CROATIA

KEY FACTS AND FIGURES

Key Facts and Figures in Croatia

<table>
<thead>
<tr>
<th>Overview</th>
<th>Total procurement</th>
<th>Procurement % GDP</th>
<th>2013 GDP</th>
<th>Contracting authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,300,000,000€</td>
<td>12%</td>
<td>43,561,500,000€</td>
<td>1,811</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Procedures applied</th>
<th>Open</th>
<th>Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>88%</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of contract notices by buyer</th>
<th>National</th>
<th>Regional/local</th>
<th>Body governed by public law</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15%</td>
<td>14%</td>
<td>54%</td>
<td>17%</td>
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</table>

<table>
<thead>
<tr>
<th>Contract type</th>
<th>Services</th>
<th>Works</th>
<th>Supplies</th>
<th>Framework agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>36%</td>
<td>3%</td>
<td>61%</td>
<td>29%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ex ante conditionality criteria as of 2014</th>
<th>EU rules</th>
<th>Transparency</th>
<th>Training</th>
<th>Admin. capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fully met</td>
<td>Fully met</td>
<td>Not met</td>
<td>Not met</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E-procurement adoption</th>
<th>E-notification</th>
<th>E-access</th>
<th>E-submission</th>
<th>Uptake rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Partially mandatory</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Perceived corruption</th>
<th>Corruption widespread in society</th>
<th>Corruption widespread in procurement</th>
<th>At national level</th>
<th>At local/regional level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses</td>
<td>90%</td>
<td>N/A</td>
<td>64%</td>
<td>63%</td>
</tr>
<tr>
<td>Individuals</td>
<td>94%</td>
<td>Partially mandatory</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TED indicators</th>
<th>Value of tenders</th>
<th>Of total procurement</th>
<th># contract notices</th>
<th># contract awards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,329,344,192€</td>
<td>25%</td>
<td>1,581</td>
<td>1,363</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other indicators</th>
<th>Received single bid</th>
<th># days for decision</th>
<th>Price only criteria</th>
<th>MEAT criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45%</td>
<td>77.8</td>
<td>95%</td>
<td>5%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Related to EU funds</th>
<th>Joint purchase</th>
<th>Central purchasing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2%</td>
<td>9%</td>
<td>Yes, CPO</td>
</tr>
</tbody>
</table>

For more detailed descriptions and links to sources for the above data, please see Section 4 of the report

Summary of public procurement system

Croatia is a unitary state with three levels of governance presiding at the central, regional, and local levels. There are 21 regional or “county” government units. At the local level there are 128 towns and 428 municipalities.

The first public procurement law based on EU Directives was enacted in 2001. However, the current legal structure was largely put in place in 2012 as a condition of Croatia’s accession to the EU. However, the extensive use of state-owned companies limits the impact of ongoing procurement reforms to promote competition for public funds, and increases the risk of conflicts of interests. Despite major progress in increasing transparency, corruption remains a significant challenge.

Croatia also has one of the most highly developed legal and institutional structure for Public-Private Partnerships in the CEE region. While the total number of PPP projects completed remains modest, the use of the PPP model in infrastructure and urban development projects is growing, as is the capacity to improve on past experiences.¹

DESCRIPTION OF FEATURES

Legal features of public procurement system

The Public Procurement Act of 2012 (PPA) is the foundational legislation for procurement in Croatia, transposing the EU directives and prescribing procedures for all categories of contracts. Below the EU thresholds, the PPA sets out national thresholds of approximately EUR 26,000 for goods and services and EUR 65,000 for works. Procedures very similar to those applied above the EU thresholds apply, with the exception of the shorter time limits for the receipt of tenders and shorter time limits for lodging an appeal. Below the national thresholds, PPA rules do not apply, and each contracting authority has the right and the legal obligation to set its own procedures.
Under the PPA, contracting authorities are required to publish their procurement plan on the online procurement portal within a period of 60 days from the day the budget is adopted\textsuperscript{ii}. Contracting authorities are obliged to update procurement information on this register every six months\textsuperscript{i}. Notices for individual tenders have to be published on the portal within one business day of being published.

