availability of higher education and guiding students toward specific professions in accordance with priority sectors.

## **The inclusion of higher education in creating a quality offering of lifelong learning programmes**

Higher education institutions are developing short and quality professional development programmes at the tertiary level for intended focus target groups and needs of the labour market.

## 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.

### Strategic background

In March 2014 Government 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, factors that caused it as well as a social and economic projection as a basis for action. The Strategy is based on securing conditions for the achievement of three main objectives with anti-discrimination policies as a starting principle: 1) The fight against poverty and social exclusion and the reduction of inequalities in society; 2) Preventing the creation of new categories of poverty-stricken citizens, as well as reducing the number of poor and socially excluded persons; 3) The establishment of a coordinated support system for groups at risk of poverty and social exclusion. To achieve the aforementioned objectives, implementation activities are focused on eight strategic areas: 1) Education and lifelong learning; 2) Employment and access to employment; 3) Availability of housing and energy; 4) Access to social services and benefits; 5) Access to health care; 5) Care for the elderly; 6) Fight against indebtedness; 7) Financial independence; 8) Balanced regional development.

Furthermore, the **Implementation Programme for the Strategy for Combating Poverty and Social Exclusion of the Republic of Croatia (2014-2020) for the period from 2014 to 2016** has been adopted in December 2014, which includes three main Strategy objectives and provides main strategic activities that are briefly described by stating possible system obstacles and disadvantages. Measures already implemented or scheduled for implementation by the end of 2016 are defined for each strategic activity, stating the main and specific objectives, holder and co-holder of measure, target groups, method of monitoring the implementation, deadlines and sources of funding and implementation costs. The implementation programme is financed with funds allocated from the State Budget and EU funds and international funds and other available means. The measures listed in the implementation programme are planned for a period of three years according to the currently available material and human resources.

### Achieved progress

Indicator	Previous value	Current value		Objective 2020
	2008	2012	2013	
Persons at risk of poverty and social exclusion, in thousands		1 384	1 271	1 220

Source: Eurostat

By adopting the Implementation Programme for the Strategy for Combating Poverty and Social Exclusion of the Republic of Croatia (2014-2020) for the period from 2014 to 2016, the holders of strategic areas are required to regularly monitor the implementation of measures under their jurisdiction and to submit within specified deadlines (by the end of March of the current year) requested information to the Ministry of Social Policy and Youth, acting as the main coordinator for the submission of annual reports on the implementation

of measures to the Government, specifying current situation assessment and recommendations for the next period.

The Measure Implementation Report for 2014 is currently being prepared. Based on the received opinions of holders and co-holders of measures it is obvious that the measures were implemented in accordance with the Implementation Plan and there weren't any special difficulties in the implementation of said measures. Measures in the field of education intended for students of lower socio-economic status and persons with disabilities were related, inter alia, to **financing transportation costs, awarding scholarships for regular students of lower socio-economic status, providing free textbooks or financing or co-financing textbooks**. In 2014, HRK 7 778 115 was paid for textbooks of students in primary and secondary schools (students who are beneficiaries of guaranteed minimum benefit or social welfare assistance) for a total of 14 668 students in primary and secondary schools, while HRK 2 308 913 (1 252 students) was paid for textbooks of students entitled to free textbooks.

**Active labour market policy measures intended for long-term unemployed, elderly and young persons, persons with disabilities and other special groups of unemployed persons** were successfully implemented within the employment domain. The measures were implemented through the provision of financial support for employment and self-employment and training, as well as through employment in public works. During 2014 a total of 56 626 people benefited from said measures, with 28 293 active users at the beginning of the year and 28 333 newly joined during 2014. For the implementation of active employment policy measures in 2014 a total of HRK 77 899 202 was paid from the Operational Programme Human Resources Development, of which HRK 64 789 553 from the ESF and HRK 13 109 648 from IPA.

Due to the natural disaster that hit Croatia in 2014, the **Program of reconstruction and alleviating the consequences of disaster in the area of Vukovar-Srijem County** was implemented and 1 060 residential buildings were reconstructed with funding from the State Budget.

In December 2014, work began on **preparing the operational plan of investments for the development of a unified benefits centre** as part of the reform of the social benefits system. Equipping the State Administration Office continued in 2015 (about 200 computer workstations, education and training of civil servants of the SAO). Ministry of Social Policy and Youth concluded 15 contracts during 2014 for projects for social inclusion of homeless with HRK 1.946 million of granted financial support for the development of innovative services for homeless and reducing their social exclusion.

The Government has adopted the **Conclusions on the implementation of measures for debt write-off and postponement of enforcement**. These temporary and one-off measures encompass approximately 75 000 heavily indebted citizens, including pensioners, the unemployed, persons with low income or disabilities. The measure is aimed at the socially vulnerable citizens whose accounts have been blocked for more than a year, until 30 September 2014. Eligible debtors are individuals, Croatian citizens, who are under criterion A users of social welfare system benefits. In the first two months of the application (from February 2 to April 2, 2015) the right to access measures was reserved solely to debtors according to the criterion A. Criterion B includes citizens whose monthly income in the last 3 months prior to their application did not exceed HRK 2 500 for a single person and HRK 1 250 per a household member, who own no other real estate other than that in which they reside, have no fixed term deposits or housing savings contracts nor other liquid assets. According to data presented by the Ministry of Social Policy and Youth on 15 April 2015, 1 020 persons submitted applications of which 707 applicants met the requirements and qualified. Approximately 150 new requests are received on a daily basis. According to data from the Financial Agency, 9 265 requests were submitted to the Debt Write-off Register by 16 April 2015 of which 5 956 were approved.

Of this number, 121 applications are for category B debtors, of which 99 requests were granted, all the remaining applications are for category B debtors.

### Measures to achieve the objective

Following the implementation of the Implementation Programme for the Strategy for Combating Poverty and Social Exclusion of the Republic of Croatia (2014-2020) for the period from 2014 to 2016, during 2015 and 2016 **measures will be implemented for alleviating the situation of persons in poverty**. At-risk-of-poverty rate of children is correlated with the level of education of their parents, and it is therefore necessary to pay special attention to early education stages where social inequality first appears. Measures in the field of education intended for students of lower socio-economic status and persons with disabilities will continue to be implemented. The measure will be used for **co-funding the cost of education for students of lower socio-economic status and students with disabilities**: financing transportation costs, awarding scholarships for regular students of lower socio-economic status, providing free textbooks or financing or co-financing textbooks. Ministry of Science, Education and Sports in cooperation with the Ministry of Social Policy and Youth will provide support in the implementation of projects aimed at combating poverty and social exclusion within available resources of the State Budget for 2015, and plan to finance projects and activities within their priority areas aimed at providing meals to children from socially disadvantaged families during their stay in primary school. Measures will also be implemented in the employment domain aimed at ensuring the inclusion of vulnerable groups in the labour market. Measures are implemented in the social welfare system aimed at alleviating the status of homeless persons and other vulnerable groups by providing projects and programmes financed by the LC(R)SGU and EU funds as well as from other sources.

Social housing project using the model of public-private construction partnerships with the private sector is also planned. It is anticipated that the construction contractor will sign an agreement by which 10 % of housing units would be given to the state or local self-government units for management for a set number of years on the basis of which he would achieve tax benefits and other subsidies, while the state would manage the apartment fund. This model would not enable entering into private property, and the state would ensure that none of its citizens becomes homeless.

## 6. Use of European Structural and Investment Funds

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### **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, main strategic document for the use of European Structural and Investment Funds (ESI) that should 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 economy. 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 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

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 the educational reform.

Apart from strengthening the economic competitiveness the emphasis was 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 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 normalization of 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 investments 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 for improving 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 in the waste water and solid waste sector significant investments are required demanding that a large part of the funds from the Cohesion Fund be redirected to 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 utilities 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 the 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 better integration of young persons into the labour market, improving skills for employability through better alignment of the education system and labour market needs, solving long-term unemployment and 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 poverty-stricken 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, the transition from institutional to community welfare improving access to education for disadvantaged students and those of lower socio-economic status and integrated pilot programmes for the reconstruction and revitalization 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 on increasing the cost effectiveness of the health care 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, more efficient and transparent public administration and the 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 such mechanism represents a first step towards decentralization of EU funds management.

ESI funds should in the period 2014-2020 help Croatia vigorously power-up its economic activity on the way out of the economic crisis, boost employment and economic growth through supporting entrepreneurship, innovation and quality of education. It will also help in the development of green and resource-efficient economy and contribute to the fight against poverty and social exclusion.

The indicative annual plan for announcing tenders is available on the website of the Ministry of Regional Development and EU Funds EU<sup>8</sup>.

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<sup>8</sup> [http://www.mrrfeu.hr/UserDocsImages/EU %20fondovi/ZNP06\\_Indikativni-godisnji-plan-PDP-v7.pdf](http://www.mrrfeu.hr/UserDocsImages/EU%20fondovi/ZNP06_Indikativni-godisnji-plan-PDP-v7.pdf)

## 7. Institutional issues and stakeholder involvement

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Involvement of key stakeholders in the process of drafting the National Reform Programme within the framework of the European Semester is directly relevant for its adoption with regard to the scope and nature of major reform measures and expanse of the national context that NRP covers by its content. The social partners and civil society organisations are included in defining main reform measures covered by the National Reform Programme, both through the creation of key legislative package and process of consultation with the interested public, especially in case of development of specific sector strategies.

Involvement of stakeholders and relevant institutions in the process of defining the key reform measures and development of the National Reform Programme is provided through a **partnership process in the framework of the European Semester**. This primarily relates to continuing partnership communication with the Economic and Social Council and the Parliament as the main stakeholders.

The **Economic and Social Council (ESC)** was established in order to determine and realise coordinated activities with the aim of protecting and promoting economic and social rights and interests of workers and employers, as well as pursuing harmonized economic, social and development policies. It has been recognized as such even in the context of implementation of activities in the framework of the European Semester and NRP drafting.

Therefore, the first **thematic session** of the Economic and Social Council was held on 23 February 2015 and referred to the topic of **'The new cycle of the European semester in Croatia'**, where the members of the Council were informed on the overview of policies and status of implementation of recommendations under the European Semester in Croatia and objectives that arise from the above as a basis for drafting the new NRP.

Proposal of the Strategy for Development of Public Administration 2015-2020 was discussed on this session, as one of the essential elements of a wider reform of public administration. ESC endorsed the current common working method of the Ministry of Public Administration in cooperation with the social partners, academic community and other relevant stakeholders in the preparation of the document which will enable the implementation of the reform of public administration. ESC also endorsed the Proposal of the Strategy for Development of Public Administration 2015-2020 and proposed further discussion on one of the next sessions, before submitting the document to parliamentary procedure.

Over the past few months, ESC has also discussed about some relevant issues that directly effect the reform process in the framework of the European Semester and NRP drafting. The National Development Plan for clinical hospital centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia 2014-2016 was discussed at the session held on 3 November. On that occasion, opinion was adopted in which it was pointed out that the Government and the Croatian Employers' Association support the proposal of the National Plan, while representatives of the trade union stressed their reservation regarding the assessment of impact and financial sustainability, as well as other outstanding issues.

At the session held on 15 December, ESC discussed on the topic of public debt, and in this sense ESC adopted certain conclusions that significantly refer to main reform efforts in the framework of the European Semester. Among other things, it was pointed out that balancing of public finances and public debt management should be the task of all holders of economic policies. Furthermore, it was concluded that, in order to create conditions for long-term sustainability of public finances, it is necessary for the government to implement key reforms such as reform of public and state administration and local self-government units,

reforms of some public systems such as health care system, education and science. With the aim of achieving sustainability of public finances, the conclusion was made that it is necessary to make clearer policy in relation to business operations of public enterprises, for which in the previous period it was shown that constantly generate losses, create additional pressure on the deficit and increase public debt, and that their inefficiency reduces the overall competitiveness of the Croatian economy.

At its last session held on 16 March 2015, ESC discussed the Report of the European Commission to the Republic of Croatia and the measures within the NRP. On that occasion, ESC proposed to the MRDEUF, as the main coordinating body, to include the social partners in the process of preparing measures under the NRP.

As part of the partnership with the ESC, the social partners were given the possibility to include in the process of drafting the NRP through defining their own proposals for measures. In this way, individual social partners and trade union representatives gave their opinions and critically highlight their proposals. Among other things, the statement of the Association of Croatian Trade Unions pointed out that ESC supports the interest of the social partners with the aim of better involvement in the implementation of activities under the European Semester. It was also pointed out that the role of social partners is to clearly and precisely articulate the direction of public policies and to present general ideas about measures, which would then represent a useful baseline to the competent authorities regarding the development and creation of final measures of the NPR.

Furthermore, several important areas of reform activities were pointed out, which are in line with the identified measures of the NRP. First of all, it was emphasised that there is a need for the implementation of well-defined measures of public sector reforms that systematically change the principles and way of functioning, and which may lead to strengthening the efficiency of the public sector. Further to the above, the need for efficient and rational territorial organization of LC(R)SGU was highlighted, along with adequate review of their functions, rights and obligations.

As a second important area of activity, the Association indicated efficient and accountable management of public companies on the principles of long-term management strategies and the development of specific strategic enterprises. It was accurately recognised that management professionalization strengthening and increased transparency of business operations would ultimately lead to better efficiency and accountability at all levels of management. The need for more efficient administration of justice was also pointed out as one of important areas, which is a prerequisite for long-term economic growth and the basis for strengthening public confidence in the judicial system.

Finally, it is important to point out that within the **Parliamentary Day** on 25 February 2015, consultations with the Parliament, as the main representative of the legislative power in the Republic of Croatia, were held and at the common thematic session of the Committee for European Affairs, the Committee for Finance and State Budget and the Committee for Regional Development and EU funds regarding the subject of the European Semester, the members of the Committees and members of Parliament were informed on the overview of policies and status of implementation of recommendations under the European Semester.

