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GOVERNMENT OF THE REPUBLIC OF CROATIA

# National Reform Programme 2020

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## List of abbreviations

<b>CES</b>	Croatian Employment Service
<b>CF</b>	Cohesion Fund
<b>CHIF</b>	Croatian Health Insurance Fund
<b>CIPH</b>	Croatian Institute of Public Health
<b>CPII</b>	Croatian Pension Insurance Institute
<b>CROQF</b>	Croatian Qualification Framework
<b>CSF</b>	Croatian Science Foundation
<b>CSODDS</b>	Central State Office for Development of the Digital Society
<b>CSR</b>	Country Specific Recommendation
<b>EC</b>	European Commission
<b>EPEEF</b>	Environmental Protection and Energy Efficiency Fund
<b>ERDF</b>	European Regional Development Fund
<b>ESF</b>	European Social Fund
<b>ESIF</b>	European Structural and Investment Funds
<b>EU</b>	European Union
<b>HROTE</b>	Croatian Energy Market Operator Ltd.
<b>LRSKU</b>	Local and Regional Self-Government Units
<b>LSU</b>	Local Self-Government Units
<b>MA</b>	Ministry of Agriculture
<b>MCPP</b>	Ministry of Construction and Physical Planning
<b>MDFYSP</b>	Ministry of Demographics, Family, Youth and Social Policy
<b>MEEC</b>	Ministry of Economy, Entrepreneurship and Crafts
<b>MEPE</b>	Ministry of Environmental Protection and Energy
<b>MF</b>	Ministry of Finance
<b>MH</b>	Ministry of Health
<b>MLPS</b>	Ministry of Labour and Pension System
<b>MPA</b>	Ministry of Public Administration
<b>MRDEUF</b>	Ministry of Regional Development and EU Funds
<b>MSA</b>	Ministry of State Assets
<b>MSE</b>	Ministry of Science and Education
<b>MSTI</b>	Ministry of the Sea, Transport and Infrastructure
<b>MT</b>	Ministry of Tourism
<b>NRP</b>	National Reform Programme
<b>OG</b>	Official Gazette
<b>OPCC</b>	Operational Programme Competitiveness and Cohesion 2014 - 2020
<b>OPEHR</b>	Operational Programme Efficient Human Resources 2014 - 2020
<b>RC</b>	Republic of Croatia
<b>RDP</b>	Rural Development Programme 2014 - 2020
<b>RSC</b>	Restructuring and Sale Centre
<b>SAB</b>	State Administration Body
<b>SB</b>	State Budget
<b>SDG</b>	Sustainable Development Goals from the 2030 UN Agenda for Sustainable Development

## Foreward

The National Reform Programme (NRP) has been adopted within the framework of the European Semester,<sup>1</sup> defining the economic policy priorities and measures as well as measures for achieving the objectives of the Europe 2020 strategy which the Republic of Croatia (RC) will be implementing in the coming 12 to 18 months.

However, the measures were determined prior to the onset of the COVID-19 pandemic and destructive earthquake that hit Zagreb, the capitol of the RC, devastating thousands of buildings in the historical centre of the city and parts of its surrounding areas, and also challenges to which the Croatian economy is currently exposed had to be addressed. To resolve the economic consequences due to the crisis caused by the COVID-19 pandemic, based on the guidelines of the European Commission (EC) from April 2020, the NRP also includes additional measures which are currently being undertaken for economic recovery.

This year's European Semester cycle began in December 2019 with the publication of three key documents: Annual Sustainable Growth Strategy 2020, Alert Mechanism Report and the Employment Report. The Alert Mechanism Report prescribes the way due diligence will be conducted for the RC (including another 12 EU member states), with the findings of the due diligence published in the Report for Croatia dated 26 February 2020. The Report for Croatia recognises its positive economic indicators, especially efforts in public finance and fiscal consolidation. The economic situation in the RC was asserted as satisfactory, with a growth rate of 3 percent, balanced public finances, surplus on the current account balance of payments and further decrease in public debt. However, continuing the ongoing steps in reform which

were importantly initiated in 2018 should continue in 2019. Growth in 2019 was based on domestic consumption, especially strong personal consumption, and also a stronger increase in investments, attributed solely to those from EU funds. Other noted components were an increase in the exports of goods, and a smaller increase in imports of services in 2019. The growth rate of gross domestic product (GDP) in 2019 was 2.9%, and prior to the onset of the COVID-19 pandemic, GDP growth was expected to be 2.6% in 2020 and 2.3% in 2021.

However, the GDP trend in 2020 will be impacted by extremely negative new circumstances. Keeping in mind these dramatically altered economic circumstances due to these two parallel and previously unforeseen crises, the Government has invested intensive efforts in passing appropriate measures for economic recovery, already passing two packets of measures to assist the economy. In the coming period, efforts will continue in current reform endeavours with the aim of increasing convergence towards the EU average and achieving productivity increases.

The strategic approach to implementing structural reforms and resolving macroeconomic imbalance is being undertaken together with complementary activities in the process of joining the European Exchange Rate Mechanism II (ERM II), the first formal step in introducing the common European currency in the RC, one of the Government's priorities.

Based on the goals of the Europe 2020 strategy – an European strategy for smart, sustainable and inclusive growth, the RC is on the path to achieving the goals, or has already achieved them, in terms of energy efficiency, use of sustainable sources of energy, in the area of education, reducing poverty and social inclusion.

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<sup>1</sup> The European Semester cycle is a coordination of economic and fiscal policies within the European Union (EU) where member states adjust their policies to the economic policy defined at the EU level. Participation in the European Semester is mandatory for each EU member state, and the RC has been fully participating in the European Semester process since 2014.

The newly convened European Commission (EC) has defined the main determinant for its economic growth strategy in the so-called European Green Plan, definitely placing sustainability as the core activity and also the wellbeing of citizens. Accordingly, the introduction and tracking of progress in implementing 17 sustainable development goals from the UN 2030 Agenda for Sustainable Development has been introduced into the European Semester cycle for the first time, where such goals are key in achieving a balance between economic, social and environmental requirements of today's globalised society while facing numerous changes such as poverty, famine, unemployment, migration of populations, climate change and threats to security.

The drafting of the NRP was coordinated by the Inter-Agency Working Group for the European Semester in line with the Decision on Coordination of Activities within the framework of EU Economic Governance,<sup>2</sup> and in cooperation with other key partners in strategic planning process. The Government adopted this Decision at its session held on 30 April 2020. In implementing measures and activities defined in the NRP, the desire is to improve the business environment and ensure the necessary infrastructure for the future, including sustainability of public finances and further economic growth and demographic renewal.

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<sup>2</sup> OG 13/17, 51/17, 97/17, 50/18, 74/19 and 16/20

# 1. Introduction

Once the EC in February of 2019, in its regular annual Report, determined that the RC had not recorded an excessive macroeconomic imbalance, in which it had previously been since 2014, the EC in 2020 position the RC into the category of EU member states with stable economies. The Government's approach, based on fiscal consolidation including structural reforms and investments, has already led to relief for the economy and increasing income per capita. Effective tax reforms and certain other elements have had a significant contribution. The contribution from fiscal policies has primarily been in stabilising public finances and turning around negative trends associated with public debt. These were the main reasons for corrections to the RC's crediting rating. Structural reforms are the main component in providing better allocation of production factors. Accordingly, in the situation when we are facing a previously unknown combination of two crises, i.e., the COVID-19 pandemic and consequences of the earthquake in the Croatian capital, the Government is decisive in continuing commenced action across all areas. The focus is on structural reforms, in the light of which previous reforms are now clearly evident, but also what still needs to be done. Key areas for ensuring long-term sustainability of the economic growth rate and impact on potential growth are reforms in public administration, the healthcare system, judicial system, as well as issues in improving the business environment and other aspects.

The NRP stems from the Government's fundamental objectives, as defined in its Programme for the 2016-2020 mandate, while incorporating the EC's recommendations. To ensure the harmonisation of sustainable development policies, the RC has assumed responsibility for national implementation of sustainable development goals and a strong political obligation to comprehensively implement the 2030 Agenda for Sustainable Development, in terms of the actions taken by the UN and EU. Therefore, measures in this

NRP have been aligned with the document Voluntary National Review on the Implementation of the UN 2030 Agenda for Sustainable Development for the RC.

## Main objectives, reform priorities and measures of the economic policy

Economic policy measures provide harmonisation of budgetary, macroeconomic and structural policies for EU member states, with the aim of ensuring a common analysis and assessment of all policies. Economic policy measures are included in plans for achieving progress in the area of smart, sustainable and inclusive growth, and refer to economic policies, budgetary policies and labour policies as well as other reforms necessary for encouraging economic and job growth.

**The RC has identified its reform priorities in relation to three objectives: sustainable economic growth and development, aligning education to the labour market and sustainability of public finances. The implementation of 25 economic policy measures grouped into 10 reform priorities will facilitate achieving these goals.**

### Objective 1 Sustainable economic growth and development

#### Reform priority 1

**Improving the business environment** is a prerequisite for developing and strengthening economic activities, motivating entrepreneurs and creating relevant conditions for further economic recovery. Systematic regulatory reform continues through current activities involving administrative and non-tax relief for the economy. Liberalisation of the services sector will continue by encouraging competition in the services sector, by reducing

the overall regulation of professions and endeavouring to avoid the introduction of new regulations for the services sector and professions. Mechanisms will be established to ensure an incentivised environment for transferring unreported work and unregistered business activities into legitimate frameworks.

## Reform priority 2

**Investment policies orientated towards the future** are a key lever in economic growth and a priority in establishing an effective system for promoting private investment into sustainable development objectives. Public water services suppliers from public water utilities and public sewage utilities in the RC will be integrated to ensure their implementation capabilities and investment capacities. The transfer to a smart, circular and low-carbon society will be encouraged. Interventions in the public city transport sector will lead to modernisation of the public city transport through investments in new vehicle fleets in order to reduce negative environmental impacts and increase energy efficiency. Efforts will be made to improve the existing level of readiness and capacity of the RC to reduce risks from the consequences of natural catastrophes. Competitiveness of the economic fleet in inland maritime waterways will be increased, further routes for maritime development will be determined, especially nautical tourism and the strengthening of tourism potential in undeveloped areas of the RC.

## Reform priority 3

**Improving management and utilisation of state assets** will continue through activities directed to improving management of state assets, and the management of state-owned enterprises, while measures for activating unutilised state assets will be undertaken for the need to develop the economy. Further business and financial restructuring of state-owned road companies will be conducted, as well as restructuring of the rail sector in order to improve business efficiency and encourage investments in safety, ecological sustainability, efficiency and competition of all other aspects of transport.

## Reform priority 4

**Improving public administration** includes improving capabilities for an integrated approach in forming and implementing public policies and projects. The institutional framework for the implementation of EU funds in the RC will be strengthened, as well as the normative framework in combating corruption as well as operational capacities of public administration in terms of regulatory methodologies and processes. Improvements will be made to the provision of electronic public services and reducing burdens on citizens and business entities.

## Reform priority 5

**Improving effectiveness of the judicial system** will continue through work on improvements to the functioning of the judicial system. The tracking of all cases in municipal courts will be established in a centralised manner, facilitating organisation of work within the courts. Expanding eCommunication in county courts also to legal entities will further quicken the work of courts through more rapid and efficient delivery of court documents and relieving judges of excessive administrative tasks.

## Measures to assist the economy due to the COVID-19 pandemic

Besides the above-mentioned measures, and keeping in mind that at the end of January of 2020, the World Health Organisation declared the COVID-19 (SARS-CoV-2) epidemic a Public Health emergency of International Concern (PHEIC), and then a global pandemic on 11 March 2020, and given the certain fact that the COVID-19 pandemic is having an impact on economy of the RC, the Government has planned additional economic measures aimed at retaining jobs and resolving insolvency problems for those entities experiencing reduced business activities due to the pandemic.

## Objective 2 Aligning education with labour market needs

### Reform priority 6

**Education and training in line with labour market needs** implies reforming general and vocational education, lifelong learning as well as an efficient and relevant higher education. In view of the curriculum reform, the next step is continuation of professional training live and online as well as equipping all primary and secondary schools with teaching aids. The comprehensive digital transformation of schools will continue, and completion of the process to establish regional centres of competence. A distance learning model will be devised for primary and secondary schools. An experimental program for all-day classes will also be introduced. The quality system for adult education including higher education and science will be improved, and a Curriculum for the Andragogical Education of Workers and Curriculum for Basic Adult Education will be devised. Qualification (and occupational) standards will be entered into the CROQF Register.

## Objective 3 Sustainability of public finances

### Reform priority 7

**Strengthening the framework for managing public finances and implementing fiscal consolidation** includes standardisation of the manner of drafting and preparing financial plans, as well as the reporting on executed financial plans for extra-budgetary users in order to facilitate financial planning and the allocation of public funds. With the aim of increasing the overall coverage of the SB, including fiscal transparency and fiscal discipline, the financial plans of port authorities, of which the RC is the founder, will be drafted in accordance with provisions of the Budget Act and the status of budgetary users of the state budget will be obtained.

### Reform priority 8

**Encouraging demographic renewal** will continue through activities that contribute to supporting families, and a new eChildren's Card service will be developed as a tool for reducing costs for families with children. Moreover, support will be offered to young people in the way of financing programmes and projects directed towards activities undertaken by young people in rural areas.

### Reform priority 9

**Improving the social welfare system** includes activities directed towards establishing a central social welfare benefits system providing transparency of data on social welfare benefits paid at the national and local level. Activities will also be undertaken in strengthening capacities of officials at LRSGUs and the relevant ministry in order to increase the quality of collected data based upon which reports on social benefits are generated for each LRSGU. The social welfare services system for the elderly will be improved, the development of new and innovative services encouraged with an emphasis on developing services in the community and services at home, and the manner of pricing social welfare services will be standardised.

### Reform priority 10

**Ensuring financial stability, sustainability and quality of the healthcare system** includes establishing a structure, processes and procedures for introducing data analysis and reporting into existing practices for making decisions and policies at the level of the healthcare services provider, payer and policymakers. A national healthcare information management system will be established. The process of functionally integrating hospitals is to be continued. An analytical study will be conducted and the costs of major inefficiencies in the healthcare system will be calculated, a comparative analysis of major inefficiency variables will be performed along with a projection of the efficiency frontier of efficient EU healthcare systems, solutions will be recommended and action plans for implementing such solutions devised.

## Measures for achieving objectives of the Europe 2020 strategy

The objective of the Europe 2020 strategy is to ensure that economic recovery of the EU, after the economic and financial crisis, supports a series of reforms in order to build a solid foundation for economic growth and job creation. In addressing structural weaknesses of the EU economies as well as economic and social issues, the strategy also took into consideration long-term challenges of globalisation, pressures on resources and an aging population. EU member states have transposed objectives of the Europe 2020 strategy into their national objectives.

**The RC has identified 10 measures for achieving national objectives of the Europe 2020 strategy across five areas: employment, research and development, climate change and energy sustainability, education as well as reducing poverty and social exclusion.**

In the area of **employment**, with the aim of increasing the employment rate for men and women between the ages of 20 to 64 through measures involving active employment policies, incentives will be given to the employment and self-employment of persons without jobs. Emphasis will be placed on employment measures based on employment contracts and measures incorporating an education component, education directed as completion of primary school education will be undertaken as well as acquiring that first occupation and education of currently employed persons.

In the area of **research and development**, with the aim of raising the combined level of public and private investments in this sector to 1.4% of GDP, the national innovation system and innovation potential of the economy will continue to be strengthened, including advanced technologies and research-development projects. The European Centre for Innovation, Technology and Skills (ECINTV). The “Young Researchers Career Development Project – Training of Doctoral Students” and the “Young Scientists Career Development Project – Postdoctoral Students” will be implemented. A pilot measure

will be initiated to co-finance universities in the RC who want to establish or have already established a doctoral school at a university institutional level in order to increase the quality of the scientific-research component at universities.

In the area of **climate change and energy sustainability**, the plan is to conduct remote monitoring of adherence to obligations through annual tracking of greenhouse gas emissions. The 2030 Energy Development Strategy of the RC with an outlook to 2050 has commenced implementation including the Integrated National Energy and Climate Plan. Incentives aimed towards the use of renewable energy technologies for heating and cooling, especially in industrial processes and agriculture will continue. This will be followed by strengthening the use of competitive renewable sources by setting clear and transparent procedures in the use of state lands, while projects in rural and isolated areas, especially the islands, will take into account opportunities for connecting renewal energy sources facilities to grids under the Clean Energy for EU Islands initiative. Encouragement will be given to exploration of geothermal waters, as well as utilisation of electricity in transport.

In the area of **education and** with the aim of improving the level of education, the programme for providing scholarships to students of lower socio-economic status and students in priority STEM areas will continue, while student accommodation capacities will be ensured for disadvantaged students.

With the aim of **reducing the number of people at risk of poverty and social exclusion**, activities in ensuring humanitarian assistance in-kind will continue including other assistance programmes to those most in need. Projects aimed at expanding social services in communities will receive financing. Assistance will be ensured for deinstitutionalisation process and preventing institutionalisation of persons with disabilities as well as children with developmental disabilities including other children and youth, where the costs of educating pupils and students of lower socio-economic status includes pupils with developmental disabilities will be financed. The legislative framework will be established to introduce national benefits for the elderly.

## 2. Macroeconomic trends

Croatia is currently facing economic consequences of the global health crisis caused by the COVID-19 pandemic which is having an impact on the entire global economy. The dimension and duration of economic disruptions is still very uncertain. Given the prevailing anticipation that the health threat is of a temporary character, as well as most of the economic disruptions, including the timely epidemiological and economic measures, the cumulative negative economic effect of the crisis for the RC should nonetheless be less than the previous global financial crisis.

The main presumption upon which the macroeconomic scenario is based is that the main effect on the national, but also global economy, will be short-lived, and most intensive in the first half of the second quarter. Hence, economic activities will reach bottom in the second quarter, where the trend and start of a gradual recovery in most sectors towards will commence at end of the second quarter, exhibiting an initially modest jump in activities, and accompanied by the relaxation of epidemiological measures in phases. For 2020 in general, the expected fall in GDP is expected to be 9.4%, while an economy recovery in 2021 at 6.1%.

**Table 1** | Macroeconomic framework for the 2019 – 2021 period

	2019	Projection for 2020	Projection for 2021
<b>GDP – real growth (%)</b>	<b>2.9</b>	<b>-9.4</b>	<b>6.1</b>
Household consumption	3.5	-7.0	5.8
Government expenditure	3.3	2.7	2.5
Gross fixed capital formation	7.1	-9.0	5.6
Exports of goods and services	4.6	-30.0	32.5
Imports of goods and services	4.8	-23.4	27.6
<b>Contributions to GDP growth (percentage points)</b>	<b>2.9</b>	<b>-9.4</b>	<b>6.1</b>
Household consumption	2.0	-4.0	3.5
Government expenditure	0.7	0.5	0.6
Gross fixed capital formation	1.4	-1.9	1.2
Changes in inventories	-1.0	-0.9	0.1
Exports of goods and services	2.3	-15.4	12.4
Imports of goods and services	-2.5	12.1	-11.6
<b>Consumer price index growth (%)</b>	<b>0.8</b>	<b>-0.3</b>	<b>0.9</b>
<b>Employment growth (%)*</b>			
	6.6	9.5	9.0
<b>Unemployment rate, surveyed (%)</b>	<b>1.4</b>	<b>-3.3</b>	<b>1.5</b>

\* Based on the definition of national accounts.

Note: Preliminary data for 2019.

Source: CBS, MF

In predicting the trend for the expenditure side of GDP, personal consumption will decrease dramatically in the second quarter due to the described trends but will recover by the end of the observed period. All components of investment activities, with the exception of the construction industry, greatly decreased throughout 2019 and will, due to the COVID-19 crisis, record a strong decrease at the end of the first and start of the second quarter. The current cycle of stronger construction activity, including large infrastructure projects, will continue at the start of the second quarter, when taking into consideration the time interval characteristic for the industry, but also priorities in continuing large projects. Moreover, the scheduling of investments in the public sector will be shifted towards the end of 2020. Government spending will not necessarily alter its short-term trajectory, given that stronger spending due to the COVID-19 crisis and weaker pace of market output be replaced by numerous savings in smaller productive expenditures in terms of intermediary consumption, as well as weaker growth of employee income with respect to previous expectations. The exporting of goods will achieve in 2020 a somewhat stronger fall than investments in capital investments but will also undergo a quicker recovery. Despite a somewhat quicker recovery throughout the entire observed period, the exports of goods will also achieve its pre-crisis level in 2022, given that it will be marked by weaker growth from foreign demand and generally an attenuated pace of global exchange of goods. This biggest hit from all expenditure components in 2020 will come from the exporting of services which will be halved due to a decrease in tourism activities. This projection incorporates the presumption that overnight stays by foreign tourists will be less than about 70%, thanks to all of the recent specific activities directed to increasing the number of tourist arrivals in 2020, and also more favourable epidemiological opportunities. Finally, imports of goods and services will follow the pattern of falling general demand, where the largest declines in 2020 are marked by demand factors with the most pronounced total share (direct and indirect) attributed to imports.

The anticipation is that after an increase of 0.8% in 2019, consumer prices in 2020 will record a slight year-on-year fall of 0.3%. The main determinants in the trend of index prices in 2020 will be a significant reduction in oil prices on global markets, a strong fall in domestic consumption and slower inflation in the eurozone. In 2021, inflation of consumer prices is expected to reach 0.9% as a result of domestic consumption recovery, in conditions where prices of raw materials on the world market will slightly increase, with stronger, though further attenuated, inflation in the eurozone.

The first consequences of the coronavirus on the fall in employment have already become evident from data on Croatian Pension Insurance Institute (CPII) insured persons accessible for the end of March. The coming months expect to see more intensive negative trends, where fall in employment will be concentrated in the second quarter, followed by a gradual recovery. A more pronounced decrease in the number of employed will be evident in a smaller number of sectors such as accommodation, hospitality and transport.

The introduction of assistance from the Croatian Employment Service (CES) for job retention will significantly mitigate the impact of the shock on employment, and the expectation is that employment will fall by 3.3% for the year 2020, where the average the ILO unemployment rate in 2020 will amount to 9.5%. Moreover, early available data indicates that the mentioned measure has not initially affected to a larger extent trends in wages. Accordingly, given the presumed temporary character of the crisis caused by the COVID-19 pandemic and the described trajectory of economic activities, a moderate fall in wages is expected in 2020. Due to the gradual recovery of the labour market in 2021, employment rate is expected to increase by 1.5% and a reduction of the ILO unemployment rate to 9.0%.

# 3. Progress in the implementation of EU Council recommendations

## Recommendation 1

### a. *Strengthen the budgetary framework and track potential liabilities at the central and local level*

Based on the Fiscal Responsibility Act,<sup>3</sup> the Regulation on Preparation and Submission of the Fiscal Responsibility Statement and Reports on the Application of Fiscal Rules<sup>4</sup> was adopted in October 2019.

The Regulation stipulates the format and content of the Fiscal Responsibility Statement, the manner of maintaining the Register of Companies and Other Legal Persons Required to Provide the Fiscal Responsibility Statement, procedure and deadlines for preparing and submitting the statement as well as the manner and deadlines for reporting to the Ministry of Finance (MF) concerning identified irregularities upon conducted verification of the content of the Statements. Furthermore, the Regulation also stipulates the content of reports on application of fiscal rules, which provide a description of the methodology and elements upon which calculation of the fiscal rules are based, including a presentation of their fulfilment. This **improves fiscal responsibility of budgetary and extra-budgetary users including companies owned by the RC as well as local and regional self-government units (LRSU)**, where the application of fiscal rules is transparently and comprehensively reported on.

**For the purpose of improving the fiscal framework and fiscal discipline, an effective system for financial and statistical planning as well as reporting on extra-budgetary users from the transport sector has been established. These users include Hrvatske autoceste d.o.o (Croatian Motorways),**

Autocesta Rijeka-Zagreb d.d. (Rijeka-Zagreb Motorway), Hrvatske željeznice Infrastruktura d.o.o (Croatian Railways Infrastructure) and Hrvatske željeznice Putnički prijevoz d.o.o. (Croatian Railways Passenger Transport), which based on EU statistical methodology rules (ESA 2010) are classified into the general accounts sector, and are considered extrabudgetary users in accordance with the Budget Act.

In November 2019, Croatian Parliament gave its approval to the financial plans of **extrabudgetary users from the transport sector for the first time** along with adoption of the 2020 State Budget (SB) for the Republic of Croatia, and (SB) projections for 2021 and 2020. This means that the planning procedure by these companies was harmonised with the planning procedure relevant for existing extrabudgetary users, and the actual procedure for reporting on execution of financial plans has been harmonised since 1 January 2020.

**The implementation of ex-post evaluation of outcomes for selected activities in sectors of relating to healthcare, water management and environmental protection was introduced with the aim of continually improving the budgetary planning system and better control of the utilisation of funds from public sources.**

The MF conducted a procedure involving the ex post evaluation of activities for regular maintaining and renewal of tributaries, water facilities and water assets as well as activities for management of particular categories of waste, in accordance with the methodology which up until now has been used in undertaking controls when executing the state budget. However, in 2020 external associates will be engaged for implementation of the project "Review of Expenditure in the Area of Water and Waste Management" (EUR 200,000) which is financed in terms of the European Commission's Structural Reform Support Programme (SRSP), and which will, taking into account the results of the previously mentioned analysis, conduct a more

<sup>3</sup> OG 111/18

<sup>4</sup> OG 95/19

comprehensive ex post evaluation of all activities, where special attention will be given to their justification, cost expediency, optimisation and sustainability of results. In terms of the project, external associates will devise a methodology for conducting the ex post evaluation and hold a course for employees from the MF and other ministries on conducting the ex post evaluation of outcomes from activities/projects of budgetary and extra-budgetary users of the state budget. In addition, a team from the World Bank in cooperation with the CHIF and MF is working on a project for ex post evaluation of fiscally important activities within the healthcare system, specifically for prescription drugs and particularly expensive drugs.

**In December of 2019, an IT solution for tracking proprietary and dedicated revenue and receipts (Phase 1) was devised and implemented.**

The IT solution was devised for the purpose of automating the transfer of proprietary and dedicated revenue and receipts from the science system into the IT system of the State Treasury. In February of 2020, the training of application users in the science system was conducted, thereby enabling commencement of production work.

***b. Reducing territorial fragmentation of public administration and simplifying functional allocation of authority.***

**The State Administration System Act<sup>5</sup> from June of 2019 stipulates that all state administration activities undertaken by state administration office in counties, and which relate to the direct implementation of laws at the first instance as well as other administration and professional activities, will be entrusted to counties upon the enactment of special laws whereupon state administration activities are entrusted to counties.**

Importantly, the State Administration System Act stipulates administrative organisations within the ministries **will be run by the**

**administration directors-general who are also high-ranking civil servants instead of assistant ministers**, where the Act on Amendments to the Act on Obligations and Rights of Civil Servants of June 2019<sup>6</sup> removed assistant ministers, deputy directors-general and assistants to the directors-general of the CPIL, CHIF and CES from the list of civil servants and also significantly **reduced the number of civil servants**. Also, in December of 2019, the Act on Amendments to the Institutions Act<sup>7</sup> was adopted and which sets conditions for the founding, organisation and manner of work of institutions in order to increase efficiency in the undertaking of activities of general interest and quality in the provision of public services.

**The recommending of measures for the purpose of establishing adequate delineation of authority between the central and local level of powers requires identifying the existing capacities of LRSGUs.** Re-examining and analysing the existing scope of work and purview of LRSGU is essential, including the rational undertaking of existing activities in a quality manner as well as possibilities and presumptions for further undertaking of new activities. **Currently underway is the preparation of activities relating to the drafting of tender documentation for the procedure to procure services in devising a central database on LRSGU capacities and services for devising an IT system**, given that this is being undertaken in terms of the project “Optimisation of Local and Regional Self-Government Unit Systems” (HRK 20.07 million, 85% ESF), which the Ministry of Public Administration (MPA) initiated in December of 2018. The project also envisages developing mechanisms and tools for the optimisation of local and regional self-government systems, devising a central IT system for providing effective local and regional self-government systems and also improving competencies of civil servants in public administration relating directly to strengthening the efficiency of local and regional self-government systems.

<sup>5</sup> OG 66/19

<sup>6</sup> OG 66/19

<sup>7</sup> OG 127/19

## Recommendation 2

**a. *Implementing reforms in the education system and improving access to education and training at all levels as well as their quality and relevancy on the labour market.***

Education reforms were successfully initiated in the 2018/2019 school year through an experimental curriculum reform programme across 48 primary and 26 secondary schools from all counties in the RC, specifically in 1st grade and 5th grade of primary schools as well as 7th grade for the subjects of Biology, Chemistry and Physics, while secondary schools implemented the programme in 8th grade of high school across all subjects and in 1st grade year of four-year vocational schools in general education subjects.

The experimental curriculum reform programme was continued across all subjects in 2nd grade and 6th grade of primary school, including Biology, Chemistry and Physics in 8th grade of primary and in 2nd grade of four-year vocational programmes in high schools.

At the start of 2019, new curricula were adopted for all school subjects in primary schools and grammar schools including interdisciplinary subject curricula.

In the 2019/2020 school year, new curricula were introduced in all 1,300 primary and secondary schools. A total of seven interdisciplinary subjects (Personal and Social Development, Learning How to Learn, Health, Civic Education, Sustainable Development, Using Information and Communication Technology and Entrepreneurship) were introduced into all schools.

**All schools have received educational materials and given funds to procure teaching aids necessary for implementing the new curricula.**

**Free textbooks have been ensured** for compulsory and elective class subjects for all pupils in primary schools and **other educational materials** for primary school pupils who are beneficiaries of guaranteed minimum fees. Secondary school pupils who participate in the experimental programme and secondary school pupils who are

beneficiaries of guaranteed minimum fees are also ensured the use of textbooks free of charge. **All primary schools are equipped with tablets** for pupils in 1st, 5th and 7th grades, laptops for professional associates and projectors, where the procurement of cabinets for charging tablets have also been purchased. **Organising professional training of teachers, principals and professional associates is continuing** at the county and local level, advisory visits to all schools in the RC and education in virtual classrooms.

**Activities in the second phase of the eSchool project: development of a system of digital mature schools was commenced in September 2018, and has covered almost all schools, with the school founders involved in the project.**

Some of the teachers at the end of 2019 were equipped with personal laptops for the project, where equipping the rest of the teachers is also planned within the project.

**In line with the undertaken procedure to assign 25 vocational schools as regional centres of competence in priority (sub)sectors of vocational education and training (tourism and hospitality industry, mechanical engineering, electrical engineering and computing, agriculture and healthcare), tenders for financing the establishing of these regional centres of competence have been announced.<sup>8</sup>**

Funds from the ERDF will be directed towards reconstruction, renewal and adaptation of the mentioned centres of competence as well as procurement of specialised equipment for the institutions (workshops, laboratories, modern technologies, development of sector-relevant tools, machinery, ICT equipment, specialised didactic equipment and other aids, renovation and equipping of rooms, common facilities shared by vocational schools and companies/local communities). In terms of the ERDF call, the first 10 contracts (totalling more

<sup>8</sup> The assigned regional centres are located within 15 counties of the RC, but the centres have been distributed evenly across all parts of the RC in order to make educational services of the regional centres accessible to all counties.

than HRK 284 million) were signed. The speed of implementing the ESF tender was somewhat slower than that planned in the 2019 NRP on account of implementing additional coordination activities with other interventions and planned activities for the purpose of wider reforms in vocational education (e.g., compliance with other initiatives directed to the drafting of new occupational standards / qualification standards / vocational curricula). For the purpose of introducing a dual education model, **6 new vocational curricula** were devised for those obtaining qualifications to become chimney sweepers, glassmakers, beauticians, hairdressers, painters decorators and salespersons. These curricula were devised using a methodology of the Croatian Qualification Framework (CROQF) which enables active participation of employers thereby increasing the relevancy of acquired skills for labour market needs.

**With financial assistance from the Education, Audiovisual and Culture Executive Agency (EACEA), the fourth cycle of the project “Implementation of the European Agenda for Adult Learning 2017-2019” was conducted.**

The project objectives follow recommendations of the EU Council as to the forms of ongoing training: New Opportunities for Adults (2016) and the EU Council Resolution on a renewed European agenda for adult learning (2011/C 372/01). In terms of the project, the Curriculum for the Development of Basic Digital, Mathematical and Reading Skills for Adults was devised and is intended for adults with low levels of education and directed to acquiring fundamental skills in communicating in one’s native language and strengthening reading literacy, acquiring fundamental mathematical skills and numeric literacy, fundamental digital skills and skills in resolving issues in developed technology surroundings enabling such persons easier entry into the labour market and/or ongoing education.

**The legislative and institutional framework for implementing evaluation and registering occupational standards and qualification standards in the CROQF Register has been fully developed.**

The CROQF is a key reform instrument for

improving the quality and relevancy of education and study programmes which incorporate plans for devising qualification standards, as common quality criteria for education and study programmes including occupational standards, as tools for making them comply to labour market needs. Sectorial committees, expert and advisory bodies with the key task of assessing proposed occupational standards and qualification standards have been established. In terms of implemented ESF and Instrument for Pre-Accession Assistance (IPA) projects, **some 200 proposed occupational standards and 200 proposed qualifications standards have been devised and entered into the CROQF Register**, and based on a favourable opinion by competent sectoral countries,, 20 occupational standards and 7 qualification standards were entered into the CROQF Register.

**Based on the Call for the Submission of Project Proposals “Development, Upgrading and Implementation of Traineeships in Higher Education” (from 2018), in February 2020 the Decision on Financing the Most Successful Projects (HRK 99.43 million) was adopted, and the respective contracts signed in March.**

In line with data obtained from 28 projects which are to be implemented, a total of 10,327 students will participate in professional practice programmes. Furthermore, higher education institutions will undertake activities in developing professional practice models by identifying learning outcomes and procedures for assessing acquired learning outcomes, improvements to the mentorship and professional practice systems, implementing professional practice, and the like.

***b. Consolidation of social welfare benefits and increasing their effect on reducing poverty***

**The electronic collection of data on the amounts and types of social welfare benefits has been ensured and provided by LRSGU in accordance with the ESSPROS<sup>9</sup> methodology.**

<sup>9</sup> European System of Social Protection Statistics (ESSPROS)

This ensures consolidation of social welfare benefits and facilitates creating better social welfare policies with better targeting of social welfare benefits to reduce poverty and regional inequality in allocating funds intended for social welfare benefits at the national and local level.

**At the national level, the exchanging of data on unemployment benefits with the CES and the CPII has been initiated, including data on amounts paid for child benefits and cash payments for infant equipment.**

The exchanging of data on total payments for maternity benefits and parental assistance for each social welfare system beneficiary with the CHIF has also been initiated.

**Starting in October 2019, citizens have access to services for submitting eApplications within the social welfare system via the eCitizens system, and applications for entitlements for personal disability benefits as well as assistance and care allowances.**

Starting in October 2019, citizens have access to services for submitting eApplications within the social welfare system via the eCitizens system, and applications for entitlements for personal disability benefits as well as assistance and care allowances.

These approaches have made entitlements within the social welfare system more accessible and transparent to citizens, especially persons with disabilities as a particularly sensitive group. Currently in progress are activities **which the eCitizens system will make it possible to submit applications for child benefits and applications for maternity and parental assistance.** The new Social Welfare Act which is currently in the process of being adopted, will further improve adequacy (individual amounts), coverage and utilisation of social welfare benefits, as well as accessibility to existing and new social welfare services, especially in areas with high rates of poverty and low levels of development.