The PPA also establishes the State Commission for Supervision of Public Procurement (DKOM) as an independent national body in charge of supervising public procurement procedures. In addition, a second act, namely the Act on DKOM\textsuperscript{iii}, defines and clarifies its jurisdiction and functioning. Since its implementation in 2003\textsuperscript{iv}, the Act on DKOM has been amended twice, once in 2010\textsuperscript{v} and more recently in 2013\textsuperscript{vi}. Ultimately, both the PPA and the Act on DKOM are based on the 2004 EU Public Procurement Directives\textsuperscript{vii}, and in particular the principles of transparency and legality.

Other legislation related to public procurement includes: the Act on Public Private Partnerships\textsuperscript{viii}; the regulation in the methodology for drawing up and handling tender documents and tenders; the regulation on public procurement notices; the regulation on control over the implementation of the PPA; the ordinance on training in the field of procurement; the ordinance on the application of the Common Procurement Vocabulary; the ordinance on the list of entities bound by the PPA; the Concessions Act\textsuperscript{ix}; the regulation on public procurement for defence and security purposes; and the Act on the State Commission for Supervision over Public Procurement Procedure\textsuperscript{x}.

In a further step toward increasing transparency in compliance with Directive 2003/98/EC, Croatia enacted the Law on the Right of Access to Information in 2013. This law requires the state to publish online, among other things, procurement and award information in a searchable, easily accessible database. It also establishes a process for citizens to request other non-classified information. The forms are made available on the website of the Central Procurement Office (CPO).

There has been a significant increase in appeal cases in recent years, which can be explained by the recent economic crisis and increased awareness among appellants of their rights as well as the procedures of legal protection in the public procurement. In fact, the DKOM received 2,298 cases in 2013, a 13% increase compared to the previous year\textsuperscript{xi}.

Furthermore, specific rules apply for grant beneficiaries who are normally not obliged to follow the PPA including SMEs and similar private law entities. These specific rules can be considered as a simplified version of the PPA, and form a special annex to the grant contract, making it a contractual source of law for said beneficiaries. The oversight of the utilisation of these rules rests with the contracting authority, as they are contractual rather than legal obligations. Nevertheless, these rules offer some guarantee that such public funds will be spent in accordance with the principles of public procurement.

**Institutional system**

There are five main public procurement authorities in Croatia. The primary policy organ is the Directorate for the Public Procurement System (DPPS) within the Ministry of Economy (MoE). It is in charge of the development, coordination and improvement of the public procurement system, harmonising the Croatian legal framework with EU legislation, as well as addressing any identified irregularities. The Ministry also issues opinions, instructions, and provisions of legal assistance linked to the PPA.

In addition to the Ministry, the key executive role is played by the CPO, which acts as a central purchasing body and carries out some monitoring and analysis duties. Its aim is to achieve savings by implementing a systematic approach to public procurement.
The Ministry for Regional Development and EU Funds is in charge of setting priorities for the use of financial resources from EU funds. This Ministry monitors the management and allocation of these funds.

The primary internal supervision body for procurement is the DKOM\textsuperscript{xii}, which acts as both a judiciary and administrative body answering to the Croatian Parliament. It operates as a remedies body for those with claims against a procurement decision, and publishes a database of its past decisions, as well as detailed annual reports on complaints, irregularities and appeals. The Administrative Court is the second instance body for appeals. Furthermore, the State Audit Office (SAO) is a politically independent audit supervising body that conducts external controls of procurement for compliance with the PPA. In order to be in line with EU and international standards, the National Audit Office of the UK supports the SAO in capacity building measures\textsuperscript{xiii}.

In the implementation system of the EU funded programmes, the Agency for the Audit of European Union Programmes Implementation System (ARPA) has the role of independent audit authority.