## Annexes. REPORTING FOR THE ASSESSMENT OF COUNTRY-SPECIFIC RECOMMENDATIONS AND KEY MACRO-STRUCTURAL REFORMS

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

NO	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
<b>Main objective 1: Increasing the sustainability of the general government debt and strengthening management of public finances management</b>						
<b>Priority: (1) Strengthening the fiscal framework and management of public finances and (2) Rationalisation and improvement of expenditure control</b>						
1.	<b>Improving the fiscal framework and strengthening fiscal rules</b>	<p>The new Proposal of the Fiscal Responsibility Act: (i) suggests further improvement of the fiscal framework by strengthening the fiscal rules (introducing rules of debt), and strengthening the independence and role of the Fiscal Policy Committee; (ii) extends the tasks of the Fiscal Policy Committee in the part relating to the review and comparison of macroeconomic projections with the latest available projections of the European Commission (EC) and actions of the Government of the Republic of Croatia in case of significant deviations.</p> <p>The Proposal of the Act defines the application of fiscal rules in EDP</p>	Fiscal Responsibility Act	<p>The second round of consultations with the Fiscal Policy Committee on the proposal of the Fiscal Responsibility Act — July 2015</p> <p>Public discussion on the proposal of the Fiscal Responsibility Act — July 2015</p> <p>Consultations with the EC on the draft of the Fiscal Responsibility Act in the EC — August 2015</p> <p>Adoption of the proposal of the Fiscal Responsibility Act — September 2015</p>		<p>Further improvement of fiscal rules in accordance with Directive 85/2011</p> <p>Strengthening the independence and role of the Fiscal Policy Committee.</p> <p>Expanding tasks and competences of the Fiscal Policy Committee.</p> <p>The Proposal of the Act defines actions of the Government of the Republic of Croatia in circumstances of significant deviations of macroeconomic projections (determined by the Committee) from last available projections of the EC.</p>

		circumstances, and anticipates publication of the Catalogue of Tax Expenditures.				Definition of application of fiscal rules in EDP circumstances.
2.	<b>Improving budgetary framework</b>	<p>Objectives of the Fiscal Responsibility Act and acts of competent Ministries are: (i) to ensure consistency of strategic and financial plans; (ii) to ensure more realistic planning of expenditures of budgetary and extra-budgetary users; and (iii) to establish mechanisms of compliance and sanction of non-compliance with planned budgetary limits.</p> <p>As part of strengthening the control of budgetary expenditures, Instructions for expenditure planning for all budgetary and extra-budgetary users shall be adopted, regulating the optimal costs pursuant to the type of expenditures and application.</p> <p>As part of the Instructions for expenditure planning, standards regarding the number of jobs in general (support) services shall be determined in order to achieve better harmonisation with actual needs.</p>	<p>Adoption of the proposal of the Fiscal Responsibility Act by the Government of the Republic of Croatia</p> <p>Instructions for expenditure planning</p> <p>Adoption of acts by competent Ministries</p>	<p>Instructions for expenditure planning — June 2015</p> <p>Adoption of the Proposal of the Fiscal Responsibility Act regulating better control over planning and execution of expenditures — September 2015</p> <p>Adoption of acts by competent Ministries — December 2015</p>	<p>By applying the acts of competent ministries regarding plan expenditures, targeted savings in the first year should at least amount to HRK 50 million, and in the second year at least HRK 100 million per year</p>	<p>Strengthening control over budgetary and extra-budgetary users' plans.</p> <p>More rational business operations of the public sector, i.e. lower costs and higher efficiency of such operations.</p>

3.	<b>Strengthening the capacities of the State Audit Office and stricter enforcement of audit recommendations</b>	The measure includes: 1. Strengthening the capacities of the State Audit Office  2. Adaptation of the legal framework regarding sanctioning failure to act upon the recommendations of the State Audit Office	1. Action Plan for the development of the State Audit Office  2. Annual plan of auditing conducted by the State Audit Office	1. Action Plan for the development of the State Audit Office — through strengthening capacities and their professional education and trainings — April 2015.  Existing regulatory framework enables conducting of subsequent (' <i>follow up</i> ') audit (the State Audit Office Act, Article 14, paragraph 6), which will enable harmonisation of the Annual plan of auditing conducted by the State Audit Office  2. Development of model for sanctioning failure to act upon the recommendations of the State Audit Office, with elaboration of draft amendments to the existing legislative framework — December 2015		Further improvement of the control system for credibility of financial statements, realisation of revenues and receipts, as well as expenditures and expenses in relation to the plan, compliance with laws and regulations, efficiency of use of funds.  Introduction of the model for sanctioning failure to act upon the recommendations of the State Audit Office
4.	<b>Improvement of internal financial control system and expansion of the scope of internal financial controls regarding companies owned by the Republic of Croatia and LC(R)SGUs and other legal entities</b>	Legislative amendments shall expand the application obligation of the Public Internal Financial Control Act to companies owned by the Republic of Croatia and one or more LC(R)SGU and other legal entities	Public Internal Financial Control System Act from 2006  Implementing regulations of the Ministry of Finance on the operation of organisational units of internal controls	Adoption of the new Public Internal Financial Control System Act — June 2015  Adoption of Rules regulating the guidelines for the operation of organisational units		Focusing and controlling of financial effects of business operations in order to achieve business objectives, as well as proper, ethical, economical, efficient and effective use of funds at the same time.

	<p><b>established by the Government of the Republic of Croatia and/or LC(R)SGUs</b></p>	<p>established by the Government of the Republic of Croatia and/or one or more LC(R)SGU</p> <p>Responsibilities of heads of budgetary and extra-budgetary users of the State Budget and LC(R)SGU budget, and responsibilities of leaders of internal structural units for development and implementation of the internal control system shall be described in more detail in the section of the Act governing the internal control system.</p> <p>Framework for further development of internal control system shall be adopted based on the internationally accepted framework for internal control (COSO – Internal Control – Integrated Framework of March 2013).</p> <p>Connections between budget users on allocation levels of the State Budget or LC(R)SGU with institutions of jurisdiction shall be clearly defined, along with obligation regarding the internal</p>		<p>responsible for budget users' finance, in part of activities related to coordination of development of internal control systems — 6 months from the date of entry into force of the new Act.</p> <p>Adoption of Rules regulating the content of framework for development of internal control system in the public sector — 6 months from the date of entry into force of the new Act.</p> <p>Adoption of the new Rules regulating the criteria for internal audit establishment, method of establishment and cooperation of established internal audits — 6 months from the date of entry into force of the new Act.</p> <p>Adoption of a new version of the Guide for Internal Auditors — December 2015.</p> <p>Stated deadlines for the adoption of subordinate legislation are compliant with the annual operating</p>		<p>Internal control system shall be improved. Thereby the elements overtaken from the PIFC concept shall become sustainable at the level of budgetary and extra-budgetary users of the State Budget and the budget of LC(R)SGUs, as well as companies owned by the Republic of Croatia or one or more LC(R)SGU and other legal entities established by the Republic of Croatia and one or more LC(R)SGU, and effective implementation of internal control system may improve prevention and reducing of opportunities for fraud, corruption or other form of irregularities in the system.</p>
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		<p>audit established on allocation level of the State Budget, i.e. LC(R)SGU that performs internal audit in institutions within the jurisdiction of the same. This will be appropriately applied to companies owned by the Republic of Croatia and LC(R)SGUs and other legal entities established by the Republic of Croatia, LC(R)SGUs and their subsidiaries.</p> <p>Further improvement of internal audit work methodology in the context of risk assessment and internal control system assessment focusing on areas to which significant financial funds are allocated or in which revenues are collected.</p> <p>Responsibilities of institution's and audited unit's person responsible for internal audit recommendations implementation shall be clearly defined and measures shall be envisaged in case of failure to implement such recommendations.</p>		<p>plan of the Ministry of Finance for 2015, and different persons and work groups are responsible for preparation thereof</p>		
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5.	<b>Improvement of control over the issuance of state guarantees</b>	Establishing detailed criteria for issuing state guarantees to ensure stronger cohesion between issuance of state guarantees and the adoption and implementation of restructuring plans of users of guarantees.	The Act on Execution of the State Budget shall regulate special provisions regarding preparation and approval of restructuring plan of users of guarantees in 2016 as necessary conditions for the approval of the state guarantee.	Adoption of the Proposal of the Act on Execution of the State Budget for 2016 — November 2015		Reduction of the State Budget deficit. Reducing the risk on state guarantees activation due to solid criteria for issuance of guarantees. Encouraging restructuring of users of guarantees.
6.	<b>Improvement of public debt management system</b>	Preparation and adoption of the strategy for public debt management shall finally define medium-term plan for reaching the desired portfolio structure of public debt in order to reduce costs and risks of borrowing.	Strategy for public debt management in the Republic of Croatia	Adoption of the Strategy for public debt management 2016-2019 Republic of Croatia — after the adoption of the budget 2016-2018		The objective of adoption of the Strategy is to define a medium-term framework for public debt management in accordance with the Fiscal Responsibility Act and Guidelines for the Economic and Fiscal Policies of the Republic of Croatia (which among other things includes optimisation of maturity and currency structure of debt and State Budget financing needs).
7.	<b>Improvement of calculation and collection of municipal charges</b>	Measures aimed at local self-governments, focusing on the review and implementation of the Public Utility Act regarding the efficiency of collecting municipal charges.  The objective is to analyse the actual capacity of revenues from utility fees and amounts of expenditures based on the	Action plan for local self-government units that deviate from the average  Amendments to the Public Utility Act and the Decision on the municipal charge in local self-government units  Amendment to the Act on Financing of LC(R)SGU	1. Conduct an analysis of the share of municipal charges in the revenue structure of local self-government units — March 2015.  2. Adopt an Action Plan for local self-government units that deviate from the average — June 2015	Upon completion of the analysis of the share of revenues from municipal charges, expected financial effects shall be assessed.	Local units acquire revenues from three sources: their own resources (including their own taxes), common taxes and grants from the State and County Budget. Their own revenues include municipal charges, determination and collection of which is entirely under the jurisdiction of local units.

		use of a wide range of exemptions and reliefs.		<p>3. Identify measures to reduce the deviation of registry data on the basis of which utility fees are currently calculated from the actual state of property on the terrain — June 2015.</p> <p>4. Amendments to the Public Utility Act and the Decision on the municipal charge in local self-government units — December 2015</p> <p>5. Amendment to the Act on Financing of LC(R)SGU — December 2015</p>		<p>Outdated records and a wide range of exemptions and reliefs narrow the base for collection of municipal charges.</p> <p>Therefore, the measure aims to encourage utilization of maximum possibility of collecting municipal charges in the revenues of local self-government units and effective management of utility charge system, as well as to reduce the dependence of the local budgetary revenues from grants from the State Budget.</p>
<b>Priority: (3) Improving the efficiency of the pension system</b>						
<b>1.</b>	<b>Introduction of the occupational pension system</b>	Changing the existing system of pensionable service with extended duration of insurance and introducing the institution of occupational pensions and changing the payment system for the 1st and 2nd pension pillar.	Act on Categorisation of Jobs and Occupational Pensions	<p>Revision of the existing list of professions and job positions to which pensionable service with extended duration is applied with the purpose of decreasing the number of such professions by 50 % — July 2015.</p> <p>Adoption of the Act on Categorisation of Jobs and Occupational Pensions — September 2015.</p>	<p>One-time revenue of the State Budget in the amount of HRK 1 billion (transfer of funds from the second pillar to the State Budget).</p> <p>Additional fiscal effect that will result from the reduction in the number of professions to which pensionable service with extended duration is applied will be assessed after the revision of professions is carried out.</p>	Longer working life for persons whose pensionable service is calculated with extended duration.
<b>2.</b>	<b>Redefining of pension systems of active military</b>	Equalisation of criteria for the realization of rights	Act on Pension Insurance Rights for Active Military	Adoption of the Act on Pension Insurance Rights	One-time revenue of the State Budget in the	Longer working life for persons whose

	<b>personnel, police officers and officials</b>	and harmonisation of pension systems of active military personnel, police officers and officials and changing the payment system into the 1st and 2nd pension pillar.	Personnel, Police Officers and Officials	for Active Military Personnel, Police Officers and Officials — June 2015.	amount of HRK 1 billion (transfer of funds from the second pillar to the State Budget).  The additional fiscal effect of measure implementation will be determined after the establishment of the new system.	pensionable service is calculated with extended duration.
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**Priority: (4) Reducing the fiscal risks of the health care system**

<b>1.</b>	<b>Improving the control of expenditures of the hospital system</b>	Establishment of cost control mechanisms in hospitals by introducing the controlling system and a monthly reporting system in all hospitals.  The introduction of a unified record and a system for the management of budget, procurement plan, framework agreements, contracts, purchase orders and bargain procurement as well as all other documentation necessary for monitoring implementation in the health care system (software solution).	Report on the performance of contractual obligations (ZU)  Report on the compliance of performance of contractual obligations (Croatian Health Insurance Fund)  Monthly financial reports of health care institutions (ZU)  Report on gross salaries and contributions (Croatian Health Insurance Fund)  Financial report on business operations of hospitals founded by the Republic of Croatia (Ministry of Health)	Submitting monthly reports — (i) health care institutions submit to the Croatian Health Insurance Fund the Report on the performance of contractual obligations by 10 <sup>th</sup> of the month, every month; (ii) Croatian Health Insurance Fund delivers the Report on the compliance of performance of contractual obligations to health care institutions by 25 <sup>th</sup> of the month; (iii) health care institutions submit to the Ministry of Health physical and financial Reports based on which the Ministry of Health, together with rehabilitation managers/directors and representatives of hospitals' rehabilitation/management	The fiscal effects are expressed as part of the rationalization of the entire health care system amounted to HRK 70 million on an annual basis	Greater efficiency and rationality of the hospital system operations.  Reduced expenditures of individual hospital health care institutions.
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				t committees, create a <i>benchmark</i> analyses with indicators by 25 <sup>th</sup> of the month; (iv) reporting to the Ministry of Finance — Croatian Health Insurance Fund submits the Report on gross salaries and contributions for the entire health care system, the Ministry of Health delivers the Financial report on business operations of hospitals founded by the Republic of Croatia.		
2.	<b>The new model of contracting and payments for hospitals</b>	The implementation of a new model of contracting and payments for hospitals which differentiates between the fixed and variable parts of the revenue, and depends on the execution or the number and type of health care services (according to the principle 'money follows the patient').	Amendments to the Decision on the basis for concluding a contract on providing health care under the mandatory health insurance	Signing contracts with hospitals — April 2015.  Control of execution — monthly  Levelling of executions across the region — semi-annually.	The fiscal effects are expressed within the implementation framework of the National Hospital Development Plan.	Percentage of the advance payment part and the part depending on the execution shall be changed as of April 2015 — fixed advance payment shall amount to 25 % (as of the end of 2015), while the variable part of advance payment shall amount to between 20 % and 70 % until the end of the year.  KPI and QI will amount to 5 % of the funds arising from the execution.  The amount of revenue arising from the execution in November 2015 will amount to 55 %.
3.	<b>Implementation of the National Plan</b>	The National Plan is the basic operational	The National Development Plan for clinical hospital	Proposals of plans for the implementation of the	HRK 475.5 million <i>(assessment of foreign</i>	Increased value for money.