***C. Strengthening labour market measures and institutions as well as improving their cooperation with social welfare services.***

**In 2019, measures for active employment policies were aligned with labour market trends and the defined measures were strengthened.**

The strengthening of measures for active employment policy began in 2017 when the measures were significantly improved and the then 42 measures were structured into 9 basic measures in terms of the “From Measures to Career” packet of measures. The objective of the measures is to encourage employment, self-employment, further education and job retention. This approach was the basis for further implementation and improvement of measures leading to greater efficiency and better availability of the measures. To encourage employment growth on the basis of actual employment contracts, a greater emphasis is placed on employment assistance (including traineeships) and self-employment assistance. Also, **self-employment assistance was increased from HRK 50,000 to HRK 70,000.** The results of the implemented measures in 2019 led to achieving the set goals. **A total of 36,926 people were included in the measures,** which was even more than planned. Almost half of new beneficiaries received self-employment assistance (24%) and employment assistance as well as the traineeships (23%). Also, **use of self-employment assistance saw a significant increase,** meaning that in 2019 the number of beneficiaries of the mentioned assistance increased by 273% when compared with 2016. Importantly, coverage by all measures remained the same as in 2018 with a significant reduction in the number of unemployed persons. The new cycle of measures for 2020 will continue to place **emphasis on measures aimed at employment growth based on employment contracts and measures incorporating an education component,** hence the measure aimed at professional training for work without requiring employment (so called “SOR”) was terminated. The self-employment measures were further improved with the introduction of three types of assistance based on the level of a region’s development, thus encouraging uniform development of all regions in the RC. Moreover, the **CES upgraded current collaboration with social welfare institutions,** in exchanging data on users

entitled to the guarantee minimum benefit and benefits leading to employment, including data on fitness for work for users entitled to the guarantee minimum benefit. This cooperation **enabled the CES to include users from the social welfare system into activation programmes to include them as soon as possible into the labour market.** The CES continued to strengthen its capacities by developing an IT system to provide a more efficient intermediary system, as well as tracking the outcomes of intermediary work.

**d. In cooperation with social partners, aligned frameworks are to be introduced to determine wages in public administration and the public service**

Due to changes in the state administration system implemented in 2019 with the aim of increasing efficiency and streamlining the state administration system, which resulted in a decrease in the number of agencies, bureaus and institutions as well as organising a new State Inspectorate, activities in devising normative proposals ceased temporarily. Specifically, new regulations on the internal organisation of new bodies, or bodies that underwent changes had to be devised and job complexity coefficients defined. Only after having adopted the mentioned regulations and having incorporated them into the employment register and central payroll system, were new simulations of potential costs for the new payroll system possible. Further challenges appearing at the end of 2019 and affecting the entire payroll system were demands from state and public service unions, as well as particular ministries for further corrections to job complexity coefficients. Since their reduction in 2012 and 2013, job complexity coefficients have not increased, with the exception of stipulating (new) particular job positions (along with their new coefficients), which in turn introduced inequalities into the payroll system and affecting collegiality in the sectors. Given the pressures coming from almost the entire (government and public) sector for corrections to the coefficients, **the conclusions was that devising any standardised solution would require beforehand a comprehensive**

**comparative analysis of coefficients and all allowances on wages in civil service and public service by independent experts.** Currently in progress is the process of selecting independent experts who will conduct an analysis based upon which conclusions and recommendations for devising possible standardised solutions will be done.

### Recommendation 3

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**a. Directing investment policy towards research and innovation, sustainable city and railway transport, energy efficiency, renewable energy sources and environmental infrastructure, while taking account regional differences.**

Currently in progress is the drafting of the proposed national strategic document on the digital transformation of the economy. Creating prerequisites for the digital transformation of the economy, as well as lifelong learning for a digital society will enable innovative development across all sectors of the economy. Also, the **European Centre for Innovation, Technologies and Skills (ECINTV)** is underway as a one-stop-shop which will create the preconditions for digital transformation of society and the economy. The centre will be established by the end of 2020.

Currently in progress is the process of drafting the national strategic document in development of artificial intelligence. The intention is to set priorities, propose objectives and direct efforts to devising a framework for encouraging the development and utilisation of artificial intelligence.

**The Act of State Assistance for Research and Development Projects<sup>10</sup> is currently being implemented.**

The private sector is encouraged to invest in research and development (including total investments in research, development and innovation). The objective is to increase the number of enterprises investing in research and

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<sup>10</sup> OG 64/18

development and also encourage cooperation between enterprises and organisations for research and disseminating knowledge on research and development projects.

**Having recognised the need to support innovations in their earliest phases, the Programme for Granting State Assistance for Proof of Innovative Concepts (Proof of Concept Grant) has been initiated.**

The public call and signing of contracts with beneficiaries totalling HRK 48.56 million of which HRK 32.58 million are grants have been conducted, and currently in progress is implementation of projects by the beneficiaries. Supporting innovations in the early phase of research is important in order to ensure precommercial capital for technical and commercial proof of concept as well as strengthening the capacity and competency of the private sector for the purpose of research, development and innovation. For new enterprises seeking investors, successful proof of concept will provide potential investors certainty that the prototype or process of further development is technically feasible, and in that way assists enterprises in attracting clients and investors.

**The Incentive Programme for Investing into New Technologies has been announced.<sup>11</sup>**

It involves the publication of various grants for investing in new technologies which the RC is offering and an overview of particular subsectors from Industry 4.0 as well as examples of successful companies and research institutions.

**Composition of the future Productivity Board has been determined.**

Specifically, by the end of April 2020, a Government act will expand the authority of the National Competitiveness Council which will execute tasks of the Productivity Board.

**Improving the TEN-T network in Croatia is conducted by implementing infrastructural projects in the road and rail sector.** The 2019

<sup>11</sup> <https://bit.ly/3d2Jmdl>

NRP planned to undertake the activity “Concluding Contracts for Implementation of Strategic Infrastructural Projects”, i.e., the signing of 10 contracts for secondary procurement with works contractors and providers of works supervision services. By the end of 2019, 7 of the planned 10 contracts for secondary procurement were signed for the projects “Road Connection with Southern Dalmatia” – Phase 2, 3 and 4, “Upgrade and Electrification of the Existing M601 Vinkovci – Vukovar Railway Line Important for International Transport”, and “Gradiška Bridge – Phase 1”. The need for resolving appeal proceedings deferred the signing of secondary procurement contracts for the projects “Construction of the DC403 State Road from Škurinja node to Rijeka Port”, and “Reconstruction of the Existing Track and Construction of the Second Railway Track on the Križevci – Koprivnica – DG Section”. However, based on current information, the objections for the “Reconstruction of the Existing Track and Construction of the Second Railway Track Platform on the Križevci – Koprivnica – DG Section” were rejected and the two mentioned contracts (supervision and works) will be signed in March 2020.

**In relation to implementation of the measure “Reconstruction and Construction of a Sustainable Transport Sector”, a number of activities were undertaken in 2019.** In February 2020, the Call for the project “Construction of a National Aggregated Next-Generation Broadband Infrastructure and the Linking of Target Users within Public Administration Bodies Using Modern Next-Generation Electronic Communications Infrastructure” was announced.<sup>12</sup>

**In terms of the Operational Programme “Competitiveness and Cohesion 2014 – 2020 (OPCC), in 2019 funds were ensured for the rail sector and city transport sector upon announcement of the Call for submission of**

<sup>12</sup> Announcement of the Call was preceded by preparation of the Application Form and adopting the Action Completion Note for the Feasibility Study by experts from JASPERS who confirmed readiness for registering the project.

**design proposals: “Reconstruction of the Existing and Construction of a Second Track on the Hrvatski Leskovac – Karlovac Section of the M202 Zagreb GK – Rijeka Railway Line”, “Phase 1 of the Modernisation of Tramway Infrastructure in the City of Zagreb” and “Renewal of the HŽ Putnički prijevoz Transportation Fleet with New Electric Passenger Trains”.**

**The value of projects in the rail sector amounts to HRK 6.85 billion** (HRK 4.58 billion from the CF), where project objectives in the rail sector are improvement and upgrading of railway infrastructure, as well as procurement and modernisation of passenger train cars linked to lines in the city, suburbs and regional transport. The effect of the investments is to stimulate taking on a significantly larger proportion of traffic by utilising more sustainable and lower carbon aspects in transport. Currently in progress is implementation of the project “Phase 1 of the Modernisation of Tramway Infrastructure in the City of Zagreb” relating to the public city transport sector with the aim of increasing the number of passengers and maintaining the level of service for public city transport in the City of Zagreb. **The value of the projects from the public city transport sector is HRK 1.07 billion** (HRK 734.22 million from the CF)

**Regarding the sustainable city and rail programme, it should be said that it involves a challenging investment which cannot be undertaken in a single-year cycle.** Preparations are underway for the investment cycle relating to the procurement of adequate transport means (primary rail cars, where integration of transport requires a certain period of time given the requirements of contractual relations and coordination of train timetables for rail carriers. To achieve sustainability of the rail transport of passengers, the Ministry of the Sea, Transport and Infrastructure (MSTI) concluded a 10-year contract on the provision of public services for passenger rail transport with a passenger rail carrier which came into force on 1 January 2019, and after the first transitional year, the effectiveness of the measure should be assessed in an independent audit which is planned for 2020. The mentioned contract covers the entire territory

of the RC, including the local level.

**For the purpose of devising a methodology for maintaining waterways, the Report on Tracking Morphological Changes to the Basin of the Drava River in the Danube was prepared, and final measurements of alluvial sediments on the Drava River basin in the Danube were done.**

Implementation of new measures from the “Ecologicalisation of Transport” has required **drafting the Assistance Programme for Modernisation of the Internal Waterway Fleet of the RC**, which led to identifying investments, available assistance models and analysis of necessary shipbuilding capacities for the purpose of adaptations to the inland waterway fleet.

**For the purpose of drafting the Study on Zoning Maritime Demesne, the public collection of bids for procurement of services was initiated, and the expectation is that the Study will be finished by September 2020. The Study on Zoning Maritime Demesne is prepared for the purpose of devising a new methodology for improving the process of granting concessions on maritime demesne through a clear and comprehensive segmentation of types of concessions based on use, importance and zones with the aim of achieving greater objectivity and transparency in determining the starting amount of the concession fee, greater justification of the concession fee amount based on economic and technical parameters of the project as well as impact of the project on a wider economic context. The intention of the new methodology for determining the starting amount of the concession fee when announcing the public collection of calls is to balance economic growth and strengthen competitiveness with respect to comparable countries in the region.**

**The Water Services Act<sup>13</sup> of July 2019 achieves the legal basis for reforming the water utilities sector which in turn will contribute to better implementation of investments and better withdrawing of EU funds, where finally a better**

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<sup>13</sup> OG 66/19

**standard and services to water service users will be insured including price affordability of water services for the population.**

In line with the Water Management Financing Act<sup>14</sup>, the Regulation on Water Use Charges<sup>15</sup> and the Ordinance on Calculating and Collecting Payments for Water Use<sup>16</sup> were adopted as part of a global reform of the water utilities sector for the purpose of reducing losses in the public water supply, rational use of water and preventing excessive exploitation and early exhaustion of water sources for human consumption. The presumption for competing the reform is the Regulation on Serviced Areas and Integration of Public Water Service Providers.

**For the purpose of encouraging a transition to a circular economy requires, a whole series of activities are being implemented. These activities in the area of waste management include construction and equipping of waste recovery facilities, procurement of equipment for waste separation, rehabilitation and the closing of waste depots, as well as adopting new regulations aligned with changes to EU directives, thereby setting new objectives in increasing waste separation and reducing waste disposal by 2035, all of which contribute to eliminating obstacles and ensuring a sense of certainty for business entities, promoting innovation and improving the investment environment by primarily encouraging reducing the creation of waste, increasing recycling in order to ensure sufficient quantities of quality secondary raw materials.**

**The “Waste Management Plan of the Republic of Croatia for the Period 2017-2022”<sup>17</sup> determines objectives in waste management as well as measures and activities in implementing these same objectives. One of the measures which should be emphasised here is the introduction of waste disposal charges, i.e., landfill tax, which will encourage, in an effective manner, diversification of waste**

from depots in favour of separation at its place of origin and increase recycling, while fulfilling assumed obligations and shifting from a linear to circular economy. Furthermore, the RC is planning to ensure by 2020 separate collection and recycling of waste by at least 50%, and 65% by 2035, where waste disposal will be reduced by 10% in the period leading to 2035.

***b. Increasing capacities of relevant public bodies for devising and implementing public projects and policies.***

**Based on the 2019 NRP, systematic legislative and institutional reform of the system for strategic planning and development management was implemented with the aim of increasing the quality of formulated public policies and effective directing of investments from EU funds for social advancement and better directed territorial development.**

In terms of the reforms, the Ordinance on Implementation of the Evaluation Procedure<sup>18</sup> has been adopted and will strengthen coordination and implementation of public policies. An information communications platform has also been set up for data collection and transparency, tracking and reporting public policy execution. Compilation of the 2030 National Development Strategy has been completed and will guide the utilisation of EU funds in the coming financial period.

#### **Recommendation 4**

***a. Improving corporate governance of state-owned enterprises and intensifying the sale of such enterprises and inactive assets.***

**With the aim of improving corporate governance of state-owned enterprises, the Government has adopted two important decisions, specifically the Decision on Determining the Obligation to Introduce the Function of Aligning Operations in Enterprises in Majority State Ownership<sup>19</sup> and the Decision on Criteria for Defining Enterprises of**

<sup>14</sup> OG 153/09, 90/11, 56/13, 120/16, 127/17 and 66/19

<sup>15</sup> OG 36/20

<sup>16</sup> OG 36/20

<sup>17</sup> <https://bit.ly/3b49mUj>

<sup>18</sup> OG 66/19

<sup>19</sup> OG 99/19

### **Special Interest for the Republic of Croatia.<sup>20</sup>**

Introducing the **function of tracking business compliance** (i.e., a compliance officer) contributes to overcoming the (non-)compliance risk, risk of significant financial loss, strengthens an enterprise's culture of corporate responsibility and reputation, protects against illegal business activities, prevents conflict of interest, reduces corruptive and other types of risks which an enterprise may incur due to non-compliance with laws, standards and codices including internal acts as well as promoting a culture of integrity and transparent business operations. The state, as the owner, recognises the importance of the mentioned function in terms of state-owned enterprise operations providing an additional contribution in accordance with laws, best market practices and ethical principles. Adopting **criteria for defining legal entities of special interest for the Republic of Croatia** is stipulated and clearly defines consideration of public interest and also articulates policies distinguishing ownership and regulatory functions. This becomes necessary as the state, in the role of owner, should have a clear ownership policy which, among other things, defines reasons for having ownership, as well as the role of the state in managing enterprises, because the final objective is to fulfil clearly defined public and national interests.

### **Tenders have been announced for the sale of stock and business shares in 90 enterprises in which the state has up to 25% ownership.**

This has been undertaken in terms of the Action Plan of the Republic of Croatia for Joining the European Exchange Rate Mechanism II and the Banking Union. The state's focus is on relinquishing ownership in its minority portfolios, as well as a continued trend in reducing the total number of enterprises in the state portfolio (portfolio from the Restructuring and Sale Centre (RSC) currently includes 358 active compared to the 582 enterprises in 2013). In 2019, **the sale of stock and business shares in non-strategic enterprises amounted to HRK 277.31 million.**

<sup>20</sup> OG 22/20

**All activities in reducing the portfolio of properties have been intensified as well as activation of unutilised state assets, in terms of putting them into use for economic development, and also preparing the tasks of tracking execution of investment projects for activation of unutilised state assets.**

Accordingly, a total of 904 contracts have been concluded, of which 632 involve fees, and the contracted fees in favour of the RC amount to HRK 584.2 million. **Revenue from non-financial assets (property management) in 2019 amounted to HRK 365 million. The announcement of public tenders for utilisation of properties has also intensified, in terms of which three international calls for the submission of bids for implementing investment projects have been announced, and where a project has been concluded in the form of a sales contract totalling HRK 32.2 million** (i.e., Češka illa – Island of Vis).

Deeds of Gift are an important category in that gifting of properties includes a reduction of the state portfolio and activation of unutilised state assets, thereby encouraging and achieving important economic projects and objectives, as well as projects of general public or social interest. In 2019, a total of **122 deeds of gift were concluded, where the estimated market value of gifted properties amounted to HRK 452.6 million.**

**The final proposed Act on Unvalued Construction Land has been drafted and is currently passing through parliamentary procedure.** The Act permanently resolves property rights and ownership of unvalued construction land (tourism land, land in camps and other construction land) which has been in use for more than 20 years by various tourism entities. The Act sets the prerequisites for regulating almost 15 million square meters of land (only in the camps) and provides opportunities for future investments, estimated at 2 billion euros. With the aim of further facilitating operationalisation in activating state assets, new amendments to the State Assets Management Act have been proposed, and their adoption is currently in progress.

**Reducing operational costs of business operations has shown that road sector enterprises are becoming more efficiently managed, where additional streamlining measures are to be introduced in 2020.**

The company Hrvatske ceste d.o.o. (Croatian Roads) has not achieved its planned results, given that in 2018 it received additional kilometres of road sections to manage, and which underwent maintenance and resulted in higher costs than those planned in 2019. However, most of what has been planned has also been achieved, and a procedure is currently in progress for verifying changes to indicators from the World Bank. The results of undertaken activities are as follows: a decrease in the ratio of operating expenses and operating income – **Hrvatske autoceste (Croatian Motorways): 0.29, Autoput Rijeka-Zagreb (Rijeka-Zagreb Motorway): 0.25, Hrvatske ceste (Croatian Roads): 0.35; decrease in operating expenses per km of road network – Hrvatske autoceste (Croatian Motorways): 0.65, Autoput Rijeka-Zagreb (Rijeka-Zagreb Motorway): 0.98, Hrvatske ceste (Croatian Roads): 0.09.** Standardisation of the regular road maintenance process in 2019 took place in line with the project plan. A study by consultants was completed, based upon which amendments will be made to the Ordinance on Road Maintenance and which is to regulate changes to the standard (maintenance based on performance). The ordinance will demarcate costs of regular operating maintenance from works on preserving the state of infrastructure, which should be classified as investments.

**Importantly, the Act on Amendments to the Companies Act<sup>21</sup> facilitates simpler execution of shareholder rights and stricter criteria for membership in supervisory boards of large enterprises.**

The existing legislative framework has been aligned with rules and obligations which for EU member states stem from Directive (EU) 2017/828 of the European Parliament and Council of 17 May 2017 amending Directive

<sup>21</sup> OG 40/19

2007/36/EC as regards the encouragement of long-term shareholder engagement.

***b. Preventing and sanctioning corruption beforehand, especially at the local level***

**Amendments to the State Judiciary Council Act<sup>22</sup> and the State Attorney's Council Act<sup>23</sup> of December 2019 enables alignment of these laws with the EU acquis in terms of protecting personal data of court officials when publicly publishing information on their wealth.**

To ensure preconditions for full use of the Internet application for submitting, processing and verification of reports on wealth declarations by judicial officials, and based on the mentioned laws, **Rules on the Content, Format and Submission of Reports on the Wealth of Judges<sup>24</sup> and also the Rules on the Content, Format and Submission of Reports on the Wealth of State Attorneys and Deputy State Attorneys were adopted.**<sup>25</sup> The State Judiciary Council and the State Attorney's Council will amend the adopted Rules, after which all preconditions for public online publication of wealth declarations by judicial officials will be fulfilled. The online publication of records of wealth will contribute to preventing conflict of interest, strengthening public oversight of work undertaken by judicial officials and increase trust of citizens in the judicial system.

**With the aim of improving the role of the Judicial Academy to increase professionalism and responsibility of judicial officials and officials from regional courts, the Judicial Academy Act was adopted in July 2019.**<sup>26</sup>

The Act facilitates the strengthening of anticorruption preventive mechanisms in the Academy's work in terms of preventing potential conflicts of interest in members of the Academy's various bodies performing their roles.

<sup>22</sup> OG 116/10, 57/11, 130/11, 13/13, 28/13, 82/15, 67/18 and 126/19

<sup>23</sup> OG 67/18 and 126/19

<sup>24</sup> OG 22/19

<sup>25</sup> OG 27/19

<sup>26</sup> OG 52/19

**In further achieving objectives to strengthen responsibility and integrity of officials, the Anticorruption Manual for state and local officials was prepared.**

The objective is to strengthen the competencies of holders of public office for the functioning of elements within the anticorruption preventive mechanism and encourage further improvements to existing anticorruption standards.

**In May 2019, the Government adopted the Anticorruption Programme for Enterprises in Majority State Ownership for the 2019 - 2020 period.**<sup>27</sup>

This is a continuation of good practices and anticorruption standards in managing state assets achieved through execution of the 2010-2012 Anticorruption Programme. Both documents are directed to strengthening anticorruption standards and corporate management in enterprises in which the Republic of Croatia has a majority stake and aims to increase efficiency of their business operations. In terms of combatting corruption within enterprises, **the project called “Raising Awareness and Standards for Combatting Bribery in International Business Transactions was initiated** and is financed by the Structural Reform Support Programme or SRSP (to the tune of 300,000 euros) with the aim of raising standards and awareness in combatting bribery in business transactions in order to improve standards and raise awareness of the harmfulness of corruption.

### ***C. Reducing the period of court proceedings and improving electronic communication at the courts.***

**With the aim of reducing the period of court proceeding and the number of unresolved cases, the tracking the resolving of so-called old unresolved cases at the courts will continue.**

Implementation of these activities has reduced the number of unresolved cases older than 10 years and taking place before municipality,

<sup>27</sup> <https://bit.ly/2TNZjgw>

country and commercial courts as well as the High Commercial Court of the Republic of Croatia. **In the period from 31 December 2018 to 31 December 2019, the number of old unresolved cases was reduced by 10.42% (from 9,131 cases to 8,180 cases),** thereby continuing a positive trend in reducing the number of cases older than 10 years in the three years that these activities were carried out.

**After the eCommunication system was successfully rolled out in all commercial courts in 2018 and electronic communication was established with lawyers and notary publics, in 2019 the system was further expanded to cover other stakeholders in court procedures (permanent expert court witnesses, permanent court interpreters, assessors, bankruptcy administrators, the state attorney’s office, notary publics and the Croatian Financial Agency – FINA). Also, the eCommunication system was expanded across municipality courts.**

Application of the eCommunication system is continually growing and by January 2019 a total of 114,986 court documents were exchanged across commercial courts via eCommunication (approx. 30% compared to other forms of communication), while municipality courts that began using eCommunication in September 2019 had exchanged 31,858 court documents by January 2019. Based on a 50% reduction of stipulated court taxes for all court documents submitted in electronic form, and with the aim of further promoting eCommunication with the courts and better collection of court taxes, **payment of court taxes via the eCommunication system (card payments) has been made possible** since October 2019.

**With the aim of relieving administrative court personnel and increasing productivity in dispatching jobs at the courts, the e-Delivery (“e-Dostava”) system has been introduced to facilitate sending documents from the courts to postal service providers electronically.**

**Court documents are signed using a qualified electronic signature** and are sent electronically to the service provider for materialisation and sending to parties. In return, **the Track&Trace system updates the status of consignment deliveries** in the court systems.

Since October 2019, the new eOglasna (electronic notice board) court service has been in production.<sup>28</sup>

The new electronic notice board (“eOglasna ploča”) has been significantly improved and simplified, system security has been increased, and placement and removal of notices has been automated.

In July 2019, the Act on Amendments to the Civil Procedure Act<sup>29</sup> was adopted and which envisages new revision rules as well as the introduction of a new institute for disputes which have been filed in greater numbers or are expected to be filed in the short term (so called pilot-judgment procedure).

Introducing the so-called pilot-judgement procedure will quicken the handling of all procedures in which the essence (merit) of the matter in terms of the legal issue is the same, and which are initiated in larger numbers or are expected to be initiated in the short term. Secondly, the decision reached by the Supreme Court of the RC on this legal issue (the issue must be important for uniform application of rights) guarantees uniform application of rights and equality for all when applied, i.e., this leads to development of law through judicial practice, which is a constitutional task of the Supreme Court of the RC.

#### **d. Reducing the largest parafiscal levies and overbearing regulation of the products and services market**

A comprehensive analysis been undertaken of levies which Croatian citizens and entrepreneurs are obliged to pay based on public provisions with the analysis identifying a total of 448 contributions.

For the requirements of setting up the Register of Non-Tax Revenues and preparing the analysis, all levies stemming from provisions of public regulations were taken into consideration, and which are paid by enterprises to SABs, LRSGUs and other public authorities. Contributions in the register are divided into two main groups, depending on

whether the contributions are SB revenue or not. Based on this categorisation, 273 fees (61%) comprise the revenue of budgetary and extrabudgetary users, hence they are classified as non-tax contributions, and 175 charges (39%) comprising the revenue of public bodies which are not budgetary users but classified as parafiscal contributions. The total burden based on various types of contributions in 2018 amounted to HRK 8.7 billion, or 2.28% of GDP. Of this, non-tax contributions amounted to HRK 7.9 billion (91%), whereas parafiscal contributions amounted to HRK 756.62 million (9%) of the total verified amount. The proportion paid by entrepreneurs for economic purposes amounts to HRK 5.28 billion or 61% of total (non-tax) contributions. The greatest number of contributions, i.e., 172, fall under the authority of the MA, MH accounting for 71 contributions, MSTI has 35, MSE has 23, MDFYSP has 22, the State Bureau of Metrology and MF (not including the Tax Administration and Customs Administration) each has 21 contributions. The analysis identified a total of 20 contributions which to a large extent impose a burden on entrepreneurs, and in proportion to all contribution amounts account for 89.8% of all burdens.

**The proposed measure to reduce some of the non-tax and parafiscal contributions, representing the largest burden on the business sector, has been sent for government approval.** This also includes reducing charges by 25% for certain civil service exams.

**The legislative framework for founding enterprises electronically has been set up, thereby simplifying and quickening the founding process.**

This has been regulated through amendments to the Companies Act<sup>30</sup> and the Court Register Act<sup>31</sup> which came into force on 20 April 2019.

<sup>28</sup> <https://e-oglasna.pravosudje.hr/>

<sup>29</sup> OG 70/19

<sup>30</sup> OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15 and 40/19

<sup>31</sup> OG 1/95, 57/96, 1/98, 30/99, 45/99, 54/05, 40/07, 91/10, 90/11, 148/13, 93/14, 110/15 and 40/19

**Table 2** | Implemented measures  
for administrative relief of the economy in 2019

Area	Implemented administrative relief using the SCM <sup>32</sup> methodology
<b>Automotive homologation</b>	<ul style="list-style-type: none"> <li>- Reduced charges for submission of applications for national homologation of motor vehicle types and their trailers by 20%.</li> <li>- Reduced charges for submission of applications for national homologation of two and three-wheel types of vehicles and quad bikes by 20%.</li> <li>- Reduced charges for submission of applications for implementing the procedure to verify compliance of tractor type by 20%.</li> </ul>
<b>Excises</b>	<ul style="list-style-type: none"> <li>- Introduced the electronic ePTD form for reporting – accompanying excise document.</li> <li>- Abolished the DOT-PI and DOT-AL forms for filing daily accounts of excise duty.</li> <li>- Abolished the Z-ORT form for submitting minutes on list of cigarette stocks with accounts of the excise duty difference</li> </ul>
<b>Taxes</b>	<ul style="list-style-type: none"> <li>- Abolished two contributions for compulsory unemployment insurance at 1.7% and contributions for work health protection at 0.5%, thereby achieving administrative savings.</li> <li>- Reduced the frequency of submitting OPZ-STAT-1 reports, from four times a year to only once a year which is to be within the deadline for submitting income tax forms or corporate tax forms.</li> </ul>
<b>Construction design and supervision as well as project auditing</b>	<ul style="list-style-type: none"> <li>- Abolished mandatory registration in the Chamber of Construction Managers.</li> <li>- Abolished mandatory registration in the Chamber of Works Managers</li> </ul>
<b>Construction products</b>	<ul style="list-style-type: none"> <li>- Reduced the scope of necessary data in the application form for providing authorisation to undertake actions and abolished the obligation of delivering the list of the type and scope of activities and actions as well as construction products for which the application is submitted, excerpt from the court register, certificate of accreditation except in cases when deemed necessary, statutes and other general acts except in cases when deemed necessary, the appointment of persons responsible except in cases when deemed necessary and data in the level of technical equipping, personnel and locations.</li> </ul>
<b>Air traffic</b>	<ul style="list-style-type: none"> <li>- Redefined the area within which seeking consent for new facilities is necessary and which are planned for construction within a radius of 15 km from airports.</li> <li>- Abolished the delivery of excerpts from the court register, except in cases of foreign registers which are not publicly available for issuing or changes to Certificate for Approved Training Organisations for Pilots, hang gliders, paragliders, powered parachutes and gliders with an unladen weight up to 80/100 kg.</li> <li>- Abolished the submission of excerpts from the court register, except in cases of foreign registers which are not publicly available for issuing or changing the Certificate for Approved Training Organisations for Pilots, sport-recreational planes, balloons and gliders.</li> </ul>
<b>Food donations</b>	<ul style="list-style-type: none"> <li>- Abolished the obligation for donors to maintain records on providing foodstuffs to intermediaries or end receivers.</li> <li>- Abolished the obligation for donors to provide aggregated data to the Ministry of Agriculture for the period and within deadlines for submission of VAT forms or if not VAT obligors by expiration of the twentieth day in the month following expiration of the tri-monthly calendar period.</li> </ul>
<b>Winery</b>	<ul style="list-style-type: none"> <li>- Abolished the need to submit data on updating the Register of Approved Facilities.</li> <li>- Abolished the need to submit data for creating records on the producer's wine and fruit vinegar.</li> <li>- Abolished the need to submit data on production and stock levels.</li> </ul>
<b>Quality system for agricultural and food products</b>	<ul style="list-style-type: none"> <li>- Abolished the need to submit proof of registering business activities, accreditation certificates with attachment, BON-1 (creditworthiness information) and BON-2/SOL-2 (solvency information) for the submission of authorisation application</li> <li>- Abolished the need to submit data relating to production and/or distribution on the products market as well as report on conducted promotional activities for products with names protected at the national level or registered at the EU level.</li> <li>- Abolished the obligation to submit reports on the number of used national symbols.</li> </ul>
<b>Commercial law</b>	<ul style="list-style-type: none"> <li>- Enabled registration into the court register of limited liability companies (Ltd.) via electronic means.</li> <li>- Enabled registration into the court register of simple limited liability companies (Simple Ltd.) via electronic means.</li> </ul>

<sup>32</sup> Standard Cost Model - SCM

Area	Implemented administrative relief using the SCM <sup>32</sup> methodology
<b>Air and climate protection</b>	<ul style="list-style-type: none"> <li>- Prolonged the validity period of permits for undertaking activities in the collection, verification of leakage, installation and servicing of devices and equipment containing controlled substances or fluorinated greenhouse gases or those dependent on them – cooling and air-conditioning units and equipment as well as heat pumps, fixed firefighting systems and fire extinguishing apparatuses from 5 to 10 years.</li> <li>- Stipulated the obligation to obtain permits for undertaking activities in collecting, renewing and recovering controlled substances and fluorinated greenhouses gases for centres every 10 years instead of every 5 years.</li> </ul>
<b>Nature protection</b>	<ul style="list-style-type: none"> <li>- Reduced the number of entities falling under provisions requiring entities to obtain nature protection conditions for projects for which, according to special physical planning regulations, obtaining construction permit are required.</li> <li>- Reduced the number of entities falling under provisions requiring the entities to obtain confirmation for projects for which, according to special physical planning provisions, obtaining a construction permit is required.</li> </ul>
<b>Environmental protection</b>	<ul style="list-style-type: none"> <li>- The procedure for registration, reporting and submission of data on the number of devices at terminals and number of gas stations into the MEE database has been simplified.</li> <li>- The procedure for registration, reporting and submission of data on the flow of petrol and installation of return systems for petrol fumes from petrol stations into the MEE database has been simplified.</li> </ul>
<b>Waste management</b>	<ul style="list-style-type: none"> <li>- Abolished the need to submit decisions and excerpts from the court register or decisions on registration into the crafts register and copy of crafts licences for registration into the Register of Intermediaries in Waste Management.</li> <li>- Abolished to need to submit the decision and excerpt from the court register or decision on registration into the crafts register and copy of the crafts licence for registration into the Register of Waste Traders.</li> <li>- .Abolished the obligation to submit information on waste consignments, not subject to the notification procedure, to environmental protection inspection 3 working days in advance.</li> <li>- Abolished the need for notification applicants to submit the excerpt from the court or crafts register to obtain approval for exporting waste from the RC</li> </ul>
<b>Water management</b>	<ul style="list-style-type: none"> <li>- Abolished the obligation to submit excerpts from the court register and accreditation certificates for obtaining approvals to undertake special activities in water management, excerpts from the cadastral plan and land title books when submitting applications for obtaining special conditions to connect to water facilities providing public water supply and public sewage systems.</li> <li>- Introduced the ability to submit in electronic form: data on the amount of released wastewater, data on sampling and testing wastewater effluent systems, prior to releasing into the public sewage system or prior to releasing into surface or exceptionally into underground waters and data from the register on amounts of chemicals distributed on the market for use in the territory of the RC, and which after use end up in waters.</li> </ul>
<b>Medical products</b>	<ul style="list-style-type: none"> <li>- Reduced fees for obtaining decisions on termination of permits for retail distribution of medicinal products.</li> <li>- Reduced fees for obtaining decisions on removal of the wholesale of medicinal products from the register.</li> <li>- Reduced fees for obtaining decisions on removal of producers or authorised representatives of producers from the register of producers</li> </ul>
<b>Publishing of primary and secondary school textbooks</b>	<ul style="list-style-type: none"> <li>- Abolished the need to submit proof that the publisher is registered for conducting publishing activities when submitting the Application for Approval of the Use of Textbooks.</li> <li>- Abolished the obligation to submit the Application for Inclusion into the Catalogue of Compulsory Textbooks and Associated Supplementary Teaching Resources.</li> </ul>

**Table 3** | Implemented measures  
in the liberalisation of the services market in 2019

Područje	Provedena liberalizacija tržišta usluga
<b>Architects</b>	- Abolished the chamber request that there must be no initiated criminal investigation against an architect submitting a request for approval
<b>Lawyers</b>	- Reduced the regulation relating to advertising by lawyers such that communication is less restricted.
<b>Trade and distribution</b>	- Abolished the procedure for obtaining consent to undertake wholesale activities for certain types of petroleum products and biofuels, including payment of the administration levy amounting to HRK 700 and levy for changes to data amounting to HRK 140 - Abolished the obligation to have specially equipped storage for wholesale trading of petroleum products and biofuels, thereby allowing domestic wholesalers and importers direct access to the retail network.
<b>Energy certification</b>	- Abolished the procedure for relicensing every 5 years, thereby abolishing additional procedural costs. - Abolished the obligation to have professional liability insurance. - Abolished the obligation to submit proof that the person has no criminal record.
<b>Air conditioning servicers</b>	- Allowed the freedom of establishment and freedom to provide cross-border services for EEA nationals, without the obligation of establishment for temporary and occasional undertaking of activities. - The professional exam (obligatory according to EU legislation) passed in another EEA state is recognised. - The obligation to pass the professional exam (which is obligatory according to EU legislation) is waived, to prevent duplication, for persons with a higher vocational qualification in the area of mechanical engineering, completed secondary vocational school, who have passed the master tradesperson exam or have a recognised master tradesperson status in the area of installation and maintenance or servicing of cooling and air-conditioning units, or persons who already have passed the professional exam prior to seeking approval.
<b>Pharmacy</b>	- Abolished restrictions in pharmacy advertising. - Abolished restrictions in terms of pharmacy working hours.