**Key issues that have a bearing on administrative capacity**

**Human resources:** Under Croatian law, procurement procedures must be carried out by authorised representatives of the contracting authority, of which at least one must hold a valid procurement certificate. The certificates are granted only after extensive training and a written exam. In this manner, the government ensures a basic level of training is applied in all contracts. There is no requirement that the certified representative be an employee of the contracting authority, thus non-employees can be engaged to fulfil the requirement\textsuperscript{xiv}.

The number of employees charged with overseeing the procurement system is comparatively limited, with less than 100 dedicated individuals spread out among the various oversight, audit, and anti-corruption agencies involved.

The DPPS’s staff are considered as highly qualified. It does, however, struggle with high staff turnover and has subsequently lowered its hiring standards in response to an inability to attract sufficiently qualified applicants. Currently, out of 19 DPPS employees, only 8 are working directly on public procurement.

**Structures:** Two bodies are responsible for disseminating information on public procurement. The first is the CPO, which publishes information about procurement law and regulations, and provides summaries and bulletins on recent and ongoing changes. The second, the DPPS, is more focused on the application of procurement law. It is also responsible for authorising private sector professional training organisations to offer coursework for new and continuing procurement practitioners. In addition, the DPPS manages the Portal of Public Procurement\textsuperscript{1}, another valuable source of information about the laws and regulations.

**Training:** Procurement certification training is offered by companies authorised and organised by the MoE, and by the Ministry of Public Administration, as the central government body in charge of civil service affairs, which implements the program for civil servants in accordance with special regulations. Before passing the exam, the trainees must follow a basic 50-hour training program. The certificates are valid for three years, and can be renewed by participating in an additional 32-hour training. The MoE also cooperates with the Croatian Chamber of Commerce in organising workshops for economic operators and procurement practitioners. The cost of attending trainings is approximately EUR 430\textsuperscript{xv}.

\textsuperscript{1} [http://www.javnanabava.hr/](http://www.javnanabava.hr/)
The Portal of Public Procurement provides concrete data on these trainings, stating that 4,402 persons are certified, 190 persons are trained, 481 applications have been registered for renewal of certificates since July 2014, as well as 60 workshops were implemented in 2014 with 2,229 people attending.

**Systems/Tools:** The MoE provides practical information for contracting authorities and tenderers, including answers to frequently asked questions, a step-by-step manual for contracting authorities covering the entirety of the procurement process, and another for the business community. An updated draft is currently under development. MoE also publishes a variety of template documents that contracting authorities adopt to their specific needs.

In addition, the DPPS operates a phone helpline two mornings a week offering information and advice on procurement procedures, maintains a dedicated e-mail inbox, and invites procurement stakeholders to participate in monthly open day events where they can interact directly with DPPS staff. Demand for DPPS support is high, with the e-mail account alone fielding as many as 4,000 inquiries per year.

Furthermore, the United Nations Development Programme in Croatia, which is a key support institution in implementing Croatia’s Green Public Procurement 2020 initiative, offers a helpdesk to support contracting authorities looking to incorporate green and low-carbon intensity procurement practices. They also disseminate GPP 2020 best practices via a database of educational and training materials, workshops, and GPP events.

**E-procurement**

In Croatia, e-procurement has been in place since 2008. However, its mandatory use is restricted and its uptake has largely been limited to contracting authorities that handle large contracts. The adoption of a single, centralised portal featuring a searchable database, the Electronic Public Procurement Classifieds (EOJN) facilitates the uptake process. E-notification on the EOJN is mandatory for all tenders within one business day of publication, and the platform is integrated with TED. E-access is also mandatory since 2014.

E-submission through the EOJN has been available since 2014 and mandatory for contracts above the EU threshold since 1 January 2015, and below the EU threshold starting 1 July 2015. Information on tenders are accessible on the internet and bids can be tracked in real time. The platform is free of charge for economic operators, whereas contracting authorities have to pay a fee to use it. The legislative and regulatory framework for e-invoicing has been established, and is aligned with the latest EU e-invoicing legislation, Directive 2010/45/EU, which has been transposed via the national VAT legislation.