		<p>document for the future development of hospitals covered by the plan. The Plan is based on the principle of subsidiarity (health problems should be resolved at the lowest level of provided health care services) and the functional integration which involves hospitals where necessary in order to achieve the objectives of the National Plan.</p> <p>Objectives for 2015 and 2016:</p> <ul style="list-style-type: none"> <li>- reduce the rate of acute hospital treatments by 5 % (in 2015) and 10 % (in 2016)</li> <li>- reduce the average hospital bed occupancy rate to 80 % - 85 % with permitted variations depending on the activity (in 2015 and 2016)</li> <li>- shorten the length of hospital treatment by (depending on the activity) 5-20 % (in 2015) and 10-40 % (in 2016)</li> <li>- increase the number of outpatient services by a minimum of 5 %</li> </ul>	<p>centres, clinical hospitals, clinics and general hospitals in the Republic of Croatia 2014-2016 (National Plan)</p>	<p>National Plan for the realization of objectives of 2015 (submitted by hospitals to the Ministry of Health) — March 2015.</p> <p>Approval of individual hospitals' plans for the implementation of the National Plan of 2015, and investment plans for the use of EU funds - May 2015.</p> <p>Proposals of plans for the implementation of the National Plan for the realization of objectives 2016 — July 2015.</p> <p>Approval of individual hospitals' plans for the implementation of the National Plan of 2016 — October 2015.</p> <p>The implementation of approved plans and adjustment of the number of beds to comply with the National Plan (first phase) — December 2015, (second phase) — December 2016.</p> <p>Functional integration of hospitals will begin in January 2016.</p>	<p><i>consultants Conseil Santé SA for the five-year period).</i></p> <p>HRK 532 million (EU funds — Operational Programme Competitiveness and Cohesion 2014-2020)</p>	<p>Reducing the number of acute hospital treatments and increasing the number of patients in outpatient specialist/conciliar health care and day care hospital treatments which should ultimately result in the rationalisation of bed occupancy rates, shorter duration of hospital treatments, improved access to hospital treatments and increased quality of health services.</p>
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		(in 2015) and 10 % (in 2016) - increase the number of cases in day care hospitals and day care surgery by a minimum of 5 % (in 2015) and 10 % (in 2016)				
4.	<b>The new model of hospital management</b>	A new way of managing hospitals involves the separation of business and medical affairs at hospital administration level. Introduction of the financial and medical controlling system and improvement of financial planning and reporting with the aim of introducing transparency and control of cost-effectiveness.	Amendments to the Health Care Act  Decree of the Government of the Republic of Croatia on job titles and job complexity coefficients in public services	The introduction of the controlling system in all hospitals — May 2015.  Adoption of amendments to the Health Care Act — June 2015.  The adoption of regulation of the Government of the Republic of Croatia on job titles and job complexity coefficients in public services — June 2015.  Separation of medical and business management in 10 state hospitals — December 2015.  Revision of all employment contracts and job positions — December 2015.	Savings in the amount of HRK 40 million are planned for the latter six months of 2015.  Annual savings (in 2016) amount to HRK 75 million.	The number of overtime work hours is expected to decrease with better organisation of business processes and job positions.  Harmonization with the new Regulation of the Government of the Republic of Croatia shall define the new (lower) salary increments primarily for non-health personnel and regulate the payment of bonuses for scientific titles.
5.	<b>Further development of e-health</b>	The Central Health Information System already enables the prescription of medicine in digital form (e-prescription), and	E-Croatia Strategy ( <i>required for the implementation of e-DTS activities in 2016</i> )	Developed system for linking the financial software applications of hospitals — July 2015.  The introduction of A5 referrals in 50 % of	The fiscal effects are expressed as part of the rationalization of the entire health care system  HRK 300 million	The implementation of e-referrals, e-findings and e-discharge letters is expected to result in savings on paper, and the realization of a higher quality of health care (for

		<p>electronic appointment booking (e-appointments).</p> <p>Digitalization of medical treatment of patients will be completed by the end of 2015, and all referrals, findings and discharge papers will gradually begin to be communicated between users of this system in electronic form.</p> <p>Financial software applications of hospital will also be interconnected.</p>		<p>contracting entities of Croatian Health Insurance Fund — December 2015.</p> <p>Implementation of e-referrals, e-findings and e-discharge letters in 90 % of contracting entities of Croatian Health Insurance Fund — December 2015.</p> <p>e-DTS — during 2016.</p>	<p>(EU funds — Operational Programme Competitiveness and Cohesion 2014-2020)</p>	<p>example, findings which are currently not collected will be available to the primary care physician).</p> <p>Reduction in referrals to secondary health care level is expected with the introduction of A5 referrals related to consultations without patient presence.</p> <p>Developing and linking the financial software applications of hospitals will enable access to specific operating data of hospitals (financial, material, personnel, etc.).</p>
6.	<b>Expanding the scope of joint public procurement</b>	<p>More intensive application of joint public procurement models in order to rationalize costs.</p>	<p>New Quality Act</p>	<p>Adoption of the Quality Act — June 2015.</p> <p>Changes in the organisation and powers of the Agency for Quality (reorganized into the Agency for Quality and Logistics) — September 2015.</p> <p>The implementation of the public procurement system in hospitals covered by the National Plan (min. 30 % of the total consumption of drugs and consumables) — June 2015.</p>	<p>Savings of HRK 40 million refer to the implementation of the joint public procurement model for medical products (medicines, medical supplies, implants).</p>	<p>The Agency shall assume the duties of public procurement and assessment of medical technologies significant for capital investment planning with the objective of cost rationalisation.</p> <p>The Ministry of Health will carry out public procurement in accordance with framework agreements in coordination with the State Office for the Central Public Procurement — Croatian Health Insurance Fund has authorized the implementation of joint</p>

				Development of IT solutions required by the public procurement system — December 2015.		procurement for postal services and office supplies, while Ministry of Health implements the joint procurement of energy (electricity and fuel).
7.	<b>Strengthening the role of primary health care</b>	Decreasing the number of referrals to specialist/conciliar health care, as well as reducing costs of more expensive specialist and hospital treatments due to the subsidiary principle (the role of primary health care physicians as <i>gate-keepers</i> ).		<p>Continuous monitoring of sick leaves and prescription of medicines</p> <p>Continuous control of the new contracting model for four basic activities of primary health care by the Croatian Health Insurance Fund, and referral to specialist/conciliar health care</p> <p>Publishing tenders for the use of EU funds for equipping the PHC facilities in deprived areas and smaller infrastructure interventions in PHC facilities and health centres — September 2015.</p> <p>Selection of projects for financing — January 2016.</p>	<p>Savings in the amount of HRK 150 million achieved based on monitoring sick leave and prescription and consumption of medicine</p> <p>HRK 140.6 million (EU funds — Operational Programme Competitiveness and Cohesion 2014-2020)</p>	Public tendering procedure for determining the reference prices of medicine is expected to decrease expenditures in 2015 (last published list of medicines with established reduced prices was published in February 2015).
8.	<b>Improved human resource management in health care</b>	<p>Human resource management in accordance with health care system requirements.</p> <p>Planning of education and specializations.</p>	<p>National Plan for Human Resources Development</p> <p>Specialisations Plan for 2015</p>	The adoption of the National Plan for Human Resources Development — April 2015	HRK 266 million Operational Programme Effective Human Resources 2014-2020	<p>Better quality of health care services according to patient needs.</p> <p>Improving access to health care services.</p>

		<p>Funding scarce specializations, particularly in deprived areas.</p> <p>Continuous training of health care professionals.</p>	National Register of Health Care Providers	<p>The adoption of the Specialisations Plan — June 2015</p> <p>Announcing tenders for the allocation of specialisations — December 2015</p> <p>Establishment of the Central Body for Planning and Management of Human Resources — December 2015</p>		
<b>Priority: (5) Reform of the social benefits system</b>						
1.	<b>Consolidation of social benefits through Guaranteed Minimum Benefit (GMB)</b>	<p>The ultimate objective of consolidation of social benefits is the creation of a new benefit, Guaranteed Minimum Standard (GMS), which will assume the process of <b>means-testing</b> of GMB and focus benefits to the poorest groups in society.</p> <p><b>Action Plan for the consolidation of the social welfare systems for the period of 2015-2018</b> will determine (i) which benefits will be included in the GMS and in which time period, (ii) further handling of benefits and reliefs that are not covered by the GMS, (iii) workflow of legislation amendments,</p>	<p>Decision of the Government of the Republic of Croatia on the adoption of the Action Plan for the consolidation of the social welfare systems for the period of 2015-2018.</p> <p>Amendments to relevant acts and subordinate legislation governing specific social benefits</p>	<p>The report on the revision of social benefits on a national and local level and tax policy measures — May 2015.</p> <p>The adoption of the Action Plan for the consolidation of the social welfare systems — June 2015</p> <p>Amendments to acts and subordinate legislation necessary for further implementation (for integration of certain benefits) — in accordance with the Action Plan</p>	<p>Expected savings would amount to 15 % of total funds for benefits that will be consolidated under the GMS and administration of said benefits on an annual basis.</p>	<p>The means-testing will ensure a clearer and more precise determination of criteria for receiving support and thus provide better quality and a higher level of social welfare to the poorest groups in society.</p>

		and (iv) which benefits are to be transferred to the One Stop Shop for administration.				
2.	<b>Consolidation of social benefits through the One Stop Shop</b>	<p>The One Stop Shop represents a <b><u>unified central location for the payment / administration of benefits</u></b> within the existing network of public administration offices (PAO) in the counties and will act as a <b><u>single administrative point for relations between citizens and the state in exercising the right to compensation.</u></b></p> <p>Consolidation through the One Stop Shop provides for a transparent exchange of information and benefit administration via the unified information system.</p>	<p>Loan Agreement of the World Bank IBRD8426-HR (<i>Loan Agreement between Republic of Croatia and International Bank for Reconstruction and Development (Social Protection System Modernization Project)</i>)</p> <p>Amendments to the Social Welfare Act</p> <p>Amendments to the Maternity and Parental Benefits Act</p> <p>Amendments to the Act on Employment Mediation and Unemployment Rights</p> <p>Amendments to the Act on Child Allowance</p> <p>Amendments to the Act on the State Administration System</p> <p>Implementing regulations on the organization of the Croatian Employment Service, Croatian Pension Insurance Institute, Croatian Health Insurance Fund</p>	<p>Adoption of Amendments to the Social Welfare Act - June 2015</p> <p>Technical preparation, equipping with IT equipment, necessary adaptations of facilities/workspaces of Public Administration Offices, adjustment and implementation of SocSkrb application — September 2015</p> <p>Training employees of Public Administration Offices — September 2015</p> <p>Administration of GMB in Public Administration Offices — September 2015</p> <p>Amendments to the Maternity and Parental Benefits Act regarding the transfer of authority for issuing decisions to acquire rights from the Croatian Pension Insurance Institute, Croatian Health Insurance Fund and social welfare centres to the One Stop Shop — December 2015</p>	<p>Expected savings would amount to 15 % of total funds for benefits that will be unified under the One Stop Shop and administration of said benefits on an annual basis.</p> <p>With the consolidation of the GMB, maternity and parental benefits, unemployment benefits and child support through the One Stop Shop (in the first phase of consolidation until 2017), we expect savings in the amount of HRK 600 million per year.</p>	<p>Establishing the One Stop Shop as a single point in relations between the citizens and the state has a significant financial effect on citizens' personal expenses incurred in exercising their right to social welfare.</p> <p>Furthermore, it simplifies the process and reduces the cost of payment and administration of benefits, and establishes complete control of social benefits on a national and local level.</p>

			<p>Acts and implementing regulations governing specific social benefits</p>	<p>Amendments to the Act on Employment Mediation and Unemployment Rights — December 2015</p> <p>Amendments to the Act on Child Allowance — December 2015</p> <p>Amendments to the Act on the State Administration System in order to modify competencies — in accordance with the State Administration Reform Plan</p> <p>Design and implementation of the new MISOSS application which will also consolidate several existing applications — June 2016</p> <p>Administration of maternity and parental benefits in the Public Administration Offices — June 2016</p> <p>Administration of unemployment benefits — October 2016</p> <p>Administration of child support — March 2017</p>		
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				<p>Amendments to implementing regulations on the organisation of existing institutions (Croatian Employment Service, Croatian Pension Insurance Institute, Croatian Health Insurance Fund) for the purposes of harmonisation — in accordance with the Action Plan</p> <p>Amendments to acts and subordinate legislation necessary for further implementation (for integration of certain benefits) — December 2017 and onward, as required, in accordance with the Action Plan</p> <p>Administration of other benefits to be introduced into the One Stop Shop — in accordance with the Action Plan</p> <p>Linking benefits from within the jurisdiction of counties, cities and municipalities via a unified application — in accordance with the Action Plan</p>		
<b>Main objective 2: Resolving weaknesses in public sector governance and increasing public sector efficiency</b>						
<b>Priority: (6) Improving the functioning of public administration</b>						