## 4. Main objectives, reform priorities and measures of economic policies

This chapter provides an overview of Croatian Governments policies on the main socio-economic challengers identified in the Report for Croatia and/or present a reply to the recommendations of the EU Council, where Appendix 1 of the NRP contains additional measures, specifically for assistance to the Croatian economy due to the COVID-19 pandemic with the aim of encouraging job retention, and also resolving insolvency issues for those businesses experiencing reduced activities due to the epidemic.

### 4.1. Sustainable economic growth and development

#### 4.1.1. Improving the business environment

##### Administrative and non-tax relief

Since 2017, regulatory reforms have been underway with the aim of improving the business environment by providing administrative relief to the business sector. The administrative burden has been measured using the SCM methodology to analyse regulations from more than 70 areas that have an impact on the economy. All obligations from the Actions Plans for Administrative Relief of the Economy in 2017, 2018 and 2019 will be fulfilled by the end of 2022, achieving economic relief amounting to HRK 2.7 billion or 21.86% of the measured cost. **By the beginning of April, 365 measures were implemented, achieving HRK 2.2 billion of financial relief, and reducing obligations by 17.37%.**

**Systematic regulatory reform has continued through activities involving administrative and non-tax relief for the economy.** Relief measures will be implemented based on adopted actions plans as follows:

- **Tourism and hospitality industry:** quicken the process of submitting documentation

and applications for the issuing of approvals for providing tourist guide services and providing hospitality services in households using the platform in terms of the Croatian Digital Tourism project.

- **Higher education and science:** a simpler Form for Registration into the Register of Scientific Organisations will be introduced, including abolishment of the obligation to submit additional documentation (contract with an already existing institute of higher education, bank guarantee, confirmation from the parent institution of higher education and proof of having ensured the necessary funds for operations) to obtain the permit for conducting higher education activities.
- **Veterinary medicine and food safety:** the obligation to submit proof of registration in the court register/crafts register when submitting the application for approval of animal by-product businesses will be abolished.
- **Air travel:** the obligation to submit the excerpt from the court register, and obligation only in the case of foreign registers which are not publicly accessible for the issuing or changes to the Certificate for Approved Training Organisations for Parachutists and when registering aircraft into the Croatian Register of Civil Aircraft

**The new set of measures places the emphasis on eliminating administrative procedures which entrepreneurs are supposed to perform in their everyday work, and will create preconditions for introducing electronic optimised procedures.** Specifically, in implementing the current Action Plans, it became evident that administrative problems exist stemming from a synergy of multiple regulations, and in 2019 a comprehensive and detailed analysis of all regulations from particular areas was conducted, while taking into consideration objections from the

business community as to the length and complexity of the administrative procedures. The optimisation and digitalisation of business procedures will reduce the required business time and ensure streamlining of operations, while some measures will even facilitate administrative procedures for citizens.

**The objective in implementing the measures through the actions plans for reducing administrative burdens and parafiscal contributions is the systematic elimination of administrative obstacles and financial burden as well as creating a better business environment.**

**The current analysis of costs from existing regulations has identified administrative charges as a significant element of administrative costs.** In 2019, an analysis was conducted and a list of all regulation imposing charges for administrative levies was compiled in order to amend regulations which will ultimately lead to the abolishment of charging any administrative levies that are revenue for the state budget. All independent analyses tracking burdens imposed on the Croatian economy have revealed that the significant burden is various contributions and fees which fall into the category of non-tax and parafiscal contributions. Given that the current pace of reducing non-tax contributions should be accelerated, **the list of all contributions was reviewed in the form of the Register of Non-Tax and Parafiscal Contributions. Based on the conducted analysis, recommendations were given for specific reform measures for eliminating, reducing or changing the manner of charging non-tax and parafiscal contributions which represent the greatest burden on the business sector.** This was undertaken in good practice by inter-agency collaboration and in cooperation with the business sector which is actively involved in devising measures to be adopted through new actions plans for reducing the administrative burden as well as reducing non-tax and parafiscal contributions.

**The aim is to significantly relieve the business sector of financial and administrative burdens stemming from obligations involving charges and payment of various non-tax contributions.**

**Implementation of these measures also contributes to achieving the global objectives of sustainable development from the UN 2030 Agenda for Sustainable Development, Sustainable Development Goals (SDG): Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation**

### **Liberalisation of the services market**

According to the OECD report PMR 2018,<sup>33</sup> the RC entered into the OECD-EU average in terms of market services regulations (RC/EU 1.43; OECD 1.40; a smaller result means higher regulation). For the sake of comparison, based on data from the OECD PMR 2013, the RC with 2.08 had the highest regulated EU economy compared to the OECD average of 1.61. The RC in 2018 was ranked among non-OECD countries with a regulation exceeding 2.05, whereas all measured OECD and non-OECD countries had an average of 1.55. Importantly, and in the meantime, the RC has simplified registering the establishment (place of business), meaning that in real time the average for the RC is no more than 1.35. The level of barriers to service sectors has been reduced (from 3.60 to 2.22) to the EU and OECD average. Accordingly, the regulation of main market professions (accountants, architects, engineers, real estate agents and lawyers) has been reduced to 1.48, where the EU average is 1.70. Regulation of the legal profession has slightly decreased (from 5.08 to 3.85), but is still higher than the OECD average, while regulation of the architect and engineer profession has decreased (from 3.85 to 1.1.5) and is now at the OECD average. There is no regulation (licencing) of the accountant profession. The distributive trades sector is very open and at 1.22 is less regulated than the OECD (1.27) and EU average (1.47). Regulation of the network services sector has been reduced to the OECD sector (from 2.25 to 1.53). Regulation of the energy sector has fallen as

<sup>33</sup> <https://bit.ly/2yWTMMI>

well (from 3.02 to 1.49), electricity (from 3.85 to 1.50), natural gas (from 2.16 to 1.48), and also in transport (to 2.15).

**The goal in liberalising the services market is to continue boosting competition on the services market, by reducing the overall regulating of professions and discouraging the introduction of new regulations of the services market and professions, in order to open opportunities for increasing productivity and innovation in the economy, (self-)employment of new entrepreneurs and more competitive prices for services.**

Regarding more than 230 implemented measures (March 2020) for eliminating obstacles to the right of establishment and provision of services on the internal market in a whole series of sectors and professions, the plan is to cumulatively implement at least 250 measures for liberalisation of the services market by the end of 2020. At the same time, additional measures for reducing the degree of regulation of the main professional services will be implemented through inter-agency implementation of measures from two action plans for liberalisation of the services market. This implementation requires changes to regulations that regulate, in a sectoral manner, specific types of requirements for access to and the rendering of service activities and professions (such as physiotherapists, pharmacists, tourist guides, travel agency managers, lawyers, notaries public, tax advisers, auditors, etc.).

### **Combatting unreported work**

Based on relevant indicators, the assessment is that a high presence of various forms of unreported works still exists. Unreported work appears as completely unreported employment, to only part-time employment in cases where worker work full time, unpaid pay rises stemming from legally stipulated grounds such as overtime work, illegal employment of foreigners, to partially unreported work (partial payments of wages as “cash in the hand”). The problem also appears when legitimate forms of work are used to circumvent the system, such as work based on other contracted mandatory lawful contracts

as opposed to employment contracts. There are many different factors affecting this undesirable social phenomenon and which pose a challenge in protecting worker’s rights as well as the national economy. Breaches to reporting work is detrimental to the balance on the labour market and harms market competition among unequal employers operating as economic entities. Therefore, effective action in combating unreported work demands effectiveness from its institutions.

**The objective is to establish mechanisms ensuring work is reported, ensuring a supportive environment for transitioning from the sphere of unreported work and unregistered business activities to a legal framework while settling all liabilities by business entities. Therefore, placing an emphasis on raising awareness of the benefits of lawful work and harmfulness of unreported work is essential.**

**A strategic document for combating unreported work along with the associated action plan is to be adopted.** Primarily for the purpose of mitigating and ultimately eliminating structural difficulties which lead to the described problem and achieve four basic objectives: Strategic management and improving the work of institutions (which means coordinating the work of inspection and other bodies, networking data and modernising management systems); Discouraging unreported work through normative solutions (which includes a legal definition of unreported work, regulating actions when identifying unreported work, establishing a central register of violators and supervising expanded collective agreements in terms of minimum wages); Encouraging reported work in supply and demand on the labour market (which includes coordination of state assistance for employment and self-employment, introduction of a white employer list, responsibility in public tender procedures, as well as the sub-contracting chain) including Education and implementation of counselling for citizens and the business community (in terms of educating pupils, students and citizens, in general, as well as educating employers and conducting campaigns and providing advice).

#### 4.1.2. Investment policies directed towards the future

##### Encouraging investments

The RC is actively working on sustainable development and achieving SDG. In the UN Report on Sustainable Development from 2019, the RC was ranked 22 out of 162 countries. To boost further advances in achieving the goals and bridging the gap between accessible and necessary resources for achieving the goals, emphasis will be placed on promoting investments from the private sector in those projects and areas which may be interesting to the private sector, and which will also contribute to achieving the goals of sustainable development, especial particular parameters relating to Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation, and Goal 12: Make cities and human settlements inclusive, safe, resilient and sustainable.

An analysis of the current situation will be done which will offer a basis for establishing an efficient system for targeted mobilisation of private funds for investing into the goals of sustainable development and a green transition. Specifically, the precondition for successful promotion and encouraging investments in sustainable development goals is to precisely determine where the RC currently is in terms of achieving its goals, the manner in which various types of investment can contribute to achieving the goals and the role which particular national and local stakeholders can play in promoting such investments.

**The objective is to establish an effective system for promoting private investments into sustainable development goals, in order to contribute to a proper and inclusive transition to a competitive green and digital economy.**

##### Establishing a normative framework for reforms to the water utilities sector

The water sector in the RC lags significantly behind EU standards. Therefore, significant investments in the water resources management are necessary, but are inadequately developed. Increasing effectiveness in water usage and implementing an integrated water resources management system are key to satisfying the needs of the RC for water in the future.

To ensure implementation of SDG goals - Goal 6: Ensure availability and sustainable management of water and sanitation for all as well as synergetic action in the area of sustained management of water resources and protection thereof, the RC has recognised key area of intervention: improving the public water supply system, upgrading the public sewage system and purification of wastewater, including preserving the good condition of water for the purpose of improving sustainability in the utilisation and management of water.

A comprehensive reform of water utilities has been initiated in order to strengthen implementation abilities and the investment capacity as well as financial and technical self-sustainability of public providers of water services. The reform will also ensure implementation of the principle of cost recovery from water services where the price of water, after carrying out the investment, will be socially affordable to consumers and within the boundaries of economic effectiveness for the provider, which as a rule is up to 3% of net available household income per annum. The legal prerequisite for reforming water utilities is achieved in the measure from the 2019 NRP by adopting the Water Services Act. **The plan is also to adopt the Regulation in Service Areas as territorially organised public providers of water services**, and within a period of 6 months upon adoption of the Regulation on Service Areas, the procedure to integrate (merge) existing public providers will be conducted. This involves reducing the number of providers to about 40.

**The goal is to integrate public water service providers from public water supply and public sewage in the RC in order to ensure their implementation capabilities and investment capacity.**

### **Transitioning to a smart, circular and low-carbon society**

**A circular economy has a key role in achieving the ambition goal of transforming Europe into a climate neutral continent by 2050, decoupling growth from using resources and halting the loss of biodiversity as well as strengthening the sustained competitiveness and industrial base of the EU.** In terms of drafting the 2030 National Development Strategy of the Republic of Croatia, the Ministry of Environmental Protection and Energy (MEPE) as the carrier of the Thematic Working Group for Energy and Sustainable Environment (TWG) has recommended a strategic framework for transitioning to a low-carbon economy and society by 2030, where one of the key measures is **establishing a national platform for a circular economy.** The measures during the lifecycle of a product, from the design, production to waste phase, in terms of a circular economy, has the goal of adapting the economy for a green future, strengthening competition while protecting the environment and providing consumers with new rights. The idea behind expanding a circular economy to all economic actors is to quicken the regenerative model of EU growth and dematerialise the economy in which sustainable products, services and business models become the rule, whereas consumer habits will reduce waste generation. The planned setting up of the national platform for a circular economy will be the active carrier of activities associated with a circular economy and which will be developed in cooperation with the business community, consumers and other stakeholders.

**The objective is to ensure decoupling growth from the use of resources as well as halting the loss of biodiversity while at the same time strengthening sustainable competitiveness and the industrial base.**

### **Ecologicalisation of transport**

Providers of public city transport services in the RC have at their disposal vehicle fleets with a high average age (obsolete and inefficient technology). The condition of the vehicle fleet results in increased maintenance costs, writing off old vehicles leads to insufficient transport capacity, while continuing the use of the vehicles not meeting new standards on permitted amounts of gas emissions, with motors classified as EURO 0, 1, 2 and 3 norms, has a negative impact on the environment due to the release of high amounts of carbon dioxide, hydrocarbons, nitrogen oxides and particle matter.

**Interventions in the public city transport sector has the goal of modernising the public city transport system by investing in a new vehicle fleet in order to reduce negative effects on the environment and increase energy efficiency.**

**Publishing the Call for submission of project proposals aimed at modernising the vehicle fleet for public city transport companies and conducting procedures for receiving grants, will bridge the problem of insufficiently ensured funds for beneficiaries and allow renewal of vehicle fleets with new buses and tramways in order to provide public city transport services.** The procurement of new vehicles with a higher ecological standard, low or zero CO<sub>2</sub> emissions, will reduce air pollution and harmful effects on the environment. Ensuring an increased level of comfort, safety and frequency of transport will encourage citizens to use personal cars less for their travels and lead to increasing the proportion of public city transport in a modal allocation of travel. Activities are aligned with the Transport Development Strategy for the Period 2017 - 2030.<sup>34</sup>

**To ensure safety and security as well as sustainable development of maritime traffic, the existing level of readiness and ability of the RC will be upgraded to reduce the risk of**

<sup>34</sup> <https://bit.ly/39vgjgH>

**consequences from ecological catastrophes in terms of natural wealth, human health and other economic uses of the sea and coast, including tourism.**

Sustainable development of the maritime economy should be aligned with the development of public services involving maritime safety and protection of the sea against pollution from maritime facilities, on the principles of increasing accessibility and the quality of such services. In 2019, the National Maritime Rescue Coordination Centre (MRCC Rijeka) coordinated a total of 612 search and rescue operations at sea rescuing a total of 1,115 persons. Continual growth in maritime traffic in the Croatian part of the Adriatic has resulted in a significant increase in search and rescue operations directed towards saving human life and assets at sea. The existing ship search and rescue services of the port authorities comprises 4 ships and 33 boats, which are mostly obsolete and inadequate to effectively operate across the entire region of internal maritime waters and the territorial sea of the RC, especially during times of hazardous weather conditions and within the so called "golden" hour from the time of a maritime accident. The vessels are not standardised, nor do they have the appropriate standardised equipment for special-purpose use. With the aim of resolve this issue, in 2016 the MSTI procured special purpose boats for search and rescue at sea, and in 2020 a procedure was initiated for procuring an additional 6 special-purpose purpose boats in collaboration with the Ministry of Health (MH) with deliveries expected to take places in the period 2021-2023.

**In 2020, project documentation will be prepared for 10 boats specialised for search and rescue operations.** Moreover, despite the fact that the RC has continually undertaken a series of activities for the purpose of preventing, limiting and added readiness in reacting to accidental pollution of the sea, there continues to be a deficit in terms of proper equipment and services which would be used for accidental large-scale pollution of the sea. Accordingly, **three national logistics centres for emergency operations and equipped with equipment for combatting sea**

**pollution should be established and made available on a 24/7/365 basis, where in 2020 another such centre is also to be established.**

The RC has a problem from morphological changes and sedimentation in rivers. There is no systematic monitoring of the movement of sediments in waterways in the RC, hence the absence of historical data on such trends is replaced with a devised model that uses point measurements for calibration and validation. Given the absence of all the data necessary to estimate the intensity, quantities and locations at which accumulated sediments cause a hindrance to safe maritime shipping, predicting the pace or funds necessary for works on removal of such obstacles is not possible.

**The objective is to increase the competitiveness of the economic fleet on the internal maritime waterways, and finally the objective is ecologicalisation of internal navigation.**

**A methodology for calculating sediment quantities in riverbeds (sediment transport model) will be devised in order to maintain waterways in the RC.** This specifically relates to the Danube River within the RC, along the section from Batina (rkm 1433.1) to Ilok (rkm 1295.5); the Drava River from the estuary in the Danube (rkm 0.0) to Osijek (rkm 14), and in the Sava River from Račinovac (rkm 210.8) to Sisak (rkm 594). Drafting the survey on tracking morphological changes at the estuary of the Drava River in the Danube and final measurements of sediments at the estuary of the Drava River in the Danube (2019 NRP) has ensured the necessary parameters for devising the methodology in calculating the quantity of sediment in the riverbed. The methodology is based on adopting proper and timely decisions as to the intensity, quantities and locations for removal of sediments for timely maintenance of waterways, and also protection against floods and ice.

Furthermore, a problem that should be highlighted is the obsolete fleet on the internal waterways of the RC which should be technologically renewed in terms of environmental protection and the general economic environment.

The plan is to prepare a study on modernisation of the fleet on the Sava River which then becomes the basis for modernisation of the entire fleet on internal waterways. A significant problem is the reception and treatment of waste from vessels on internal waterways which is planned to be brought into conceptual compliance across all ports on internal waterways upon drafting the **Study on Reception and Treatment of Waste from Internal Waterway Vessels**.

**Given the importance of the maritime economy and nautical tourism for development of the general economy in the RC, further guidelines in developing maritime transport and nautical tourism will be defined in order to ensure sustainability, safety and protection of the sea environment.**

**The Maritime Development and Integral Maritime Policy Strategy of the Republic of Croatia for the Period 2014-2020<sup>35</sup> highlights the need to set a project task in order to draft a new strategic document.** In setting the project task, the focus will be placed on defining the direction of maritime transport development, with the aim of increasing gross domestic product, ensuring development on the principles of sustainability, safety and protection of the sea environment. This will include all aspects of economic activities on the sea and coastal waters (shipping and maritime transport services, port infrastructure and port services, education as well as living and working conditions for sailors, introducing and development green technologies).

**The Nautical Tourism Strategy of the RC for the Period 2009-2019<sup>36</sup> has expired, hence the need to define a new project task for preparing a new strategic document.** The RC is a well-known and important nautical destination, however the quality of nautical tourism in many elements has not reached its natural and historical heritage value, nor the potential for spatial development. The project task will define the management principles for

<sup>35</sup> <https://bit.ly/2UjNnlp>

<sup>36</sup> <https://bit.ly/2Wobfas>

identifying a compromise between the need for preserving the natural space and the need for economic development, given that the greatest threat to long-term sustained development of nautical tourism is uncontrolled as well as unrestricted and undirected development, especially under pressure from demand which exceeds supply in terms of new moorings in the Mediterranean.

### **Raising the competitiveness of tourist destinations and local tourism boards**

Reforms in the tourism sector introduced in the form of a new packet of tourism law presupposes decentralisation (integral part of management in the destination management), an efficient system of destination management, strengthening development of tourism potential and assistance to undeveloped areas as well as reducing the administrative burden for entrepreneurs, crafts and trades businesses and private landlords.

**The aim is to revise and streamline the system of local tourist boards, increase their efficiency, ensure preconditions for undertaking destination management activities.**

For the purpose of achieving all this, financial instruments have been introduced: Fund for Underdeveloped and Hinterlands Areas, and the Fund for United Tourist Boards.

**Special attention will be given to developing undeveloped areas, in terms of development and improving what can be offered to tourists, infrastructure, ensuring education of tourism providers of offers and services, development of initiatives, and the like.** This is necessary for ensuring the most effective destination management, increasing effectiveness in development, especially improvements as a tourist region, quicker evaluation of tourism potentials, improving offers and the quality of tourism services. This will also have an impact in strengthening competitiveness and productivity increases, as well as greater transparency of tourist board operations and more purposeful spending of funds.

Implementation of these measures also contributes to SDG - Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and Goal 12: Responsible consumption and production.

#### 4.1.3. Improving management and utilisation of state assets

##### Better management and activation of state assets

In the RC, state-owned enterprises continue to have a key role in the economy. Based on estimates by the EC in 2016 from the ORBIS databased, employment in state-owned enterprises stands at 12% of total employment, and these enterprises account for 18% of total turnover and 30% of total assets in the RC.

**With the aim of ensuring more responsible management and successful business of state-owned enterprises, activities directed to improving management of state assets will continue, including management of enterprises by management boards and supervisory boards, whereas measures for the activation of unutilised state assets generating large expenses will be undertaken and such assets put into use for economic development.**

To further improve corporate governance, activities on strengthening supervision of business operations in legal entities in majority state ownership will be intensified by improving the competencies of members in supervisory boards and audit committees. In line with the introduced system of unified business planning and reporting on state-owned companies and legal entities which the stated has assumed the role of an active and informed owner, better competencies in supervisory boards and audit committees will be ensured for the purpose of setting strategies in state-owned enterprises and overseeing their application. This should lead to increased profitability of state-owned enterprises, improved business processes and better utilisation of company resources, resulting in promoting commercialisation and overall economic growth.

The plan is to establish an early warning system (EWS) for business risks. A supervision system will be commenced with the aim of timely identifying risks in operational and financial aspects of business in enterprises which are majority state owned. This will enable the state as the owner to assess corporate governance risks to which state-owned enterprises may be at risk.

Ongoing activities in reducing the portfolio of state assets will continue through procedures to identify, prepare and sell stock and business shares managed by the MSA and RSC. Linked to this is the fact that the asset values of state-owned enterprises (30% of all assets) in the RC is much greater than in Central and Eastern European (CEE) countries, their revenue amounts to only 15% of GDP and are less profitable or operate at higher losses than those in the same sector in CEE countries.

Ongoing activation and reduction of the property portfolio will continue, as well as proactively creating conditions for realisation of investment projects. Specifically, unutilised and abandoned state assets in the form of land, apartments, commercial premises and uneconomically viable military assets pose a great potential in revitalising towns and municipality through modernisation of community infrastructure, improving the investment climate and encouraging competitiveness with the aim of achieving economic growth and increasing employment through job creation.

Implementation of these measures contributes to achieving the SDG Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

##### Reconstruction and construction of a sustainable transport sector

**With the aim of constructing an effective and long-term sustainable road sector, business and financial restructuring of state-owned road enterprises will be implemented, as well as restructuring of the rail sector with the aim of increasing its efficiency and**

**competitiveness as well as encouraging investments in safety, ecological sustainability, efficiency and competitiveness of all other aspects of transport.**

Development of the rail sector is exceptionally important for economic and social growth, as well as for international and internal transport links of the RC, including achieving strategic goals and positioning the RC within the network of European corridors. This type of development, especially in terms of applying EU acquis, requires determining strategic guidelines in a sectoral sense, which will lead to another investment cycle in the rail sector, and also define the requirement for further improvement of the rail services market. At the same time, ensuring the provision of services for the public rail transport of passengers by the national rail carrier is necessary in order for efficiency and compliance with the signed long-term agreement.

**To ensure financial sustainability of enterprises in the rail sector and technical-technological strengthening of business processes throughout 2020, the plan requires preparing a project task for drafting strategic documents in developing the rail system of the RC.** A consultant will be chosen for drafting the strategic documents in line with the Railway Act<sup>37</sup> and to access other technical conditions relating to the 4th Railway Package. The MSTI along with the company HŽ Putnički prijevoz d.o.o. (Croatian Rail Passenger Transport) signed a 10-year agreement (came into force in 2019) in which the first year is defined as a transitional period identifying areas that can be improved. In 2020, the **first implementation review of the Agreement on Public Services for Services of General Economic Interest in Public Rail Transport in the RC will be done** in order to eliminate possible inadequacies and propose measures for improving public services in passenger rail transport.

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<sup>37</sup> OG 32/19

In the last few years, state-owned road enterprises have been facing significant difficulties relating primarily to their inability to service loan obligations due to high interest rates and short repayment deadlines for the loans. Under these conditions, besides low solvency, financial stability is also affected by relatively high operating costs. To improve business conditions for these road enterprises, the “Modernisation and Restructuring of the Road Sector” (MRRS) was initiated and is financed through loans from the World Bank (underway since November 2017). The project has ensured funds for financing 6 main areas: establishing road classification and devising maintenance standards, road asset management system, rationalisation of business and business functions on motorways, road toll collection, operating and business rationalisation of Hrvatske ceste (Croatian Roads) and road safety measures.

**Oversight of operational and financial restructuring including future operation of state-owned road enterprises within the MSTI requires strengthening activities involved in planning and oversight of the enterprises.** Accordingly, a proposal has been put forward to redefine key performance indicators for the enterprises. Also, changes in accounting standards in the enterprises will be implemented after amendments to the legislative framework have taken place. Moreover, studies on increasing the business efficiency of Hrvatske autoceste d.o.o. (Croatian Motorways) and Hrvatske ceste d.o.o. (Croatian Roads) have been completed leading to preconditions for implementation of measures in 2020 and continuing in 2021 for reducing operating costs in them. Reducing operating costs in the enterprises has also led to financial restructuring of state-owned road enterprises implemented in previous period, with the aim of prolonging the repayment period and reducing interest rates for some of the remaining debt owned by the enterprises, resulting in significant savings. Financial restructuring has resulted in financial stability of the road enterprises while maintaining current liquidity and unimpeded servicing of annual loan obligations. In terms of operational restructuring of the road sector managed by

the state as well as the maintenance and collection of road tolls, the technical framework for maintenance will be upgraded (review of road classification and maintenance standards). Furthermore, in 2020, preparation of activities for the purpose of establishing the future comprehensive road asset management system (RAMS) will be completed. Also, further streamlining of operations in enterprises will continue including the upgrading of road safety measures.

**Further development and strengthening of competitive advantages and the position of Croatia Airlines Ltd. on the air traffic market can only be ensured through a proper strategic partnership.** An indicator of this partnership is expanding the transport network and increasing the market share of Croatia Airlines Ltd. as well as recapitalisation for the purpose of the company's future development. Based on the above, in February 2019 the Government adopted the Decision on Initiating the Procedure for Seeking a Strategic Partner and Establishing a Committee for Implementing the Procedure and Proposing the Selection of a Strategic Partner of the Company Croatia Airlines Ltd. The Committee will consider possible further steps to ensure **finding a proper strategic partner for the company Croatia Airlines Ltd.** possessing significant experience in civil aviation which, amongst other things, will ensure expansion of the transport network and increase market share while keeping in mind the importance of regular and year-long links in domestic and international air transport and also the need for supporting further development of tourism potential in the RC as well as participating in renewing the fleet and recapitalisation for the purpose of supporting future development of Croatia Airlines Ltd.

#### 4.1.4. Improving public administration

##### Strengthening capacities for devising and implementing public policies and projects

For optimal integration of strategic planning and management of development, the ability for an integrated approach in forming and executing public policies and projects will be improved, including introducing a standardised approach to assessing performance of public policies and projects, while taking into account initial conditions and expected socio-economic effects.

The legal basis for achieving the mentioned goal is the Act on Strategic Planning and Development Management System of the Republic of Croatia<sup>38</sup> and associated bylaws.

**Guidelines for assessing the performance of public policies and projects as well as establishing a platform for transparent dissemination of data to present the performance of public policies and projects will ensure the strengthening of capacities of state bodies responsible for devising and implementing public policies and projects.**

**For the purpose of ensuring effective use of EU funds, the plan is to implement systematic, targeted and comprehensive education of all employees working in the EU funds management system at the national, regional and/or local levels.**

**The Act on Strengthening the Institutional Framework Capacity for Implementing EU Funds in the Republic of Croatia will be adopted.** This act regulates the establishment of a system for planned, targeted and comprehensive strengthening of capacities of competent bodies and all those employed within an institutional framework for preparing, implementing, tracking, reporting and assessing implementation of EU funds at

<sup>38</sup> OG 123/17

the national, regional and local levels including other issues important for increasing capacities in the implementation of EU funds, within the framework of the Cohesion Policy. This will be regulated by creating an incentivising environment for preparing, implementing, tracking, reporting and assessing EU funds as well as establishing a system for planning, targeting and comprehensive education of all those employed within the institutional framework for implementation of EU funds.

**Implementing a series of activities integrated into the project called “Strengthening Operational Capacities of Public Administration in Terms of Regulatory Methodologies and Processes as well as Developing Models for Supporting Innovation and New Business Models” will ensure the establishment of effective processes, organisational structure and competencies for public servants through education based on appropriate work methodologies for assessing legislative effects on the economy.** In addition to improving analytical capacities in public administration bodies for the purpose of applying appropriate methodological tools and processes with the aim of improving operational activities, **an appropriate “regulatory” environment model will be established for complex and innovative business models** which will provide regulatory support for development through innovation, and also quick adaptation of legislation to a modern and dynamic business environment in order to reduce the administrative burden on enterprises and improve the quality of business legislation.

**The goal is to ensure strengthened and proper analytical capacities of general public administration which works on assessing the effects of legislation on the economy, and also establish a system of experts, as well as introduce new methodologies in order to ensure quality assessments of the effects of law and sustainability when devising a quality legislative framework.**

**The plan is to draft the Programme along with proposals for improving the training and education system for the acquisition of**

**knowledge and professional competencies in inland navigation based on EU standards.** Specifically, based on the goals and activities in the Strengthening Capacities measure for devising and implementing public policies and projects, and relating to the inland maritime waterways sector, efforts will be invested in resolving the issue of training inland maritime mariners, acquisition of knowledge and professional competencies in inland navigation, and the issue of insufficient professional personnel for work on inland navigation vessels.

**Strengthening capacities for devising and implementing public policies and projects leads to achieving the SDGs - Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, such that it encourages economic progress and leads to implementation of the goals of sustainable development through systematic promotion of development-orientated public policies, and Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation, and Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels**

### **Improving the normative framework for combatting corruption**

**With the aim of strengthening the fight against corruption, the plan is to further improve organisation of the system and legislative framework in prioritised and strategic horizontal and sectoral areas.**

The current Strategy for Combatting Corruption for the Period 2015-2020<sup>39</sup> along with associated third consecutive Action Plan for 2019 and 2020<sup>40</sup> is entering its final phase.

<sup>39</sup> OG 26/15

<sup>40</sup> OG 48/19

To invest further efforts in managing corruption risks in identifying priority sectors of action, the plan is to devise a new national strategic framework in the area of combatting corruption.

Moreover, with the aim of improving the legislative framework in the area of combatting corruption, the Act on Amendments to the Act on the Office for the Suppression of Corruption and Organised Crime (also known as USKOK) will be adopted. This will enable revision of status issues at USKOK and regulation of the status and legal aspect of new categories of prosecutors – European Delegated Prosecutors.

Furthermore, the Act on Amendments to the Act on Judicial Cooperation with EU Member States to Improve Mutual Recognition of Freezing Orders and Confiscation Orders with the Aim of Combatting Activities of Organised Crime, Corruption and Financing of Terrorism will be adopted. The Act will improve the judicial collaboration process with EU member states in the area recognising orders for freezing and order for confiscating assets.

The plan is to adopt the Anticorruption Programme for Companies Owned by Local and Regional Self-Government Units (LRSGUs). The intention is to apply anticorruption mechanisms in managing assets owned by LRSGUs. The objectives, measures and guidelines of the Anticorruption Programme will be formulated in line with set objectives and measures, i.e., recognised corruption risks of the current Strategy for Combatting Corruption and will define specific activities to achieve the set goals in the action plans of enterprises using certain guidelines.

The plan is to publish reports on the wealth of judicial officials (records of wealth) – judges, state attorneys and deputy state attorneys. This is also necessary to ensure accessibility and strengthening trust of the public as well as strengthening integrity, transparency and preventing conflict of interest and other impermissible impacts in the execution of judicial duties. Records of wealth will be publicly available using the network application for their

collection, processing and publication with the aim of strengthening the system for verifying records of the wealth of judicial officials.

In line with adoption of the Whistleblower Protection Act<sup>41</sup> of July 2019, the plan is to implement activities which will contribute to strengthening capacities for their effective and proper implementation as well as encouraging potential whistleblowers to report corruption, illegalities and other irregularities relating to activities undertaken by employers, in order to protect public interest. The expectation is that the Act will contribute to strengthening legal protections of whistleblowers and raise awareness among citizens of the importance of reporting such matters. The Act also envisages wide protection measures for such persons, who besides workers in ordinary employment, also covers other persons undertake tasks at the employer. Accordingly, in addition to education activities which the Ministry of Justice undertakes for those implementing the Law, with the aim of strengthening court protection of whistleblowers in line with the Act, the plan in 2020 is to hold educational courses for judges at the programme before the Judicial Academy on the topic of effective protection of whistleblowers. Also, to raise awareness of existing channels of reporting and mechanisms for protecting whistleblowers, and to encourage citizens to report irregularities that they discover, the plan is to create promotional materials in relation to the Whistleblower Protection Act.

## Decentralisation

Obstacles to further decentralisation are the insufficient capacities of LRSGUs leading to differences in the number and quality of provided public services. LRSGUs should have appropriate administrative and financial capacities for proper and efficient provision of services from their legally stipulated scope of work, as well as for undertaking new and decentralised tasks from the scope of public administration.

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<sup>41</sup> OG 17/19

**The end objective is to increase effectiveness of undertaken activities in LRSUs, while taking into account the equal and uniform provision of services to citizens.**

**To establish an optimal system of local and regional self-government, which should be effective and efficient, existing LRSU capacities should be identified in order to gain a clear picture of their possibilities in providing public services.** Based on this data from integrated into a single database, an **analysis of indicators for assessing LRSU capacities** will be conducted and is essential for proper and efficient provision of services as well as performing activities from the legally defined scope of LRSUs, and which also includes the undertaking of decentralised activities from the scope of the central government. Accordingly, an appropriate **categorisation of LRSUs based on identified capacities will be conducted.**

### **Digitalisation of public administration**

One of the identified problems reflected negatively on utilisation levels of public eServices in the Republic of Croatia via the Internet, as well as communications with public authorities using online applications is the inadequately and inefficiently maintained information and communications technology (ITC) infrastructure of public administration.

**The aim is to establish common platforms and suitable digital infrastructure services for public administration bodies which will undergo improvements in providing electronic public services and reduce burdens (in terms of regulatory costs and procedures) for citizens and business entities.**

**In line with the State Information Infrastructure Act<sup>42</sup> and Regulation on Organisational and Technical Standards for Connecting to the State Information Infrastructure,<sup>43</sup> initial works on setting up the Shared Services Centre (SSC) (HRK 360.76**

**million, 85% ERDF) were commenced.** The SSC was rolled out at end of November 2019 which provides conditions for rational and economically feasible development of an interoperable ICT system within the state administration based on the “state cloud” paradigm. The SSC is one of the long-term measures in terms of the NRP and presupposes a strong political obligation on account of which the project was declared the Government’s strategic programme. The SSC ensures standardisation of digital services, better links to databases at all state administration bodies, economic feasibility of the entire ICT system, security of data storage and centralised data management. The realisation of this project means that all public sector bodies will be able to reliably exchange information and documentation based on the cloud paradigm, with the aim of integrating 300 institutions by 2022. Accordingly, preparation has begun for migrating and including the first users at the SSC. In terms of the project in 2019, a public tender was conducted for 15 groups of procurement and a total of 13 contracts were concluded (HRK 106.26 million). **In 2020, the number of public sector bodies integrated into the SSC will be increased. By the end of 2020, the expectation is that a total of 100 bodies will be in the SSC.**

**With the aim of investing further efforts in supporting and achieving commenced reforms in public administration, and in order to simplify, rationalise and modernise business processes, realisation of the project “Establishment of the Single Point of Contact” (HRK 90 million, 85% ESF) was commenced.** Establishment of the single point of contact as physical and digital portals will facilitate access to services provided by public administration bodies, because users will have access to information services from different bodies in a single point of contact. After establishing the first digital services, the project will continue in establishing 7 modules comprising the central information system for the central point of contact. At least 2 modules will be set up by April 2021, which will enable further implementation of the project and facilitate creating new services. The second phase of this project (which will last until the first half of 2023) will focus on

<sup>42</sup> OG 92/14

<sup>43</sup> OG 60/17

establishing 20 services. After completing the third phase of the project, this project will lead to establishing a total of at least 50 services.