**Corruption**

Public procurement is a major concern area for corruption in Croatia, particularly in the construction sector. Perceptions of corruption among businesses and the wider public are well above EU averages, and there is an acknowledgement within the public administration that something must be done about the issue. One of the key challenges, particularly at the local level, and in the work of publically owned companies, is the prevalence of conflict of interest concerns.

Several anti-corruption strategies have been implemented in Croatia in recent years, often accompanied by action plans, which are frequently updated. The most recent Action Plan has shifted its emphasis relative to previous efforts from a preventative to prosecutorial approach. A new Anti-Corruption Strategy 2015-2020 has already been planned.
Croatia has established a number of agencies with dedicated anti-corruption mandates. Specific to procurement is the Commission for the Resolution of Conflict of Interest, which was recently reorganised in response to a number of legislative reforms. Within the criminal justice system, there is the Bureau for Combating Corruption and Organised Crime (USKOK), part of the State Prosecutor's Office. This is a prosecutorial body, and thus uses investigative methods. Its results in terms of records of investigations into alleged corruption are encouraged by the EC and the US Department of State Report 2013, which both highlight its successful prosecutions.

Regional Anti-corruption courts were also adopted before Croatia’s accession to the European Union.

The legal environment for anti-corruption has also undergone a rapid change in recent years. Dozens of changes related to anti-corruption have been made annually to laws regulating conflict of interest, public procurement, electoral campaign finance, criminal procedure law, and civil service law. The Croatian Parliament also enacted a new criminal code introducing harsher penalties for corruption crimes.

Civil society has been active to hold public officials accountable for their contracting activities. In 2011, a web portal called the ‘Croatian WikiLeaks’ was created by the NGO the Windmill Association to facilitate public oversight of the government’s procurement contracts and tenders and to check the assets and interests of public officials. This website aims to draw attention to public procurement and the irregularities in procurement procedures.

Another example of civil society’s involvement is the Partnership for Social Development with its Building Business Incentive for Fight Against Corruption project and the Anti-Corruption Response to Implementation of the Procurement Policies. They have also developed the Integrity Observers database, which enables verifications and cross-checks on procurement activities, real-time monitoring and analysis of public procurement in Croatia. DG Migration and Home Affairs recognised it as a good practice among MS.

The government is also working with civil society groups to improve transparency in the procurement system by developing a National Action Plan for implementing the Open Government Partnership in 2014-2016. The Open Government Partnership is an initiative launched by the government and civil society to ensure transparency, open data and to fight against corruption with a focus on access to information.

**Europe 2020 Agenda**

The Croatian government is currently pursuing a number of means to promote environmentally friendly policy goals via their procurement system, including the Third National Energy Efficiency Action Plan of the Republic of Croatia for the period 2014-2016. The PPA itself promotes the voluntary use of environmental certifications and other environmental criteria in the technical specifications of tenders, and provides a number of tools to facilitate their implementation. For example, in order to replace old household appliances, the Environmental Protection and Energy Efficiency Fund will create a co-financing programme for procurement of the most efficient appliances available on the market.

Sustainable procurement is also a key priority at the CPO. However, as these techniques are still relatively new to Croatia, their use is not yet widespread. In this regard, local and national officials are being supported by the UNDP to carry out the EU-wide Green Public Procurement 2020 project, which aims to lower the carbon intensity of procurement.

The Croatian PPA does not include provisions specific to SME promotion, but does employ a number of practices that are friendly to entrepreneurs. First, there is a policy of breaking larger supply contracts down into lots, which can make smaller firms more competitive. Second, minimum annual turnover requirements are comparatively low,
meaning that fewer SMEs are disqualified by their size alone. Finally, the availability of the DPPS helpline can help smaller businesses with more limited administrative support staff navigate the complexities of tendering.