1.	<p><b>Rationalisation of the system of legal entities with public authority and their unified legal regulation</b></p>	<p>(1) Reduce the number of legal entities with public authority of agency type by at least 15 %</p> <p>(2) Establish a legal framework for a unique organization of the system of agencies, institutes, funds, centres and other legal entities with public authority, which would lay down criteria for their establishment and internal organization, prescribe the method of operation, ensure monitoring of operations, establish official records</p> <p>Aforementioned bodies will also be liable to respect the new Instructions on planning expenditures.</p>	<p>Guidelines for the regulation of the system of agencies</p> <p>The decision on the reduction of the number of agencies, institutes and other public authority bodies (establishing the Commission for the implementation of the rationalization of the system of agencies, institutes, funds, centres and other legal entities with public authority)</p> <p>Amendments to special acts and regulations of the Government of the Republic of Croatia</p> <p>The adoption of the act for a unified regulation of the system of legal entities with public authority</p>	<p>The adoption of the Action Plan for the implementation of the rationalization of the system of agencies, institutes, funds, centres and other legal entities with public authority — May 2015</p> <p>Optimal costs pursuant to the type of material expenditure and the implementation of measures for the reduction of material expenditures of legal entities with public authority will be prescribed as part of the Instructions for expenditure planning, along with standards for determining the number of jobs in general (support) services with regard to the scope of work and other specific criteria related to operations of legal entities — June 2015</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 rationalisation of the</p>	<p>Estimated savings in the amount of HRK 150 million in 2015 (decreased material expenditures in the second half of 2015)</p> <p>Status changes and reduced material expenditures will result in budget savings in the amount of HRK 350 million in 2016</p>	<p>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</p>
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				<p>system of agencies — October to November 2015</p> <p>Drafting the act for a unified regulation of the system of legal entities with public authority — October 2015</p> <p>Establishing a central monitoring system for financial operations of agencies and other legal entities with public authority, establishing official agency records — October 2015</p> <p>The adoption of the act for a unified regulation of the system of legal entities — March 2016</p>		
2.	<b>Rationalisation of regional units of the state administration central bodies</b>	Merging regional units of the central state administration bodies with public administration county offices and thereby reducing their number by at least 20 % (first-instance state administration bodies). During the first phase, the merger would be applied to regional units in charge of inspections.	<p>The decision on the establishment of the Commission for the implementation of the rationalization of regional units of the central state administration bodies</p> <p>Amendments to the Act on the Organisation and Scope of Work of Ministries and Other Central State Administration Bodies</p>	<p>Establishment of the Commission for the implementation of the rationalization of regional units of the central state administration bodies — May 2015</p> <p>The tasks of the Committee are as follows: — Establishing a plan for the implementation of the rationalization of regional units of the central state administration bodies (Phase I), including a list of</p>	Estimated savings in 2016 equal to HRK 25 million	The merger of regional units will reduce the state administration fragmentation and ensure a quicker and more efficient treatment of citizens by the state. Unit operating cost of civil servants will decrease due to a smaller number of regional units. Also, the operational load of ministries will be relieved due to the conferral of authority for resolving cases in the first

			<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>regulations that must be amended by May 2015; — Identifying further opportunities for rationalization of regional units by October 2015</p> <p>Amending relevant regulations (Phase I) — October 2015</p> <p>Functional and fiscal analysis of regional units and planning further rationalization — October 2015</p> <p>Commence the process of merging regional units with public administration offices — January 2016</p>		<p>instance from the ministries to the public administration offices which will further increase the efficiency of public administration</p>
3.	<b>Commencing the process of functional, fiscal and territorial decentralisation aimed at rationalisation of the LC(R)SGU system</b>	<p>Commencing the process of LC(R)SGU system rationalisation, first by establishing mechanisms for encouraging voluntary mergers and elaboration of proposals for a better distribution of tasks and authorities regarding activities of LC(R)SGU, based on the assessment of LC(R)SGU fiscal capacity.</p>	<p>Strategy for the Development of Public Administration 2015-2020</p> <p>Possible amendments to the Act on Financing of Local and Regional Self-Government Units</p>	<p>The establishment of mechanisms for encouraging voluntary mergers and better coordination of the LC(R)SGU — October 2015</p> <p>Analyse and establish a new model of distribution of tasks and authorities regarding activities of the LC(R)SGU — and (based on the assessment of fiscal capacity and size of LC(R)SGU) — December 2015</p>	<p>There are no fiscal effects in 2015</p> <p>Assessment for 2016 - N/A</p>	<p>Encourage a more efficient organization of competencies and delegated tasks and activities of the LC(R)SGU.</p> <p>Increase in efficiency and capacity for the implementation of activities within the competence LC(R)SGU is expected due to the reduced administrative fragmentation.</p>
4.	<b>Revision of wage setting and regulation of the</b>	<p>Introducing a uniform basis and framework for</p>	<p>Act of the Government of the Republic of Croatia on</p>	<p>The adoption of an Action Plan for the</p>	<p>This measure does not require additional State</p>	<p>Determine the direction, method and structure for</p>

	<p><b>system of salaries in public administration and public services</b></p>	<p>the regulation of pay grades and variable parts with respect to performance, under the existing salary mass.</p> <p>Adopt a new Act on Salaries in Public Administration for the purpose of organising the system of salaries in civil services, legal entities with public authority and public services in accordance with the following principles: (i) transparency, (ii) unified approach to equal remuneration for equal work, (iii) enabling a horizontal and vertical movability (promotion), and (iv) introducing a uniform basis and framework for the regulation of pay grades and variable parts (remuneration), and compliance with collective agreements.</p> <p>Further development of a coordination system in collective bargaining in public administration and public services.</p>	<p>the acceptance of an Action Plan for the implementation of a comprehensive reform of the salary system</p> <p>Act on Salaries and accompanying implementing acts</p>	<p>implementation of a comprehensive reform of the salary system — May 2015</p> <p>The Action Plan should, inter alia, include:</p> <ul style="list-style-type: none"> <li>— discussions with social partners on the draft proposal of the new Act on Salaries in June 2015,</li> <li>— creating a simulation — systematization of existing jobs in the public administration and public services according to the new classification in September 2015,</li> <li>— submitting the Act for a parliamentary procedure (II reading) by October 2015,</li> <li>— adoption of the Act by the Parliament by March 2016,</li> <li>— standardization of the task planning system, monitoring the plan implementation and evaluation of public administration and public services by March 2016,</li> <li>— adoption of implementing legislation and harmonization of other regulations with the new Act within six months of entry into force of said Act,</li> <li>— entering into new Fundamental Collective</li> </ul>	<p>Budget funds and no savings are planned with regard to the total expenditure for employees.</p>	<p>auditing and regulation of the salary system in public administration and public services in compliance with uniform principles and based on expert analytical background and results of discussions between social partners and the interested public. Coordination of collective bargaining in public administration and public services will be improved while ensuring a consistent application of bargaining standards in all areas of public administration and public services.</p>
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				<p>Agreements (Collective Agreement for Civil Servants and Employees, Fundamental Collective Agreement for Servants and Employees in Public Services) by December 2016.</p> <p>Regulation analysis of individual institutes from the Labour Act in collective agreements in public administration for the purpose of implementing a standardised contracting procedure for selected institutes in collective agreements — July 2015.</p>		
5.	<b>Improve human resource management in public administration</b>	<p>1. Increase the number of members and change the decision-making method of the Civil Service Committee</p> <p>2. Shortening the recruitment process in the civil service</p> <p>3. Defining the key competencies of employees and civil servants for all jobs in the public administration</p>	<p>1. Amendments to the Regulation governing the organisation and operation of the Civil Service Committee</p> <p>2. Amendments to the Civil Servants Act</p> <p>3. Creating a competence framework for employees in public administration</p>	<p>1. Adoption of Amendments to the Regulation governing the organisation and operation of the Civil Service Committee — April 2015</p> <p>2. Submitting the Amendments to the Civil Servants Act to the Government of the Republic of Croatia — May 2015</p> <p>Adoption of Amendments to the Civil Servants Act — December 2015</p>		<p>1. Accelerating the process of resolving complaints in the recruitment process</p> <p>2. Shortening the recruitment process</p> <p>3. Professionalization of public administration</p>

				<p>3. Analysis of the competencies required for the performance of public administration — March 2016</p> <p>Identification of key competencies for employees in public administration — June 2016</p> <p>Identification of competencies required to perform certain types of work in the public administration — December 2016</p> <p>Publication of the competence framework for employees in public administration — December 2016</p> <p>The inclusion of established competences in internal acts on the systemization of workplaces of public legal bodies — December 2016</p>		
6.	<b>Improve the e-business of public administration and provision of electronic services for citizens and businesses</b>	<p>Defining overall e-services that will be prepared for citizens and business entities by 2020</p> <p>(1) Facilitate the communication between citizens and public legal</p>	<p>E-Croatia 2020 Strategy</p> <p>(1) E-Identity Cards Act</p> <p>(2) Act of the GRC which prescribes the mandatory use of e-invoices in business operations of all</p>	<p>Adoption of the Strategy — November 2015</p> <p>(1) Technical upgrade of the system for issuing e-ID cards — June 2015</p>	<p>To ensure technical preconditions for issuing e-ID cards, HRK 0.9 million must be allocated from the State budget.</p> <p>Establishment and maintenance of the e-</p>	<p>The Strategy specifies the development of e-services based on the rational use of ICT resources and consequently savings within the budget and improvements to the quality of e-services</p>

		<p>bodies through the introduction of e-ID cards and further development of the e-citizens system</p> <p>Facilitate the communication between business entities and public legal bodies in the provision of services:</p> <p>(2) The use of e-signature and e-invoice in the operation of government bodies,</p> <p>(3) Establishment and maintenance of e-business</p> <p>(4) Establishment of a unified entrepreneurial portal E-entrepreneur</p>	<p>state administration bodies (SAB) from March 2016</p> <p>Directive 2014/55/EU of the European Parliament and of the Council of 16 April 2014 on electronic invoicing</p> <p>Value Added Tax Act</p> <p>General Tax Act</p> <p>Accounting Act</p>	<p>Training of civil servants on new business processes — June 2015</p> <p>Adoption of the Act and subordinate regulations on the Identity Card — September 2015</p> <p>Begin issuing e-ID cards to citizens — September 2015</p> <p>(2) Introduction of the mandatory receipt of structured e-invoices by SABs for entities that do business with SABs — February 2016</p> <p>Introduction of the mandatory issuance of structured e-invoices for SABs — April 2016</p> <p>(3) E-business platform prototype development and integration of finished e-services for business entities — October 2015</p> <p>Full establishment of the e-Business service — March 2016</p> <p>(4) Publication of the E-entrepreneur Portal — January 2016</p>	<p>Business system, the system is valued in the amount of HRK 10 million</p> <p>Portal development, estimated value of about HRK 0.7 million (from the EU funds)</p> <p>Maintenance on an annual basis — estimated at about HRK 0.1 million annually (State Budget).</p>	<p>provided to citizens and business entities.</p> <p>(1) The introduction of e-ID cards — the ability for citizens to reliably and easily use different online services with an authentication/identity verification mechanism.</p> <p>We estimate that the e-ID card will be obtained by 15 % of adult citizens during 2015.</p>
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7.	<b>Development of the Open Data Portal at the web address data.gov.hr</b>	<p>Setting up a central web Portal as a data node used for the collection, classification and distribution of open public sector data.</p> <p>This Portal is a kind of a metadata catalogue enabling easier searching of open public administration data, and the use of such data for social and business purposes.</p>	<p>Amendments to the Act on the Right of Access to Information and the implementation of the Directive on the re-use of information</p>	<p>Establishing a Portal with at least 100 data sets related to public administration that will be immediately available and based on which applications and services could be developed — May 2015</p> <p>Adoption of the Amendments to the Act on the Right of Access to Information — September 2015</p>		<p>By using the Portal, the users can easily search and find desired public data or information intended for reuse.</p>
<b>Priority: (7) Improving the management of public companies</b>						
1.	<b>Redefine the concept and scope of state property records</b>	<p>Extending the scope of state property — the new definition will include the LC(R)SGU or companies owned by one or more LC(R)SGUs and their affiliates</p>	<p>Amendments to the Act on the Management and Disposal of Assets owned by the Republic of Croatia</p> <p>Decree on the organization, procedure of maintaining and the contents of the Central Registry of State Assets</p>	<p>Amendments to the Act — May 2015</p> <p>Adoption of the Regulation on the organization, procedure of maintaining and the contents of the Central Registry of State Assets — September 2015</p> <p>Data and software upgrade of the Central Registry of State Assets — November 2015</p>		<p>Extending the scope will enable the introduction of mandatory reporting on business operations for companies owned by one or more LC(R)SGUs and their affiliated companies.</p>
2.	<b>Establish a system for reporting on business operations for companies owned by one or more LC(R)SGUs</b>	<p>The report on business operations will include the income statement, information on achieved financial results, number of</p>	<p>Guidelines for reporting on business operations for companies owned by one or more LC(R)SGUs</p>	<p>Establish a reporting model — July 2015</p> <p>Drafting the Guidelines for reporting on business</p>		

		<p>employees and labour costs, investments for the current period (realized and planned), restructuring plan (plan and realization), planned business projects and realization, achieved business results for the three-year period, business plan for the following period.</p> <p>An IT solution will be developed for reporting purposes.</p>		<p>operations for companies owned by one or more LC(R)SGUs — October 2015</p> <p>Preparing the report on business operations in accordance with aforementioned Guidelines — March 2016</p>		
3.	<b>Reducing the state portfolio of companies</b>	Reducing the number of companies of strategic and special interest owned by the Republic of Croatia	Amendments to the Decision of the GRC on establishing a list of companies of strategic and special interest to the Republic of Croatia	<p>Adoption of Amendments to the Decision of the GRC — June 2015</p> <p>Identify additional opportunities for offering minority shares packages on the stock exchange of companies of strategic and special interest (A-list) — September 2015</p>		Reducing the number of companies in the state portfolio by offering stocks and shares.
4.	<b>Define and publish specific company targets for the purpose of conducting responsible business operations and strengthening the performance assessment of companies</b>	Clear medium-term objectives and performance measurement indicators shall be set, which will strengthen transparency and responsibility of the state as the owner in the management of state property.	<p>Action Plan for the establishment of medium-term business objectives in companies with majority state ownership</p> <p>Act on the Management and Disposal of Assets owned by the Republic of Croatia</p>	Provide technical assistance for the implementation of a pilot project aimed at creating transparent medium-term business goals for a small number (1-2) of companies in majority state ownership, which will be based on a comparison of performance indicators in meeting the objectives		Increased efficiency and effectiveness of public company operations