**Intensive work on the eBusiness project (HRK 50.98 million, 85% ESF) is happening and which provides central access to electronic services for business users and the downloading of documentation to their computers (e.g., necessary documents from the Tax Administration, health insurance and the pension system). In 2020, implementation of the project for linking the first electronic services to established components of the eBusiness system will continue, and business entities will also be able to use the Business User Box as components of the system. The project is planned for completion in October 2022.**

**The eAuthorisation system, which will actually be an upgrade of the National Identification and Authentication System (NIAS) in terms of the eBusiness system, will support authorisations and representations.** This will allow the eCitizen system to provide authorisations to persons who have elderly members in their families who do not like or want to use digital technologies, and instead use eServices within the eCitizen system on behalf of those elderly persons.

**Also, there is intensive work on the eFees system (HRK 50.6 million, 85% ESF).** The system is one of the common horizontal components enabling electronic payment of administrative levies and charges, and in later phases, it will enable payment of other types of levies (e.g., court, notarial and tourist taxes). The system was set up in 2019, and in 2020 the emphasis will be on including the first electronic services into it. The project is planned for completion in October 2021.

**Implementation of the e/m-Signature and e/m-Seal project (HRK 22.47 million, 85% ESF) has commenced, which will facilitate operations in public administration.** This platform will be established as a group of services for electronic signatures and stamping/sealing of documents which will be able to be used by the entire public

administration, in order to incorporate them into the eServices which will be accessible through the eCitizen and eBusiness systems. Previously this was not the case, as every institution in developing its eServices had to develop or find a way of electronically signing and stamping applications and acts. In this way, public administration will provide a finished solution and facilitate its development of electronic services. In 2020, electronic services from the e/m-Signature and e/m-Seal system for signing, stamping and validation of documents will be established, which will be able to be used in electronic services provided by public sector bodies. The project is planned for completion in November 2021.

**An action plan for establishing a central interoperability system using the basic principles and recommendations of the European Interoperability Framework will be used.** The action plan also includes processes for linking the first 10 public registers onto the central interoperability system, thereby enabling electronic services easier access to data contained in those registers. The SSC project will also lead to setting up a tool for integrating data from the register systems (Government Service Bus – GSB), which will, in addition to other components from the state information infrastructure, enable long-term linking of all registers and quicken development of complex services.

**Activities in opening data of public sector bodies is to continue with the aim of increasing the number of bodies publishing open data using the Open Data Portal.** In 2020, the emphasis is placed on highly valuable data from 4 categories possessing economic, social, political and environmental values. The two-year **project called Adapting IT Systems of Public Sector Bodies to the Open Data Portal** (HRK 6.798 million, 85% ESF) which was commenced in 2019 will finance a new system for automatic creation of open data portals for local administration and smaller bodies of the public sector which do not have adequate knowledge and capacities for publishing open datasets. Opening the data belonging to public bodies is of public interest as it contributes to strengthening accountability, efficiency and

transparency of public administration as well as creating added value, and has an indirect effect on the development of a data economy.

**In line with fulfilling activities for implementation of the EU Regulation on a Single Digital Gateway, the RC continues in implementing these activities in line with deadlines from the Regulation.** In the previous period, relevant bodies were identified for the purpose of this topic, educational courses and workshops were held, an action plan was devised, and the current situation was reviewed as well as differences identified which the relevant bodies should undertake with the aim of fulfilling implementation of the Regulation. The RC will continue to work on establishing technical and organisational conditions for developing national components of the European single digital gateway, thereby ensuring defragmentation of information and establishing a synergy of mandatory information sets, procedures and support services essential for implementing the Regulation, common minimal standards for quality in providing public services and also support for continuing digitalisation.

In developing the electronic services, the public sector bodies did not have an adequate common framework for a standardised approach to developing electronic services, which led to various approaches by the bodies (e.g., building the user interface for electronic services).

**With the aim of achieving a uniform approach by public sector bodies, the framework for standardised development of electronic services will be adopted.** Standardisation will assist users in utilising the public electronic services, which consequently should lead to an increase in the number of users, as well as an increase in the level of utilisation of digital public services.

**Implementation of measures for the digitalisation of public administration leads to building effective, responsible and inclusive institutions, thereby also contributing to achieving the SDGs - Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.**

## Quality management

**The aim is to increase the efficiency and quality of public administration for simpler provision of better-quality services to users.**

**Increasing the quality of services in public administration requires, among other things, effective management of human resources.**

Establishing a new system for developing the state qualifying exam ensures more objectivity, a more suitable and proper way of assessing candidate proficiencies using a standardised written exam. The current programme for the state qualifying exam does not define the area of testing, specific quantity of exam tasks based on content/areas of testing nor the level of proficiency necessary to pass the exam, hence the risk of non-uniformity in testing and assessing is great. The introduction of exam specifications for particular state qualifying exam subjects and exam tasks as well as versions (of tests) based on learning outcomes means that testing is conducted in a standardised and objective manner, under the same conditions for all candidates. **An ordinance will be adopted to regulate the holding of state qualifying exams in writing or sitting for exams via electronic means** in the central and regional level. This will increase transparency, consistency and optimisation of examination procedures as well as provide statistical processing and analysis of data for the purpose of continually updating and adjusting exam specifications and exam materials. Furthermore, increasing the equality of work in public administration requires establishing professional examinations for certain areas of administration. Therefore, **an exam catalogue will be devised containing learning outcomes directed towards a new administration approach** for persons employed in legal persons with public authority who run administrative procedures and/or resolving administrative matters based on powers stipulated by particular laws. Also, **an exam catalogue containing learning outcomes for the professional exam for the civil registry service will be developed**, for officials undertaking jobs in general administration relating to civil status and civil registry service. Testing proficiencies and skills of candidates

for the purpose of performing the mentioned jobs and passing the professional exam will boost excellency in the civil and public service.

**One of the more important measures is implementation of quality management standards in the provision of public administration services.** In developing the quality management system, the RC will utilise the Common Assessment Framework. In terms of the **project “Introduction of the Quality Management system in Public Administration of the Republic of Croatia”** (HRK 40.5 million, 85% ESF), mechanisms and tools for introducing the quality management system, IT system for supporting the quality management system will be developed, including quality management competencies for public administration employees.

#### **4.1.5. Improving efficiency of the judicial system**

##### **Modernisation of the judicial system**

**With the aim of further strengthening legal certainty and efficiency of the judicial system, work on improving the functioning of the system will continue.**

**Due to the identified existence of excessively restrictive regulatory limitations relating to legal/lawyer services in the RC, in terms of implementing general regulatory reform with the ultimate goal of strengthening competitiveness of the economy, measures relating to liberalisation of legal/lawyer services have been included in the First Action Plan for liberalisation of the services market from October 2019.** The Plan envisages a total of **six measures relating to legal services and will be implemented along with the appropriate amendments to the current Legal Profession Act.**<sup>44</sup> Due to the need for more effective freedom in providing legal/lawyer services and more easily providing such services in the RC for lawyers from EU member states and Croatian lawyers in the RC and in EU

member states, the planned amendments will enable the provision of legal services which also include legal consultations on law in the RC in a subsidiary law office in the RC. Furthermore, restrictions to establish only one office are abolished; the ability for a lawyer to be employed by another lawyer who autonomously provides legal services in the role of employer and by a joint law office is introduced; excessive demands when enrolling into the Register of Foreign Lawyers are abolished; the restriction on ceasing to provide legal services for lawyers who do not perform lawyer activities with a justifiable reasons for more than six months is abolished; the manner of verifying knowledge on Croatian law for foreign lawyers will be regulated more precisely.

The reorganisation of the network of courts at the start of 2019 meant that misdemeanour courts were merged with municipal courts. In the merger of courts for misdemeanour matters at the municipal courts, the IT system for managing cases which was used in previous misdemeanour courts (JCSM system or central case management system) was retained. To facilitate management of the courts, a simpler method of tracking business processes and a simple manner of reporting requires the introduction of a single IT system (eCasefile) on the courts.

**The eCasefile system should be upgraded with modules for misdemeanour procedures.** This will enable tracking all cases at municipal courts in a centralised manner and facilitate organising work at the courts which will ultimately result in a reduction in the number of unresolved cases before the courts. Also, using eCasefile is one of the preconditions for introducing eCommunication for misdemeanour procedures when legal presumptions materialise for that.

**The plan is to expand eCommunication to county courts and legal persons.** Expanding electronic communication will further quicken work at the courts through quicker and more efficient submission of court documents, ensuring more efficient collection of court levies, stakeholders in electronic communications will be relieved of excessive administration and additional savings on procedural costs will be made.

<sup>44</sup> OG 09/94, 117/08, 50/09, 75/09 and 18/11

## 4.2. Aligning education with labour market needs

### 4.2.1. Education and training in line with labour market needs

#### Reforming general and vocational education

**The goal is comprehensive curriculum reforms in establishing a compliant and effective education system based on comprehensive content and structural changes.**

Reforms are necessary for ensuring that pupils receive a more useful and meaningful education aligned to their developmental age and interests as well as more relevant to everyday life, i.e., an education that will prepare them for contemporary life, a world of work and ongoing education, and which will give parents a greater stake in the education of their children and life at school, including more frequent feedback on their children's achievements, while teachers and other employees at educational institutions are ensured a stronger role and greater professionalism, greater autonomy in their work, reduced administrative obligations, more motivated pupils and less pressure from outside.

Implementation of a comprehensive curriculum reform has been gradually commenced in all schools. In the 2020/2021 school year, new subject curriculums are being introduced in 2nd, 3rd, 6th and 7th grade of primary school for all class subjects and in 8th grade of primary school for Biology, Chemistry and Physics; while in 2nd and 3rd grade of secondary school for all class subjects in grammar schools as well as for Croatian, English and German including Mathematics in four-year vocational schools.

**In 2020, the plan is to continue professional training live and online.** A combination of online and live professional training and education creates a sustainable model for continual professional development of teachers. The plan includes **continuing the equipping of all primary and secondary schools with teaching aids** necessary for

achieving education outcomes in the new curricula.

**The project eSchool: Developing a System of Digitally Mature Schools (Phase 2) intends to achieve a comprehensive digital transformation of schools in the territory of the RC and has the general goal of preparing pupils for the labour market or further schooling by encouraging schools to develop digital maturity.**

**The eSchools project includes all schools in the RC ensuring the bridging of the digital divide.** The project will ensure schools receive eServices and eContent, such as ICT equipment and education for teachers (including other school workers). The project has taken into account the results of the pilot-project and subsequently ensured that the programme outlining eSchools activities is conceived to provide a better effect on work by schools and increased efficiency in the use of financial and human resources. The project for building the network in schools and building a passive network infrastructure in schools is currently underway. The first part of the digital educational content is currently in preparation, and throughout the project, **the remaining planned digital educational content will be devised.** Numerous educational activities (live and partly online in virtual classrooms) will be organised for schools to improve the digital competencies of school workers.

According to data from the Eurydice network, the duration of compulsory general education in the RC is the shortest of a total of 43 observed compulsory education systems in Europe and includes the least number of teaching hours. Besides years of schooling, the number of teaching hours is very low when observed across levels of education in comparison to other observed systems. The RC also lags behind the European average when observing the number of teaching hours for selected areas, even those that make up the largest part of the curriculum (e.g., reading, writing, literature and mathematics).

The aim is to introduce an experimental programme for all-day classes to reduce differences in outcomes for pupils caused by different socio-economic conditions and to strength fundamental competences by increasing the minimal number of compulsory teaching hours.

**Possible models for implementing all-day classes in the first three years of primary school will be devised and offered to schools who have infrastructural capacities for implementing experimental programmes.** For the purpose of possibly introducing all-day classes in schools, the MSE will collect data on infrastructural capacities of schools and will apply for financing the construction or extending schools who do not have conditions for conducting classes in a single shift from EU funds.

**For the purpose of ensuring continued holding of classes in unpredictable circumstances caused by the COVID-19 pandemic, a distance learning model will be devised for all primary and secondary schools in the RC.** The strategic framework for conducting distance learning will be devised based on experience gained in the 2019/2020 school year, as well as contain an elaboration of roles and manner of communication between stakeholders (teachers, principals, pupils, parents, MSE employees and the relevant agencies, radio and television stations, equipment suppliers, etc.), elaboration and instructions on procedures and manner of conducting distance learning, evaluation and assessment procedures, conducting external assessment of pupil proficiencies, online enrolment procedures, use of suitable platforms, ICT tools and the like.

**The goal of reforming vocational education is to ensure conditions for strengthening the quality of vocational schools by completing the procedure for establishing regional competency centres, establishing mechanisms and tools necessary for ensuring quality of the vocational education and training system including aligning it to development requirements of the economy and regional development.**

Concerning further steps in establishing regional competency centres, the plan is to finalise

tender procedures financed through EU funds (ERDF and ESF) and by mid-2020 sign grant agreements with appointed centres. Viewed over the long-term, the plan envisages further expanding the network of regional centres of competence and other priority sectors, and based on evaluation of work by currently appointed centres, application of the same or similar procedural steps which are applied in the procedure for the assigned regional centres of competence (e.g., analysing the potential to transform vocational education institutions into regional centres, applying parameters and criteria of the network of regional centres of competence in terms of the number and distribution of centres; based on economic justification, intensity of economic activity in particular sectors) and in consideration of alignment with development plans at the regional level. Given the scope of work for the centres and considering the fact that they will closely collaborate with key stakeholders on the labour market including higher education and scientific institutions, their significant contribution to ensuring a qualified labour force and human potential is expected in implementing strategic goals for regional development of the RC. When fully functional, the centres should generate further development of vocational education directed towards supporting the economy and regional development. For vocational education and training institutions to be able to appropriately respond to new and complex circumstances involving technological development, changing social relationships and labour market requirements, **new vocational curricula will be devised for all sectors with a strong link to labour market needs**, and which is to be achieved using devised occupational standards and the implementation of professional training of vocational teachers in order to raise the quality of teaching and pupil achievements as well as capacities for implementing reforms in vocational education. The key element for successful improvement of learning is based on work as well as ongoing education of mentors in businesses.

**Implementation of this measure also contributes to achieving SDGs - Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.**

## Lifelong learning

**The aim is to ensure improvement of the quality system in adult education which is aligned to the needs of Croatian society and economy.**

**The new Adult Education Act will stipulate new provisions which will be a key precondition in achieving the stated objective.** The Act will define areas not covered by existing legal solutions or only partially covered: ensuring quality of the adult education programme, ensuring a quality system for adult education institutions, monitoring the adult education system and recognising unofficially and informally acquired competences.

**ESF funds will finance the devising of quality standards, occupational standards and curricula as well as implementation of occupational standards and curricula, and the implementing curricula for education and training within the adult education system.**

Efforts will begin in aligning the current school syllabuses with the CROQF, which will contribute to directly linking education and the labour market. Once the Curriculum for the Acquisition of Fundamental Digital, Mathematical and Reading Skills was devised and published in 2019, the next step is devising the Curriculum for Andragogical Education of Workers, intended for teachers working in adult education and who will teach fundamental skills. To achieve success in implementing the Curriculum for the Acquisition of Basic Digital, Mathematical and Reading Skills, besides andragogical education of workers, adult education institutions and other stakeholders in which activities directed to improving fundamental skills for low education persons will receive teaching materials, i.e., digital educational content. Currently in progress is the appointment of a working group which will devise the new Curriculum for Elementary Adult Education and where the respective content will be adapted to adult learners, and summarised based on assessments of the necessary fundamental competences and time required to acquire them so that learners simultaneously receiving training to enter the labour market and continue their education.

**Implementation of this measure also contributes to achieving SDGs: Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.**

## Effective and relevant higher education

Given that building a quality system based on qualification standards is multiyear reform process, in previous years projects financed from IPA and ESF were implemented based upon which proposed qualification standards were devised (including occupational standards as tools for aligning them to labour market needs).

**The proposed qualification (and occupational) standards are evaluated by the competent sectoral councils, and following a positive evaluation, the standards will be entered into the CROQF Register.** This will enable applying them as a key tool in improving the quality and relevancy of study programs. In 2019, implementation of 26 new projects (HRK 99.61 million, 85% ESF) was commenced and directed to devising new higher education standards.

**Considering that the current situation indicates the need for greater intervention into the development of the system of ensuring and improving the quality of science and higher education, a new Act on Quality Assurance in Science and Higher Education will be enacted.** A Bill was drafted in 2018, proposing an improvement of procedures of external assessment of study programs which should be compliant with the qualification standards of the CROQF Register. In 2019, the draft was amended in consultation with stakeholder representatives and the process of adopting it will continue in 2020.

**The aim of the mentioned activities is to increase the quality and relevancy of the study programs, improve employment potential of students and contribute to increasing the employment rate for persons with degrees.**

**Implementation of this measure also contributes to achieving SDGs: Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.**

## 4.3. Sustainability of public finances

### 4.3.1. Strengthening the framework for managing public finances and implementation of fiscal consolidation

#### Improving fiscal planning and reporting

Prior to adoption of the 2019 SB and projections for 2020 and 2021, Croatian Parliament had given approval of financial plans and reports on the execution financial plans of six extrabudgetary beneficiaries of the SB: CHIF, Hrvatske vode, Hrvatske ceste d.o.o., RSC, EPEEF and the State Agency for Deposit Insurance and Bank Resolution (DAB). With the passing of the 2020 SB and projections for 2021 and 2022, the number of extrabudgetary users increased by another four enterprises from the transport sector: Hrvatske autoceste d.o.o., Autocesta Rijeka-Zagreb d.d., Hrvatske željeznice infrastruktura d.o.o. and Hrvatske željeznice Putnički prijevoz d.o.o.

**Given the greater number of extrabudgetary users for which financial plans and reports on the execution of financial plans requires approval from Croatian Parliament, the aim is to modernise and achieve uniformity in the manner of devising and preparing financial plans and reports on execution of financial plans, resulting in better financial planning and allocation of public funds.**

**Towards the end of 2020, an applicative solution aimed at financial planning for extrabudgetary users will be devised and implemented, including improved processing of incorporated data.** The plan is to use the application for the first time in drafting the financial plans of extrabudgetary users for the period 2021-2023.

Port authorities (PA) on which the RC has founding rights according to the Maritime Demesne and Sea Ports Act<sup>45</sup> and the Act on

Inland Navigation and Inland Waterway Ports<sup>46</sup> (Zadar PA, Rijeka PA, Ploče PA, Šibenik PA, Split PA, Dubrovnik PA, Public Institution of the Vukovar PA, Public Institution of the Osijek PA, Public Institution of the Sisak PA and Public Institution of the Slavonski Brod PA) have the status of a non-profit legal person and are registered in the Register of Non-Profit Organisations. The framework for financial operations and accounting system of port authorities is regulated by the Act on Financial Operations and Accountancy of Non-Profit Organisations.<sup>47</sup>

Port authorities for which the RC is the founder are financed from revenue from port charges, port fees and concession fees, funds from the SB and other revenue.

Provisions of the Ordinance on Establishing Budgetary and Extra-Budgetary Users of the State Budget and Budgetary and Extra-Budgetary Users of the Budgets of Local and Regional Self-government Units and on the Way of Keeping the Register of Budgetary and Extra-Budgetary Users,<sup>48</sup> which the minister of finance has adopted in line with the State Budget Act,<sup>49</sup> defines that budgetary users of the state budget are those users for which the RC is the founder, those generating revenue from the SB and/or based on public authority, laws and other regulations, where such revenue amounts to 50% or more of total revenue and those that are listed in the Register of Budgetary and Extrabudgetary Users.

In applying the ESA 2020 methodology, the mentioned port authorities are classified into sectoral classifications of institutional units in the RC, as published by the Croatian Bureau of Statistics (CBS), into the general government sector or central government subsector.

<sup>45</sup> OG 158/03, 100/04, 141/06, 38/09, 123/11, 56/16 and 98/19

<sup>46</sup> OG 109/07, 132/07, 51A/13, 152/14 and 118/18

<sup>47</sup> OG 121/14

<sup>48</sup> OG 128/09, 142/14 and 23/19

<sup>49</sup> OG 87/08, 136/12 and 15/15

With the aim of increasing overall coverage of the SB as well as fiscal transparency and fiscal discipline, the SB for 2021 and projections for 2022 and 2023 will in terms of divisions of the MSTI as the competent ministry, also include financial plans of port authorities for which the RC is the founder, and devised in accordance with the provisions of the State Budget Act.

It follows that given the classification based on the ESA 2010 methodology and provisions of the national methodology for determining the budgetary scope, port authorities should have the status of budgetary users of the state budget. This will be preceded by including the port authorities (Zadar PA, Rijeka PA, Ploče PA, Šibenik PA, Split PA, Dubrovnik PA, Public Institution of the Vukovar PA, Public Institution of the Osijek PA, Public Institution of the Sisak PA and Public Institution of the Slavonski Brod PA) into the Register of Budgetary and Extrabudgetary Users, and from 1 January 2021 they will handle budgetary accounting.

#### 4.3.2. Stimulating demographic renewal

##### Increasing social security for families with children

In view of unfavourable demographic trends facing the RC, activities contributing to strengthening and supporting families should be continued as well as providing assistance in childcare.

With the aim of creating a favourable and incentivising environment for families and young people, as well as improving material conditions of young families and their children, based on synergetic action by the private and public sector, the eCitizen infrastructure will be upgraded to incorporate the “Children’s Card” IT system, i.e., the new eChildren’s Card service. The eChildren’s Card is intended for parents with minors and is to be used in cooperation with the public and private sector, providing various benefits and discounts on products and services. The benefits increase with the number of children.

Implementation of the eChildren’s card will provide an effective tool for reducing costs for families with children.

##### Increasing the quality of life for young people in rural areas

Negative demographic trends, an aging population and a smaller proportion of young people in the general population, migration of young people to larger city centres and the like, has led to excessive centralisation, non-uniform development and inequalities in particular regions. This is especially evident in rural areas where young inhabitants face difficult conditions, and encounter various problems such as inadequately developed communal and transport infrastructure, access to informal education for young people, an absence and lack of access to services for young people, an inaccessible and slower Internet connection, as well as an absence of social, cultural and sporting events. All of this leads to less opportunities in finding employment and the ability of young people to acquire socio-economic independence, leading them to a greater marginalisation.

Therefore, the financing of programmes and projects will encourage activities directed to meeting the needs of young people in rural areas.

The aim is to create better conditions for young people to remain in rural areas and the return of those who have left and gone to urban areas due to rural areas not adapting to the needs of young people.

Implementing these measures contributes to achieving the following SDGs: Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture, Goal 4: Ensure inclusive and equitable quality education and promote lifelong opportunities for all, Goal 10: Reduce inequality within and among countries, and Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable.

### 4.3.3. Improving the social welfare system

#### Integrating social welfare benefits

The greatest number of benefits intended for poor and socially excluded persons as well as other persons who require social protection is ensured through the social welfare system.

**The aim is to ensure a transparent and coordinated system of social benefits with available data on the type and amount of benefits for a particular person or beneficiary of rights from the social welfare system, continuity in tracking social welfare benefits ensured at the local and state level and transparency in tracking for the purpose of more righteous allocation of funds and reducing poverty.**

For the purpose of achieving this, activities directed to establishing a centralised system will continue which will provide transparency of data on social welfare benefits paid at the national and also local level. Generating reports from the MDFYSP information system in a single place with an overview of all social welfare benefits received by persons will give insight into socio-economic data on individual beneficiaries of the social welfare system. Professional workers will at all times have access to socio-economic data, as well as data on revenue of beneficiaries at the national and local level, in order to better assess their needs and status. Gaining insight into this data and tracking it provides the ability to assess the risk of poverty and social exclusion for each beneficiary as well as ensuring timely intervention and mitigation of risk factors. This leads to selecting measures and procedures directed towards improving the position of beneficiaries within the system which will be more targeted and purposeful.

Furthermore, activities for strengthening capacities of LRSUs and MDFYSP officials will be conducted in order to increase the quality of collected data based upon which reports on social welfare benefits for each LRSU are generated. A quality analysis of data achieves a more efficient and equitable social protection

system which can be better directed to those in need and ensure greater coverage of persons at risk of poverty and social exclusion.

#### Improving social services

Formal long-term care in the RC is inadequately developed and is fragmented between healthcare and social welfare institutions. This is evident from data indicating that in the RC only 13% of persons depending on assistance from others receive institutional welfare services and 14% formal home care (the EU average is 23% and 31%, respectively). On the other hand, a large proportion of people dependent on assistance from others, in fact 72%, receive some form of benefits (OECD, 2019).

**Improving accessibility, availability, affordability and quality of social welfare services for the elderly, as well as achieving harmony between family and work life for persons taking care of the elderly, requires improvements to the social welfare services system for the elderly, while encouraging development of new and innovative services with a emphasis on developing services in the community and services at home.** For this purpose, the project “Formal and Informal Forms of Care for the Elderly” (220,000 euros, SRSP) is underway and includes research activities providing results which will serve as the basis for improving care and introducing new services for the elderly. The project will result in recommendations on the most acceptable forms of services for the elderly, the professional and economic justification of the recommended forms of care including ways and conditions in achieving such care.

**The aim is to provide suitable institutional and extra-institutional care for elderly citizens by applying innovative services targeted responsibly towards new social risks, in a uniform manner for the entire territory of the country.**

Improving the availability of affordable and quality social welfare services requires standardising the manner of defining the price of social welfare services. The current manner

of pricing social welfare services is non-standardised and the detailed structure of operating expenditure for service providers (material expenditures and labour costs) is not clear, nor is it possible to determine whether an expenditure is justified and realistic in relation to laws regulating the undertaking of social welfare activities. Therefore, the project “Developing a Methodology for Pricing Social Services” (300,000 euros, SRSP) has been initiated, in terms of which a single methodology for calculating pricing for social welfare services will be devised, and serve as the basis for adopting bylaws relating to all providers within the social welfare services system, regardless of the legal status and/or founder.

**The aim is to establish an equal status for users of social welfare services regardless of the type and status of service providers, equal access to all social welfare service providers and achieving a price that conforms to the quality of a provided service.**

#### 4.3.4. Ensuring financial stability, sustainability and quality of the healthcare system

##### Improving management efficiency in the healthcare system

Large quantities of healthcare data are continually collected from the healthcare system. However, the data is not regularly used as a basis for making decisions to improve efficiency, quality and effectiveness of healthcare. Effective management of healthcare data, in addition to using innovative (digital) technologies, will ensure quality, well structured, standardised and secure data as the basis for further developing healthcare services and achieving social solidarity.

**The goal of Croatian eHealth is to improve management capacity based on more effective use of data in managing the healthcare system.**

**Establishing structures, processes and procedures for introducing data analysis and reporting into existing decision-making**

**practice and policies at the level of healthcare service providers, payers and policymakers is necessary.** The system should incorporate algorithms which will be able to first automatically transform selected healthcare data into healthcare information based upon which key decisions will be made. The healthcare system is facing challengers which demand intensive adaptation of the healthcare system to population’s real needs.

Therefore, there is a clear need to: **establish a national system of managing healthcare information**; regularly apply reporting tools for population health as a basis for targeted activities in prevention and treating diseases; build national capacities for data analysis; including integration of interfaces between healthcare services providers and patients on the one hand, and existing infrastructures and practices, on the other hand; building national capacities to apply artificial intelligence and high-performance computing to raise the level of cyber security for eHealth and advanced digital skills for healthcare works and also patients.

**The aim is to rationalise the hospital medical system in order to optimise healthcare and reduce excessive consumption. Therefore, adapting Croatian hospitals to modern trends in medicine is essential, including strengthening oversight of healthcare and financial efficiency.**

The National Plan for the Development of Clinical Hospital Centres, Clinical Hospitals, Clinics and General Hospitals in the Republic of Croatia from 2018 to 2020<sup>50</sup> defines, among other things, activities for executing the principles of the functional integration of hospitals. The functional integration of hospitals began in 2015, and was continued in 2017 and 2018.

**In the coming period, the process of functional integration of hospitals will continue.** The purpose is to improve the quality of healthcare and streamline the use of all resources within

<sup>50</sup> <https://bit.ly/3aAyx00>

the hospital healthcare system (workers, equipment, premises), because concentrating medical personnel and equipment in one place leads to more efficient healthcare. The functional linking of hospitals retains four fundamental medical activities (gynaecology and obstetrics, paediatrics, general internal medicine and surgery) whereas depending on specific needs, other medical activities are concentrated in particular hospitals under suitable modalities. With assistance from the World Bank, external experts (consultants) have been engaged to assess the current implementation of functional integration and have provided recommendations and suggestions for merging the remaining general hospitals. The new Healthcare Act<sup>51</sup> defines the underlying principles of functional integration as one of the principles of healthcare for ensuring legal implementation and sustainability of the measure. Functional integration, as one of the NRP measures, is subject to a planned implementation deadline of April 2020; however, the process is a continual and perennial one as defined in the National Plan for the Development of Clinical Hospital Centres, Clinical Hospitals, Clinics and General Hospitals in the Republic of Croatia from 2018 to 2020.

**Though this year's NRP does not show activities in unifying procurement, it is worth mentioning that the Government's policy of achieving best value for money invested is to be continued, such that all entities in society are to be actively included in implementing cost saving measures, and that the Ministry of Health (MH) is to conduct procurement procedures along with public institutions / healthcare institutions by adhering to public tender principles in a way that results in efficient public procurement and economic spending of funds.** The result of conducting joint public procurement procedures has resulted in the implementation of public procurement procedures for 5 procurement categories based upon which a Framework Agreement for 554 groups has been concluded, totalling a value of HRK 1.2 billion.

In terms of medium-term and long-term financial sustainability of the healthcare system, room for increasing revenue is limited and larger healthcare expenditures are occurring due to changes in the healthcare requirements, increases in labour costs as well as expectations of the public and technologies.

**An analytical study and calculating the costs of main inefficiencies within the healthcare system is necessary, including a comparative analysis of the main inefficiency variables along with a projection of the efficiency frontier of efficient EU healthcare systems (Sweden, France, Germany), proposed solutions and devising action plans for implementing solutions along with an estimation of the effects and continual oversight.** Also, the allocation of funds between various levels of the healthcare system and services should be considered, in order to identify priority economic levels of the healthcare and services (primary healthcare, preventive activities) and the levels at which savings can be made. To achieve sustainable goals in the healthcare system, the MH has undertaken a number of initiatives directed to maintaining fiscal balance and achieving fiscal stability in institutions. For instance, pilot projects for functional integration of hospitals have been undertaken and communication between the ministry and decision makers within healthcare institutions on monthly bases has been strengthened. Furthermore, carrying out more important capital investments requires making decisions based on calculating total lifecycle costs and risks, and procedural action has been undertaken to tracking total and due liabilities by healthcare institutions.

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<sup>51</sup> OG 100/18 and 125/19

## 5. Measures for achieving targets of the Europe 2020 strategy

The targets of the Europe 2020 strategy are given in the table which provides an overview of the most recent available figures on achieving national targets for the RC.

**Table 4** | Progress towards national objectives from the Europe 2002 strategy

Indicators	EU target	RH target	Values achieved in the RC						
			2008	2012	2015	2016	2017	2018	2019
Employment rate of persons between 20 and 64 years of age, %	75	65,2	64.9	58.1	60.6	61.4	63.6	65.2	67.6% **
R&D investments, share of GDP, %	3	1.4	0.89	0.75	0.84	0.86	0.86	0.97	*
Reduction of greenhouse gas emissions compared to 1990, %	20 (30)	maximum increase of 11% compared to 2005 for sectors outside of the ETS system	96.32	81.12	76.04	76.53	78.72	*	*
Increase of the share of renewable energy sources in gross energy consumption, %	20	20	21.99	26.76	28.97	28.27	27.28	28.02	*
Increase in energy efficiency, %***	20	20		12.32					
Primary energy consumption, MTOE	/	11,15 (10.71)	9.2	8.00	7.96	8.05	8.33	8.18	*
Gross energy consumption, MTOE	/	7,0 (6.96)	7.40	6.66	6.59	6.64	6.92	6.85	*
School dropout rate, %	10	4	4.4	5.1	2.8	2.8	3.1	3.3	3.1
Share of population with a tertiary education in the 30 to 34 age group, %	40	35	18.5	23.1	30.8	29.3	28.7	34.1	34.3
Persons at risk of poverty and social exclusion (proportion of total population, %)	20 million fewer people at risk of poverty	150,000 fewer people at risk of poverty	23.7	32.6	29.1	27.9	26.4	24.8	*

\* Data not available.

\*\* Third quarter of 2019

\*\*\* Observed through primary and gross energy consumption.

Source: Eurostat<sup>52</sup>

<sup>52</sup> <https://bit.ly/2QqyEUY>

## 5.1. Employment

### Measures from active employment policies

The objective of measures from active employment policies is to further boost employment and self-employment of unemployment persons

Based on the most recent available Eurostat data, the employment rate for the population (20-64 years of age) increased from 66.3% in the third quarter of 2018 to 67.6% in the same quarter in 2019. In the same period, the unemployment rate (20-64 years of age) fell from 6.9% to 5.3%. CES records show that the on average, in 2019 there were 128,650 employed persons which compared to 2018 is 24,892 less unemployed persons, i.e., a reduction of 16.2%.

**Table 5** Implementation of measures from active employment policies in 2019

Measure	Newly included prior to 31/12/2019	Total number of beneficiaries in 2019.
<b>Employment subsidies</b>	6,783	13,280
Subsidy for obtaining first work experience (traineeship)	1,951	3,974
Training subsidy	996	1,221
Self-employment subsidy	8,723	15,069
Education for unemployed	3,359	6,035
On-the-job training	578	759
Vocational training excluding employment	3,381	9,280
Work experience training 30+	60	180
Community work	3,366	7,118
Job preservation subsidies	2,446	2,446
Permanent seasonal worker	5,283	7,534
<b>TOTAL</b>	<b>36,926</b>	<b>66,896</b>

Source: CES

Since 2019, measures from active employment policies have been further strengthened and directed to incentivising employment and self-employment.

The measures are used by almost 67,000 unemployed persons, of which 36,926 are newly included beneficiaries.

At the end of December 2019, the CES Governing Council adopted new conditions and criteria for implementing measures in 2020.

The new cycle of measures places an emphasis on measures with the goal of creating jobs based on employment contracts and measures with an education component, hence termination of the measure Vocational Training That Excludes Employment. This will ensure persons all rights and advantages provided by employment contracts as opposed to the previous Vocation Training That Excludes Employment measure. This primarily refers to wages correlating to the level of education and job complexity performed by the person, material and other rights from collective agreements, all to ensure economic and social security. Also, **the self-employment measure has been further strengthened** and three types of subsidies introduced in line with the level of development for a given geographic area in which the person has residence and in which the business entity is established. This will boost uniform development of all regions in the RC. In 2016, the amount of the self-employment subsidy was HRK 25,000, whereas in 2020 that amount has been increased to HRK 75,000 and HRK 100,000 depending on the level of development of the geographic area. Moreover, if the measure is combined with on-the-job training, the maximum self-employment subsidy amounts to HRK 110,000, and in the case of establishing a cooperative and employing within the cooperative, up to HRK 320,000. Special attention should be also given the **education measures**. Besides using measures from active employment policies, education is also carried out through a series of different projects at the local level for the purpose of including unemployed persons in educational courses in order to acquire skills necessary for the labour market, for example, such as education in terms of the project "Wish", financed through ESF funds, and for which HRK 9.1 million has been spent until now. In 2019, in cooperation with partner organisations in different educational programmes, a total of 3,456 persons were

included, i.e., a total of 6,815 persons in all measures and educational projects.