**Irregularities and findings of national Audit Authorities**

Based on appeals and decisions made in 2013, the *DKOM* identified a number of key irregularities at each stage of the procurement process. In the tender specification stage, documents were found to be unclear and contradictory, including specific requirements designed to favour a single potential bidder over others, such as requirements unrelated to the subject of the tender. There were also irregularities in the receiving phase, such as opening bids before the application deadline, and failure to open bids publically. In the award phase, tenders were found to be eliminated without justification or evaluated on criteria not included in the technical specifications, and procedures were unlawfully cancelled. \(^{xxvi}\)

The SAO conducted 673 national level procurement audits in 2013, uncovering irregularities in 3.2% of cases examined\(^ {xxvii}\). These include awarding of specific contracts after the relevant framework had been closed, or contracts awarded on receipt of the desired product or service without the required procurement procedure. At the local level, a number of municipalities failed to draw up and publish a procurement plan, and subsequently purchased above the minimum threshold without applying procurement procedures as required.

System audit reports submitted by Croatia to the Commission have not revealed any particular deficiency to be reported in the 2013 report. In addition, the Commission services have analysed the annual audit activity reports and opinions submitted by Croatia. The conclusion is that the audit work of audit authorities can be relied upon. However, some improvements are needed in the determination and quantification of error rates.\(^ {xxviii}\) As regards the misuse of EU funds, between 2008 and 2009 there were 13 cases of EU misuse funds reported, most of them linked to public procurement.

**Outlook**

In Croatia, the near-term agenda is strongly focused on a number of initiatives designed to improve administrative capacity, several of which are backed by the EC.

First, as regards e-procurement, Croatia is currently about halfway through its e-procurement implementation strategy, whose ultimate goal is meeting the EU's 100% uptake goal by 2016. In addition to advancing the digitisation of the pre-award stages of the procurement process, the strategy also aims to develop the country's e-auction tools, which have the potential to produce savings for contracting authorities through both lower prices and lower administrative costs.

Second, on the administrative capacity front, the National Action Plan 2014-2016 and Anti-Corruption Strategy 2015-2020\(^ {xxix}\) envisage further reform of the legislative framework to promote simplification, harmonisation and centralisation, as well as greater investment in procurement tools and personnel. For example, the government has recently indicated its intention to employ approximately 350 additional staff in ESI funds management, some of them being directly engaged in public procurement. Such a substantial influx of new staff will pose logistical challenges in terms of training and preparation.

Third, as part of its procurement ex-ante conditionality Action Plan\(^ {xxx}\), the Croatian government is undertaking two ESI funds related initiatives. First, it is developing a Training Plan for Public Procurement for the ESI funds management bodies, which focuses on the specificities of public procurement using ESI funds, and is expected to be finalised by July 2015. Second, it has committed to recruit additional public procurement experts in the DPPS by November 2015, to ensure an effective and regular public procurement application in the ESIF programmes and projects.
Furthermore, Croatia is currently in the process of drafting a new PPA. Therefore, it is developing an inclusive process ensuring that as many key stakeholders as possible can provide input during the drafting phase. Additionally, in order to institutionalise the process of gathering feedback on the current procurement legislation, the government has recently established an independent working group within the Croatian Employer Association (HUP). It is tasked with proposing amendments to the PPA. The group’s current subjects for discussion include streamlining the procurement process and reducing the administrative burden, as well as optimising the role of the CPO.

ANALYSIS

Strengths

The two greatest strengths of the Croatian procurement system are the centralisation of its national portal, and the progress made in improving data collection and transparency. The existence of a single electronic procurement portal has greatly facilitated the modernisation of the Croatian procurement system by channelling all reforms and procedures though a single locus. It also makes it substantially easier to collect data on and monitor procedures.

Significantly enhancing the value of the data collected have been the efforts to make it more easily available to the public, and thus to civil society groups. This kind of external, citizen-lead engagement is a necessary, if not sufficient element to any successful anti-corruption effort.