		Isolate companies from within the competence of individual ministries by institutional monitoring, with said ministries taking the role of regulators — the candidate selection for members and CEOs of companies and other legal entities of strategic and special interest for the Republic of Croatia will be carried out pursuant to a proposal by the SAOSPM		of similar companies — May 2015  Implementation of the pilot project — October 2015  The adoption of the Action Plan for the establishment of medium-term business objectives in companies with majority state ownership — December 2015		
5.	<b>Strengthen the competence requirements for candidates and transparency in the management board appointment process of companies in state ownership</b>	Increase the competence of management board members and transparency of the selection process by strengthened competency requirements of the election process and appointment of management boards and hiring <i>head-hunting</i> agencies	Decree on the selection and appointment of members of management and supervisory boards of companies in state ownership  Corporate Governance Code for companies in state ownership	The adoption of the new Regulation ( <i>including comments of the EC regarding the management experience and experience in the private sector</i> ) — June 2015  Creating Guidelines for companies in state ownership for developing internal acts for linking the amount of compensation and remuneration with performance measurement in achieving set medium-term goals — June 2015  Adoption of the Corporate Governance Code — September 2015		Increased efficiency and effectiveness of public company operations by implementing a better and more transparent selection of managers
<b>Main objective 3 Promoting growth, external competitiveness and re-establishing balance in the Croatian economy</b>						
<b>Priority: (8) Reducing the administrative burden and business costs of companies</b>						

1.	<b>Measuring the administrative burden on the economy by applying the 'Standard Cost Model' (SCM) methodology</b>	<p>Continued application of the SCM methodology for measuring the initial state (i.e. <i>baseline measurement</i>) of the administrative burden of provisions (under the jurisdiction of various state administration bodies) regulating the economy.</p> <p>Reducing the administrative burden on economy in the trade and real estate domains by 20 % by the end of 2015 and 20 % in 5-7 additional regulatory areas by the end of 2016.</p>	<p>Conclusion of the GRC on the adoption of the Plan for the implementation of measures to reduce the administrative burden by 20 % in pilot areas by the end of 2015.</p> <p>The Decision of the GRC on 5-7 regulatory areas relevant to the economy in which further measurement of the administrative burden will be carried out using the SCM methodology with the aim of reducing the administrative burden by 20 %</p> <p>Action Plan for further measurement of the administrative burden in 5-7 regulatory areas relevant to the economy</p> <p>Conclusion of the GRC on the adoption of the Plan for the implementation of measures to reduce the administrative burden by 20 % in 5-7 identified areas by the end of 2016.</p> <p>Acts and implementing regulations from domains of SCM measurements</p>	<p>Report on the conclusions of administrative burden measurements in pilot areas and the publication thereof — April 2015</p> <p>The adoption of the Plan for the implementation of measures to reduce the administrative burden by 20 % in pilot areas (trade and real estate) by the end of 2015 — May 2015</p> <p>Implementation of measures for reducing the administrative burden by 20 % in pilot areas and amendments to acts and subordinate legislation regulating the reduction — in accordance with the Implementation Plan (entry into force of the amendments 1 January 2016)</p> <p>Adoption of the Action Plan for further measurement of the administrative burden of regulations relevant to the economy (under the jurisdiction of more state administration bodies) and educating key SABs on its use — June 2015</p>	<p>Financing of the aforementioned activities has been allocated from the budget of ME in the amount of approximately HRK 0.5 million and through EU projects in the long-term.</p>	<p>The application of the SCM methodology improves planning and decision-making on public economy policies and ensures the return of investment through the achievement of results, i.e. removal of administrative burdens which present a major financial and time burden for the economy.</p>
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2.	<b>Reduction of para-fiscal levies</b>	Ensure a reduction of most burdening para-fiscal levies for entrepreneurs and simplify the collection of debts under the jurisdiction of SABs with	The decision of the GRC on the objectives of reducing non-tax payments in 2015 and 2016 and the establishment of a	The Commission will: (i) publish a Register of Para-fiscal Levies — June 2015, (ii) establish a list of para-fiscal levies whose value	The projected result of the reduction/abolition of para-fiscal levies in 2015: HRK 72 million	Savings incurred by reducing the para-fiscal levies enable the reinvesting of funds and thus stimulate the development, innovation

		<p>the purpose of reducing the cost of business operations for entrepreneurs.</p>	<p>committee for the reduction of non-tax payments</p> <p>Acts and implementing regulations governing the collection of para-fiscal levies</p>	<p>will be reduced during 2016 and will result in a further reduction in the amount of 0.1 % of GDP (priority will be given to levies paid regularly by the highest number of entrepreneurs) — September 2015</p> <p>(iii) identify opportunities for a unified collection of levies for bodies that collect revenue — December 2015,</p> <p>(iv) monitor the changes to acts and subordinate legislation regulating the reduction of para-fiscal levies — continuously.</p> <p>The amendment to acts and subordinate legislation regulating the reduction of para-fiscal levies in 2015 in the amount of HRK 278.9 million in accordance with the Decision of the GRC on the objectives of reducing non-tax payments in 2015 and 2016 and the establishment of a committee for the reduction of non-tax payments — October 2015 (entry into force of amendments on 1 January 2016)</p>	<p>The projected result of the reduction/abolition of para-fiscal levies in 2016 pursuant to decisions adopted during 2015: HRK 278.9 million</p> <p>Additional reduction in 2016 — dependent on the entry into force of amendments regulating the reduction for additional 0.1 % of GDP</p>	<p>and private sector spending.</p>
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				The amendment to acts and subordinate legislation regulating the reduction/abolition of para-fiscal levies in the additional amount of 0.1 % of GDP — during 2016 (entry into force of amendments on 1 January 2017)		
<b>Priority: (9) Improving the quality of new legislation</b>						
1.	<b>Strengthening the legislative planning and coordination in the adoption of regulations on the national level</b>	<p>1) Reduce the number of acts passed under urgent procedure, among the total number of acts adopted during 2015, by 25 % in relation to the situation in 2014, and by 50 % in 2016 compared to 2014</p> <p>2) Reduce the share of acts referred to the GRC for adoption without the full implementation of impact assessment process by 25 % (although under obligation in accordance with the Annual Normative Activities Plan) in 2015 in relation to the situation in 2014 and by 50 % in 2016 compared to 2014</p>	Rules of Procedure of the GRC	1) and 2) Amendments to the Rules of Procedure of the GRC — May 2015		<p>Better control and reduced unplanned normative activities.</p> <p>Higher quality legal acts with a reduced probability of an adverse effect on the operations of the economy, especially small and medium enterprises.</p> <p>Better predictability of the legislative framework for the corporate sector.</p>
2.	<b>Strengthening Regulatory Impact Assessment</b>	1) The introduction of ex-post Regulatory Impact Assessment	<p>Regulatory Impact Assessment Act</p> <p>Act of the Government of the Republic of Croatia</p>	The introduction of ex-post Regulatory Impact Assessment mechanisms for relevant acts (and amendments) — July 2015	IPA component 1 allocated EUR 0.25 million for the implementation of the Twinning Light project 'Capacity building for the	Higher quality legal acts with a reduced probability of an adverse effect on the operations of the

		<p>2) The introduction of the SME test as part of Regulatory Impact Assessment</p> <p>3) Systematic training and capacity building of the regulation carrier concerning the implementation of Regulatory Impact Assessment</p>	<p>including the template for the SME test introducing the mandatory Regulatory Impact Assessment for the SMEs using the 'SME Test'</p>	<p>The introduction of mandatory application of the SME test on the legislation from the domain of SMEs — December 2015</p> <p>Implementation of educational cycles on the application of analytical tools for Regulatory Impact Assessment (impact analysis; cost and benefit analysis) through the Twinning light project 'Capacity building for the implementation of Regulatory Impact Assessment Strategy for the period from 2013 to 2015 — October 2015</p> <p>Strengthening of internal capacities of the Office for legislation and administrative capacity of the SAB for the implementation of Regulatory Impact Assessment — continuously</p> <p>Application evaluation of the Regulatory Impact Assessment Act for the three-year period (2013-2015) and accompanying Regulatory Impact</p>	<p>implementation of Regulatory Impact Assessment Strategy for the period from 2013 to 2015'.</p>	<p>economy, especially small and medium enterprises.</p> <p>Better predictability of the legislative framework for the corporate sector.</p>
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				Assessment documents, and the development of recommendations for improving the legislative framework of the Regulatory Impact Assessment — October 2015		
<b>Priority: (10) Strengthened framework for the implementation of bankruptcy proceedings</b>						
1.	<b>Strengthened framework for the implementation of bankruptcy and pre-bankruptcy proceedings of entrepreneurs for the purpose of facilitating debt restructuring</b>	Encouraging sustainable entrepreneurs to perform restructuring at an early stage to prevent insolvency and removal from the market of entrepreneurs who are not insolvent in order to protect creditors and financial discipline	New Bankruptcy Act	<p>Adoption of the Bankruptcy Act — May 2015 (entry into force on 1 July 2015)</p> <p>Creating a Guide for the new pre-bankruptcy proceeding rules and distribution of said Guide via the MJ, ME, MINEC, MLPS, CCC, FINA websites - June 2015</p> <p>Establishing a quarterly monitoring and analysis system of the effectiveness of the new Bankruptcy Act and efficiency of commercial courts in its enforcement (with an emphasis on regular reporting on the effectiveness of restructuring and reduction of debts) — September 2015 (continuously)</p>	There is no impact on the State Budget of the Republic of Croatia.	Initiating and managing pre-bankruptcy proceedings falls under court jurisdiction only when it is objectively possible and probable that the debtor, with the partial write-off of debts, can continue to operate. On the other hand, in accordance with legal requirements, the bankruptcy proceedings will be initiated ex officio after 120 days of blockade. Limiting the time period within which an insolvent debtor can operate increases the ability to collect debt (increased protection of creditors) and more efficient management of bankruptcy proceedings. At the same time, possibility of implementing a bankruptcy plan is again introduced, i.e., the ability to reach a settlement

						(reorganization) after the initiation of bankruptcy proceedings, creating an additional possibility for the debtor to continue with business activities.
2.	<b>Establishment of a consumer bankruptcy/personal bankruptcy system</b>	Considering that the Croatian legal system introduces a new institute and a new method for regulating the relationship between creditors and debtors, and for which there is no international best practice, it is necessary to monitor and analyse its application after the adoption of the Consumer Bankruptcy Act.	Consumer Bankruptcy Act  Decision on the establishment of a working group for the monitoring and implementation analysis of the Consumer Bankruptcy Act	Adoption of the Consumer Bankruptcy Act — June 2015 (entry into force on 1 September 2015)  Establishment of a working group for the monitoring and implementation analysis of the Consumer Bankruptcy Act — September 2015  Determination and adoption of criteria for monitoring the application of the Act — September 2015  Creating standardized monitoring templates — September 2015	There is no impact on the State Budget of the Republic of Croatia.  Note: the Ministry of Justice will allocate the proposed funding in the amount of HRK 10.5 million for the implementation of the aforementioned measure by redistributing its own funds within the approved limit	The Consumer Bankruptcy Act introduces new criteria and standards for the establishment of social rights, protection of property rights and the rule of law and is considered a progress of the Croatian legal system for which it is necessary to monitor the application of the Act from the outset and timely indicate any shortcomings and/or the need for providing education and customisation of the system. The aforementioned measure must be applied immediately and extensively.

## Annex 2 Description of measures affecting the fulfilment of main objectives of the Europe 2020 Strategy

<b>The main national objectives of the Europe 2020 Strategy</b>	<b>List of required measures for achieving the objective, and implementation schedule with key milestones and deadlines</b>	<b>Impact assessment of measures (qualitative and/or quantitative)</b>
<p>National objective of the Europe 2020 Strategy in the employment domain [..]</p>	<p><u>1. Promote employment of disadvantaged persons in the labour market — older persons, long-term unemployed and persons with low qualifications through active labour market policy measures and increase incentives for hiring unemployed and inactive persons</u></p> <ul style="list-style-type: none"> <li>- Promotion of fiscal benefits for hiring long-term unemployed persons in accordance with the Employment Incentives Act — continuously throughout 2015</li> <li>- Implementation of the ALMP Programme in accordance with the Guidelines for the development and implementation of ALMP — continuously throughout 2015</li> <li>- Preparation and contracting of ALMP projects funded through the ESF — December 2015</li> <li>- Completion of the project 'External evaluation of the Active labour market policy measures in the Croatian Employment Service' — February 2016</li> </ul> <p><u>2. Improving labour market outcomes for young persons who are not in employment or part of the education system</u></p> <ul style="list-style-type: none"> <li>- Implementation of a national campaign aimed at the visibility and accessibility of measures, activities and projects of the YG — continuously throughout 2015</li> <li>- Activities aimed at the registrants with the NEET status implemented by the Croatian</li> </ul>	<p>1. Increasing the employability and participation rate of long-term unemployed and the elderly in the labour market.</p> <p>Ensuring minimum qualifications for the participation in the labour market for persons with low qualifications.</p> <p>Strengthening the support for unemployed persons who start their own business.</p> <p>In accordance with the ALMP Guidelines a significantly greater coverage by AEP measures is planned for the 2015-2017 period — 52 856 newly included persons in 2015.</p> <p>Also, measures are planned to include 11 871 long-term unemployed persons and 4 784 persons aged 50+.</p> <p>The measure for education of unemployed persons is planned to include a total of 15 000 people (including 4 000 youth, 2 000 persons aged 50+, 300 persons with disabilities, 5 400 long-term unemployed, 3 000 women, 300 people from special groups) in accordance with the ALMP Guidelines for 2015-2017.</p> <p>The 'External evaluation of the active labour market policy measures in the Croatian Employment Service' project encompasses Active labour market policy measures that were implemented in the period between 2010 and 2013 with a view to determine the success and impact of said measures</p>