Since 2020, measures from active employment policies have covered two new submeasures: education for completing primary school and obtaining one's first qualification, as well as adult education. Including these persons in education to complete primary school and obtaining their first qualification is exceptionally important, as it ensures the necessary labour force, and also creates preconditions for raising the level of education and expertise of the labour force. Specifically, the number of persons without a primary education is not negligible. Unemployment records in 2019 showed on average that there were 128,650 persons, of which 8,087 or 6.3% were without school and had not completed primary school. At the same time, employers from the construction, hospitality and tourism, commercial trade and agriculture industry sought an increasing number of people to take jobs with a minimum requirement of having completed primary school and those semi-qualified, i.e., ancillary occupations. Employed persons have less of an opportunity to increase their level of expertise and qualifications whether due to changes in occupations, additional education or training. This measure enables employed persons to acquire their desired competency and qualification to help them get a better paying job or move into entrepreneurial waters.

All of the mentioned activities comply with the SDG: Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

## 5.2. Research and development

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

According to Eurostat data, the proportion of total investment in research and development in Croatia's GDP for 2018 was 0.97%,<sup>53</sup> whereas Croatia's goal is 1.4% by 2020, depending on economic and fiscal opportunities and additional sources of funding from the ESIF. According to the EC report on the 2019 European Innovation Scoreboard, Croatia lags behind other member states due to its lack of high-tech companies, innovative export products and services. Due to poorer indicators for the investment environment and attractiveness of the research system as well as the business sector's small share of investments in research and development, including low level of risk capital, the country is ranked 26 (of EU countries) positioning itself among the moderate innovators.

**Preconditions have been created for overcoming fragmentation of the innovation chain and the gap between scientific-research and the business sector, continued implementation of the entrepreneurial discover process and efficient functioning of the system including its long-term sustainability.**

This has been achieved with establishment of the National Innovation Council (NIC)<sup>54</sup> as the main body of the national innovation system competent for coordinating the Smart Specialisation Strategy (S3) in the Republic of Croatia for Period 2016-2020<sup>55</sup> as well as the Innovation Council for Industry in the Republic of Croatia and thematic innovation councils established for theme-prioritised areas S3 (in accordance with the triple helix model). At its held sessions, the NIC has adopted the Action Plan for the Implementation of S3 for 2019 and 2020 and the S3 Evaluation Plan. At the Council

<sup>53</sup> Preliminary Eurostat data.

<sup>54</sup> Government Decision from July 2018.

<sup>55</sup> OG 32/16

sessions, reports on the work of the Innovation Council for Industry are submitted, and the report on implementation of the Innovation Incentive Strategy are presented. Examples of research, development and innovation projects are also presented, thereby achieving direct contact (dialogue) between the NIC and stakeholders. The thematic innovation councils represent about 70% of the business sector, mostly representatives of small and medium-sized enterprises, about 20% of representatives of the scientific-research community, and 10% of those representing public authorities. Based on the announced public calls in 2019, a total of 300 project ideas were collected (exceeding HRK 5 billion), of which a positive relevancy assessment was given to 210 project ideas (70%). With the aim of finding potential investors and establishing new or expanding existing business partnerships, project ideas were presented in October 2019 at the conference of the Ministry of Economy, Entrepreneurship and Crafts "Croatia – A Place for Innovation and Smart Investments".

**The new Act on State Aid for Research and Development Projects<sup>56</sup> and the Ordinance on State Aid for Research and Development Projects<sup>57</sup> creates prerequisites for increasing private sector investments in research and development and increasing the number of entrepreneurs investing in research and development, as well as encouraging entrepreneurs to cooperate with research organisations and disseminate knowledge through research and development projects.**

The type of support provided by the Act is a **tax incentive for research and development projects** belonging to the categories of basic research, industrial research, experimental development, or feasibility studies for research and development projects. The aid is, in fact, an entitlement to further reduce profit tax and income tax for justified costs. The tax incentives range from 50,000 euros in the equivalent value in Croatian kuna for feasibility studies to 300,000 euros in the equivalent value in

Croatian kuna for fundamental research. Tax incentives can be increased in cases when more the entrepreneur contracts more than 50% of the costs of research based on agreements, know-how and patents with scientific organisations. In such cases, this ranges from 7.5 million euros for feasibility studies to 40 million euros for fundamental research. This measure recognises the unfavourable position of small and medium-sized enterprises on the market, as well as the large development potential of collaboration between scientific-research institutions and the economic sector. Measures from the Act providing aid are implemented and entrepreneurs may also apply for their projects. A total of 46 applications (total value of the projects is HRK 549.8 million) of which 19 Certificates of Assistance Beneficiary Status (total value of projects is HRK 156.8 million). The total value of approved assistance is HRK 21.1. million.

**Benefits for businesses from assistance for research and development projects include facilitating business operations during the process of developing ideas into a new product, service, or process, and incentivising research-innovation activities, and in the long run, creating prerequisites for a more successful business, increasing competitiveness on the global market and increasing exports.**

**The Proof of Concept (PoC) programme conducted by the MEEC in cooperation with HAMAG-BICRO supports innovation in the earliest phase of research in order to ensure precommercial capital for technical and commercial proof of the innovative concept.**

Proof of the innovative concept (PoC) is necessary in providing evidence that the new process or technology is achievable and that it potentially has commercial applications. In conducting the PoC for projects, the question is answered as to whether the idea / proposed solution is feasible and whether it can function as such. For enterprises seeking investors, successful verification of the innovative concept (PoC) provides potential investors certainty that the prototype or process of further development is technically feasible, helping the enterprise in attracting clients and investors. A total of 157 applications were

<sup>56</sup> OG 64/18

<sup>57</sup> OG 9/19

received, and after performing a full evaluation of project applications, assistance for 82 innovative projects was approved totalling HRK 48.5 million (of which, HRK 32.6 million are grants). Beneficiaries are currently in the process of implementing the projects.

**The European Centre for Innovation, Technology and Skills (ECINTV) will be established, which commences innovative development in all economic sectors using the triple helix approach.**

Specifically, due to challenges of digitalisation in the RC, the need to establish one-stop-shop institutions has been identified, where their services will create the preconditions for a digital transformation of the economy, and access to the latest know-how, expertise and technologies for testing and experimenting with digital innovations, as well as lifelong learning for developing digital and entrepreneurial literacy in society as the basis for sustainable and uniform development in the RC. One of the roles of the ECINTV is networking all stakeholders in the entrepreneurial ecosystem, especially stakeholders in the area of digital technologies. Another important role of the ECINTV is raising awareness and educating microenterprises SMEs, as well as all economic entities and the entire society, of the importance of digital transformation for developing the economy and society as a whole. The expectation is that ECINTV will become known as a platform for collaboration, education and exchanging information on issues relevant for development in the area of innovation, artificial intelligence and technological development in achieving a synergetic outcome on the territory of the RC, but also beyond. ECINTV will provide access to key technologies such as artificial intelligence, robotics, photonics, high-performance computing, data analysis, simulations, the Internet of Things, blockchains, autonomous devices, cyber-physical systems, cybernetic security and numerous other technologies. ECINTV will act as a digital innovation hub (DIH) which through an intersectoral and multidisciplinary partnership will provide a wide range of services, necessary for development of digital skills and digital transformation of SMEs

and public administration, as well as networking existing DIHs at the national level and complement their work, offering those services which the existing DIHs do not cover. The expectation is that ECINTV will commence implementation of its activities by the end of 2020.

**The intention in establishing the ECINTC is to contribute to Government policies on retaining a highly qualified, highly educated and competitive workforce as well as create an incentivising environment for developing entrepreneurs and start-ups.**

**Implementation of this measure contributes to achieving SDGs - Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.**

**Strengthening human resources as well as the science and technology system by aligning with the economy**

**The Croatian Science Foundation (CSF) in 2018 was granted ESF funds over a five year period totalling HRK 81 million for implementing the “Young Researchers Career Development Project – Training of Doctoral Students” with the aim of increasing the number of young researchers by employing them in institutions within the science and higher education system.**

By the end of 2019, this led to the signing of employment contracts with 162 doctoral students for a four-year period. In 2019, another 176 doctoral students were employed through a tender conducted in 2018 and which was financed from SB funds.

**The CSF, towards the end of 2019, organised a new tender for employing young scientists through the “Young Scientists Career Development Project – Postdoctoral Students” (SB funds).**

**The plan is to employ about 200 doctoral students in institutions within the science and higher education system, commencing with work in mid-2020. In implementing these activities, as planned in the NRP, the above projects will be deemed completed.**

In 2020, approval of a direct grant from ESF funds will be given to the CSF for a total of HRK 18 million for implementing the “Young Scientists Career Development Project – Postdoctoral Students”. This will result in employing an additional 100 young researchers – postdoctoral students, with the aim of encouraging the development of their early research career and scientific training in postdoctoral positions.

The aim is to stimulate the strengthening of a stable programme for funding career development of doctoral candidates who wish to participate in scientific research and focus their career on top-level science, either in competitive research or in the business sector. The other aim is to stimulate the strengthening of mentoring capacities in Croatian scientific organisations through the transfer, adoption, and application of new knowledge.

Financing will be given to universities in the RC that want to establish or who already have established doctoral schools at the university institutional level. Developed European universities have already been establishing doctoral schools over many years, which is considered to be the most important step in transforming doctoral education aimed at increasing research and teaching capacities, achieving uniformity of criteria, encouraging interdisciplinarity, increasing international recognition in scientific or artistic research and better cost-effectiveness in doctoral education at university. While in other EU member states, more than 80% of universities have a doctoral school, the establishment of such schools at an institutional level in the RC comes a little late. This pilot measure by the end of 2020 (and later on a continual basis) through a public call will provide aid to implementing regular doctoral school activities, such as organising seminars and workshops for acquiring generic skills by doctoral students and mentor workshops, developing the careers of doctoral students, collaboration with other doctoral programs and schools in the country and abroad, as well as preparing tenders and other documents to ensure new sources of funding doctoral schools in the country and abroad. Selecting doctoral schools for which financing is possible will be

undertaken in line with competitive public calls which the MSE will announce.

The objective is to encourage universities in the RC to modernise their doctoral education and thus increase the quality of scientific and research in universities and international recognition of doctoral education conducted in the RC.

Based on the 2018 cooperation agreement between the RC and the European Space Agency (ESA), with the aim of collaborating in implementing educational, research and development projects in the area of space and space technologies in 2020, implementation of the first call from the ESA intended solely for Croatian scientists and companies is expected. This will be the first step towards signing the Plan for European Cooperating States (PECS) with the ESA. The area space research and development of space technology is today, and in the coming decades, one of the greatest areas of investments in research and the economy. In this, the RC has arrived late in many segments of tracking policies and strategies as well as collaboration with different agencies in that area, nor are economic entities and the academic community adequately active in implementing projects relating to the Programme for Research and Development called Horizon 2020 in the area of space. In terms of collaboration with the ESA, activities in the area of support systems for start-ups and spin-off companies should be continued for this specific area. In the initial phase of joining the ESA, the RC will need to pay 8 million euros within 5 years intended solely for economic and scientific entities in the RC with the aim of acquiring know-how and competencies as well as providing business, financial and technical support.

An Interdepartmental Body for interdepartmental collaboration in the area of space and space technology will be established. This is necessary to establish coordination with the ESA, and also coordination of competent bodies and agencies at the national level in Croatia for activities relating to EU programmes, establishing active relationships with EC bodies and agencies and international agencies involved in the area of space.

The aim is to actively promote opportunities and include Croatian companies and researchers in international agencies in the area of space, of which the RC is currently or is to become a member in the future.

The plan is to adopt the new Act on Scientific Activities and Higher Education. Legal regulations need to be harmonised with new guidelines from public policies and the needs of the modern system of science and higher education, as well as contribute to increasing the overall allocation of funds to research and development.

The aim is to encourage better competitiveness among public scientific organisations and public universities, ensuring an effective and development-based incentivised system of financing public scientific organisations and public universities, increase the quality of study programs across all levels of higher education, creating an incentivising environment for scientists to collaborate in international scientific competitive projects, incentivise mobility among scientists and introduce accountability principles in science and higher education.

To achieve uniformity in criteria for establishing and continuing development of the Technology Transfer Office, the plan is to adopt the National Ordinance on Work at the Technology Transfer Office. The National Ordinance will stipulate criteria which scientific organisations must fulfil when establishing units for the transfer of technology, and which should contribute to programming unique and continual measures for sustainable development and development of the Technology Transfer Office. Key principles, actors and processes will be defined in the innovation eco-system on the territory of the RC, i.e., in the process of transferring technology and know-how which takes place from the academic to the public and business sphere, with the aim of further developing the innovation process in the system of science and technology, as well as achieving objectives from national and European strategies in the area of science, technology, research and innovation, especially in strengthening public-private partnerships in the technology transfer process.

The aim is to create a positive environment for encouraging collaboration in science, higher education and business, which will facilitate the transfer of know-how between these systems.

Implementation of this measure also contributes to achieving SDGs - Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, and Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

### 5.3. Climate change and energy sustainability

#### Limiting greenhouse gas emissions to the national yearly quota for sectors outside the Emissions Trading System

The plan is to further oversee adherence to the obligation by annually tracking greenhouse gas emissions in order to limit greenhouse gas emission increases in sectors outside the trading system by 11% in 2020 compared to levels in 2005 (17.4 Mt CO<sub>2</sub>eq). For 2017, the RC was permitted a quota of 18,681,006 tCO<sub>2</sub>-eq whereas actual emissions in 2017 in the sector outside the trading system were 16,669,301 tCO<sub>2</sub>-eq. After a revision by the EC, the actual emissions for 2018 will be known, in 2021 the actual emissions for 2019 will be known, and 2020 emissions in 2022.

In terms of strengthening climate policies, the Act on Climate Change and Protection of the Ozone Layer was adopted in December 2019.<sup>58</sup>

In light of promoting energy efficiency and renewable energy sources to reduce greenhouse gas emissions, the Strategy of Energy Development of the RC by 2030 with an Outlook to 2050 was adopted in January 2002.<sup>59</sup> The strategy considers changes bringing an important transition in the energy

<sup>58</sup> OG 127/19

<sup>59</sup> OG 25/20

sector, from carbon to low-carbon with a focus on supply security and energy efficiency, as well as alignment to the goals of the EU directive, reduction in greenhouse gas emissions (decarbonisation) and sustainability of energy development.

#### **The plan is to adopt the Low Carbon Strategy.**

The decarbonisation dimension, which includes the reduction of greenhouse gas emissions and their elimination, was elaborated in the Draft of the proposed Low Carbon Development Strategy of the RC for the Period up to 2030 with an Outlook to 2050. The Low Carbon Strategy applies to the sectors of energy, transport, industry, general consumption, agriculture, waste management and land use, use conversion and forestry. This is to be followed by consulting with the interested public and forwarding it to the Government and Croatian Parliament for adoption. One of the goals in terms of the decarbonisation dimension is adapting to climate change, elaborated by the Strategy in adapting to climate change in the RC for the period up to 2050 with an outlook to 2070. The draft of the adaptation strategy was completed in late 2017, and the Strategic Study on the Adaptation Strategy and its Environmental Impact was prepared in 2018 and which went through a public hearing involving the interested public. The Adaptation Strategy is a fundamental document and framework for implementation of all measures in adapting to climate change at the national level of the RC. Emphasis is placed on ten vulnerable sectors: hydrology and water resources, agriculture, forestry, energy, physical planning and management of the coastal areas, fishing, tourism, biodiversity, risk management and health. Croatian Parliament adopted the **Climate Change Adaptation Strategy in the RC** in April 2020.

**The Integrated National Energy and Climate Plan for the Period from 2021 to 2030, was passed by the Government in December 2019.**<sup>60</sup>

<sup>60</sup> Drafting this document is an obligation for all member states in line with Regulation (EU) 2018/1999.

The plan supports activities relating to the Parish Agreement and reduction of greenhouse gas emissions. **Work is currently being undertaken on the implementation document containing a series of measures for achieving goals as set in the new strategies for energy and low-carbon development in the RC.**

**The goal is to reduce vulnerability of social and natural systems to the negative effects of climate change as well as strengthen their resilience to changes and ability to recover from the effects of such changes; integrate the adaptation process into existing and new policies, programmes, plans and other strategic activities carried out at national and local levels of governance; implement and promote scientific research in all vulnerable sectors in order to significantly reduce the degree of uncertainty associated with the effects of climate change, and raise awareness of the importance of climate change and the inevitability of the adaptation process.**

#### **Promoting energy used from renewable energy sources and energy savings**

**The RC meets the objective of increasing the share of renewable energy sources (RES) in gross total energy consumption and, according to Eurostat data, the share of renewable energy sources in the RC in 2018 was 28%.<sup>61</sup>**

**The RC is currently in the phase of harmonising its market energy laws.** This includes transposing Directive (EU) 2019/692 of the European Parliament and of the Council of 17 April 2019 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas (Text with EEA relevance) (OJ L 117 3.5.2019) which has been implemented into Croatian legislation in March 2020 (Gas Market Act).<sup>62</sup> The plan till the end of 2020 is to transpose Directive (EU) 2019/944 of the European Parliament and of the Council

<sup>61</sup> New official statistical data will be published in June 2019 for 2017.

<sup>62</sup> OG 18/18 and 23/20

of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU. Furthermore, **work is being actively done on transposing two directives relating to creating conditions for expanding the use of renewable energy sources and increasing energy efficiency**, specifically Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources and Directive (EU) 2018/2022 of the European Parliament and of the Council of 11 December 2018 amending Directive 2012/27/EU on energy efficiency. Implementation of these directives will create conditions for implementing set European environmental policies and achieving ambitious goals by 2030.

**An accelerated transition of the energy sector is supported by a series of horizontal policies and implementation of measures in sectors such as transport, agriculture, buildings, tourism and services.** Moreover, **incentives for using technologies for renewable sources for heating and cooling will continue, especially in industrial processes and agriculture. Efforts will continue in strengthening the use of competitive renewable sources by setting clear and transparent procedures for the utilisation of state lands**, whereas projects in rural and isolated areas, especially the islands, consideration will be given to possibilities of connecting renewable energy source facilities to the grid in terms of the **initiative “Clean Energy for the EU’s Islands”**.

**Increasing use of energy from renewable sources is an important part of the package of measures for reducing greenhouse gas emissions and fulfilling the mandatory objective in terms of renewable energy for 2030** (elements of the policies include increasing the use of renewable sources for heating and cooling, as well as utilisation of renewable energy in the transport sector). In that regard, the **2020 National Renewable Energy Action Plan is being implemented and the Energy Development Strategy for the RC by 2030 with an outlook to 2050 has commenced as has the Integrated National Energy Climate Plan** which is an implementation act of the Strategy.

**Special effort has been directed to developing geothermal energy projects by announcing tenders and granting permits for geothermal exploration for energy purposes and the granting of permits for extraction of geothermal waters for energy purposes. In 2020, the plan is to announce 7 new tenders for geothermal exploration**, which will lead to increasing the share of renewable energy sources in gross energy production in the RC.

**In 2019, implementation legislation was created with the aim of achieving new potentials in the utilisation of energy from renewable sources in the production of electricity and thermal energy in a sustainable, clear, transparent and competitive manner, especially as support for sustainable utilisation of resources from agriculture and forestry.** The State Aid Program was prepared, and in 2020, after approving state aid in line with EC and MF procedures, a tender will be announced for the granting of guaranteed prices and market premiums for electricity produced in renewable energy source facilities. The program will provide the use of state aid in the coming three-year period in order to enable continual development and inclusion of new renewable energy source facilities into the system. Specifically, an acceptable fact is that since 2016, aid has not been granted and this has been a limiting factor in developing new projects. The market premium system primarily has the objective of achieving investment stability for potential investors, an openness of the electricity market has allowed this for the first time. Specifically, in establishing of and fluid work on the electricity exchange market (CROPEX) and its positioning on the market, it will be possible to achieve additional volume of electricity trading. In 2019, a total of 12 new facilities using RES with a total installed power of 48.505 kW were connected to the electricity grid. As of 31 December 2019, a total of 1,347 facilities within the incentive scheme and with a total installed power of 877,400 kW producing 2,882,299,100 kWh of electricity were permanently operating in the electricity grid. **In 2020, all facilities utilising RES, with incentivised production, will become operational and hence the necessity of commencing a new incentive scheme.**

**Table 6** | Data on the use of energy from renewable sources for 2015-2018

	2015	2016	2017	2018
<b>Sectoral and total share including actual energy consumption from RES (%):</b>				
<b>RES – heating and cooling</b>	38.54	37.58	36.55	36.51
<b>RES – electricity</b>	45.39	46.64	46.42	48.14
<b>RES – transport</b>	3.63	1.25	1.18	3.89
<b>Total RES</b>	28.96	28.26	27.28	28.02
<b>Share of RES in direct energy consumption (ktoe):</b>				
Gross direct consumption of RES for heating and cooling	1251.2	1219.4	1211.8	1187.6
Gross direct consumption of RES for electricity from RES	703.4	727.8	747.8	783.8
Gross direct consumption of RES in transport	69.0	24.4	24.8	79.8

Source: Report on progress on incentivised use of energy from renewable sources for the 2015-2018 period.

The measure for incentivising the use of electricity in transport and implemented through the Environmental Protection and Energy Efficiency Fund (EPEEF) will be continued. It should be noted that after making amendments to the Act on Biofuels for Transport,<sup>63</sup> additional efforts were directed in fulfilling obligations to distribute biofuel on the market leading to an increase in the use of renewable sources in transport, especially in the use of biofuels. In line with amendments to the Act Renewable Energy Sources and High-Efficiency Cogeneration, the obligation for suppliers relating to the purchasing of electricity produced from renewable energy sources within the incentive scheme of feed-in tariffs and which the Croatian Energy Market Operator (HROTE Ltd.) purchased was gradually phased out over a three-year period. In 2020, based on the Regulation on the share of preferential producers in net electricity delivered, which electricity suppliers are required to take over from the electricity market operator,<sup>64</sup> **60% of electricity produced within the incentivised system will be sold by HROTE on the electricity market**, which is an increase of 30% compared to the previous year. In this way, further transformation of the incentivised electricity production system from mandatory purchasing by the supplier to market purchasing through

the Croatian Energy Exchange (CROPEX) is ensured.

**Introducing the mandatory energy savings system stems from Directive 2012/27/EU on energy efficiency.**<sup>65</sup> The RC has transferred the obligations from Directive based on Article 13 of the Energy Efficiency Act.<sup>66</sup> In 2019, conditions were created for the system of mandatory saving scheme to come to life. The Ordinance on the Mandatory Energy Efficiency System<sup>67</sup> was adopted and a total of 25 obligatory parties (those supplying energy to end users) who in 2017 delivered more than 300 kWh to their customers. Implementation acts were adopted which stipulate mechanisms for reporting, tracking and verifying the fulfilment of obligations for obligatory parties within the mandatory energy efficiency system. The obligatory parties may themselves achieve savings, purchase them on the market or pay a fee into the Environmental Protection and Energy Efficiency Fund (EPEEF). The EPEEF in 2019 announced calls for **a number of tenders for projects in the utilisation of sun energy for the self-supply of households**, which is also an energy efficiency measure, and supported a **series of projects relating to other energy**

<sup>63</sup> OG 94/18

<sup>64</sup> OG 116/18 and 119/19

<sup>65</sup> Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC

<sup>66</sup> OG 127/14 and 116/18

<sup>67</sup> OG 41/19

efficiency measures, especial in the construction sector. The EPEEF will in 2020 continue implementing these measures and will additionally focus on **measures that encourage preparing project documentation for new projects at the level of local communities, especially projects** which are planned for islands, but also with the aim of reducing energy poverty.

**Planned reduction of energy consumption as direct consumption by the end of 2020 which will be achieved within the system of obligations is 10.633 PJ.**

As an additional incentive to implementing energy efficiency measures, the Act on Renewable Energy Sources and High-efficiency Cogeneration<sup>68</sup> envisages the use of renewable energy for own production, i.e. self-supply, where a category of customer-producers has been introduced for households as well as economic entities. This has created prerequisites for introducing smart solutions, dispersed production, microgrids, and smart management, while consumers become an active part of the electric energy system. Alternative energy policy measures implemented by the public sector are continually being implemented. Most recent data indicate that gross energy consumption in the RC in 2018 was 1.2% less compared to the previous year. At the same time, gross domestic product increased by 2.6%, resulting in less energy intensity of total energy consumption by 3.7%. Based on preliminary results of calculations for 2018, CO<sub>2</sub> emissions from mobile and immobile energy sources amounted to 15.3 million tons, or 5.8% emissions less than the previous year, and 23.6% less than emission levels for the 1990 reference year. The average yearly reduction in CO<sub>2</sub> emissions for the observed period from 2013 to 2018 amounted to 0.9%. The reduction of CO<sub>2</sub> emissions in 2018 was mainly the consequence of the introduction of energy efficiency measures and greater utilisation of renewable energy sources.

<sup>68</sup> OG 100/15, 123/16, 131/17 and 111/18

## Encouraging energy efficiency of residential and public buildings

In line with Directive 2012/27/EU on energy efficiency, the RC has the obligation to reduce CO<sub>2</sub> emissions by at least 40% by 2030, i.e. a binding target of 30% for energy efficiency has been set.

**The contribution to reducing global greenhouse gas emissions is planned to take place through better energy efficiency of buildings and aims to move the construction sector to a low-carbon level by the middle of the century.**

In terms of the 2030 National Development Strategy, the Ministry of Construction and Physical Planning (MCP) has defined the key areas of intervention and strategic projects in order to contribute to national and EU objectives in reducing CO<sub>2</sub> emissions by 40% and increasing energy efficiency by 32.5% by 2030.

In 2019, the MCP worked on amendments and adopted legislation, strategies and programmes directed to long-term and integral renovation of buildings. **Amendments to the Construction Act<sup>69</sup>** were also adopted, which, among other things, covered the adoption and implementation of the Long-Term Strategy for Renovation of the National Building Stock by 2050. Measures for decarbonisation of the national building stock are contained in the Long-Term Strategy, and which is expected to be adopted in 2020 in accordance with deadlines defined in Article 53 of Regulation (EU) 2018/1999. **Open dialogue as partners between the MCP and representatives of state administration including local self-government units, the academic community and the professional public, construction and energy sectors, as well as associated industries** was established with the aim of creating an extensive network of experts ready for common dialogue and contributing to decarbonisation of the building stock by 2050. The actionable section of the dialogue

<sup>69</sup> OG 153/13, 20/17, 39/19 and 125/19

requires signing the “Charter on Cooperation Aimed Decarbonisation of Buildings by 2050”. The content of the charter refers to achieving energy and climate objectives at the national and EU level through decarbonisation of the building stock, renovation of buildings and constructing nearly zero energy buildings (nZEB). Reducing the need for thermal energy in the household sector will in turn reduce consumption of fossil fuels and direct emission of pollutants into the air. Buildings in the public sector are obliged to control water consumption in an energy efficient way. Annual energy consumption in buildings and CO<sub>2</sub> emissions are recorded in the Energy Management Information System (EMIS). The provisions of the Construction Act<sup>70</sup> stipulate the obligation to produce Energy Certificates as documents providing proof of the energy properties of buildings.

**The National Energy Certificate Information (IEC) System is underway as a tool in terms of the programme for providing information to building owners and users on so-called building energy properties and the energy required for heating the premises, as well as recommendations for reducing energy consumption and encouraging decisions leading to the energy refurbishment of buildings.**

The programme is designed to improve eServices for citizens. Amounts from the Programme are retrieved into IEC, into which energy properties and the required heating and cooling energy for buildings are entered and calculated according to applicable standards, which is used for issuing and storing energy certificates. Compiling energy certificates can now be done exclusively through the IEC. **The system is used by authorised energy certifiers (1,700 users). The aim is to also make it possible for citizens to use the system (220,000 users) by the end of December 2020**, or via eCitizen they will be able to order and get energy certificates for properties.

<sup>70</sup> OG 127/14, 116/18 and 25/20

## 5.4. Education

### Reducing the school dropout rate

**Reducing the school dropout rate to less than 10% in EU member states by 2020 is one of the priorities of the EU in the area of education. Dropping out of school in the RC has always been at a low level and stands on average at 3.1% over the last three years.**

**The lower school dropout rate is linked to the way the education system has been organised in the RC, as well as a long tradition of inclusivity in the education system.**

Consequently, there are no plans for special measures targeted solely at stemming early school dropout rates, but improving the education system and its development takes into consideration the inclusion of all pupils based on their possibilities and abilities, and the system should be accessible and achieve quality so that pupils can complete the commenced education process.

### Increasing the proportion of the population in the 30-34 age group who have completed tertiary education

**To increase the number of persons with a university education in the RC from the current 34.3% to the target of 35% by 2020, access to and completion of higher education is necessary.**

**The project “Awarding Scholarships to Students of Lower Socio-Economic Status” is currently implemented with the aim of increasing availability of higher education, improving the social dimension of higher education, and increasing completion rates in higher education by securing state scholarships for students of lower socio-economic status.** The project has led to an annual increase in the number of students of lower socio-economic status receiving assistance from 5,400 to 10,000 scholarships.

**The procedure of awarding state scholarships in STEM fields is implemented within the framework of the project “Awarding**

**Scholarships to Students in Priority STEM Fields**". The aim of awarding 3,400 scholarships annually is to place the focus on study programs that have the greatest prospects of generating economic growth in the RC, and to encourage structural alignment of education and qualifications to labour market needs and the employment of graduates, with respect to the dominance of study programmes in the field of social sciences and humanities at the current ratio of 60:40. Awarding annual state STEM scholarships will result in increasing the student retention rate in study programmes covering STEM fields, i.e. the completion rate of studies in STEM fields.

**There are plans to increase the capacity of student accommodation.** Using funds from the Operational Programme 'Competitiveness and Cohesion' (OPCC), the plan is to ensure 357 new beds for disadvantaged students (HRK 172 million, 85% ERDF) by the end of 2020. So far, 7 projects in renovating existing accommodation and constructing new accommodation capacities (HRK 604.2 million) have been carried out, and another 7 projects (HRK 595.95 million) are underway. Capacities are currently at 11,680 beds.

**Implementation of this measure also contributes to achieving SDGs - Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.**

## **5.5. Reducing poverty and social exclusion**

### **Providing humanitarian aid in kind and other support programmes to the most deprived**

**Croatia has been continually implementing measures with the aim of reducing poverty and material deprivation as well as providing assistance in eliminating food shortages. The implemented measure involves financing projects and programmes.** Due to the recorded high risk of poverty and material deprivation in Croatia, requiring additional

measures to help the most deprived, (Fund for European Aid to the Most Deprived – FEAD), **assistance in the form of food (meals or food packets) and/or basic material necessities** is given and is adding value to existing national programmes.

In 2019, three tenders were conducted in terms of the FEAD, with 128,734 persons at risk of poverty receiving assistance. Projects were financed for securing school foodstuffs (HRK 50.64 million, 85% ESF) in 416 primary schools and school meals for 32,085 children. Projects organised by humanitarian organisations provided assistance for 96,649 persons most in need by ensuring food and basic material assistance.

**All contracted projects were directed to mitigating the most serious forms of child poverty and poverty afflicting other socially disadvantaged persons through non-financial assistance, where in 2020 a total of 150,000 persons at risk of poverty should be receiving assistance.**

**Implementing these activities also contributes to achieving the following SDGs – Goal 1: End poverty in all its forms everywhere, and Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.**

### **Development and expansion of the social services network as well as transformation of social welfare and deinstitutionalisation of beneficiaries**

Expanding the network of social welfare services in the community ensures greater availability of services, while combating poverty and support social inclusion of vulnerable groups.

**In 2020, efforts were continued in financing projects with the aim of expanding social welfare services in the community by various providers** (social welfare institutions, associations, religious communities, foundations, LRSUs, international organisations and national minority councils). **Efforts were continued in financing three-year**

programmes for development of social welfare services which are provided by associations in the area of social welfare.

In implementing the deinstitutionalisation and transformation process, the goal is to increase the number of beneficiaries leaving institutions, and ensuring community support services to improve the quality of life and community inclusion of beneficiaries.

So far, 19 projects have been contracted to ensure infrastructure and equipment for the deinstitutionalisation process which includes 10 projects by social welfare centres and 9 by social welfare homes – 4 for people with disabilities and 5 for children and youth (HRK 107.7 million, 85% ESF), of which three have been completed in 2019.

Efforts in contracting new infrastructural projects will continue.

Based on announced tenders for ESF grants – “Support for the Process of Deinstitutionalisation and Prevention of Institutionalisation of Children and Youth” (HRK 63 million, 85% ESF) and “Support to Further the Process of Deinstitutionalisation and Transformation of Social Welfare Homes for Persons with Disabilities” (HRK 135 million, 85% ESF), a total of 15 projects for social welfare homes for children and the youth as well as persons with disabilities were contracted (HRK 118.05 million).

Efforts continue in financing projects directed to the deinstitutionalisation process. Specifically, this means reducing the number of beneficiaries in institutions, strengthening capacities of experts and promoting the right to life in a community.

Implementing these measures contributes to achieving the following SDGs - Goal 1: End poverty in all its forms everywhere, and Goal 10: Reduce inequality within and among countries.

## Development of quality foster care and services of accommodation in foster families

Based on the Foster Care Act,<sup>71</sup> by-laws have been passed which for the first time allow the undertaking of foster care as an occupation. Furthermore, conditions have been created for improving the quality of provided services. The goal has been achieved – standardising the process of assessing, licencing, educating and support for foster care families.

Specifically, housing conditions for undertaking foster care have become more flexible, in order to provide services in housing conditions in line with the needs of beneficiaries, the procedure for family assessment in procedure for issuing foster care permits has been more clearly regulated, as well as basic and additional training and yearly education of foster parents. Also, for the purpose of more easily tracking development of beneficiaries and implementation of individual plans, provisions relating to reporting by foster parents on the provided service have been improved. Regarding foster care as an occupation, professional assistance is continually provided to social welfare centres through county committees in selecting foster parents to occupy such roles as an occupation. From July 2019 to March 2020, county committees chose 159 foster parents to undertake the standard foster parent role as an occupation.

Based on the cooperation agreement between UNICEF and the MDFYSP, along with cooperation from the Croatian Association of Social Workers, the process of assessing potential foster parents has been standardised and educational materials for training foster parents for children have been developed. In the period from September 2018 to October 2019, the foster parents for children promotional campaign “Every Child Needs a Family” was conducted, and since 1 January 2019, 124 new foster parents were selected, of which 84 were for children. In the period from 1 January to 15 November 2019, a total of 119

<sup>71</sup> OG 115/18

foster parents for children were selected. **The family assessment process, including training and ongoing education of foster parents has been standardised, and for the first time, foster parents are able to provide foster care as a recognised occupation.**

### **Co-funding the cost of education for pupils and students of lower socio-economic status and students with developmental disabilities**

**The aim is to ensure co-funding of the cost of education for pupils with developmental difficulties and which is conducted in accordance with the Primary and Secondary School Education Act.<sup>72</sup>**

In each school year, criteria are defined for financing higher costs for transport, special teaching resources and aids, including food for pupils with developmental difficulties in primary school education programmes, including financing higher costs for transport as well as special teaching resources and aids for pupils with developmental difficulties in secondary school education programmes. The basis for this is the Primary and Secondary School Education Act, the Decision on Criteria for Financing Higher Costs of Transportation and Special Teaching Resources and Aids as well as Co-Financing Meals for Pupils with Developmental Disabilities in Primary School Education Programmes, and the Decision on Criteria for Financing Higher Costs of Transportation and Special Teaching Resources and Aids as well as Co-Financing Meals for Pupils with Developmental Disabilities in Secondary School Education Programmes. Pupils with developmental difficulties who have received an official decision on the adequate education programme from the administration department in the county competent for education affairs or the City Office before the City of Zagreb competent for education affairs are financed for the costs of adapted transport and costs for transport for

their assistants, when due to the type and level of disability, assistance is necessary for the pupil. In the 2018/2019 school year, co-funding was given for transport costs for 2,882 pupils, costs associated with special teaching resources and aids as well as meals for 3,286 pupils in primary schools (HRK 25,85 million, SB) as well as transport costs for 292 pupils and costs of special teaching resources and aids for 652 pupils in secondary schools (HRK 2.5 million, SB).