Weaknesses

Despite the repeated reforms, anti-corruption strategies, and best practices recognised in procurement for Croatia, corruption is still present, especially at the local level, and political influence continues to play a part in the procurement system. This is due in part to the fragmentation of administrative capacities at the sub-national level, and lack of sufficient resources for national oversight bodies. Even with the creation of USKOK, the lack of sanctions for corruption-related crimes at a judicial level contributes to a sense of impunity in Croatia.

According to the Commission’s 2013 Monitoring Report, the major downfalls in the anti-corruption effort are the lack of preventative measures, and a failure to set deadlines, responsibilities and budgets accordingly. There are a number of existing tools that could be made better use of. For example, available risk assessment tools need to be used more systematically at the local level.

Another area where improvements can be made is in the implementation of the current legislative procurement framework. First, like many other institutions in Croatia, the CPO faces difficulties in hiring sufficient staff to execute their responsibilities. Second, despite the fact that the PPA is promoting the use of the most economically advantageous tender criterion (MEAT), contracting authorities are not currently implementing it at expected levels, mainly because of lack of experience.

Finally, regulatory and compliance costs in executing procurement remain high both for government and bidders. Therefore, there is room for further legislative reform to better streamline the process, particularly through greater standardisation and coordination with the local and regional levels.

Recommendations

- Strengthen anti-corruption efforts: Although corruption in the procurement system is an issue in Croatia, the legal framework is not yet developed to effectively tackle the problem.
- Expand the DKOM's jurisdiction to allow it to initiate investigations ex officio.
- Create proactive measures from Ministry of Economy such as increasing protections for whistle-blowers or including observers during procurement procedures.
- Strengthen the Anti-Corruption Task Force.
- Adopt anti-corruption legislation implementing sanctions for infractions of procurement rules.

**Improve support:** The scale of recent changes in the procurement system combined with inexperience of many practitioners has resulted in substantial gaps in administrative capacity.
- Develop and implement a more robust training plan for procurement practitioners in line with the PA Action Plan that focuses on key concepts such as market assessment, the use of MEAT criteria, and e-procurement tools.
- Make better use of online portals such as the EOJN to inform contracting authorities of their obligations through regular updates.
- Improve incentives to use EOJN by making it free of charge for contracting authorities.

**Hire more experts:** Capacity bottlenecks, i.e. understaffing, high turnover and hiring of profiles with lower qualifications due to lack of qualified candidates, have been reported by key procurement bodies, including the DPPS, the CPO, and anti-corruption oversight institutions.
- Accelerate hiring of qualified experts at the DPPS in line with commitments under the PA Action Plan (deadline November 2015).
- Increase staffing levels at CPO and oversight bodies.
- Develop retention policies targeted at reducing staff turnover among key personnel.

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2 Jelena Madir and Luka Rimac, Croatia: reforms to meet the terms of the EU acquis, EBRD, Law in transition online, available at: http://www.ebrd.com/downloads/research/law/lit113h.pdf
3 Official Gazette, Public Procurement Act, 117/03
4 Official Gazette, Act on DKOM, 117/2003
5 Official Gazette, Act on DKOM, 21/2010
6 Official Gazette, Act on DKOM, 18/2013
7 Official Gazette, Public Procurement Act, 21/2010
8 Official Gazette 78/12, amendments 152/2014
9 Official Gazette, Public Procurement Act, 143/2012
10 Official Gazette 18/2013, amendments 127/2013 and 74/2014
11 Official Gazette, Public Procurement Act, 21/2010
12 Official Gazette 90/2011, amendments 127/2013 and 74/2014
13 Act on the State Commission for Supervision of Public Procurement Procedures
15 Portal of Public Procurement, Certifikati (Certification), available at: http://www.javnanabava.hr/default.aspx?id=3757


xx Anticorruption reload Assessment of Southeast Europe, available at: www.seldi.net