	<p>Employment Service — continuously throughout 2015</p> <ul style="list-style-type: none"> <li>- Agreement on the exchange of data (for persons with the NEET status) — April 2015 (supported by the ESI funds)</li> <li>- Database of persons with the NEET status — May 2015 (supported by the ESI funds)</li> <li>- Analysis of persons with the NEET status — June 2015 (supported by the ESI funds)</li> <li>- Development of measures for the access and activation of persons with the NEET status on the basis of conducted analysis — December 2015</li> <li>- 7. The establishment of 20 youth centres within the CES — December 2015 (supported by the ESI funds)</li> <li>- Contracting YG projects — December 2015</li> </ul> <p><u>3. Improving efficiency of labour market institutions</u></p> <ul style="list-style-type: none"> <li>- Recruitment of counsellors who collaborate with unemployed persons and employers — continuously throughout 2015</li> <li>- Providing education for counsellors — September 2015</li> <li>- Introducing new services — September 2015</li> <li>- Providing specialisation for counsellors regarding specific groups in the labour market — September 2015</li> </ul> <p><u>4. Strengthening the career development system</u></p> <ul style="list-style-type: none"> <li>- The adoption of the Strategy for Lifelong Career Guidance and Career Development — October 2015</li> <li>- Accessible e-guidance service for lifelong career guidance and career development — May 2015</li> </ul>	<p>on the employment opportunities and revenue of participants with the purpose of preparing the basis for further development and enhancement of the Active Employment Policy.</p> <p>2. Identification of the number of unemployed inactive young people.</p> <p>Services and activities developed according to the actual needs of persons with the NEET status.</p> <p>Engaging persons with the NEET status on the labour market.</p> <p>Increased number of young employed and active persons within four months of entering the CES register (YG).</p> <p>In accordance with the ALMP Guidelines 2015-2017 the ALMP measures are planned to involve 24 050 young people throughout 2015.</p> <p>Of this number, 9 500 persons are planned for inclusion in the ALMP measures over a period of four months from the entry into the CES register.</p>
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	<ul style="list-style-type: none"> <li>- Further improvements of customer services via CISOK centres — the continuation of the project — continuously during 2015</li> <li>- New CISOK centres — beginning of 2016</li> <li>- Development of vocational standards — in accordance with the CROQF — second quarter of 2015</li> <li>- Publishing the ALMIS Portal — December 2015</li> <li>- Information system for linking databases on employed and unemployed persons, pupils, students and business entities ( 'Megabase') — September 2015</li> </ul>	
<p>National objective of the Europe 2020 Strategy in the research and development domain [...]</p>	<p><u>1. Strengthening the national innovation system and innovation potential of the economy</u></p> <ul style="list-style-type: none"> <li>- Drafting a programme of state incentives for research, development and innovation for the period of 2015-2020 — December 2015</li> <li>- Improved model for monitoring statistical and other indicators for monitoring the research, development and innovation through the 'Scientific technological forecasting' project (Operational Programme Competitiveness and Cohesion) — December 2015</li> </ul> <p><u>2. Improving the quality, management and funding system for scientific organizations and encouraging scientific excellence</u></p> <ul style="list-style-type: none"> <li>- The introduction of new funding methods for scientific activities — December 2015</li> <li>- The restructuring of the public research institute network — creating a model for restructuring the public research institutes by June 2015</li> <li>- Strengthening the absorption potential of scientific organizations with a view to</li> </ul>	<p>Increased investments of the business sector in research, development and innovation (R&amp;D). Joint research projects of the scientific and academic communities and the economy, R&amp;D will contribute to increased investment in research and development and strengthening of mechanisms for the transfer of knowledge, technology, innovation and intellectual property of universities and institutes in the economy.</p> <p>2. Improving the research environment oriented towards the scientific excellence, together with international and intersectoral mobility, will lead to strengthening of the research institution capacities. Increased absorption capacity of the Republic of Croatia for the withdrawal of funding from EU funds and programmes and a gradual increase in GDP, thus improving the overall economic picture. Increase in competitiveness of the Croatian academic and scientific community for the purpose of attracting EU funds, i.e. the Horizon 2020 Programme</p> <p>Continuous guidance towards greater excellence, international significance and rational use, and thus</p>

	<p>withdraw funding from EU funds and programmes —</p> <p><u>3. Introducing a new instrument for encouraging investments in the equity of innovative small businesses in the initial and early stages of development</u> — second half of 2015 (supported by the ESI funds)</p>	<p>indirectly influencing the research, development and innovation.</p> <p>3. The significant increase in the activities of innovative fast-growing small business entities, as well as easier access to global markets and sources of funding.</p>
National objective in the domain of reducing greenhouse gas emissions [..]	<p>1. Reducing greenhouse gas emissions by implementing the third National Action Plan for Energy Efficiency of the Republic of Croatia for the period 2014-2016 through 40 measures in household, services, transport and industry sectors and the implementation of the energy renovation of buildings programme (commercial non-residential buildings, residential houses, public sector buildings and apartment buildings).</p> <p>2. Reducing greenhouse gas emissions by implementing the National Action Plan for energy production from renewable energy sources of the Republic of Croatia until 2020</p> <p>3. Reducing traffic emissions by implementing measures described in Section 4.3. entitled Climate change and energy</p>	<p>Cumulative reduction of CO2 emissions as a result of energy renovation of non-residential buildings amounts to 121.3 kilotons of CO2 in 2016, and 703.3 kilotons of CO2 in the 2020</p> <p>Programme of energy renovation of residential houses is projected to reduce CO2 emissions by approximately 14 500 tons per year.</p> <p>Programme of energy renovation of public sector buildings is projected to reduce CO2 emissions by approximately 20 500 tons per year.</p> <p>Measures planned for implementation under the programme of energy renovation of apartment buildings are projected to reduce CO2 emissions by approximately 62 110 tons per year.</p> <p>Implementing measures under the National Action Plan for energy production from renewable energy sources is projected to reduce CO2 emissions by approximately 8 137 kilotons in 2020.</p>
National objective in the domain of renewable energy sources [..]	<p>Promoting renewable energy sources in order to reduce greenhouse gas emissions</p> <p>State incentives for stimulating production of energy from renewable energy sources</p> <p>2. Tariff System for the production of energy from renewable energy sources and cogeneration</p>	<p>1. Increased share of renewable energy sources in gross total energy consumption</p> <p>2. In order to achieve the targeted 20 % share of renewable energy sources in gross total consumption, the National Action Plan for renewable energy sources defines individual power values of energy production technologies planned for incentives by 2020:</p>

	<p>3. The system of market premium stimulation and investment support projected by the proposed Draft of the Act on renewable energy sources and highly effective cogeneration</p>	<ul style="list-style-type: none"> <li>- 400 MW wind power plant</li> <li>- 85 MW generation plants running on biomass</li> <li>- 40 MW generation plants running on biogas</li> <li>- 100MW hydro power plant</li> <li>- 52 MW solar power plant</li> <li>- 10 MW geothermal power plant.</li> </ul> <p>These ratios can be adjusted depending on the degree of fulfilment of mandatory overall objective.</p>
<p>National objective in the domain of energy efficiency [..]</p>	<p>Promoting energy efficiency in order to reduce greenhouse gas emissions</p> <ol style="list-style-type: none"> <li>1. The implementation of the energy renovation of public sector buildings programme 2014-2015 developing the programme for the period 2016-2020</li> <li>2. The implementation of the energy renovation of apartment buildings programme 2014-2020</li> <li>3. The implementation of the energy renovation of residential houses programme 2014-2020</li> <li>4. The implementation of the energy renovation of commercial sector buildings programme 2014-2020</li> <li>5. Creating a National information system for energy certification</li> </ol>	<p>The objective for 2016 is to increase energy efficiency by 19.77 PJ. The objective is set to 22.76 PJ for 2020. The stated objective must be achieved so our absolute amount of direct energy consumption in 2020 shall not exceed 293.04 PJ or 7.00 Mtoe. The corresponding objective expressed as an absolute amount of primary energy in 2020 equals 466.69 PJ (11.15 Mtoe)</p> <ol style="list-style-type: none"> <li>1. The aforementioned programme provides for the energy renovation of existing buildings, which are determine to be cost-effective in terms of renovating in accordance with the model elaborated by this programme, or buildings that can be renovated if the provider of energy services can offer energy savings and can prove said savings by creating an energy renovation project (ESCO model). APN will execute a public procurement procedure. The programme is implemented via the Energy Performance Contract. Annual implementation: HRK 200 million, 200 000 square meters and 226.8 TJ of expected energy savings in 2016 The 2016-2020 Programme will be created by the end of 2015</li> <li>2. Encouraging integral renovation of apartment buildings. The Environmental protection and energy efficiency Fund and Ministry of Construction and Physical</li> </ol>

		<p>Planning invite building administrators and managers to develop plans for the renovation of buildings under their management, based on the results of energy audits and project documentation. The Environmental protection and energy efficiency Fund establishes a subsidies scheme and issues tenders for energy audits and preparation of project documentation and public calls for energy restoration. Building administrators and managers apply to these tenders. The rate of subsidization is 100 % for project documentation, 40-80 % for energy renewal.</p> <p>The plan is to renovate 500 000 m2 of apartment buildings annually.</p> <p>The required total investment required by this programme amounts to HRK 527.5 million per year. Expected energy savings in 2016: 730 TJ. Other benefits: reduction of CO2 emissions, creating new jobs, increased security of energy supply, increased market value of real estate and improved housing conditions.</p> <p>3. Ministry of Construction and Physical Planning, Ministry of Environmental and Nature Protection and the Environmental Protection and Energy Efficiency Fund will implement a promotional campaign, the Fund publishes tenders directly for all citizens of the Republic of Croatia.</p> <p>The Environmental protection and energy efficiency Fund typically provides subsidies of up to 40 % of total investment, and when possible 60-80 % (islands, mountainous areas, areas of special state concern).</p> <p>In 2015 They plan to implement energy efficiency and renewable energy measures in 10 000 households.</p> <p>Planned funds for subsidizing such measures in 2015 amount to HRK 72 million per year. Expected energy savings in 2016: 605.4 TJ (168 GWh)</p>
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		<p>4. Energy renovation of commercial buildings, especially those built before 1987 The renovation includes measures for the reconstruction of the heated area's outer shell with the aim of achieving energy class B, A or A +.</p> <p>Continuous promotion of Programmes by the Ministry of Construction and Physical Planning, Ministry of Tourism, Ministry of Economy. The Environmental protection and energy efficiency Fund conducts public tenders and provides subsidies.</p> <p>The necessary funds for the renovation of approximately 1.78 million m2 equal HRK 1 784 360 000 by 2016 Expected energy savings in 2016: 985 TJ.</p> <p>5. The National Computer Programme is introduced for calculating the energy performance of buildings and creating energy certificates which will include the entire record of issued certificates and records of authorized persons. Within the existing system in the Republic of Croatia, energy performance of buildings can be calculated by several computer programmes that are available in the market, but there exists a lack of confidence to what extent such programmes provide reliable data on the energy performance of buildings; an integrated programme will therefore be developed to avoid such an approach, which will result in a unified calculation of energy used for heating and cooling of buildings in accordance with norms and regulations governing the energy certification and thermal protection in buildings.</p> <p>This will relieve the public administration, accelerate business operations, simplify the procedure for issuing certificates, and improve the transparency of issuing certificates as well as allow all citizens of the Republic of Croatia to access the necessary information related to energy certification of buildings. Application of the National Information</p>
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		System will start in the third quarter of 2015 and become a long-term and continuous activity.
National objective in the domain of early drop-out from schools [..]	<p><u>1. Implementation of a comprehensive curricular reform</u></p> <p><b>National Curriculum Framework</b></p> <ul style="list-style-type: none"> <li>- Phase I Drafting a Proposal of the National Curriculum Framework — September 2015</li> <li>- Phase II Public discussion and adoption — December 2015</li> <li>- Phase III Implementation — continuously</li> </ul> <p><b>The National Curriculum for the nine-year compulsory education and subject/modular curricula</b></p> <ul style="list-style-type: none"> <li>- Phase I Drafting — September 2015</li> <li>- Phase II Public discussion and adoption — September 2016</li> <li>- Phase III Implementation — continuously</li> </ul> <p><b>The National Curriculum for secondary education and subject/modular curricula</b></p> <ul style="list-style-type: none"> <li>- Phase I Drafting — September 2015</li> <li>- Phase II Public discussion and adoption — December 2015</li> <li>- Phase III Implementation — continuously</li> </ul> <p><b>The National Curriculum for vocational education and curricula for the acquisition of vocational qualifications within the regular educational system, with particular emphasis on increasing the proportion of practical classes</b></p> <ul style="list-style-type: none"> <li>- Phase I Drafting — September 2015</li> <li>- Phase II Public discussion and adoption — December 2015</li> <li>- Phase III Implementation — continuously</li> </ul> <p><b>The National Curriculum for arts education</b></p> <ul style="list-style-type: none"> <li>- Phase I Drafting — September 2015</li> <li>- Phase II Public discussion and adoption — December 2015</li> <li>- Phase III Implementation — continuously</li> </ul>	<p>1. The objective is to innovate and modernize the National Curriculum Framework and integrate the national curricula with the framework and harmonize the various documents of educational policy in order to acquire relevant competencies and skills in accordance with the needs of the labour market and the economy.</p> <p>2. Extending the general education duration of the entire population of students is expected, together with the acquisition of basic competencies for continuing the education and/or entering the labour market.</p> <p>3. The professionalization of the teaching profession Improving the quality of study programmes and other programs for initial and continuous education and training of teachers Based on the drafted professional development plans a systematic mechanisms for continuous education of teachers shall be developed which directly affect the modernization and quality of teaching and learning at schools and increase the level of achievements related to the education of students.</p>