**To provide assistance for the inclusion of pupils with developmental difficulties in primary and secondary school education institutions, and to ensure conditions for improving educational achievements, more successful socialisation and the emotional functioning of pupils with development difficulties, the Call titled “Ensuring Assistance in Classes and Professional Communication Intermediaries for Pupils with Developmental Disabilities in Primary and Secondary School Educational Institutions – Phase 3” was announced.**

Projects ensuring assistants/professional communication intermediaries for pupils with developmental difficulties in primary and secondary school educational institutions were registered by LRSGUs, as the founders of primary and secondary schools (public and accredited private schools (over HRK 470 million, DB and ESF). The successfully applicants were granted funds amounting to more than HRK 360 million, while the remaining funds (HRK 108.74 million) were provided by the founders. Assistance to assistants was provided for 2,648 pupils from 725 different educational institutions in 2017/2018. Projects were contracted for a period of four years, based on the plan that **assistance, ending for he 2020/2021 school year, is received by 3,292 pupils with developmental difficulties.** In the 2018/2019 school, a total of 62 projects for associations ensured assistance for 416 class assistants for 430 pupils (HRK 16.16 million), which is 109 class assistants more compared to the 2017/2018 school year, while in the 2019/2020 school year, the project from 69 associations provided assistance for 524 class assistants (HRK 24.87 million).

<sup>72</sup> OG 87/08, 86/09, 92/10, 105/10, 90/11, 16/12, 86/12, 94/13, 152/14, 7/17, 68/18 and 98/19

Since 2014, the MSE has been co-financing the procurement of textbooks and accompanying supplementary teaching materials for primary and secondary school pupils in the RC for pupils who are entitled to free textbooks as members of households and are beneficiaries of the guaranteed minimum benefit and beneficiaries of assistance allowance. Given that according to the new Act on Textbooks and Other Educational Materials for Primary and Secondary Schools<sup>73</sup> of December 2018, funds for procuring textbooks for primary school students come from the SB, **all primary school pupils in the RC, including beneficiaries of the guaranteed minimum benefit, will get free textbooks for the 2019/2020 school year.**

The Government may, based on available funds, decide to fund or co-fund the procurement of textbooks for secondary school pupils for each school/academic year and decide as to fund or co-fund the procurement of other educational materials. The Government's Decisions of 18 July 2019 for the 2019/2020 school year have ensured compulsory textbooks for secondary school pupils and other educational materials for primary school pupils who come from households identified by 31 August 2019 as beneficiaries of the guaranteed minimum benefit and for secondary school pupils and other educational materials for primary school pupils who come from households identified by 31 August 2019 as beneficiaries of benefit for unemployed Croatian Veterans from the Homeland War and members of their families. For the 2019/2020 school year, the MSE paid primary and secondary schools funds for the procurement of other educational materials and textbooks for compulsory class subjects for a total of 3,474 pupils beneficiaries of the guaranteed minimal benefit (HRK 2.11 million). **The Government's Decisions are necessary to ensure in the 2020/2021 school year funding for procuring other educational materials for primary school pupils belonging to households which are beneficiaries of the guaranteed minimum benefit and primary school pupils belonging to a household of a person who is a**

beneficiary of benefits as an unemployed veteran of the Homeland War and members of their families, **as well as funding the procurement of textbooks for compulsory class subjects** for primary school pupils belonging to households of persons as beneficiaries of the guarantee minimum benefit. Funds for this purpose have been allocated in the SB for 2020 (HRK 178.57 million). Entitlements to funding or co-funding for the 2020/2021 school year should be achieved from 1 January 2021.

### Introducing national benefits for the elderly

**The institution of national benefits for the elderly is intended for persons who do not qualify for the pension based on previous work and paid contributions, persons who do not have the minimum work duration of 15 years to be entitled to an old-age pension, and are older than 65 years of age and do not have other sources of income.**

**Introduction of the national benefit for the elderly (national pension) is envisaged in the Strategy of Social Welfare for Elderly Persons in the Republic of Croatia for the Period 2017-2020.**<sup>74</sup> The legal framework of the national benefit for the elderly can also be found in the Convention of the International Labour Organisation No. 102 on social security (minimum standards) which envisages the possibility of regulating contribution for old age for all inhabitants of a country. It also envisages the European Pillar of Social Rights. In the RC, the subsystem of mandatory pension insurance in generational solidarity ensures the right to the minimum pension as the lower threshold of rights from pension insurance based on contributions from an insuree's wage, by applying the principle of solidarity. Furthermore, the social welfare system ensures the right to a guaranteed minimum benefit, but it is not subject to age. In introducing the national benefit for the elderly, beneficiaries of new rights are to be

<sup>73</sup> OG 116/18

<sup>74</sup> <https://bit.ly/38vnuEo>

distinguished from beneficiaries of the guaranteed minimum benefit from the social welfare system and beneficiaries of the minimum pension. In addition to the general conditions, i.e., age and long-term residency, additional criteria are also defined for entitlements, amount of the national benefit for the elderly for the purpose of ensuring funds in the state budget. Introduction of the national benefit for the elderly will lead to a better social position for the elderly who fulfil conditions for pension entitlements, and who are not properly taken care of in terms of existing entitlements within the social welfare system. **Establishment of the legislative framework for introducing the national benefit for the elderly** is planned to take place on 1 January 2021.

## 6. Use of European Structural and Investment Funds

**In the financial period of 2014–2020, the RC has a total of EUR 10.727 billion at its disposal from the European Structural and Investment Funds (ESIF). Of these amounts, EUR 8.448 billion will be allocated to the cohesion policy objectives, EUR 2.026 billion to agricultural and rural development, and EUR 252.6 million to the development of fisheries.**

**The ESIF investment strategy is focused on strengthening the competitiveness of the economy, increasing employment, knowledge-based growth, poverty reduction, strengthening social inclusion, reducing regional inequalities, and ensuring quality living conditions in line with the Europe 2020 strategy.**

### 6.1. Progress in increasing the efficiency of use of ESIF funds

**By 31 January 2020, a total of EUR 9.35 billion, or 87.15% of granted funds, was contracted from EISF financial allocations.**

The highest percentage of contracted funds is attributed to the Operational Programme 'Competitiveness and Cohesion' (OPCC) at 94.36%, whereas the lowest percentage of contracted funds comes from the Operational Programme 'Maritime Affairs and Fisheries' (OPMAF) at 52.98%. So far, contracted projects account for EUR 3.41 billion paid out, or 31.76% of granted funds. The highest percentage of paid funds is attributed to the Programme for Rural Development (PRD) at 46.15%, whereas the lowest percentage of paid funds is attributed to OPCC at 27.02%. A total of EUR 3.07 billion has been certified, or 28.57% of the granted funds. The best percentage of certified funds is attributed to PRR at 44.96%, whereas the worst percentage for certified funds is attributed to OPCC at 24.49%. A positive increase in absorption since the beginning of 2016 has continued to the

start of the most recent year of the seven-year financial period and indicates progress in the utilisation of ESI funds.

**In line with the adoption of changes to the EU legal framework in August 2018, the use of simplified opportunities for funding has been expanded in terms of the OPCC.**

Simplified opportunities for funding means providing payments to beneficiaries which is not based on actual costs, but instead on unit costs / rates / amounts determined beforehand, thereby significantly reducing the administrative burden when verifying costs.

**Completing the eFunds system (Management Information System – MIS) ensures eCohesion, and a fully electronic application for calls from this operational programme, but also fully electronic implementation of projects including verification of expenditures by competent bodies.**

Consequently, the introduction of this system provides a significant contribution to increasing efficient utilisation of OPCC funds by ensuring continual availability and update-to-date data, increasing transparency and providing more detailed tracking.

**Identifying performance criteria (indicators) at the level of specific goals will rely on the use of existing methods and system for defining goals and tracking them.**

For the OPCC, an Annual Plan of Obligations has been adopted which contains the appropriate framework for tracking the performance of contracting, tracking and certification. The Operational Programme Human Resources Development (OPHRD) will use the Plan for Contracting, Payments and Certification which is currently being drawn up as a framework.

**In terms of activating financial instruments, all programme instruments for SMEs and in the area of energy efficiency have been initiated.**

In all, 100% of programme contribution has

been contracted, thereby for EUR 452 million of ESIF allocations, another EUR 250 million of private capital has been withdrawn, where for all 10 financial instruments in terms of the OPCC, the percentage of certified funds amounts to 70% of the ESIF allocation.

**In 2019, in terms of implementing OPHRD, five delegated acts approved by the EC have been activated.**

The respective acts regulate application of simplified project cost controls which, in terms of administration, facilitates the work of beneficiaries, reduce the amount of documentation and quickening the process. The same applies to measures of active employment policies for four standard scales of unit costs (SSUC) and segment of education (class assistants). In February 2020, **the EC received two proposed delegated acts**, the application of which refers to support for employment of women and additionally in the area of active employment policies. At the end of 2019, the EC was notified of adjustments to existing amounts in the existing delegated acts in the area of active employment policies, for the purpose of aligning values with increases stemming from changes to the Minimum Wage Act.<sup>75</sup> In addition to simplified cost options using the standard scales of unit costs modality, and in terms of the OPHRD, currently fixed rates are implemented and applied from the EC Regulation.<sup>76</sup>

**During 2018, an ex-ante evaluation of the use of financial instruments within the RDP was completed.**

Appropriate changes to the RDP have also been simultaneously undertaken for the purpose of introducing interventions to financial instruments, with an allocation programme contribution of EUR 70.5 million.

<sup>75</sup> OG 118/18

<sup>76</sup> Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012

By the end of 2019, a total of **388 small and 66 Micro Loans for rural development (HRK 137.7 million) were approved**. Based on this exceptionally successful implementation, primarily small loans for rural development, in December 2019 **amendments were made to the Funding Agreement signed with HAMAG-BICRO, thereby the total allocation of funds for Micro and Small Loans as well as Individual Guarantees amounts to EUR 50.5 million**, which is an increase of EUR 15.2 million compared to the initial allocation of funds for RDP in 2014-2020.

**Activities in commencing the issuing of Individual Guarantees for rural development was completed in February 2019.**

**Agreements with 16 commercial banks and leasing companies** were signed, and the issuing of Individual Guarantees for rural development was made possible for loans and leasing from selected credit institutions. The receiving of applications for Individual Guarantees for Rural Development began in February 2019, and by the end of 2019, 3 guarantees totalling HRK 11.2 million were issued.

**Activities in commencing utilisation of investment loans for rural development in 2019 covered the continuation of negotiations with commercial banks which submitted their offers in terms of a public tender procedure for contracting financial intermediaries.**

The **Croatian Bank for Reconstruction and Development (HBOR)** selected three commercial banks with which a financing agreement was signed in September 2019, providing availability of this instrument to potential end recipients, offering the possibility of affordable financing for larger/long-term investments in primary agricultural production, processing and forestry. The model for implementing this instrument, in addition to EUR 35.3 million programme funds, attracted the same amount of funding from commercial banks, hence potential end recipients have at their disposal a total of EUR 70.6 million. From September 2019 to the end of the year, there were no approved projects for this instrument.

## 6.2. Progress in the utilisation of EU instruments

**Table 7** | Level of utilisation of centralised EU instruments in the RC

Instrument	Results for the RC
<b>Investment plan for Europe</b>	Total funding in terms of the European Fund for Strategic Investments (EFSI) in the RC by the end of March 2020 amounted to EUR 293 million, which is able to encourage further investments of EUR 1.3 billion.
<b>Connecting Europe Facility</b>	Total utilisation of funds from the Connecting Europe Facility (CEF) by the end of 2019 amounted to EUR 590 million.
<b>Union Programmes</b>	Union Programmes are an integrated set of activities that the EU adopts to promote cooperation between member states in various areas related to EU common policies. Their aim is to improve cooperation between EU member states and their citizens in various sectors: culture, science, education, transport, energy, environment protection, health, justice, fiscal and customs policy, etc. The RC participates in all 16 EU programmes. The RC participates in all 17 Union Programmes. The budget for the programmes in the fiscal period 2014-2020 amounts to EUR 104.12 billion. For the period 2014-2018, total utilisation of Union Programmes in the RC amounted to EUR 262.85 million. For 2019, analysis of the utilisation is still ongoing.

## 6.3. Reform measures financed from EU funds

**Table 8** | Economic policy measures and measures for achieving goals from the Europe 2020 strategy financed from EU funds

Name of measure	Description of investment from EU funds	Qualitative effect – description of anticipated effect of measure
<b>Ensuring humanitarian aid in kind and other programmes supporting the most deprived</b>	Ensuring school food for children at risk of poverty	Reduced the number of people at risk of poverty and social exclusion.
	Providing assistance to the neediest people by handing out food and/or basic material assistance	
<b>Development and expansion of the network of social welfare services and transformation of social welfare and the deinstitutionalisation of beneficiaries</b>	Devising project proposals directed to the process of transforming social welfare institutions and the deinstitutionalisation of beneficiaries	Increased the number of transformed social welfare institutions.
	Development and expansion of the network of social welfare services by providers of social welfare services	Expanded network of social welfare services in the community provided by social welfare institutions, associations, the community, religious communities, foundations, LRSGUs, international organisations and national minority councils.
	Development and expansion of the network of social welfare services which are provided by associations	
<b>Ecologicalisation of transport</b>	Granting of funds to carriers in public city transport for modernisation of vehicles	New fleet with the aim of reducing negative effects on the environment and increasing energy efficiency
<b>Modernisation of the judicial system</b>	Introducing the eCasefile system for misdemeanour cases	Easier access to the courts and easier management of cases.
	Introducing eCommunication at county courts	
	Ensuring technical conditions for eCommunication of legal persons	
<b>Implementation of measures from active employment policies</b>	Inclusion and activation of the unemployed on the labour market through measures from active employment policies	Reducing the number of unemployed persons, as well as a higher level of education and expertise of the labour force.

Name of measure	Description of investment from EU funds	Qualitative effect – description of anticipated effect of measure
	Inclusion of the unemployed in education measures for finishing primary school and acquiring one's first occupation	
	Inclusion of the unemployed in education measures	
<b>Decentralisation</b>	Analysis of indicators for assessing LRSQU capacities and classification of units into categories	Increased efficiency in undertaking activities in LRSQUs
<b>Digitalisation of public administration</b>	Establishing the Share Services Centre to full functionality	All public administration bodies are to be provided shared services, hardware, licences and cloud-based software; ability to use reliable accommodation of own computing and communications equipment at the Shared Services Centre and availability of consultancy services at the Shared Services Centre, as assistance in development and implementation of new technological solutions.
	Establishing single points of contact	Easier access to services provided by public administration, because users in one place will have access to information and services from various public administration bodies.
	Establishing the eBusiness platform	Ensured development of a larger number of eServices for business users and other legal persons, integration with the system for authorising use of eServices, and thereby easier delegation of tasks in the business environment. Use of common functions ensures standardisation of solutions and easier use of various eServices.
	Establishing a system incorporating services for electronic signing and/or stamping of documents	A common system with suitable services has been established which all public administration bodies will be able to use, including citizens and business entities for the purpose of electronic signing and/or stamping of documents, as well as their validation which will provide full functionality in providing public eServices (from electronic submission of applications to public sector bodies, to the issuing of electronic documents (acts/approvals) in various procedures).
	Upgrading the Open Data Portal	The ability to accept a larger number of bodies obliged to disclosure data.
<b>Quality management</b>	Introducing quality management systems to public administration in the RC	Efficiency and quality of public administration has been increased by providing simpler and higher-quality services to users, including lower costs and reducing the administrative burden for users of public administration services.
<b>Reform of the general and vocational education</b>	Support to implementing comprehensive curriculum reform by ensuring organisational conditions	Implemented the curriculum reform in all schools in the RC.
	eSchool project: developing a system of digitally mature schools (Phase 2)	Teachers and pupils equipped and educated to use new work methods.
	Establishment of mechanisms and tools necessary for ensuring quality of the vocational education and training system	Higher level of quality in vocational schools, as well as resulting competencies necessary for entering the labour market
<b>Lifelong learning</b>	Devising new standards for qualifications and curriculum in adult education	Higher level of quality for the adult education program and the work of educational institutions.
	Developing the Curriculum for Andragogical Education of Workers	
<b>Effective and relevant higher education</b>	Implementing evaluation and registering qualification standards into the CROQF Register	Registered qualification standards into the CROQF Register

Name of measure	Description of investment from EU funds	Qualitative effect – description of anticipated effect of measure
<b>Strengthening human resources as well as science and technology systems by aligning with the economy</b>	Employing young scientists through the programme “Young Scientists Career Development Project – Postdoctoral Students”	Young researchers – postdoctoral students will be able to obtain the necessary experience and knowledge necessary for developing their scientific careers, while their mentors can develop and strengthen mentor capacities.
<b>Implementing the programme for student scholarships and increasing student accommodation</b>	Awarding scholarships to students of lower socio-economic status	Access to higher education for students of lower socio-economic status has been ensured, as well as a higher rate of completion in higher education for students of lower socio-economic status.
	Awarding scholarships to students in priority STEM fields	Increased availability and improved social dimension of higher education as well as increased rate of higher education completion have been achieved by focusing on study programs with the greatest prospects of generating economic growth in the RC.
	Ensuring adequate student accommodation capacities	Support to public higher education institutions to expand and improve their student accommodation capacities, with an emphasis on disadvantaged students, by reconstructing and modernising existing and constructing new accommodation capacities.
<b>Promoting energy used from renewable energy sources and energy savings</b>	Public call for energy refurbishment of family homes and installation of renewable energy sources (EnU-2 and EnU-3)	Increased the installed power of energy generation for self-supply and heat pumps as energy efficiency measures.
	Public call for procurement of energy efficient vehicles and infrastructure	Increased the use of electrical vehicles and other renewable energy sources in transport.
	Public call for project documents for RES and energy transition on the islands (EnU-11)	Increased the number of projects for RES utilisation, energy efficiency on islands and in rural areas.
	Public call for research and development projects RES/EE (EnU-6)	Increased the number of projects for innovation in the RES and energy efficiency sector (pilot projects in the use of hydrogen, liquefied natural gas in transport, etc.).

It should be noted that in terms of the Plan of Cooperation and Support for the Structural Reform Programme for the Period 2017-2020 (from August 2017, and amendments from March 2017, 2018 and 2019), the EC has approved for the RC the financing of 64 projects (EUR 14.5 million),<sup>77</sup> of which 14 projects received approval for financing in 2020 (EUR 4.831 million) and their implementation will assist in:

- improving corporate governance in state-owned enterprises through audits and harmonisation of legislation in accordance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises
- reforms to the business environment
- better measuring of outcomes in public procurement
- better management of expenditure in the

<sup>77</sup> Includes the pilot-phase from 2016 when EUR 1.06 million was approved for 9 projects

- area of water and waste management
- developing the customs information system
- implementing the Tax Administration’s IT strategy
- developing a system of support in implementing the Comprehensive Curriculum Reform – Phase 4
- better planning of costs in government policies and strategic planning processes
- raising awareness and standards to combat bribery in international business transactions
- applying eCommunication in the Croatian judicial system
- Improving the provision of social welfare services
- applying new financial mechanisms based on the revised EU ETS directive
- Improving tri-monthly national accounts and assessing those related with the size of the informal economy
- identifying obstacles in aligning to EU plans for capital markets

## 6.4. Investment projects

Croatia continues in directing its investment policies towards research and innovation, sustainable city and rail transport, energy efficiency, renewable energy sources and environmental infrastructure, while taking into account regional diversities. This is greatly assisted by investments from ESIF. In the coming period, there are plans to achieve

greater individual investment projects (> EUR 20 million) from the ESIF in the sectors of transport (especially the rail sector), research and innovation, education (digitalisation of the school system) as well as electronic communications and the social welfare infrastructure.

**Table 9** | Investment projects financed from ERDF and CF

Name of project	Objective	Description	Value in millions (HRK)	Source of financing	Implementation period
<b>Modernisation and electrification of the Zaprešić-Čakovec (R201) railway line on the Zaprešić (included) – Zabok (excluded) section</b>	Including the Zaprešić-Zabok railway line section in suburban railway transport across a wider area of the City of Zagreb and terminating restrictions in cargo transport	The plan is to reconstruct the entire railway line section covering a length of 23.86 km for a speed of 120 km/h, AC 25kV/50Hz electrification of the system, reinforcement for transport by 22.5 t/o train weight and equipping with suitable signal-safety and telecommunications devices, reconstruction of the platform and stops (especially extensive at Zabok platform, where parts of the platform will be separated, intended for passenger and cargo (platforms) and resolving the railway-road crossings by providing safety measures, funnelling and levelling.	81.92	SB 15% CF 85%	Jan-14 Dec-21
<b>Expanding and electrification of existing railway lines important for international traffic along M601 Vinkovci-Vukovar</b>	Ensuring efficient and reliable rail links between Vukovar Port and the RC including the rest of the linked parts of Europe which will result in transferring cargo transport from road to rail transport.	The plan is to reconstruct and renew the entire single railway track covering a length of 18.71 km and reconstruction of associated stations and platforms, electrification, eliminating railway-road crossings, constructing intersections with other thoroughfares at two levels and installing modern signal-safety and also telecommunication devices. Reconstruction of individual horizontal arches and entire renewal of railway superstructure and railway buildings will then enable reaching nominal design speeds of 120 km/h on a major section of the railway line.	64.71	SB 15% CF 85%	Mar-16 Dec-20
<b>Reconstruction of existing and construction of other track on the Hrvatski Leskovac – Karlovac section</b>	Improve and upgrade railway infrastructure in the RC, thereby encouraging the railways to assume a significantly larger proportion of traffic within respect to roads, increasing capacities and services of the regional railway infrastructure and TEN-T railway infrastructure.	The plan is to reconstruct the existing track and construct the other track on the railway line section Hrvatski Leskovac – Karlovac covering a length of 44.02 km, along with reconstruction of 3 platforms and 4 stations as well as conversion of 3 platforms into stations. Project activities include installation a new electrification system, constructing new aboveground contact lines on the existing track, and installing a new line on another track, installation of level 1 ERTMS infrastructure, reconstruction of electric traction substations, improving safety on railway-road crossings, renovating bridges, drainage canals and road overpasses as well as building modern signal-safety and telecommunications devices, including the implementation of noise protection measures. Implementation of the project will	362.8	SB 15% CF 85%	Nov-18 Dec-23

Name of project	Objective	Description	Value in millions (HRK)	Source of financing	Implementation period
<b>Renewal of the HŽ putnički prijevoz fleet with new electric motor trains</b>	Procurement and modernisation of railway passenger train fleet linked to lines in city, suburban and regional transport, in order to ensure competitive railway passenger transport.	mean achieving nominal design speeds of 160 km/h on a major section of the railway line. The plan is to modernise the HŽ putnički prijevoz train fleet in order to improve competitiveness of provided passenger services. In terms of the project, the plan is to procure a total of 21 electric trains (11 regional and 10 city-suburban). The strategic goal of the project is to improve regional links and mobility for better access to the labour market and services in functional centres.	138.09	SB 15% CF 85%	May-19 Dec-23
<b>The Children's Centre of Competence for Translational Medicine (CCTM) at the Srebrnjak Children's Hospital</b>	The CCTM project is a large infrastructural project that includes construction of new buildings functionally connected to the existing Srebrnjak Children's Hospital and equipping with essential research and medical equipment.	In addition to building a new building cover approx. 14,523 m2 functionally connected to the existing Srebrnjak Children's Hospital, the plan is to procure and install scientific-research, medical and other equipment essential for achieving the planned functionality of the CCTM, and which will completely equip the Unit for Fundamental Research, Unit for Clinical Research, Unit for Diagnostic Research as well as supporting wards of the CCTM. The plan is to implement organisational reforms at the Srebrnjak Children's Hospital from the paediatric hospital into a clinic research centre and polyclinic specialising in children's diseases, strengthening capacities for RDI and collaboration between science and industry on interdisciplinary research. Top research at the CCTM will result in creating new know-how, diagnostic methods, treatment procedures and medicines, prevention methods and other solutions directed towards reducing the negative effects of diseases on society and quality of life for the population.	432.2	SB 15% EFRR 85%	Jan-14 Mar-22
<b>Open scientific infrastructural platforms for innovation applications in the economy and society O-ZIP</b>	Includes improving existing and building new content at the Ruđer Bošković Institute. The project will result in establishing 4 multidisciplinary research platforms and implementation of organisational reforms at the Ruđer Bošković Institute.	Implementation of the O-ZIP project will create the preconditions for increasing the scope, quality and effectiveness of research directed towards resolving social challenges, implementing top collaborative research and promoting the importance of commercialisation of research results, while contributing to the development of innovative and competitive entrepreneurship. The main project activities include: reconstruction of existing infrastructure for research and development at the Ruđer Bošković Institute; construction of new research infrastructure; procurement and installation of equipment necessary for envisaged research and development activities.	547.2	SB 15% ERDF 85%	Apr-18 Dec-23
<b>Establishment of veteran centres in the RC</b>	Infrastructural investments in 4 veteran centres which have the goal of promoting social inclusion and reducing poverty for war veterans and civilian victims of the Homeland War.	In implementing the project, infrastructure will be upgraded to provide psychological help to veterans and civilian victims of the Homeland War with the aim of better inclusion into society through works in expanding, reconstruction, renewal, adaptation and construction of premises as well as procurement of equipment for four veteran centres in Daruvar, Petrinja, Sinj and Šibenik. Results of the project will be ensured through collaboration with local self-government units and in synergy with projects from the OPHRD and will enable implementation of new	328.79	SB 15% ERDF 85%	Jan-18 Jan-23

Name of project	Objective	Description	Value in millions (HRK)	Source of financing	Implementation period
		forms of programmes for psychological empowerment and extra-institutional services. This will have a significant impact on reducing the share of stationary and mobile interventions, with an emphasis on crisis intervention offered by Centres for Psychological Assistance.			
<b>Construction of national broadband aggregation infrastructure and aligning to target public users</b>	The aim of the project is to construct a next-generation national aggregation infrastructure and linking target users within public administration bodies using modern electronic communication infrastructure which supports symmetrical access speeds above 100 Mbit/s.	The project plans to construct national aggregate broadband infrastructure which cover at least 540 prioritised settlements, of which each settlement has more than 1,000 inhabitants and which the infrastructure is located in rural and suburban areas of the RC. The planned broadband aggregation infrastructure is an essential infrastructural precondition for development of next-generation access networks in areas in which there is no ample commercial interest for investments. The project will be undertaken by the state-owned enterprise Transmitters and Communications Ltd., in cooperation with MSTI as the carrier of the National Programme for Development of Broadband Aggregation Infrastructure in areas in which there is insufficient commercial interest for investing, as a precondition for developing next-generation access (NGA) networks.	786.77	SB 15% ERDF 85%	Oct-15 Dec-23
<b>The large eSchool project: Developing digitally mature schools (Phase 2)</b>	The aim of the project is to contribute to strengthening capacities of the primary and secondary school system with the aim of training pupils for the labour market, further schooling and lifelong learning.	The plan is to conduct informatisation of administration, of teaching and learning within schools in order to ensure that activities in the eSchool programme cover at least 85% of public primary and secondary schools in the RC for improving digital literacy by one level in line with the Digital Agenda for Europe (DAE) and the national Strategy for Broadband Development in the Republic of Croatia for the Period 2016-2020.	996.31	SB 15% ERDF 85%	Sep-18 Dec-22

## 7. Institutional issues and the inclusion of stakeholders

The Decision on Coordination of Activities Within the Framework for Economic Governance of the European Union has identified the institutional framework and procedures relating to coordination of activities within the framework for EU economic governance – the European Semester at the Croatian Government level thereby ensuring coordination of policies and measures covered by the mechanism for coordinating economic policies within the EU, and those necessary for boosting growth and creating new jobs within the framework of the Europe 2020 strategy. The Decision led to founding of the Inter-Agency Working Group for the European Semester headed by the Vice-President of the Government for the Economy. Coordinators for the European Semester were also appointed as officials in state administration bodies, who are responsible for devising reform measures and coordinating implementation of measures, as well as recommendations of the Council of the EU and measures to achieve targets of the Europe 2020 strategy and reporting on the progress of implementation.

In the process of drafting the NRP, four special thematic meetings were held between representatives of the ministries (responsible for the measures) and social partners in February 2019, where the proposed measures were discussed, specifically regarding the areas of: public administration, social welfare, healthcare, the labour market, as well as science and education. The social partners submitted their responses to the proposed measures in writing, whereupon those responsible for the measures also responded in writing.

Importantly and regarding the proposals from social partners, the implementation of some measures/activities has already been envisaged in the NRP measures. This includes, for example, the functional integration of hospitals, resolving the issue of a fragmented territorial-administrative organisation of

LRSGUs, digitalisation of public administration, better promotion of traineeship measures in terms of measures for active employment policies, devising a strategic framework for combatting unreported work, completing the process of integrating social welfare services and devising a single methodology for pricing social welfare services and conducting research on forms of long-term care for the elderly.

The opinion of social partners in redefining performance indicators for activities relating to adoption of legislation was taken into consideration. The descriptive part of the measures/activities was further elaborated in reference to support for activities in public institutions of higher education and public scientific institutions through the establishment and cofounding of doctoral schools, as well as in reference to the protection of whistleblowers.

Social partners pointed out the need for undertaking an urgent external evaluation of measures from active employment policies, emphasising that the CES is currently in the phase of preparing tender documentation for the external evaluation which is to cover the 2014-2019 period. External evaluation of measures from active employment policies should be completed by the end of 2021. Also, the CES is monitoring self-employment beneficiaries after exiting the intervention in order to assess effects of the measure. Social partners highlighted the need to envisage measures in which a comprehensive wage policy could be managed, not only the public but also real sector, and accordingly the Government is continuing activities in reviewing the system for determining wages, even though they are not explicitly contained in the table of measures, but will be monitored through the reporting on execution of recommendations from the EU Council. Accordingly, activities are currently underway in selecting independent experts to perform a comprehensive comparative analysis of the wages system, firstly in the public sector, and

thereafter a project will be prepared to establish a Reporting Centre for Tracking the Process of Collective Negotiations and Outcomes of Concluded Collective Agreements. In regard to measures Increasing the quality of life for young people in rural areas, importantly, additional measures/activities will also be ensured and implemented, i.e., co-funded, which will be implemented over the long term in the 2020-2024 National Programme for Young People which is to be adopted in the second quarter of 2020, whereas the comprehensive measure for demographic renewal will be including in a special strategic document currently in preparation. Social partners have pointed out the need to better evaluate the effects of laws and hence there are plans to increase the capacities of competent bodies for formulating laws while applying the better laws policy and conducting an evaluation of the effects of laws on the economy and education of persons who are included in this process (experts will be appointed to draft better laws and the necessary education).

Social partners have proposed regulating a new system for employing foreigners which is to be more effective compared to the current quota model, which will be considered and undertaken in terms of other programmes from the competent ministries.

At the end of April 2020, social partners were presented with the Draft NRP which the Government proposes for 2020. After its adoption at the Government session, the NRP will be presented to members of Croatian Parliament.

In the phase of implementing the measures as defined in the NRP, social partners and the interested public will be included in the drafting of laws and/or by-laws, and will also be able to participate and have a say as to the content of the final solutions in accordance with the procedure for adopting laws, which includes consulting with the interested public.

Though the Economic and Social Council (ESC) has formally not operated for almost two years, social dialogue continues at all other levels, and the Government has continually invited social partners to participate in working groups for the drafting of proposed public policies, national strategies, draft laws, legislation, programmes and other documents, and the Government has also submitted proposals to them for feedback allowing them to actively participate in creating public policies.

On 11 March 2020, the Government and social partners signed the Agreement on Establishment of the ESC at the national level, which represents the highest (institutional) form of tripartite social dialogue at the national level, while especially keeping in mind that social partners have an important and active role in creating and implementing public policies, and that the advisory role of the ESC at the national level is exceptionally important.

The signing of the Agreement has formally enabled ongoing work by the ESC, and on 27 March 2020, the first session was held at which the president of the Government, as well as the vice-presidents, participated, and at which discussions were held on the impact of the COVID-19 pandemic on the economy and society as a whole, as well as measures to assist the Croatian economy and preservation of jobs, which is proof that the Government values its social partners and their role is considered to be exceptionally important in finding a common solution to all key topics.