	<p><b>New vocational 'work-based' curricula</b> — The new curricula shall redefine the three-year vocational programmes in such a way that they will be more relevant for the labour market and comply with technological and social changes.</p> <ul style="list-style-type: none"> <li>- Phase I Drafting — September 2015</li> <li>- Phase II Public discussion and adoption — December 2015</li> <li>- Phase III Implementation — continuously</li> </ul> <p><u>2. Ensuring a passable and efficient system of early and preschool, primary and secondary education and adult education (extending a complete general compulsory education from eight to nine years, which also implies a prolongation of the entire pre-tertiary education while maintaining the duration of secondary education, as well as increasing the competitiveness of Croatian society and economy).</u></p> <ul style="list-style-type: none"> <li>- Designing a model for changing the education system structure — December 2015</li> <li>- Requirement analysis of individual educational institutions and the self-government units in relation to infrastructure, financial and human resources — December 2015</li> <li>- Adoption of Amendments to the Adult Education Act;</li> <li>- Phase I Drafting (appointed Committee)</li> <li>- Phase II Public discussion and adoption by the end of 2015</li> <li>- Phase III Implementation and enforcement — continuously (MSES)</li> </ul> <p><u>3. Improvement of initial and continuous education and training of teachers</u></p>	
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	<ul style="list-style-type: none"> <li>- Registration of occupational standards and qualifications — the deadline is December 2016</li> <li>- Licensed teacher in the CROQF Register and creation of occupational standards and qualifications for trainee teachers — the deadline is December 2017</li> <li>- Developed programmes for the continuous education of teachers and instructors — the deadline is June 2017</li> <li>- Developed licensing programmes for teachers and instructors — the deadline is December 2017</li> </ul>	
<p>National objective in the domain of higher education [..]</p>	<p><u>1. Stimulate the increase of student enrolment in the STEM area through funding incentives (awarding scholarships to high school students who select degree programmes from the STEM field and increasing the amount of grants scholarships for full-time students enrolled in degree programmes from the STEM field)</u></p> <ul style="list-style-type: none"> <li>- The invitation for the allocation of scholarships — June 2015</li> <li>- Signing programme contracts — December 2015</li> </ul> <p><u>2. Increase the involvement of higher education in creating a quality offering of lifelong learning programmes (higher education institutions are developing short and quality professional development programmes at the tertiary level for intended focus target groups and needs of the labour market) — tender announcement by September 2015</u></p> <p><u>3. Improving traineeship in higher education systems</u></p> <ul style="list-style-type: none"> <li>- Analysis on the quantity and representation of traineeships within study programmes offered by higher education</li> </ul>	<p>1. Increasing the accessibility of higher education and steering toward occupations within the sectorial priorities (start of the academic year 2015/2016). Expected number of scholarships is 3000.</p> <p>2. Expected development of 70 programmes. Impact on human resources extends beyond the time frame of the NDP. The involvement of adults in lifelong learning.</p> <p>3. Increasing the share and opportunities for attending traineeship within and outside of study programmes offered by higher education institutions. Connecting the education system and the labour market.</p>

	<p>institutions in the Republic of Croatia — the deadline is August 2015</p> <ul style="list-style-type: none"> <li>- Announced tender for awarding grants for the improvement of traineeship quality and increasing traineeships in study programmes — March 2016 (supported by the ESI funds)</li> </ul> <p><u>4. Further implementation of the CROQF</u> CROQF is a tool for achieving the quality and educational relevance objectives. Further implementation of the CROQF implies compliance of educational programmes at all levels with the relevant occupational standards and qualifications.</p> <ul style="list-style-type: none"> <li>- Informing the Sector Councils on the procedures for evaluation of occupational standards and qualifications and entry into the CROQF Register — 25 workshops will be held by the end of April 2016</li> <li>- Entering at least 10 occupational standards and qualifications in the CROQF Register as well as compliance programmes for standards from the CROQF Register — December 2015</li> </ul>	<p>4. The standardization of educational programmes in accordance with the relevant analytics on labour market needs and workload assessment for programmes that are included in the CROQF Register.</p>
	<p>5. 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 (analysis of the employability analysis performed on a group of graduates over a longer period and analysis of the relevance of study programmes in relation to the occupations of graduates)</p> <ul style="list-style-type: none"> <li>— A study on a performed pilot study on employability of graduates of polytechnics and colleges — September 2015</li> <li>— Three reports will be created upon completion of the study: 1. Comparative report for the MSES, 2. Report for the public, 3. Individual reports for each institution of higher education. Each institution of higher education will extract from</li> </ul>	<p>5. Development of the system for continuous monitoring of the employability of graduates and complying study programmes with the needs of the labour market.</p>

	the pilot study information on the quality and relevance of their study programmes and revise them using the same incentives from the ESF, and for the implementation from the CROQF.	
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National objective in the domain of reducing poverty [..]	<p>The priority objective is the reform the social benefits system as described in chapter 4</p> <p>The following measures will be also implemented:</p> <ol style="list-style-type: none"> <li>1. Co-funding the cost of education for students of lower socio-economic status and students with disabilities: financing transportation costs, awarding scholarships for regular students of lower socio-economic status, providing free textbooks or financing or co-financing textbooks.</li> <li>2. The measures in the employment domain aimed at ensuring the inclusion of vulnerable groups in the labour market.</li> <li>3. Measures are implemented in the social welfare system aimed at alleviating the status of homeless persons and other vulnerable groups by providing projects and programmes financed by the LC(R)SGU and EU funds as well as from other sources.</li> <li>4. Social housing project using the model of public-private construction partnerships with the private sector.</li> </ol>	<p>The goal of the social benefits reform is a more effective focusing of social benefits toward the poorest groups of the society.</p> <p>Other measures aim to alleviate the situation of persons in poverty.</p>
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### Annex 3 Restructuring result indicators of selected companies in the state portfolio in 2014.

	Restructuring programme	Planned completion of the restructuring process	The cost of implementing the restructuring process	Restructuring results in 2014.				Actual operating results (in HRK millions)			
				1. Decreasing the number of employees and related costs	2. Decreasing material costs	3. Sale of subsidiaries	4. Internal reorganization	2011	2012	2013	2014
<b>Croatian Motorways Ltd.</b>			HRK 62.2 million	18 workers Savings: HRK 4.5 million	Savings HRK 16.7 million	-	YES	0	0	0	0
<b>Motorway Rijeka-Zagreb d.d.</b>	Yes	completed 1 December 2014					Savings HRK 1 million Rules on Internal Organization adopted in December 2014	-370.6	-239.3	20.2	77.8
<b>HŽ Infrastruktura d.o.o. (Croatian Railways Infrastructure Ltd.)</b>	YES	December 2017	Restructuring costs 2012-2014 amounted to HRK 2.6 million, the costs of workers 2012-2014 amounted to HRK 251.7 million kuna.  HRK 2.8 billion was invested between 2012-2014 for the renovation, modernization	Number of employees reduced by 341 workers, labour costs decreased by HRK 52.8 million	Increased material costs (material and services) due to increased railway infrastructure maintenance activities in order to create conditions for achieving the projected state and status changes under the	Completed the sale process of Pružne građevine d.o.o. (Railway Facilities Ltd.) - potentially bidders withdrew from the purchase, the company is in the process of restructuring and further preparation for sale;	The new Rules on Organization have been adopted in December 2014	-64.8	-232	-838	540

			and construction of new railway tracks to create conditions for achieving the projected state and to increase the rail infrastructure capacity thus increasing the quality of railway services and competitiveness.		Restructuring Programme	HŽ putnički prijevoz d.o.o. (Croatian Railways Passenger Transport Ltd.) was offered to purchase Croatia express d.o.o., HŽ putnički prijevoz d.o.o. withdrew from the purchase					
<b>Hrvatske ceste d.o.o.</b>				no	yes	no	yes	-800.7	1 175.4	1 303.8	719.1
<b>HŽ Cargo</b>	Not adopted. The programme has been prepared and is expected to be sent to the EC by the end of April 2015.	31 December 2018	HRK 1.3 million	Number of employees decreased by 416; HRK 76.3 million is achieved by reducing the cost of workers compared to 2013 (including pay cuts)	HRK 15.8 million compared to 2013	-	The new Rules on Organization	247	-248.5	-198.2	-119.1
<b>HŽ Putnički prijevoz d.o.o. (Croatian Railways Passenger Transport Ltd.)</b>	YES	31 December 2017	HRK 2.3 million	HRK -32.9 million / 181 worker	HRK -76.9 million	0	HRK -143.2 million	-65.3	-127.8	-362.2	2 996

## Annex 4 Financial plan of the health care system 2015-2017.

Table A. The financial plan 2015-2017, according to health care levels.

	EXECUTION 2014			PLAN 2015		
	Revenues	Expenditures	Difference	Revenues	Expenditures	Difference
Hospitals (KBC, KB, KL, OB)	10,327,223,922	9,788,810,715	538,413,207	10,946,857,357	10,278,251,251	668,606,107
Other hospitals (SB)	1,077,707,755	1,095,326,951	-17,619,196	1,185,478,531	1,150,093,299	35,385,232
Primary Health Care	2,358,651,658	2,263,808,933	94,842,725	2,429,411,208	2,331,723,201	97,688,007
Other health care institutions (polyclinics, institutes, pharmacies)	2,328,720,935	2,289,453,812	39,267,123	2,398,582,563	2,312,348,350	86,234,213
Business operations of other health care institutions	16,092,304,270	15,437,400,411	654,903,859	16,960,329,659	16,072,416,100	887,913,558
Other (private pharmacies, private health care institutions)		4,822,259,550			2,250,947,420	
<b>TOTAL Health care</b>		<b>20,259,659,961</b>			<b>18,323,363,520</b>	

\* funds for the recovery of liabilities in 2014 have been included

PZZ = primary health care

ZU = health care institutions

ZZ = health care

PLAN 2016			PLAN 2017			TOTAL 2015-2017
Revenues	Expenditures	Difference	Revenues	Expenditures	Difference	Difference
10,946,857,357	10,072,686,226	874,171,132	11,275,263,078	10,475,593,675	799,669,403	2,342,446,641
1,185,478,531	1,127,091,433	58,387,098	1,244,752,457	1,160,904,176	83,848,281	177,620,611
2,429,411,208	2,285,088,737	144,322,471	2,526,587,656	2,353,641,399	172,946,257	414,956,734
2,398,582,563	2,266,101,383	132,481,180	2,470,540,040	2,311,423,411	159,116,629	377,832,022
16,960,329,659	15,750,967,778	1,209,361,880	17,517,143,231	16,301,562,660	1,215,580,571	3,312,856,009
	2,406,870,676			2,037,854,178		
	<b>18,157,838,454</b>			<b>18,339,416,839</b>		

Table B. The financial plan of the health care system 2015-2017

	EXECUTION 2014			PLAN 2015		
	Revenues	Expenditures	Difference	Revenues	Expenditures	Difference
Total health care	20,582,596,512	20,259,659,961	322,936,551	19,086,837,000	18,323,363,520	763,473,480
Compensations	2,171,660,000	2,178,295,339	-6,635,339	2,344,000,000	2,273,680,000	70,320,000
Croatian Institute for Health Insurance (other)	407,684,860	398,916,490	8,768,370	433,163,000	420,168,110	12,994,890
Ministry of Health (other)	663,053,353	615,936,308	47,117,045	642,224,229	610,113,018	32,111,211
<b>TOTAL</b>	<b>23,824,994,725</b>	<b>23,452,808,098</b>	<b>372,186,627</b>	<b>22,506,224,229</b>	<b>21,627,324,648</b>	<b>878,899,581</b>
Repayment of outstanding due liabilities (2015-2017)			2,850,168,004			-750,729,098
REHABILITATION FUNDS IN 2014	3,200,000,000			0		

PLAN 2016			PLAN 2017			TOTAL 2015-2017
Revenues	Expenditures	Difference	Revenues	Expenditures	Difference	Difference
10,946,857,357	10,072,686,226	874,171,132	11,275,263,078	10,475,593,675	799,669,403	2,342,446,641
1,185,478,531	1,127,091,433	58,387,098	1,244,752,457	1,160,904,176	83,848,281	177,620,611
2,429,411,208	2,285,088,737	144,322,471	2,526,587,656	2,353,641,399	172,946,257	414,956,734
2,398,582,563	2,266,101,383	132,481,180	2,470,540,040	2,311,423,411	159,116,629	377,832,022
16,960,329,659	15,750,967,778	1,209,361,880	17,517,143,231	16,301,562,660	1,215,580,571	3,312,856,009
	2,406,870,676			2,037,854,178		

Explanation: Total health care includes revenues from compulsory and supplementary health insurance, funds from the State Budget and financial assets from the rehabilitation procedure in 2014. The Croatian Institute for Health Insurance uses these funds to pay health service providers, which is recorded as revenue of health care institutions in the first table, sorted according to health care levels. Total difference between revenue and expenditure in 2015, 2016 and 2017 will be used to pay outstanding and due liabilities. The financial plan shows the viability of the system which no longer creates new debt and is slowly repaying outstanding liabilities due to 1) adequate financing of the overall health care system and 2) decreased expenditures resulting from the aforementioned reform measures.

## Annex 5 Detailed explanation of the repayment of outstanding due obligations in the health care system by the end of 2017

Unsustainability of the current cost 'management' practice in the health care system which was often politically tinted, and without addressing the actual expenditures incurred by the health care institutions in the provision of guaranteed health care, is perhaps most evident by the fact that in the past 20 years (1994-2014) as many as 14 such health care institutions saw the implementation of some form of 'one-off' debt rehabilitation with a total of HRK 17 billion additional funds on top of the regular annual health care budget.

Due debts have further escalated in 2012 and 2013 for three main reasons: the entry into force of the Act on Financial Operations and Pre-bankruptcy Settlements, which reduced the legal maturity date of receipt of bills with an administrative move to a maximum of 60 days (commonly agreed deadlines in the health care system were 180 days before then); introduction of 5 % VAT on medicine; and a rapid and continued reduction of the health care budget, primarily due to the reduction of health care contribution from 15 % to 13 % as a (unsuccessful) measure to boost the economy.

Said health care contributions were returned in 2014 to 15 %, which forms the basis for the planned increase of available liquid funds of the Croatian Institute for Health Insurance in 2015 to HRK 2.1 billion, while decreasing funds from the State Budget by about HRK 1.1 billion. It should be noted that according to the Compulsory Health Insurance Act and the Voluntary Health Insurance Act the State Budget should participate in health care costs with HRK 4.6 billion a year for the socially vulnerable categories of insured persons. Taking into account the crisis state of the economy and government finances the Croatian Institute for Health Insurance has in its financial plan for 2015 predicted only realistically achievable income from the State Budget in the amount of HRK 2.4 billion by which it has participated in reducing the State Budget deficit. By doing so the financial plan of the Croatian Institute for Health Insurance for 2015 allocates more resources for current payment of health care, but is still below the total current expenditure level of all participants in the health care system.

Isolating the Croatian Institute for Health Insurance from the State Budget and the State Treasury System on 1 January 2015 created the conditions for the role of Croatian Institute for Health Insurance as a buyer of health care services, which primarily manages the use of funds raised from insured persons for providing health care, and the suppliers of health care services are encouraged to perform their role as providers of health care services. This is primarily related to the hospital sector where conditions have been created for the implementation of a new model of contracting via a gradual transition from the current fixed monthly flat rate ('limit') to payment upon execution and encouraging (rewarding) work and quality. At the same time, implementation of objectives defined in the National Hospital Development Plan has started during 2015 which should contribute to the reduction of hospital costs, restructuring of hospital infrastructure and redefining business processes according to the principles of subsidiarity and functional integration.