## ANNEX 1. MAIN OBJECTIVES, REFORM PRIORITIES AND MEASURES OF THE ECONOMIC POLICY

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
<b>1. SUSTAINABLE ECONOMIC GROWTH AND DEVELOPMENT</b>										
<b>1.1. Improving the business environment</b>										
1.1.1. Administrative and non-tax relief	4/d 8. 9.	Reduce administrative and fiscal burdens on the economy	1) Number of implemented measures	1) 370	1) 450	Revenue: HRK 500,000 (SB)	Action Plans for Relieving administrative burden on the economy	1.1.1.1. Implementation of measures for administrative burden	Apr-21	MEEC
			2) Reduced non-tax contributions by 3.5%	2) 0%	2) 3.5%		Action plan for reducing non-tax and parafiscal contributions	1.1.1.2. Reducing non-tax contributions	Apr-21	MEEC
1.1.2. Liberalisation of the services market	4/c 9.	In applying the OECD PMR methodology leads to continue boosting competition on the service market, by reducing the overall level of regulation of professions and encouraging the prevention of introducing new regulations for the services market and professions.	Minimal cumulative number of implemented measures for liberalisation of services market to facilitate right of establishment and freedom to provide services in a number of business activities and professions	230	250		First and second Action plan for liberalisation of the services market	1.1.2.1. Changes to sectoral laws for performing certain service activities and professions	Feb-21	MEEC
1.1.3. Combatting unreported work	8. 10.	1) Establish mechanisms which will ensure reporting work and legalisation of self-employment which takes place in the shadow economy and minimises the risk of moonlighting. 2) Raise public awareness of issues relating to unreported work.	Strategic document for combatting unreported work along with the associated Action Plan for Implementation in 2020-2023	Partial measures for combatting unreported work	The strategic document has been adopted		Strategic document for combatting unreported work along with the associated Action Plan	1.1.3.1. Adoption of the strategic documents for combatting unreported work	Dec-20	MLPS
<b>1.2. Investment policies directed towards the future</b>										
1.2.1. Encouraging investments	3/a 8. 9. 12.	Conduct an analysis and baseline report for attracting and encouraging investments which contribute to the Sustainable Development Goals of the United Nations.	Potential areas and projects including relevant national and local stakeholders have been identified for promoting investments contributing to SDG.	0	1			1.2.1.1. Analysis of existing documents for attracting and encouraging investments	Apr-21	MEEC

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
1.2.2. Establish a normative framework for reforms to the water utilities sector	6.	Integrate public providers of water services from public water supply and public sewage in the RC with the aim of achieving their implementation competencies and investment capacities.	Number of providers of water services after integration	190	approx. 40		1) Water Services Act 2) Regulation on Service Areas	1.2.2.1. Adopting the Regulation on Service Areas and implementing the integration of public suppliers of water services	Dec-20	MEPE
1.2.3. Transferring to a smart, circular and low-carbon society	8. 12. 13.	Separating growth from the use of resources and halting the loss of biodiversity as well as strengthening sustainable competitiveness and the industrial base	Decision on establishing a platform for a circular economy		The decision has been adopted		2030 National Development Strategy	1.2.3.1. Establishing a platform for a circular economy	Dec-20	MEPE
1.2.4. Ecologicalisation of transport	3/a 11. 14. 15.	1) Modernisation of the system of public city transport by investing in a new fleet with the aim of reducing negative effects on the environment and increasing energy efficiency.	1) Number of signed grant agreements	0	1) 7	Expenditure: HRK 10 million (SB and EU)	Transport Development Strategy for the RC for 2017-2030	1.2.4.1. Grants to transport carriers in public city transport for modernisation of fleets	Apr-21	MSTI
		2) Increase safety and sustainable development of maritime transport	2a) Fleet of rescue units at the port authorities replaced with special-purpose search and rescue vessels 2b) Establish a national system for preventing and combatting sea pollution	2a) 1/10 of vessels 2b) 0/3 of logistics operational centres with the appropriate equipment for interventions in the event of unplanned sea pollution	2a) 2/10 of vessels 2b) 1/3 of logistics operational centre along with appropriate equipment for interventions in the event of unplanned sea pollution	Expenditure: HRK 25.5 million (SB)	1) Transport Development Strategy for the RC for the Period 2017-2030 2) Maritime Development and Integral Maritime Policy Strategy for the RC for the Period 2014-2020 3) National Plan for Development of the Coastal Liner Maritime Transport 4) Contingency Plan for Accidental Maritime Pollution 5) Subregional Contingency Plan for Preventing, Readiness for and Reacting to Accidental Large-Scale Pollution of the Adriatica	1.2.4.2. Implementation of projects to improve maritime safety and sea environment protection	Apr-21	MSTI

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority		
			Result indicator	Initial value	Target value							
		3) Increase competitiveness of the economic fleet on the inland maritime waterways. 4) Ecologicalisation of inland navigation	3) Drafted the Study on Modernisation of the Fleet on the Sava River, in terms of technological innovation, in the domain of environmental protection and new market surroundings 4) Drafted the Study of Reception and Treatment of Waste from Inland Waterway Vessels		3) 1	Expenditures: HRK 150,000 (SB)	Act on Inland Navigation and Inland Waterway Ports	1.2.4.3. Implementation of the Programme for Renewing Shipping and Modernisation of the Fleet on the Sava River	Dec-20	MSTI		
					4) 1						Expenditures: HRK 120,000 (SB)	1.2.4.4. Devise the concept for reception and treatment of waste from vessels on the inland waterways
		5) Define routes for developing maritime transport, with the aim of increasing gross domestic product, define development based on principles, sustainability, safety and protection of the sea environment, which will cover all aspects of economic activities on the sea and coast from shipping and services in maritime transport, through port infrastructure and port services, to education including living and work conditions for seafarers, introducing and developing green technologies, and the like.	4) Drafted the Study on Reception and Treatment of Waste from Inland Waterway Vessels 5) Devised the project tasks		5) 1		Maritime Code	1.2.4.5. Devising the project task for the Maritime Development and Integral Maritime Policy Strategy for the RC for the Period 2021-2027	Dec-20	MSTI		
					6) 1						6) Project task drafted	1.2.4.6. Drafting the project task for new strategic document in the area of nautical tourism
		1.2.5. Raising the competitiveness of tourist destinations and system of local tourism boards	8. 12.	Effective destination management system and increasing the level of efficiency in local tourist boards	Number of tourist boards to which grants have been given to implement projects	0	up to 200	No impact: HRK 60 million (Funds)	1) Fund for Underdeveloped and Hinterland Areas 2) Fund for United Tourist Boards	1.2.5.1. Financing projects for improving tourist offers	Dec-21	MT

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority				
			Result indicator	Initial value	Target value									
<b>1.3. Improving management and utilisation of state assets</b>														
1.3.1. Activation and better management of state assets	4/a 8.	1) Strengthen oversight of business operations in legal persons in majority state ownership by increasing competencies of members of supervisory boards and audit committees.	1a) Devised Guidelines for Work by Members of Supervisory Boards and Audit Committees in State-owned Enterprises 1b) Workshop for Appointed Members of Supervisory Boards and Audit Committees in State-Owned Companies was held	1a) 0 1b) 1	1a) 1 1b) 2	No impact: EUR 150,000 (SRSP)	Decision by the Croatian Government	1.3.1.1. Drafting the framework for work by members of supervisory boards and audit committees in state-owned enterprises	Apr-21	MSA				
		2) Establish an oversight system with the aim of timely recognition of risks in business operations and finances of legal person in majority state ownership	2) Established the early warning system for business risks (EWS)	0	2) System is operating.						Government Conclusion	1.3.1.2. Establishing the early warning system for business risks (EWS)	Dec-20	MSA
		3) Reduce the portfolio of state assets management by the MSA and RSC and also activate unutilised state assets	3a) Value of achieved sales of stock and business shares in non-strategic companies 3b) Revenue from non-financial assets (property management) 3c) Number of concluded deeds of gift	3a) 2019: HRK 550M 3b) 2019: HRK 220M 3c) 2019: 70	3a) HRK 150M 3b) HRK 240M 3c) 76						State Assets Management Act	1.3.1.3. Activation of unutilised state assets	Apr-21	MSA
1.3.2. Restructuring and construction of a sustainable transport sector	4/a 9.	1) Ensure financial sustainability of companies in the railway sector technical-technological strengthening of business processes	1) Number of signed contracts for preparing strategic planning acts (Strategic Development of the Railway System in the RC, National Plan for Railway Infrastructure and Improvement of Integrated Passenger Transport)	0	1) 1		Railways Act	1.3.2.1. Drafting the project task for preparing strategic tools in the development of the railway system in the RC	Dec-20	MSTI				
			2) Signed the contract for oversight and review of the Contract on Public Services of General Economic Interest in Public Rail Transport in the RC	0	2) 1			1.3.2.2. Concluding a contract for the oversight the review of the Contract on Providing Public Services in Public Rail Transport in the RC			Dec-20	MSTI		

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority	
			Result indicator	Initial value	Target value						
		2) Implement business restructuring of the road sector to ensure financial stability of business processes in state-owned road enterprises	3a) Reducing the proportion of operating costs with respect to operating revenue	3a) HAC: 0.31; ARZ: 0.27; HC: 0.30	3a) HAC: <0.28; ARZ: <0.28; HC: <0.30		Government Decision on Accepting Business and Financial Restructuring of the Road Sector	1.3.2.3. Implementation of actions plans for restructuring	Dec-20	MSTI	
			3b) Reducing operating costs per km of road network	3b) HAC: 0.68; ARZ: 1.00; HC: 0.08	3b) HAC: <0.65; ARZ: <1.00; HC: <0.08						
			4) Changes to accounting standards in companies	4) Presentation of capital	4) Presentation of revenue			Roads Act	1.3.2.4. Amendments to the Roads Act	Jan-21	MSTI
		3) Finding a strategic partner for the company Croatia Airlines Ltd.	5) Standardisation of the process of regular road maintenance	5) Carrying out works based on quantities	5) New result-based maintenance standard		Ordinance on Road Maintenance	1.3.2.5. Adoption of the new Ordinance on Road Maintenance	Sep-20	MSTI	
			6) Evaluation of received binding offers and negotiations with bidders	6) Analysis of possible models	6) Final binding offer		Government's Decision on Selection of a Strategic Partner for Croatia Airlines Ltd.	1.3.2.6. Implementation of the procedure for finding a strategic partner for the company Croatia Airlines Ltd. (Phase 1)	Jun-20	MSTI	
			7) Proposed selection of strategic partner and defining modality for next phases of the procedure	0	7) Strategic partner for the company Croatia Airlines Ltd. has been selected			1.3.2.7. Implementation of the next phases in the procedure to finding a strategic partner for the company Croatia Airlines Ltd.	Dec-20	MSTI	

#### 1.4. Improving public administration

1.4.1. Strengthening capacities for devising and implementing public policies and projects	3/b 8. 9. 16.	1) For optimal integration of strategic planning and development management, the ability for an integrated approach in forming and executing public policies and projects will be improved, including introducing a standardised approach to assessing performance of public policies and projects, while taking into account initial conditions and expected socio-economic effects.	1) Number of developed procedures for assessing performance of the implementation of public policies and projects	0	1) 3	No impact: EUR 460,000 (SRSP)	1) Act on Strategic Planning and Development Management System 2) Regulation on guidelines for drafting strategic planning acts of national importance and important to LRSGUs. 3) Regulation on the Manner of Organising, Content and Running the Central Electronic Register of Development Projects 4) Ordinance on Deadlines and Procedures for Tracking and Reporting on	1.4.1.1. Guidelines for Evaluating the Performance of Public Policies and Projects	Oct-20	MRDEUF
			2) Number of devised applications for presenting data	0	2) 1			Expenditure: HRK 250,000 (SB and EU)	1.4.1.2. Establishing a platform for transparent dissemination of data for presenting performance of the implementation of public policies and projects	Feb-21

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
							the Implementation of Strategic Planning Acts of National Importance and Important to LRSGUs. 5) Ordinance on implementation of evaluation			
		2) Planned, systematic, targeted and comprehensive education for all employees working in the system of EU funds management at the national, regional and/or local level.	3) Act on Strengthening Capacities of the Institutional Framework for Implementation of EU Funds in the RC	0	3) The Act has been adopted		Act on Strengthening Capacities of the Institutional Framework for Implementation of EU Funds in the RC	1.4.1.3. Adoption of the Act on Strengthening Capacities of the Institutional Framework for Implementation of EU Funds in the RC	Oct-20	MRDEUF
		3) Increase capacities of competent bodies for drafting laws and application of policies from better laws as well as implementation of assessments of the effects of laws on the economy and educating persons who are included in the process.	4) Established a system of at least 1 educated expert from better laws policies and drafting the assessment of effects of laws on the economy in every body which passes laws	0	4) 25 experts	No impact: EUR 397,920 (SRSP)	Decision by the head on appointment of experts for better laws in each public administration body.	1.4.1.4. Appointment of experts for drafting better laws and conducting education	Dec-20	MEEC
		4) Devise a programme for upgrading the education and training system for acquiring knowledge and professional competences in inland navigation which will increase the quality of professional staff and lead to recognition of professional qualifications in line with EU standards.	5) Drafted the Programme for Improving training and education system for the acquisition of knowledge and professional competencies in inland navigation	0	5) 1	Expenditure: HRK 100,000 (SB)	Act on Inland Navigation and Inland Waterway Ports	1.4.1.5. Drafting the programme for improving the training and education system for acquiring knowledge and professional competences in inland navigation	Dec-20	MSTI
1.4.2. Improving the normative framework for combatting corruption	4/b	1) Form new national strategic framework in the area of combatting corruption in the RC, to continue strategic articulation of national endeavours in managing corruption risks in identifying priority sectors of action.	1) New national strategic document on combatting corruption for the period 2021-2030	1) 4	1) National strategic document has been adopted			1.4.2.1. Adoption of the national strategic document in combatting corruption	Dec-20	MJ

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
		2) Improve the legislative framework for the work of the Office for the Suppression of Corruption and Organised Crime (USKOK) by revising status issues and regulation of the status and legal aspect of a new category of prosecutors – European Delegated Prosecutors	2) Improving the legislative framework for the work of the Office for the Suppression of Corruption and Organised Crime (USKOK)	2) 7	2) The act has been adopted		Act on the Office for the Suppression of Corruption and Organised Crime (USKOK)	1.4.2.2. Adoption of the Act on the Office for the Suppression of Corruption and Organised Crime (USKOK)	Dec-20	MJ
		3) Improve mutual recognition of freezing orders and confiscation orders with the aim of combatting activities of organised crime, corruption and financing of terrorism	3) The process of judicial cooperation with EU member states in the area of recognising orders for freezing or confiscating assets has been improved	3) 7	3) The act has been adopted		Act on Judicial Cooperation in Criminal Matters with EU Member States	1.4.2.3. Adoption of the Act on Judicial Cooperation in Criminal Matters with EU Member States	Dec-20	MJ
		4) Apply anticorruption mechanisms in managing the assets of LRSUGs.	4) The new Anticorruption Programme for Enterprises in the Ownership of the LRSUGs for the Period 2021-2022	0	4) The anticorruption programme has been adopted		1) Strategy for Combatting Corruption for the Period 2015-2020 2) Anticorruption Programme for Enterprises in the Ownership of LRSUGs	1.4.2.4. Adoption of the Anticorruption Programme for Enterprises in the Ownership of the LRSUGs	Dec-20	MJ
		5) Strengthen transparency in the judiciary in terms of increasing trust of citizens in the judicial system.	5) Reports on the wealth of judicial officials (judges, state attorneys and deputy state attorneys) available online via the network application	0	5) Reports are published (number depends on the number of appointed officials)		1) State Judiciary Council Act 2) State Attorney's Council Act	1.4.2.5. Disclosure of reports on wealth declarations by judicial officials via network application	Dec-20	MJ
		6) Ensure effective court protection of whistleblowers in accordance with the Whistleblower Protection Act	6) Number of held educational courses for judges in the Judicial Academy programme on the topic of effective whistleblower protection	0	6) 3		Action Plan for 2019 and 2020 alongside the Strategy for Combatting Corruption for the Period 2015-2020	1.4.2.6. Conducting education of judges on the topic of effective protection of whistleblowers	Dec-20	MJ
		7) Raise awareness of the existing framework for protecting whistleblowers and encouraging citizens to report irregularities.	7) Number of printed promotional materials (items) for the Whistleblower Protection Act	0	7) 2.000	Expenditure: HRK 6,250 (SB)		1.4.2.7. Preparing promotional materials on the Whistleblower Protection Act	Apr-21	MJ

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
1.4.3. Decentralisation	1/b	Optimise the system of local and regional self-government	1a) 1a) Conducted an analysis of indicators for evaluating LRSKU capacities 1b) LSGUs categories according to capacities for performing tasks	Difficulties in implementing decentralisation due to differences in the number and quality of public services provided at the local level	Optimisation of the system of local and regional self-government	Expenditure: HRK 11.21M (SB and EU)	Strategy for of Public Administration Development Strategy for the Period 2015-2020 along with the Action Plan for the Period 2017-2020	1.4.3.1. Analysis of indicators for evaluating LRSKU capacities and classification of units into categories	Apr-21	MPA
1.4.4. Digitalisation of public administration	3/b 16.	1) Increase the number of public sector bodies in the Shared Services Centre as a central strategic place for managing and coordinating the state ICT system in order to streamline expenditures for the mentioned system	1) Number of public sector bodies in the Shared Services Centre	1) 50	1) 100	Expenditure: HRK 131 million (SB and EU)	1) eCroatia strategy 2) Act on State Information Infrastructure 3) Regulation on Organisational and Technical Standards for Linking to the State Information Infrastructure	1.4.4.1. Establishment of the Shared Services Centre (Phase 3)	Dec-20	MPA
		2) Establish a Single Point of Contact as an upgrading of the eCitizen system and integral part of the state IT infrastructure with the aim of citizens and business have available information and services from various public administration bodies in a single place.	2) Number of components in the central information system of the single point of contact for administration	0	2) 2	Expenditure: HRK 46.4 million (SB and EU)	1) Public Administration Development Strategy for the Period 2015-2020 2) 2020 eCroatia Strategy	1.4.4.2. Establishment of the single point of contact for administration	Apr-21	MPA
	4/d 16.	3) Include electronic services into the eBusiness system for providing public services to business entities and other legal persons.	3) Number of electronic services included in the system	0	3) 7	Expenditure: HRK 21.3M (SB and EU)	1) Decision on Initiating the eBusiness Project 2) Grant Agreement (October 2018)	1.4.4.3. Establishment of the eBusiness system (Phase 2)	Apr-21	MPA
	4) Include electronic services in the eFees system which will be able to be used by all public administration bodies, citizens and business entities for cashless payment of administration fees and levies when providing and using public services.	4) Number of electronic services included in the system	0	4) 7	Expenditure: HRK 24.4M (SB and EU)	1) Regulation on Information Technological System for Electronic Payment of Administration Levies 2) Grant Agreement (October 2018)	1.4.4.4. Establishment of the eFees system (Phase 2)	Apr-21	MPA	

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
		5) Develop a platform and system for issuing digital certificates to public authorities for the purpose of providing public eServices.	5) Number of established electronic service platforms for e/m-Signature: for signing, stamping and validation of documents	0	5) 3	Expenditure: HRK 12.4M (SB and EU)	Grant Agreement (October 2018)	1.4.4.5. Establishment of system with services for electronic signing and/or stamping/sealing of documents (Phase 3)	Apr-21	MPA
	<u>3/b</u> 9. 16.	6) Establish a central interoperability system using fundamental principles and recommendations from the European Interoperability Framework.	6a) Action Plan for Establishing the Central Interoperability System 6b) Established interoperability using the central interoperability system	0	6a) Action plan adopted 6b) 10 registers		1) Act on State Information Infrastructure and related regulations 2) European Interoperability Framework	1.4.4.6. Establishment of digital interoperability	Apr-21	MPA, CSODDS
	9.	7) Develop an economy based on open data (open-data economy).	7a) Number of datasets published in the national open data portal 7b) Number of bodies publishing open datasets	7a) 756 7b) 87	7a) 950 7b) 100	Expenditure: HRK 4.5M (SB and EU)	1) Directive on the Re-use of Public Sector Information (PSI Directive) 2) Act on the Right to Access to Information 3) Ordinance on the Types and Content of License determining the Conditions for Re-use of Information 4) Open Data Policy	1.4.4.7. Upgrading the Open Data Portal	Apr-21	CSODDS
		8) Provide citizens and business with simple access to information on national laws and obligations, effective cross-border accessible electronic procedures and efficient services for support in resolving problems with administration.	8a) Ensuring the mandatory set of information from Appendix 1 which is missing 8b) Conducted an analysis of gaps in the dissemination of mandatory procedures as in Appendix 2 8c) Drafted the Plan for Eliminating Obstacles (technical, functional, organisational and legal) so that the procedures from Appendix 2 are accessible to cross-border users 8d) Completing linking national tools for collecting feedback with the EC tool	0	8a) 88 8b) 1 8c) 1 8d) 1 8e) 1		1) EU Regulation on Establishing a Single Digital Gateway 2) EU Internal Market Strategy	1.4.4.8. Further development of the single digital gateway	Apr-21	CSODDS

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
			8e) Drafted the Plan for Eliminating Inadequacies in Exchanging Data "Only Once"							
		9) Develop the framework for standardised development of eServices	9) Adopted the framework for standardised development of eServices for ongoing digitalisation of public administration operations and improved quality of existing eServices and increased share of users	0	9) 1			1.4.4.9. Introduction of the framework of standardised construction of electronic public services	Dec-20	CSODDS
1.4.5. Quality management	3/b	1) Establish and apply a new system for developing state qualifying exams, applications for state qualifying exams as well as organisation and implementation of the professional exam for certain administration areas	1a) Ordinance on Sitting for the State Qualifying Exam in Written (Electronic) Form 1b) A new system for the development, preparation and implementation of a new state qualifying exam has been developed and established 1c) Exam catalogues containing new learning outcomes for the new administration exam and professional exam for civil registry service has been developed		1a) The Ordinance has been adopted 1b) The system is implemented 1c) 2 exam catalogues	Expenditure: HRK 1.70 million (SB)	1) Civil Servants Act 2) Strategic Plan of the Ministry of Public Administration for the Period 2019-2021	1.4.5.1. Establishment of a new system for sitting for the state qualifying exam and development of a new administration exam as well as professional exam for civil registry service	Apr-21	MPA
		2) Increase efficiency and quality of public administration with the aim of achieving simpler and better-quality provision of services to users along with a reduction in costs and administrative burden for users of public administration services.	2) Methodology for Quality Management in Public Administration and Methodology for Optimisation and Standardisation of Public Administration Processes has been devised	0	2) 2	Expenditure: HRK 18M (SB and EU)	Public Administration Development Strategy for the Period 2015-2020 along with the Actin Plan for the Period 2017-2020	1.4.5.2. Introducing a quality management system in public administration	Apr-21	MJ

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
<b>1.5. Improving effectiveness of the judicial system</b>										
1.5.1. Modernisation of the judicial system	4/c	1) Simplify and facilitate the undertaking of the legal profession and providing lawyer services by Croatian lawyers and lawyers from EU member states.	1) The legislative framework used to simplify and facilitate the undertaking of legal profession and providing lawyer services by Croatian lawyers and lawyers from EU member states.	1) 5	1) The Act has been adopted		Legal Profession Act	1.5.1.1. Adoption of the Act on Amendments to the Legal Profession Act	Jun-20	MJ
		2) Introduce eCasefile for misdemeanour cases in municipality misdemeanour courts, in misdemeanour departments at misdemeanour courts and at the High Misdemeanour Court of the RC	2) Number of courts at which the eCasefile has been introduced for misdemeanour cases	0	2) 2020.: 31 courts	Expenditure: HRK 3.48M (SB and EU)		1.5.1.2. Introduction of the eCasefile system for misdemeanour cases	Dec-20	MJ
		3) Introduce eCommunication at county courts	3) Number of county courts covered	0	3) 15	Expenditure: HRK 1.07M (SB and EU)		1.5.1.3. Introduction of eCommunication at county courts	Dec-20	MJ
		4) Expand eCommunication to legal persons	4) Number of enterprises in majority ownership of the RC using eCommunication	0	4) 30			1.5.1.4. Ensuring technical conditions for eCommunication by legal persons	Dec-20	MJ
<b>2. ALIGNING EDUCATION WITH LABOUR MARKET NEEDS</b>										
<b>2.1. Education and training in line with labour market needs</b>										
2.1.1. Reforming general and vocational education	2/a 4.	1) Continue implementing curriculum reforms in all schools in the RC along with professional training of education employees	1a) Number of schools (classes) included in implementation of the curriculum based on learning outcomes 1b) Number of education employees who have undergone training	1a) 1,311 – In all subjects for 1st and 5th grade of primary school as well as Biology, Chemistry and Physics in 7th grade. In grammar schools for all subjects in 1st grade, in vocational schools, level 4.2 in 1st grade in the subjects of	1a) 1,311 – In all subjects for 2nd, 3rd, 6th and 7th grade as well as Biology, Chemistry and Physics in 8th grade. In grammar schools in all subjects for 2nd and 3rd grade, whereas in vocational schools, level 4.2 in 2nd and 4th grade in	Expenditure: HRK 315.29M (SB and EU)  No impact: EUR 500,000 (SRSP)	1) Strategy for Education, Science and Technology 2) Act on Education in Primary and Secondary Schools	2.1.1.1. Assistance for implementing comprehensive curriculum reforms	Apr-21	MSE

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
				Mathematics, Croatian, English and German 1b) 45,380	the subjects of Mathematics, Croatian, English and German 1b) 50,000					
		2) Increasing digital maturity of schools by including all schools from the eSchools project, procurement of equipment for teachers and educating teachers in using the appropriate ICT equipment and developed eContent in accordance with the changing teaching curriculum and development of key/transversal competences for primary and secondary school pupils	2a) Number of schools participating in the eSchools projects 2b) Number of personal computers for education employees 2c) Number of digital educational content	2a) 1,298 2b) 38,333 2c) 21.75	2a) 1,318 2b) 38,333 2c) 47	Expenditure: HRK 306.28M (SB and EU)	Strategy for Education, Science and Technology	2.1.1.2. eSchool project: development of a system of digitally mature schools (Phase 2)	Apr-21	MSE
		3) Devise a distance learning model for all primary and secondary schools in the RC	3) Devised a strategic framework for conducting distance learning based on experience from the 2019/2020 school year	0	3) 1	Expenditure: HRK 1M (SB)	1) Strategy for Education, Science and Technology 2) Act on Education in Primary and Secondary Schools	2.1.1.3. Devising the strategic framework for conducting distance learning	Sep-21	MSE
		4) Conduct the experimental all-day class programme in the first three years of primary school for the purpose of reducing inequality and strengthening fundamental competences by increasing the minimum number of compulsory class hours.	4a) Adopted the Strategic Framework for Introducing All-Day Classes in Primary Schools 4b) Devised the model and experimental programme for all-day classes 4c) Announced the call for participation in the experimental programme for all-day classes	0	4a) 1 4b) 1 4c) 1	Expenditure: HRK 30M (SB and World Bank loan)	1) Strategy for Education, Science and Technology 2) Act on Education in Primary and Secondary Schools	2.1.1.4. Support for introducing experimental all-day class programme	Apr-21	MSE
		5) Ensure conditions for strengthening the quality of vocational schools as well as output competences necessary for entering the labour market in cooperation	5a) Number of concluded grant agreements with appointed regional centres of competence in priority (sub)sectors 5b) Report on external	5a) 10 5b) and 5c) 0 5d) 3	5a) 50 5b) 1 5c) 6 5d) 6	Expenditure: HRK 224.37M (SB and EU) HRK 2.2M (SB and Swiss-Croatian)	1) Vocational Education Act 2) Decision on Appointment of Regional Centres of Competence in Vocational Education	2.1.1.5. Establishment of mechanisms for ensuring quality of the vocational education and training system	Dec-20	MSE

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
		with other stakeholders of the vocational education system.	evaluation of secondary schools which implement experimental programmes in vocational education 5c) Number of prepared methodical-didactic manuals for teachers and mentors at employers 5d) Number of prepared occupational standards, qualification standards and vocational curricula			instrument) HRK 646,172 (SB)				
2.1.2. Lifelong learning	2/a 4.	Increasing the quality of programmes for adult education and for operation of adult education institutions as well as increasing the share of the population participating in lifelong learning processes.	1) Achieving a higher level of quality in the adult education system by improving the legislative framework	1) 3	1) The Act has been adopted.	Expenditure: HRK 254,885 (SB)	Strategy for Education, Science and Technology	2.1.2.1. Adoption of the Adult Education Act	Sep-20	MSE
			2) Announced a Call for Improving the Quality Adult Education through Development and Implementation of the CROQF (ESF)	0	2) 1	Expenditure: HRK 20.25M (SB and EU)	1) Act on the Croatian Qualification Framework 2) Adult Education Act	2.1.2.2. Drafting of the qualification standard and Curriculum for Adult Education	Oct-20	MSE
			3) Devised the Curriculum for the Andragogical Education of Workers which teaches fundamental skills	0	3) 1	Expenditure: HRK 200,000 (SB and EU)	1) Adult Education Act 2) Strategy for Education, Science and Technology	2.1.2.3. Drafting the Curriculum for the Andragogical Education of Workers	Apr-21	MSE
			4) Drafting the Curriculum for Basic Adult Education based on key skills	0	4) 1	Expenditure: HRK 220,000 (SB)	Adult Education Act	2.1.2.4. Drafting the Curriculum for Basic Adult Education	Feb-21	MSE
2.1.3. Effective and relevant higher education	2/a 4.	Increasing the quality and relevancy of study programmes, improving employment opportunity for students and contributing to increasing the employment rate for persons with diplomas	1) 1) Number of qualification standards entered into the CROQF Register	1) 7	1) 20	Expenditure: HRK 3.99M (SB and EU)	Strategy for Education, Science and Technology	2.1.3.1. Implementation of evaluation and entry of qualification standards into the CROQF Register	Apr-21	MSE
			2) Act on Ensuring Quality in Science and Higher Education	2) 1	2) The act has been adopted		Act on Ensuring Quality in Science and Higher Education	2.1.3.2. Adoption of the Act on Ensuring Quality in Science and Higher Education	Sep-20	MSE

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority		
			Result indicator	Initial value	Target value							
<b>3. SUSTAINABILITY OF PUBLIC FINANCES</b>												
<b>3.1. Strengthening the framework for managing public finances and implementing fiscal consolidation</b>												
3.1.1. Improving fiscal planning and reporting	1/a 8. 17.	1) Improving the drafting of financial plans and reporting by all extrabudgetary users and details in the data processing	1) Applicative solution for automated data entry and processing with the aim of achieving and more efficient process for financial planning and reporting by all extrabudgetary users		1) All extrabudgetary users enter the financial plans and reports on execution of the financial plans	Expenditure: up to HRK 1M (SB)	Budget Act	3.1.1.1. Devising the applicative solution for financial planning by extrabudgetary users	Dec-20	MF		
		2) Increasing the coverage of the state budget as well as fiscal transparency and fiscal discipline by including port authorities for which the RC is the founder, as extrabudgetary users of the state budget	2) Increased coverage of the state budget as well as fiscal transparency and discipline		2) Financial plans of the port authorities are drafted in line with the Budget Act, in the section of the MSTI			3.1.1.2. Including the port authorities into the Register of Budgetary and Extrabudgetary Users			Jun-20	MF
								3.1.1.3. Including financial plans of the port authorities into the section of the competent ministry			Dec-20	MF
<b>3.2. Encouraging demographic renewal</b>												
3.2.1. Increasing social security for families with children	5.	Develop and set up the "Children's Card" IT system	Developed and established the "Children's Card" IT system on top of the eCitizen infrastructure (new service)	0	1	Expenditure: HRK 1.5M (SB)		3.2.1.1. Implementation of the "Children's Card" IT system	Sep-20	MDFYSP		
3.2.2. Increasing the quality of life for young people in rural areas	2. 4. 10. 11.	Ensure systematic financing of programmes/projects directed to young people in rural areas	Number of conducted calls	0	1	Expenditure: HRK 1.38M (SB)	1) Government Programme for the Period 2016-2020 2) Strategic Plan of the MDFYSP for the Period 2019-2021	3.2.2.1. Public call for projects directed to young people in rural areas	Mar-21	MDFYSP		
<b>3.3. Improving the social welfare system</b>												
3.3.1. Integration of social welfare benefits	2/b 10.	1) Ensure a transparent system of social welfare benefits with accessible data on the type and amount of benefit for individual persons (beneficiary with entitlements to the social welfare system)	1) Report from the MDFYSP IT system with an overview of all social welfare benefits received by persons at a single point of contact and report from the IT system with an overview of social welfare benefits ensured by LRSGUs.	0	1) 2	Expenditure: HRK 300,000 (SB)	Action Plan for Improving the Social Welfare Benefits System for the Period 2018-2020	3.3.1.1. Upgrading functionality of the IT system for social welfare benefits	Dec-20	MDFYSP		

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
		2) Ensuring continuity in tracking social welfare benefits ensured at the local and state level, as well as transparency in tracking for the purpose of a more equitable allocation of funds and reducing poverty	2) Number of conducted educational courses for employees for working with the web application for reporting on social welfare benefits	0	2) 20	Expenditure: HRK 400,000 (SB) No impact: EUR 350,000 (SRSP)		3.3.1.2. Educate employees to work with the web application for reporting on social welfare benefits	Dec-20	MDFYSP
3.3.2. Improving social services	2/b 1.	1) Conduct research on formal and informal forms of long-term care for the elderly for the purpose of improving care for the elderly, especially care in one's own home.	1) Conduct research on formal and informal forms of care for the elderly in the RC and analysis based on research into the need and opportunities of ensuring rights to a carer for the elderly	0	1) 2	No impact: EUR 220,000 (SRSP)	Social Welfare Strategy for the Elderly in the RC for the Period 2017-2020.	3.3.2.1. Research on formal and informal forms of long-term care for the elderly	Dec-20	MDFYSP
		2) Enable equal access in funding to all providers of services, as well as equal access for social welfare services with financing from the state budget	2) Drafting a single methodology for pricing social welfare services	0	2) 1	No impact: EUR 300,000 (SRSP)	Social Welfare Act	3.3.2.2. Develop a methodology for pricing social welfare services	Jan-21	MDFYSP
<b>3.4. Ensuring financial stability, sustainability and quality of the healthcare system</b>										
3.4.1. Improving management efficiency in the healthcare system	3.	1) Improve the system of healthcare using effective and reasonable application of information-communication technologies in order to ensure effective coordination, oversight and control of costs in healthcare, as well as increase accessibility and quality of healthcare services.	1) Chapter on development of eHealth, as part of the National Healthcare Development Plan	0	1) Drafted the document – chapter on development of eHealth	No impact: EUR 90,000 (SRSP)	1) 2020 eCroatia Strategy 2) Act on Data and Information in Healthcare	3.4.1.1. Defining the strategic framework for developing eHealth	Apr-21	MH
		2) Increasing the quality of healthcare, optimise resources in the hospital healthcare system and ensure financial stability of the healthcare system	2) The number of concluded contracts on functional integration of hospitals	2) 7	2) 16		1) Healthcare Act 2) National Plan for Development of Clinical Hospital Centres, Clinical Hospitals, Clinics and General Hospitals for the Period 2018-2020 3) Contracts on functional integration of hospitals	3.4.1.2. Concluding contracts on functional integration of hospitals	Apr-21	MH

Measure	CSR SDG	Objective	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implement ation deadline	Implemen ting authority
			Result indicator	Initial value	Target value					
		3) Ensure financial sustainability of the healthcare system	3) Analytical study and calculation of costs on account of the main inefficiencies in the healthcare system from which stems the Action Plan for Implementation of Solutions	3) Individual partial analyses of costs within the healthcare system (e.g., costs of cleaning and washing)	3) The study has been drafted		Decision by the minister	3.4.1.3. Conducting the analytical study and calculation of costs due to main inefficiencies	Mar-21	MH

## ANNEX 2. MEASURES FOR ACHIEVING OBJECTIVES OF THE EUROPE 2020 STRATEGY

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
<b>1. EMPLOYMENT</b>										
1.1. Increasing the employment rate for men and women in between the ages of 20 to 64 to 65.2%, especially through participation by the young, older workers and persons with lower levels of education	1.1.1. Measures from active employment policies	4. 8.	1) Number of persons included in active employment measures	1) 2019.: 36,926	1) 2020: 27,626	Expenditure: HRK 316.6M (SB) HRK 689M (SB and EU)	1) Guidelines for Development and Implementation of Active Employment Policies for the Period 2018-2020 2) Conditions and the manner of using funds for implementing active employment measures under the auspices of the CES in 2020	1.1.1.1. Inclusion and activation of the unemployed on the labour market through active employment policies	Dec-20	MLPS
			2) Number of persons included in the education measure for completion of primary school and obtaining that first occupation	0	2) 2020: 700			1.1.1.2. Including the unemployed in measures for receiving education to complete primary school and obtaining that first occupation	Dec-20	MLPS
			3) Number of persons included in education	0	3) 2020: 200			1.1.1.3. Including the unemployed in education measures	Dec-20	MLPS
<b>2. RESEARCH AND DEVELOPMENT</b>										
2.1. Improve the environment for research and development, especially with the aim of increasing the combined level of public and private investments in this sector to 1.4% of GDP	2.1.1. Strengthening the national innovation system and innovation potential of the economy	9.	1) Number of entrepreneurs with an issued Certificates of Assistance Beneficiary Status	0	1) 2020: 60	Expenditure: HRK 1M (SB)	1) Innovation Incentive Strategy for the RC for the Period 2014-2020 2) Act of State Assistance for Research and Development Projects	2.1.1.1. Implementation of measures from the Act of State Assistance for Research and Development Projects	Dec-21	MEEC
			2) Number of entrepreneurs supported for Proof of Concept	2) 54	2) 2020: 60			Expenditure: HRK 5M (SB) HRK 4.9M (HAMAG-BICRO)	Innovation Incentive Strategy for the RC for the Period 2014-2020	2.1.1.2. Implementation of the Proof of Concept (PoC) programme