The new system of contracting hospital health care in 2015 introduces contracting procedures instead of activities, redefining the list and price of services by updating and expanding DTS and DTP, a system for financially rewarding quality based on monthly calculations of certain indicators of quality and success (so far the possibility of acquiring 5 % of additional funds above the maximum monthly funds), and a gradual reduction of funds that hospitals are paid a month in advance to 65 % by the end of 2015, and to 25 % by the end of 2016. At the same time the maximum monthly (and annual) amount of funding available for each hospital will remain the same, but it will no longer be fixed, i.e., it will need to be justified by the services provided. Particular hospital can generate revenue in the excess of contracted funds provided from the

unused funds designated for another hospital which in turn provided fewer services than the contracted amount of its basic funds. This will encourage hospitals to achieve higher revenue by increasing efficiency (which up to now was not possible), as well as the competition between health care institutions, which in turn increases the quality of provided health services because 'money follows the patient' and because hospitals consider important the ways in which they can attract more patients (shorter waiting lists, increased availability, etc.). At the same time the Ministry of Health introduced a controlling system for hospitals (collection, analysis, benchmark and control of key financial and physical operational indicators) whose continuous analysis will allow for a much greater control over hospital operations and faster key decision-making (e.g. on the removal of management boards of unsuccessful hospitals) based on actual and comparable figures and actual results.

Further strengthening of the new system of contracting primary health care (introduced in 2013), as well as the new system of referral to other levels of the health care system, could result in further reduction of referrals from primary to secondary health care, lower rates of sick leave and better control of prescribing medicine. All of the aforementioned is carried out through models of financial incentives for primary health care physicians with a greater control of execution by the Croatian Institute for Health Insurance.

Therefore, the main financial goal to be achieved by the new system of contracting and payment upon execution, in conjunction with the National Hospital Development Plan, is detecting, and then eliminating unnecessary parts of the hospital system and redirecting additional resources to hospitals with increased efficiency. All of the aforementioned should lead to the stabilization of financial operations of hospitals in 2015 (balancing revenue and expenditure). Therefore the objective of the hospital system during this year is the restructuring that will not result in creating new debt. On this basis hospitals would repay HRK 1.2 billion of old debts during 2016, and the remaining HRK 0.9 billion in 2017 and enter into legal payment deadlines of 60 days by 31 December 2017. At the same time, given the significant halt in the increase of costs of prescription medicine in 2014 (by double referencing prices the total annual costs was reduced by approximately HRK 400 million compared to 2013), as well as ensuring additional funds within the financial plan of the Croatian Institute for Health Insurance for 2015, it is expected that the Croatian Institute for Health Insurance will meet its financial obligations in the amount of HRK 0.7 billion during 2015 (mostly consisting of outstanding obligations to pharmacies), with the plan to fully repay all outstanding and due liabilities by 31 December 2016. Facilitated business operations of the Croatian Institute for Health Insurance outside the State Treasury will enable the reduction of debt of other health care institutions which would enter into legal payment deadlines of 60 days by 30 June 2016.

In conclusion, we can state that the hospital sector needs to improve its operational revenue in 2015 in accordance with the new contracting model, and reduce its operational expenditures through the implementation of the National Hospital Development Plan and a controlling system which should result in not creating new outstanding debt. The restructuring carried out during 2015 should stabilize the financial operations of hospitals, which will then in 2016 and 2017 be able to gradually pay off its old debts (HRK 1.2 billion in 2016 and HRK 0.9 billion in 2017). Functioning of the Croatian Institute for Health Insurance outside the State Treasury allows for a better management of funds which it will use in 2015 for settling outstanding liabilities (HRK 0.7 billion), and will enable the Croatian Institute for Health Insurance and other health care facilities (except hospitals) to enter into legal payment deadlines of 60 days by 31 December 2016.

## Annex 6 Basic thesis of the Proposal of the Act on Salaries

### DISADVANTAGES:

- 1) different employment and legal status of persons employed in state and public services and LC(R)SGU, salaries can vary for same jobs in public and civil services
- 2) different approach to work evaluation:
  - civil services implement work evaluation on the basis of which the civil servant can progress or regress and lose his job in the service
  - public services do not have an evaluation system or progression on the basis of work results
- 3) unequal determination of complexity coefficient for same jobs
  - civil services have proposed the introduction of pay grades and progressing through pay levels in accordance with work result assessment
  - public services have proposed the introduction of pay grades and progression only in accordance with years of service by 0.5 % annually and adding bonuses for loyalty to service of 4, 8, 10 % to the coefficient
- 4) work condition bonuses
  - large number of different benefits
  - they have to be limited in relation to the salary and mass of funds for paying salaries

The salaries of public sector employees, for which funds are allocated from the State Budget, i.e., the Treasury, are not regulated in a unified manner in the Republic of Croatia. In addition to the general regulations on salaries in public services, salaries of state and judicial officials, authorized state auditors, state employees, servants and employees in public service are regulated by a number of special acts and other regulation, including special regulation for certain services (police, customs, Tax Administration, etc.). Furthermore, a number of collective contracts and arrangements have been concluded which regulate salaries, bonuses and other employee benefits in various ways. The basis for calculating salaries for civil servants also differs from the prescribed basis for calculating salaries for state officials. At the same time there is a difference in relation to the harmonization of the basis for calculation of salaries of civil and public services. Salaries of public sector employees are currently regulated by a large number of regulations and other sources of labour rights which determine the amount and structure of salaries in various ways and to which multiple bonuses are applied, such as salary increases, which resulted in a complete disruption of the basic principle of equal remuneration (equal pay for equal work or work of equal value) for all public sector employees.

### OBJECTIVES TO BE ACHIEVED THROUGH LEGISLATION:

In order to establish a unified legal framework that would uniquely determine the principles and basis for calculating salaries of persons employed in the public service, starting from the principle of equal remuneration (equal pay for equal work or work of equal value) for all public sector employees, we propose the adoption of the Act on Salaries in the Public Sector. The Act regulates basic principles of the salary system: structure, amount and payment of salaries and other material rights of employees in the public sector. The Act will apply to employees in the civil service, public services and in public institutions founded by the Republic of Croatia through a special regulation, regardless if the funds for salaries and other benefits are allocated from the State Budget. The Act will be applied to state and judicial officials and authorized state auditors. The purpose of the Act is to establish a system of salaries for the public sector which will enable classification of all jobs from civil and public services to pay grades pursuant to criteria prescribed by this Act. Pay grades, salary levels and the scope of coefficients will be determined by Regulation adopted

by the Government of the Republic of Croatia. The basic salary, acquired by performing full time work for a period of one month, is the product of the value of job complexity coefficient and the basis for calculating salary increased by 0.5 % for each full year of service insurance realized on the basis of employment according to the general regulation on pension insurance. The basis for the calculation of salary is established by the collective agreement whose conclusion was negotiated between authorized bargaining committees of the Government and trade unions of civil and public services.

#### THE BASIC ASSUMPTIONS FOR DRAFTING THE ACT:

- 1) Organise the system of salaries in the same way for all civil and public services of LC(R)SGU, applying the equal remuneration for equal salary principle
- 2) It is necessary to precisely define the scope of the Act
- 3) The Act must prescribe the salary structure: basic salary (defined by the base, work complexity coefficient and 0.5 % for each year of service) and fringe benefits
- 4) Determine which salary elements shall be regulated by the Government and shall not be subject to regulation by the CA and which elements are the result of collective negotiations between the Republic of Croatia and state and public services, and which are on a sectoral collective agreements level
- 5) Limit or restrict by law types of fringe benefits and the amount of all benefits individually in relation to the basic salary and the total mass of funds for paying salaries
- 6) Introduce pay grades and define them according to work complexity
- 7) Define the scope of pay grades, vertically with respect to the work complexity and progress, and horizontally according to years of service and loyalty to service
- 8) Prescribe the requirements for progressing and the amount of movement within a pay grade in accordance with such requirement

## Annex 7 Overview of companies scheduled for restructuring and/or continuation of restructuring in 2015

	Restructuring objectives in 2015				Revenue plan (in million HRK)			Expenditure plan (in million HRK)			Borrowing plan (in million HRK) Borrowing with state guarantees (YES/NO)		
	1. Downsizing	2. Decreasing material costs	3. Sale of subsidiar ies	4. Internal reorganiz ation	2015	2016	2017	2015	2016	2017	2015	2016	2017
<b>Croatian Motorways Ltd.</b>		YES		YES	1 521.6	1 533.3	1 548.3	1 521.6	1 533.3	1 548.3	TOTAL HRK 3 461.1 million - already contracted HRK 730.1 million - to be contracted with state guarantee s HRK 2 731 million	TOTAL HRK 4 013.7 million - already contracted HRK 319.9 million - to be contracted with state guarantee s HRK 3 693.8 million	<b>TOTAL WITH STATE GUARAN TEES HRK 5 197.3 million</b>
<b>Motorway Rijeka-Zagreb d.d.</b>				YES	580.7	586.3	591.1	577.6	586.1	619.1	no	420.7	581.4
<b>HŽ Infrastruktura d.o.o. (Croatian Railways Infrastructure Ltd.)</b>	139	HRK 19.1 million**	Restructu ring of Pružne građevine d.o.o. (Railway Facilities Ltd.)	Continuati on of organizati onal changes to further streamline operations . Collective bargaining begins on 15 August 2015, the objective is to balance	1 331.7	1 334.8	1 328.2	1 331.7	1 334.8	1 328.2	DA 650.3	YES 1071.2	YES 1335.7

				the rights of workers with conditions privately owned companies									
<b>Hrvatske ceste d.o.o.</b>	no	no	no	no	1 961	2 123	2 344.5	2 661	3 123	3 344.5	1 736.1	2 421.3	2 555
<b>HŽ Cargo</b>	301	HRK 19.5 million	The planned sale of RŽV Čakovec	The new Rules on Organization are planned	830.4	659.8	685.8	845.5	792.5	744.4	315	0	0
<b>HŽ Putnički prijevoz d.o.o. (Croatian Railways Passenger Transport Ltd.)</b>	-50	-9 454*	1	1 800	980	937.4	948.1	977.3	934.6	934.3	1 147.5*		
* Borrowing for planned investments in railway infrastructure													
** Decreased material costs partially stem from reduced maintenance activities due to limited resources from the State Budget													

## Annex 8 Explanation of the calculation of the employment rate of the total population

### UNDERLYING ASSUMPTIONS

For baseline projection of the employment rate in 2020 (without intervention), the employment rate projection 20–64 from the document of the European Commission “The 2015 Ageing Report: Underlying Assumptions and Projection Methodologies” (page 360) was used, wherein for the year 2020, the rate is 60.0%, which is significantly higher than the previous calculation derived using an earlier draft (55.4%). The problem in this document is that the report data for 2013 overestimated the employment rate in the age group 20–64 (58.5%) compared to the revised published data from the Labour Force Survey (57.2%). Therefore, in developing the projection as a baseline rate (no intervention), the medium-term projection for 2020 from the aforementioned document was used, corrected by the difference in the observed employment rate in 2013: 58.7%.

### CALCULATION OF TARGET VALUE

Target value of the employment rate in relation to the baseline scenario is increased by the effect of the development strategies and individual measures of the National Reform Programme.

- Industrial Strategy of the Republic of Croatia 2014–2020 presupposes adding 85 619 jobs in the sectors of activity C, F and J (manufacturing industry, construction, communications and information) – a contribution of 3.4% to the employment rate. The draft document circulated the number 102 742, which was used for an earlier assessment of the contribution of 4.0%.
- Croatian Tourism Development Strategy until 2020 presupposes the creation of 22 000 jobs in tourism and about 10 000 jobs in non-tourist activities, but induced by the tourist activity (+ 1.3%) in the period between 2013 and 2020.
- Measures for stimulation of employment – assuming an effect of 5% higher employment or retention of participants in the labour force and the inclusion of 30 000 new participants per year – would lead to an increase in employment by 10 500 until 2020 (+ 0.4%) in the period between 2013 and 2020.
- By strengthening the administrative capacities of the Croatian Employment Service and local employment partnerships through increased efficiency and new services, a reduction of frictional unemployment is expected, i.e. a 10% lower unemployment rate than in equivalent economic conditions with the current capacities (13.0% instead of 14.4% in 2020), which implies an increase in employment by 24 000 (+ 0.9%) in the period between 2013 and 2020.
- Pension system reform – It is expected that pension legislation shall have a positive effect on retaining the insured persons in the labour market for a longer period of time and on later retirement of such persons, which is influenced by the following: a gradual increase of age limit for retirement and early retirement pension for women, appropriate penalisation of pensions in cases of early retirement or increase of retirement pension in the event of later retirement, part-time working possibilities for beneficiaries of retirement pensions, changes in the definition of disability, acquisition and control of disability pensions, as well as broader use of vocational rehabilitation of insured persons with partial loss of working capacity. It is estimated that the pension system reform in the period between 2013 and 2020 will contribute to an increase in the number of employees by a total of 24 000 (+ 0.9%).

Given that the initial projection was based on the period between 2013 and 2020 and that the reference point in calculating the baseline level shifted by one year (2013), additional contributions of individual strategies and reforms were reduced by one year (one seventh of the value), considering that their initial

activity was already included in the reference point (except for the Industrial Strategy which was adopted in 2014, and its contribution was fully taken into account).

Calculation of the target employment rate 2020 based on the contribution of strategic interventions and reforms

	Initial calculation of the target 2014	Revision of the target 2015
Baseline projection <i>(AER 2015, corrected by 1.3%)</i>	55.4%	58.7%
Industrial Strategy of the Republic of Croatia 2014–2020	4.0%	3.4%
Croatian Tourism Development Strategy until 2020	1.3%	1.1%
Stimulation of employment	0.4%	0.4%
Strengthening capacities	0.9%	0.8%
Pension system reforms	0.9%	0.8%
<b>Total</b>	<b>62.9%</b>	<b>65.2%</b>