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
			3) Established the European Centre for Innovation, Technology and Skills (ECINTV)	0	3) 1	Expenditure: HRK 10.59M (SB)	1) Smart Specialisation Strategy (S3) in the Republic of Croatia for Period 2016-2020 2) Innovation Incentive Strategy for the RC for the Period 2014-2020 3) OPCC	2.1.1.3. Establishment of the European Centre for Innovation, Technology and Skills (ECINTV)	Apr-21	MEEC
	2.1.2. Strengthening human resources as well as the science and technology system by connecting with the economy	8.	1) The number of young scientists (doctoral students) employed in the system through the "Young Scientists Career Development Project – Postdoctoral Students"	0	1) 100	Expenditure: HRK 33M (SB and EU)	1) Education, Science and Technology Strategy 2) Action Plan for Researcher Mobility for the Period 2017-2020 3) MSE Strategic Plan for the Period 2019-2021 4) Grant agreement	2.1.2.1. Employment of young scientists through the "Young Scientists Career Development Project – Postdoctoral Students"	Dec-20	MSE
2) Ordinance on Work of the Technology Transfer Office			0	2) The Ordinance has been adopted	Expenditure: HRK 61,000 (SB)	1) Education, Science and Technology Strategy 2) MSE Strategic Plan for the Period 2019-2021	2.1.2.2. Adoption of the Ordinance on the Work of the Technology Transfer Office	Jun-20	MSE	
3) Established an Interdepartmental Body for interdepartmental collaboration in the area of space and space technology			0	3) 1	Expenditure: HRK 22.38M (SB)	Cooperation agreement between the RC and the European Space Agency (ESA) for peacetime purposes	2.1.2.3. Establishing an Interdepartmental Body for interdepartmental collaboration in the area of space and space technology	Dec-20	MSE	
4) Number of tenders for financing and establishment of doctoral schools at a yearly level			0	4) 1	Expenditure: HRK 1.6M (SB)	1) Education, Science and Technology Strategy 2) Science and Higher Education Act 3) MSE Strategic Plan for the Period 2019-2021	2.1.2.4. Support to higher education institutions and scientific institutions through the establishment and cofounding of doctoral schools	Dec-20	MSE	

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
			5) Increasing total expenditure for science and research as a proportion of GDP	5) 2017.: 0.86%	5) 1.4% (while adhering to economic fiscal possibility of the RC)		1) Education, Science and Technology Strategy 2) MSE Strategic Plan for the Period 2019-2021 3) Decision on the Appointment of a Working Group for Drafting the Proposed Scientific Activity and Higher Education Act	2.1.2.5. Adoption of the Scientific Activity and Higher Education Act	Dec-20	MSE
<b>3. CLIMATE CHANGE AND ENERGY SUSTAINABILITY</b>										
3.1. Reduce greenhouse gas emissions with respect to levels from 1990, limit emissions from sectors outside the trading system by up to +11% with respect to emissions in 2005.	3.1.1. Limit greenhouse gas emissions to the national yearly quota for sectors outside the Emissions Trading System	12. 13.	1) Lower greenhouse gas emissions (in tons of equivalent carbon dioxide) than the levels of the national annual quota	1) Level of greenhouse gas emissions in sectors outside the trading system in 2005 – amounts to 17.4 Mt CO <sub>2</sub> eq	1) Limiting the increase of greenhouse gas emissions from sectors outside the EU Emissions Trading System by up to +11% with respect to 2005.			3.1.1.1. Tracking greenhouse gas emissions	Dec-20	MEPE
			2) Low Carbon Development Strategy of the RC for the Period up to 2030 with an Outlook to 2050	0	2) The strategy has been adopted		Act on Climate Change and Protection of the Ozone Layer	3.1.1.2. Adoption of the Low Carbon Development Strategy of the RC	Sep-20	MEPE
3.2. Increasing the proportion of renewable energy sources in gross energy consumption to 20%	3.2.1. Promoting energy used from renewable energy sources and energy savings	7. 13.	1) Number of new power stations delivering electricity to the grid and their installed power in MW	1) 2968.9 MW	1) 2020-2022 new 800 MW of installed power	Settled through the sale of electricity from the incentive system on the market and fees for renewable energy sources which electricity customers pay	State Incentives Programme for the Production of Electricity from Renewable Energy Sources and Highly Efficient Cogeneration for the Period 2020-2022	3.2.1.1. Granting guaranteed prices or market premiums for the production of electricity of renewable energy sources (HROTE)	Jun-20	MEPE

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
			2) Number of new installations	0	2) 500	Expenditure: HRK 142M (EPEEF)	2020 Programme for the Work Undertaken by the EPEEF	3.2.1.2. Public call for energy refurbishment of family homes and installation of renewable energy sources (EnU-2 and EnU-3)	Jun-20	MEPE
			3) % consumption of renewable energy sources in use	3) 2018.: 1.7%	3) 7%	Expenditure: HRK 34M (EPEEF)		3.2.1.3. Public call for procurement of energy efficient vehicles and infrastructure	Jun-20	MEPE
			4) Number of projects for which detailed design documentation has been obtained	0	4) 5 projects on each island included in the drafting of strategic documents for energy transition	Expenditure: HRK 9.8M (EPEEF)		3.2.1.4. Public call for project documents for RES and energy transition on the islands (EnU-11)	Jun-20	MEPE
			5) Number of SMEs given grants	0	5) 5 conceptual designs	Expenditure: HRK 3M (EPEEF)		3.2.1.5. Public call for research and development projects RES/EE (EnU-6)	Jun-20	MEPE

#### 4. EDUCATION

4.1. Improve the level of education, especially by reducing school dropout rates and increasing the proportion of the population in the 30-34 years age group who have completed tertiary education to at least 35%.	4.1.1. Implementing the programme for student scholarships and increasing student accommodation	4.	1) Number of granted scholarships to students of lower socio-economic status	1) 2019.: 10,000	1) 2020: 10,000	Expenditure: HRK 226.91M (DP and EU)	Ordinance on the Conditions and Manner of Achieving Rights to a State Scholarship Based on Socio-Economic Status	4.1.1.1. Granting scholarships to students of lower socio-economic status	Dec-20	MSE
			2) Number of granted scholarships to students in the STEM sciences	2) 2019.: 3,400	2) 2020: 3,400	Expenditure: HRK 77.11M (SB and EU)		Ordinance on the Conditions and Manner of Achieving Rights by Regular Students for State Scholarships in the STEM Sciences	Dec-20	MSE
			3) Number of constructed or reconstructed accommodation capacities for disadvantaged students	3) 2019.: 105	3) 2020: 357	Expenditure: HRK 205.88M (SB and EU)		1) Partnership Agreement between the RC and EC on the Use of ESIF for Growth and Jobs for the Period 2014-2020 2) OPCC 3) Education, Science and Technology Strategy	Dec-20	MSE

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority		
			Result indicator	Initial value	Target value							
<b>5. REDUCING POVERTY AND SOCIAL EXCLUSION</b>												
5.1. Promote social inclusion, especial by reducing poverty, with the aim of reducing the number of people at risk of poverty and social exclusion for 150,000	5.1.1. Providing humanitarian aid in kind and other support programmes to the most deprived	1.	Number of persons who receive assistance in kind through the FEAD projects	128,734	150,000	Expenditure.: HRK 31.90M (SB and EU)	1) Decision by the Government on Confirming Basic Assistance for Food and/or Basic Material Assistance for the Period 2014-2020 2) Decision on Bodies Within the System for Managing, Implementing and Overseeing the Use of FEAD for the Period 2014-2020	5.1.1.1. Ensuring school food for children at risk of poverty	Dec-20	MDFYSP		
		2.						5.1.1.2. Providing assistance to the neediest people by handing out food and/or basic material assistance (Phase 3)	Dec-20	MDFYSP		
	5.1.2. Development and expansion of the social services network as well as transformation of social welfare and deinstitutionalisation of beneficiaries	10.	1)	1) Number of contracts by social welfare institutions in the process of transformation	1) 31	1) 40	Expenditure: HRK 115.93M (SB and EU)	1) OPEHR and OPCC 2) Plan for Deinstitutionalisation, Transformation and the Prevention of Institutionalisation for the Period 2018-2020 3) The MDFYSP Strategic Plan for 2020-2022	5.1.2.1. Contracting projects for the transformation of social welfare and deinstitutionalisation of beneficiaries	Dec-20	MDFYSP	
			2)	2) Number of concluded contracts with social welfare service providers (social welfare institutions, associations, religious communities, foundations, LRSGUs, international organisations, national minority councils)	2) 28	2) 100			Expenditure: HRK 45.40M (SB and EU)	5.1.2.2. Develop and Expand the network of social services in the community by social welfare service providers	Dec-20	MDFYSP
			3)	3) Number of concluded contracts with associations	3) 160	3) 240			Expenditure.: HRK 33.37M (revenue from games of chance)	5.1.2.3. Development and expansion of the network of social welfare services provided by associations	Dec-20	MDFYSP

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
	5.1.3. Introduce national benefits for the elderly	1.	Act on National Benefits for the Elderly	Defining criteria, parameters and coverage of persons for introduction of national benefits	Establishment of forms of social welfare directed to reducing poverty among the elderly	Expenditure: HRK 134M (SB)	1) Social Welfare Strategy for the Elderly in the RC for the Period 2017-2020 2) Act on National Benefits for the Elderly	5.1.3.1. Adoption of the Act on National Benefits for the Elderly	Sep-20	MLPS
	5.1.4. Co-funding the cost of education for pupils and students of lower socio-economic status and students with developmental disabilities	1. 4.	1) The number and amount of paid benefits towards purchasing textbooks for compulsory class subjects for secondary school pupils and other educational materials for primary school pupils as members of households who are beneficiaries of the guarantee minimum benefit and primary school pupils as member of households of a person who is a beneficiary of benefits for unemployed Croatian veterans from the Homeland War and members of their families	1) 3,474 pupils beneficiaries of the guaranteed minimal benefit in the 2019/2020 school year (HRK 2.11M)	1) 3,000 pupils in the 2020/2021 school year (total amount depends on the level of benefits)	Expenditure: HRK 4.22M (SB)	1) Act on Textbooks and Other Educational Materials for Primary and Secondary Schools 2) Government Decision on Financing Other Educational Materials for Primary School Pupils and Compulsory Textbooks for Secondary School Pupils in the RC for the 2020/2021 School Year	5.1.4.1. Adoption of Decision on Co-funding Costs of Educations for Pupils of Lower Socio-Economic Status and Pupils with Development Disabilities	Jan-21	MSE
			2) Number of pupils with developmental disabilities in the primary school programme for which higher costs of transportation and special teaching resources and aid are financed	2) 2,882 pupils (transport) and 3,286 pupils (food and didactics)	2) 2,900 pupils (transport) and 3,300 pupils (food and didactics)	Expenditure: HRK 53.64M (SB)	Decision on Financing Higher Costs of Transport as well as Special Teaching Resources and Aids for Pupils with Developmental Disabilities in Primary School Programmes	5.1.4.2. Financing Higher Costs of Transport as well as Special Teaching Resources and Aids for Pupils with Developmental Disabilities in Primary School Programmes	Dec-20	MSE

National objective	Measure	SDG	Implementation result indicators			Fiscal impact on the state budget	Legal/administrative implementation instrument	Activity	Implementation deadline	Implementing authority
			Result indicator	Initial value	Target value					
			3) Number of pupils with developmental disabilities in secondary school programmes for which higher costs of transport and special teaching resources and materials are financed	3) 292 pupils (transport) and 652 pupils (food and didactics)	3) 300 pupils (transport) and 670 pupils (food and didactics)	Expenditure: HRK 5.5M (SB)	Decision on Financing Higher Costs of Transport as well as Special Teaching Resources and Aids for Pupils with Developmental Disabilities in Secondary School Programmes	5.1.4.3. Financing Higher Costs of Transport as well as Special Teaching Resources and Aids for Pupils with Developmental Disabilities in Secondary School Programmes	Dec-20	MSE

## APPENDIX I. MEASURES FOR ASSISTING THE ECONOMY DUE TO THE COVID 19 PANDEMIC

The COVID-19 pandemic is having an exceptionally negative impact on health, society and the economy at a global level, and also in the RC, where potential healthcare and economic results have been counteracted in a relatively short period of time. Since March of this year, epidemiological measures have been implemented throughout the entire RC, including social isolation measures resulting in an exceptionally unfavourable impact on economic activities which have decreased or halted in almost all areas, except those essential for the functioning of the country. In the first phase, key efforts were primarily directed to halting the spread of coronavirus and preventing unsustainable pressure on the public healthcare system. Adding to this, on 22 March 2020, the strongest earthquake in the past 140 years struck Zagreb and its surrounding areas causing great infrastructural damage and placing additional pressure on the functioning of public services. The urgent response to pandemic challenges and reduced economic activity has also posed great challenges for fiscal policies and current positive fiscal indicators.

As it became certain that the COVID-19 pandemic would have a very negative impact on economic activity, on 17 March 2020 and then on 2 April 2020, the Government passed two all-encompassing and targeted packets of economic measures. Their goal is primarily to provide assistance to the public sector, as the carrier of economic activity, to optimally overcome the crises through job retention, payment of wages, and resolving the problem of solvency for those experiencing reduced business activity. The intention is also to preserve income for the most vulnerable groups of the society and establish the basis for quick economic recovery. Accordingly, a series of horizontal measures have been passed within the intention of providing assistance to the economy and population, including a series of measures directed to

mitigating negative consequences in certain sectors. The Government has been carefully monitoring trends in the economy and, if needed, will propose and pass new measures.

### Horizontal measures

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#### Deferment and writing off payments of direct taxes and contributions for businesses experiencing difficulties

Based on amendments to the General Tax Act,<sup>78</sup> and the Ordinance on amendments to the Ordinance for the Implementation of the General Tax Act,<sup>79</sup> businesses that have actually experienced or estimated that they will experience a decrease in income by 20% are given the opportunity to accept an interest-free deferment and repay direct taxes and contributions in instalments. Additionally, in the April packet of economic measures, this measure has been strengthened and businesses with an annual income of less than HRK 7.5 million (accounting for 93% of all businesses), and a decrease in income exceeding 50%, will be completely exempted from paying public contributions which are otherwise due in April, May and June of 2020. In the same period, businesses who generate income exceeding HRK 7.5 million, and experience a decrease in income exceeding 50%, will be partially exempted from paying the mentioned contributions depending on the amount of decrease in income. Furthermore, the opportunity has also been introduced of paying VAT upon actual payment of received and issued invoices, all with the aim of ensuring additional liquidity for economic entities.

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<sup>78</sup> OG 115/16, 106/18, 121/19, 32/20 and 42/20

<sup>79</sup> OG 32/20

### **Assistance for job retention**

To retain jobs in the most vulnerable sectors affected by the coronavirus, a measure for assistance has been passed which finances the cost of wages and amounts to HRK 3,250 per employee for the month of March, whereas the amount for the months of April and May has been increased to HRK 4,000, where the cost of contributions for pension and health insurance will be borne by the state budget. Currently, this measure covers almost 84 thousand businesses for a total of 485 thousand employees. This assistance is also directed to the sports sector which has been affected by the coronavirus. Moreover, conditions for utilising the Permanent Seasonal Worker measure have been changed, such that the period of extended pension insurance and entitlements for monetary assistance have been extended for the duration of the extraordinary circumstances caused by the current crises. This measure is available to businesses in those sectors who during the year undergo a period of less business activity due to the seasonality of the business, and has been mostly utilised in the tourism and hospitality industries.

### **Measures directed to micro, small and medium-sized enterprises**

These measures are financed from ESIF funds and organised by HAMAG-BICRO. This increases the allocation for the financial instrument ESIF Micro Loans for operating capital, interest rates for investment loans have also been lowered, the maximum guarantee rate for ESIF individual guarantees for loans covering operating capital has been increased from 65% to 80% of the loan principal. A moratorium on all instalments of ESIF loans has been set as well as loans for agriculture and rural development until 31 December 2020, including an extension for repayments / deadlines for utilisation of loans for which a guarantee has been issued. In addition, new financial instruments have been established. The first is the COVID-19 loan for operating capital. The programme provides additional liquidity to micro, small and medium-sized enterprises which are experiencing a negative impact on their businesses due to the

coronavirus. The loan amounts are up to HRK 750,000 for operating capital, at an interest rate of 0.25%, with a grace period of up to 12 months and a maximum repayment period of 5 years, and the application procedure has been shortened. The second is a Micro Loan for rural development. It is intended as operating capital for small businesses in the agricultural, processing and forestry sectors. The loan amount ranges from EUR 1,000 – 25,000. The repayment period is up to 3 years at an interest rate of 0.5% and a grace period of up to 12 months.

### **Loans from the Croatian Bank for Reconstruction and Development (HBOR) and commercial banks**

Entrepreneurs who have a loan approved directly from HBOR or through a commercial bank are given the opportunity of a moratorium amounting to three months on obligations due after 29 February 2020, with the possibility of a prolongation. Furthermore, borrowers of HBOR loans are given the opportunity of reprogramming existing loan obligations with the introduction of a grace period for repayment of the loan principal. Furthermore, in collaboration with commercial banks, HBOR will approve loans to businesses for liquidity purposes at a more favourable interest rate, with funds intended for financing basic operating costs (for “idle” businesses). Also, two new HBOR programmes for assistance to businesses have been approved by the European Commission. The first programme will finance liquidity for exporters using an insurance policy, with total potential loans amounting to HRK 6 billion. The second programme is based on instruments for providing favourable HBOR loans with subsidised interest which are guaranteed by the state, and will be implemented using three basic models: framework loans to banks, where state funds will be distributed through HBOR at zero interest rate for half of the entire interest rate, and the other half will comprise the interest rate set by banks but limited to its maximum amount, loans in cooperation with banks based on the risk sharing model and HBOR's direct loans to businesses. The total loan potential for this

measure is estimated at HRK 7.6 billion. Additionally, commercial banks have passed a series of measures giving businesses and citizens the opportunity of a moratorium, to reprogram repayment of loan obligations, but also new loans for liquidity and operating capital.

### **Functioning of the system of public finances and sustainability of financing public services**

A series of measures have been passed which, besides reactivation of the economy and protecting vulnerable layer of society, will facilitate the functioning of the system of public finances and sustainability in financing public services. Hence, the Act on Execution of the 2020 State Budget allows additional borrowing by the state as well as additional borrowing by extrabudgetary users even above previously defined limits, subject to Government consent. Furthermore, given that LRSGUs will have less revenue on account of different timing for revenue inflow and due liabilities, as well as the CHIF and CPII, the RC will ensure funding for interest-free loans to bridge such situations. These interest-free loans can be used to settle amounts covering income taxes, surtax on income tax, and payments for contributions which are exempted or deferred, and for amounts covering executed returns.

Due to the onset of extraordinary circumstances as recognised in the provisions of the Fiscal Responsibility Act and Stability and Growth Pact, the Decision on Temporary Postponement of the Application of Fiscal Rules, Structural Balance Rules, Expenditure Rules and Public Debt Rules has been adopted. In the period in which fiscal rules will not be applied, a temporary and short-term deviation from the medium-term budgetary goal is possible for the purpose of more quickly resolving consequences of the epidemic. This will enable undertaking measures directed to eliminating the health, social, economic and all other consequences of the epidemic.

With the aim of optimal utilisation of limited fiscal space, the Government has adopted the

Decision on Limiting Utilisation of Funds Envisaged by the State Budget and Financial Plans of Extrabudgetary Users of the 2020 State Budget. It allows the streamlining of procedures for public procurement, granting donations and assistance, as well as restricting employment in the public sector, thereby ensuring funds for financing measures and activities in combatting the epidemic.

Moreover, a conclusion has been adopted limiting expenditures for budgetary and extrabudgetary users of the state budget due to changes in economic circumstances. In that sense, negotiations have begun with social partners concerning base rates for calculating the salaries of civil servants and employees as well as workers in the public service for the year 2020, including negotiations on paying certain material rights contracted through collective agreements and entitlements relating to increasing job complexity coefficients and also allowances on base salaries. Guidelines for streamlining the business of enterprises in majority state ownership will also be drafted. The LRSGUs will also implement measures from the conclusion in an appropriate manner.

Based on Amendments to the Accountancy Act, the deadline for submission of financial statements for 2019 has been extended from 30 April to 30 June 2020. Subsequently, businesses are exempted from paying the Financial Agency fee for publishing financial reports.

Amendments to the Act on Execution of Enforcement over Monetary Assets suspended the execution of distraints for the next three months with the possibility of prolonging it for another three months, with the aim of providing assistance to citizens whose bank accounts have been blocked. During that time, default interest will not be charged on obligations that are due.

The proposed act on intervention measures in enforcement and bankruptcy procedures during the time of special circumstances was sent into parliamentary procedure. It endeavours to ease the position of natural

persons subjected to an enforcement on their wages or pension or other permanent monetary earnings, as well as the position of economic entities under the threat of bankruptcy and beneficiaries of grants for implementation of projects.

## Sectoral measures

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A series of measures have also been passed, directed to mitigating negative consequences in individual sectors which are especially vulnerable to the coronavirus epidemic. Measures directed to ensuring liquidity and the existing level of employees in agriculture, fishing industry and wood processing sector valued at some HRK 400 million have been passed. In addition to ensuring liquidity through EU funds for affected sectors, additional measures for deferring payment of due obligations to Croatian Forests for wood assortments have been introduced, including deferring payment of rent and concession fees for agricultural land and for the fishing sector. A national online platform – digital marketplace is being introduced which will enable the selling and buying of domestic agricultural and food products between farmers and public clients. The decision on extraordinary intervention in the purchasing of excess milk from small dairy producers has also been adopted. Furthermore, the decision on the Programme for Assistance to Primary Agricultural Producers in the Sectors of Plant Production and Animal Husbandry in 2020 valued at HRK 53 million was passed.

In the tourism sector, the opportunity has been given for deferral or exemption from paying tourist memberships for economic entities and private tourist accommodation renters, as well as payment of tourist levies for private tourist accommodation renters (lump sum payments). Furthermore, assistance has also been ensured for the programme to fund operating capital and improve liquidity for vulnerable businesses in tourism, with special attention given to small hotels.

Amendments to the Act on the Provision of Tourism Services<sup>80</sup> introduced a moratorium on termination of contracts for agency arrangements covering a duration of 180 days upon the cessation of special circumstances, providing the opportunity for a refund of money for unused arrangements. Amendments to the regulation relating to concessions, on tourism lands in camps owned by the RC, the variable part of the concession fee for such land will not be charged and collected.

Establishing the crisis fund ensures assistance for liquidity in the culture sector, to the amount of HRK 70 million, i.e., to independent artists, self-employed and other physical and natural persons who remain without income due to restrictions in the gathering of people and closing of theatres, cinemas, museums, concert halls. The crisis fund also provides payments to physical and legal persons in the area of culture for an extended period of preparatory activities for approved projects in culture, and the holding of which has been postponed until further notice due to the epidemic. Also, amendments on the Act on the Protection and Preservation of Cultural Assets<sup>81</sup> provides the possibility of suspending payments for heritage rent for the duration of the special circumstances in the RC caused by the coronavirus epidemic.

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<sup>80</sup> OG 130/17, 25/19, 98/19 and 42/20

<sup>81</sup> OG 69/99, 151/03, 157/03, 100/04, 87/09, 88/10, 61/11, 25/12, 136/12, 157/13, 152/14, 98/15, 44/17, 90/18 and 32/20

## Measures for restarting economic businesses and other activities under conditions declared as the COVID-19 virus epidemic.

In conditions exhibiting an acceptable epidemiological situation, the estimation is that prerequisites for reactivating some of the economic and social businesses and activities in the RC have been achieved, and which is to be done in three phases, while adhering to special epidemiological measures. In the first phase which began on 27 April 2020, all business entities involved in trade were allowed to open, except those inside shopping centres, public city and suburban transport,

some service activities and training activities. The second phase taking place from 4 April 2020 presumes that the healthcare system is to be fully functioning including other service industries. The third phase is envisaged for 11 May 2020, with plans to allow shopping centres to operate, including hospitality facilities, national parks and nature parks, kindergartens, school classes and gatherings of up to 10 people in one place. All three phases presume the application of strict adherence to all stipulated epidemiological measures.

The table below shows the first two packets of measures passed for the purpose of providing assistance to the Croatian economy due to the COVID-19 pandemic.

**Table 10** | Measures for assistance to the economy due to the COVID-19 pandemic

Authority	Measure
<b>Horizontal measures</b>	
<b>MF</b>	Interest-free loans to municipality, cities and counties, CHIF and CPII up to the amount of income tax, surtax on income tax and contributions, the payments of which have been deferred and/or approved for payment in instalments.
	Employers who utilise the CES assistance for job retention in sectors affected by the COVID-19 pandemic will be exempted from costs associated with contributions.
	All taxpayers who have had their work forbidden, or if their work has been prevented or significantly hindered, will be fully or partially exempted from paying public contributions due in April, May and June of 2020.
	Deferment of paying the tax obligation for value added tax until payment is collected from issued invoices.
<b>HBOR</b>	Introduction of a moratorium on loan obligations for clients based on existing given loans.
	Reprogramming existing loans to HBOR clients with the introduction of a grace period in the repayment of the loan principal.
	Approval of new loans for liquidity for economic entities in financing wages, overheads and other basic operating costs, so called idle businesses (with the exception of loan obligations toward commercial banks and other financial institutions) in cooperation with commercial banks.
	Approval of guarantees (insurance policies) to commercial banks of exporters and to HBOR in terms of the guaranteed funds for insuring exports with the aim of approving new loans for operating capital – liquidity.
	Increasing the scope of the guaranteed fund for insuring exports by also including the tourism sector with the aim of enabling the issuing of guarantees (insurance policies) for loans to banks and HBOR, for additional liquidity funds intended for exporters and the tourism sector.
	Increasing the scope of the guaranteed fund for insuring exports through an additionally expanded cycle of acceptable users of insurance policies from exports and tourism to economic entities who directly export or are suppliers to direct exporters.
<b>Commercial banks - assistance measures</b>	Measures for introducing a stand still arrangement and suspension of executing all measures of enforced payments for all debtors (legal and natural persons) over a period of three months.
	Loans for liquidity and operating capital (wages and operating capital with the exception of obligations towards financial institutions) with a maturity period of up to three years.
	Implementation of reprogramming by credit institutions towards designated clients through quickened procedures without reclassification into status of non-fulfilment of obligations.

Authority	Measure
<b>MEEC</b>	Introduction of an additional grace period for the job retention obligation, while not losing the right to assistance measures relating to the realisation of investment projects which are implemented according to the Investment Promotion Act.
	Possibility of interventive purchases of excesses in: <ul style="list-style-type: none"> <li>- livestock production, confection and processing into durable and semi-durable food products (canned meat or deep freezing and storage)</li> <li>- crop production, storage and processing into semi-durable food products (vegetable oils, sugar, flour, etc.)</li> <li>- fruit and vegetable growing, storage in conditioned warehouses and processing into semi-durable food products and fruit drinks (juices, jams, canned fruits and vegetables, etc.).</li> </ul>
	Intervention procurement: <ul style="list-style-type: none"> <li>- Disinfectants, soaps and detergents, disinfectants for indoor use, hospitals and other institutions as well as personal protective equipment for the purpose of combating coronavirus</li> <li>- Other products from potentially vulnerable industries and agricultural products as well as their classification in the Balance of Strategic Commodity Stocks.</li> </ul>
	Procurement of seed goods for use in agricultural production in case of their insufficiencies, and in accordance with the request by the Ministry of Agriculture.
<b>HAMAG-BICRO</b>	Moratorium on all instalments for ESIF Micro and Small Loans as well as Micro and Small Loans for rural development until 31 December 2020 and prolongation of repayment/deadline for utilisation of loans for which a guarantee has been issued.
	Establishment of a new financial instrument. Micro Loan for rural development for operating capital (quicker process of applications, grace period, lower interest rate).
	Counter-guarantees covering 50% of the principal for operating capital loans in tourism (interest rates 0.5% - 0.75% - 1.0%).
<b>MLPS</b>	Assistance for job retention in sectors affected by the COVID-19 pandemic.
	Temporary measures for suspending self-employment and employment assistance with the aim of ensuring additional funding for job retention in sectors affected by the COVID-19 pandemic.
	Prolonging the duration of the Permanent Seasonal Worker measure.
	Ensuring payment of minimal wages for persons with disabilities to retain employment.
	Deferment of paying cash benefits for all employers as obligors of quotas for employing persons with disabilities.
	Enable EU assistance beneficiaries the ability to temporarily suspend or defer implementation of projects, defer repayments and take into consideration a reduction in achieving planned indicators for projects due to the newly occurring objective circumstances.
	Unconditional prolongation of project durations by three months – for all projects co-funded from OPEHR which are currently implemented with a completion deadline in the months of March, April and May 2020.
	Confirmation of 75% of sought expenditures from OPEHR through the Request for Payment, while the other 25% upon conducted audit of acceptability of expenditures in the respective procurement of works/goods and/or services and the decisions on the (non-)existence of irregularities as the basis for retaining 25% of the amount.
<b>MRDEUF</b>	Increasing the allocation for the financial instrument ‘ESIF Micro Loans’ as operating capital for micro and small enterprises (EUR 1,000 – 25,000 with a grace period of 12 months, reduced interest to 0.5% - 0.5 - 1.0%, depending on the development index) which HAMAG-BICRO offers.
	Reduction in interest rates for investment loans from a 30% share of operating capital ‘ESIF Micro and Small Loans’ to 0.1% - 0.25% - 0.5% depending on the development index which HAMAG-BICRO implements directly.
	Increase the maximum guarantee rate for “ESIF Individual Guarantees” in terms of loans for operating capital from 65% to 80% of the loan principal (amount of guarantees EUR 150,000 – 1,000,000) organised by HAMAG-BICRO through 17 financial institutions.
	Unconditional prolongation for the duration of projects for those with completion deadlines in March, April and May 2020, as well as obligations for repayment of funds with a maturity deadline in March, April and May by 90 days – for all projects co-funded by OPCC which are currently implemented.
	Confirmation of 75% of sought expenditures from OPCC through the Request for Payment, while the other 25% upon conducted audit of acceptability of expenditures in the respective procurement of works/goods and/or services and the decision on the (non-)existence of irregularities as the basis for retaining 25% of the amount.
	Establishing a new financial instrument called “COVID-19 loans” as operating capital for small and medium-sized enterprises.

Authority	Measure
<b>Sectoral measures</b>	
<b>MSTI</b>	<p>Withdrawing from the obligation to undertake universal services due to the inability to perform postal services in accordance with the Postal Services Act.</p> <p>Temporary suspension of paying fees for permits for urgent transport on public roads in the period until 1 June 2020.</p> <p>Changes to the stipulated length of patrolled sections for motorways will enable performing patrols of motorways once every 12 hours for all days of the week (small number of patrols).</p> <p>Temporary deferment of seasonal increases in road tolls by 10% for vehicles of IA, I and II classes in the period from 15 June to 15 September.</p> <p>Temporary prolongation of the seasonal “winter” ENC (electronic road toll payment) discount (which ceases on 31 March) until 1 June 2020.</p> <p>Additional discount of 7% of EURO VI vehicles for vehicles in categories III and IV which use ENC along with subsequent payment using credit/fuel card during the year.</p> <p>Deferral in applying the new Ordinance on Boats, Dinghies and Yachts in terms of equipment requirements.</p> <p>Temporary prolongation of validity of certificates and other official documents for international and national maritime travel.</p> <p>Recommendation to port authorities to defer seeking payment of the fixed part of concession fees and levies for use of operational foreshores in ports opened for public transport.</p>
<b>MT</b>	<p>Deferring payment of tourist membership fees for economic entities and private tourist accommodation renters.</p> <p>Deferment or exemptions to paying the tourist taxes for private tourist accommodation renters (lump sum)</p> <p>Restricting business hours for hospitality facilities.</p> <p>Exemptions in paying the variable part of concession fees for 2019 in using the concession on tourism land in camps.</p> <p>Deferred payment of the fixed part of concession fees for 2020 for use of the concession on tourism land in camps.</p> <p>Exemptions for paying the variable part of concession fees for 2019 for using the concession on tourism land owned by local self-government units (LSRGUs).</p> <p>Deferred payment of the fixed part of concession fees for 2020 for use of the concession on tourism land owned by local self-government units (LSRGUs).</p> <p>Assistance for funding operating capital and improving liquidity for vulnerable enterprises in the tourism and hospitality sectors.</p> <p>Preserving the system of tourist boards and local jobs in tourist boards.</p>
<b>MA</b>	<p>Applying an additional mechanism of flexibility between funds for increasing production-based payments or introducing intervention measures (Agriculture Programme) subject to prior approval from the European Commission.</p> <p>Assistance to the agricultural sector due to transport restrictions and increases in handling costs (proposing a new programme of state assistance and low-value assistance).</p> <p>Funding of temporary suspension of fishing activities subject to prior approval from the European Commission.</p> <p>Increasing funds for low-value assistance to the fishing and aquaculture sector.</p> <p>Financing packaging for fishery products subject to prior approval from the European Commission.</p> <p>Deferred payment deadline for due obligations to Hrvatske šume d.o.o. (Croatian Forests) for wood assortments – wood processing and furniture production.</p> <p>Deferring the deadline for contractual obligations by beneficiaries of RDP investment measures.</p> <p>Deferring the deadline for contractual obligations relating to low-value assistance in 2019 – wood processing and furniture production.</p> <p>Setting up working capital line of credit for the agriculture and forestry as well as wood processing sectors.</p> <p>Deferring payment of rents and concession fees for agricultural land owned by the RC.</p> <p>Deferring payment of fees for concession and boat berths in fishery activities.</p>
<b>MC</b>	<p>Assistance to independent artists, self-employed as well as natural and legal persons in cultural and creative industries.</p> <p>Deferring execution of obligations by natural and legal persons in the area of culture for implementing programmes towards the Ministry of Culture, Croatian Audiovisual Centre and the Kultura Nova Foundation.</p>

Authority	Measure
	Recognition of costs in organising approved programmes in culture cancelled due to the COVID-19 pandemic.
	Ensuring funds to natural and legal persons in the area of culture for prolongation of the period for preparatory activities in approved projects of a cultural nature.
	Temporary suspension to reviewing the status of independent artists for a period of six months.
	Releasing funds for encouraging pluralism in the media for 2020 with the possibility of repurposing some of the funds for the topic of publicly monitoring the COVID-19 pandemic.
<b>CSOS</b>	Measures for preserving the tender system for the duration of extraordinary circumstances.

In April 2020, the Government adopted the Decision on Reallocation of Funds Planned in the 2020 State Budget,<sup>82</sup> which on account of fixing the consequences of the COVID-19 epidemic, reallocates a total of HRK 2.1 billion, most of which is for the job retention measure (HRK 1.87 billion). Implementation of HBOR measures relating to approval of new liquidity loans for economic entities ensures HRK 80 million, whereas funding procurement of microbiological diagnostics equipment for the coronavirus, protective equipment and disinfection solutions as well as on-duty personnel on telephone lines at the Division for Epidemiology of Communicable Diseases before the Croatian Institute of Public Health amounts to HRK 53.2 million. Implementation measures for job retention employed in legal persons within the sports system sets aside HRK 40 million of funding, and HRK 34 million has been ensured for assistance to independent artists, self-employed as well as physical and legal persons in the culture and creative industries as well as physical and natural persons in the area of culture for a prolonged period of preparatory activities for approved projects.

Assistance measures for programmes funding operating capital and improving liquidity of vulnerable businesses in tourism, meant allocating a total of HRK 25 million, with HRK 20 million for the measure to assist the agricultural sector due to restricted transport and greater handling costs. In all, HRK 16.2 million is intended for purchasing protective equipment, renting forklifts and eco-toilets as well as deratisation in accordance with the requirements of the National Civil Protection Directorate, and HRK 6 million has been allocated for financing other measures.

<sup>82</sup> OG 45/20