

# Croatia

by Petar Dorić

*Capital:* Zagreb  
*Population:* 4.4 million  
*GNI/capita, PPP:* US\$18,780

Source: The data above are drawn from the World Bank's *World Development Indicators 2014*.

## Nations in Transit Ratings and Averaged Scores

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Electoral Process	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Civil Society	3.00	2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.75
Independent Media	3.75	3.75	4.00	3.75	4.00	4.00	4.00	4.00	4.00	4.00
National Democratic Governance	3.50	3.50	3.50	3.25	3.50	3.50	3.50	3.50	3.50	3.50
Local Democratic Governance	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Judicial Framework and Independence	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50
Corruption	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Democracy Score	3.75	3.71	3.75	3.64	3.71	3.71	3.64	3.61	3.61	3.68

NOTE: The ratings reflect the consensus of Freedom House, its academic advisers, and the author(s) of this report. The opinions expressed in this report are those of the author(s). The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year.

## EXECUTIVE SUMMARY

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Croatia joined the European Union (EU) on 1 July 2013 after a decade of difficult political and economic reforms. Calling Croatia a bridge to a better future for the region, Prime Minister Zoran Milanović pledged to help the country's Balkan neighbors realize their EU ambitions. However, the historical milestone belied troubles at home. The economy continued to struggle with double-digit unemployment and low investment despite a raft of ultimately unsuccessful reforms by the center-left government led by Milanović's Social Democratic Party (SDP). This allowed the center-right opposition Croatian Democratic Union (HDZ) to rebound somewhat after losing the 2011 parliamentary elections amid corruption investigations that implicated its leadership. In a strategic overhaul in 2013, the HDZ challenged the SDP's "communist" policies while appealing to the strong strain of social conservatism in Croatian society by refocusing on charged issues such as Serb minority language rights, gay marriage, and sexual education in schools, often with the support of conservative civic groups and the Croatian Catholic Church. While polarizing, this strategy seemed effective given the HDZ's relatively strong performance in the May local elections.

A longtime focus in annual assessments of Croatia's progress on EU reforms, the judiciary played a key role in the ideological confrontations of 2013. Specifically, the Constitutional Court declined to rule on the legality of an ultimately successful referendum to amend the constitution to define marriage as exclusively between a man and a woman, effectively handing a victory to opponents of gay marriage and, more generally, LGBT rights. There is concern that referendums will now be abused to circumvent the legislative process, particularly by conservative groups seeking to restrict minority rights. Referendums challenging Serb minority language rights and the right to an abortion are already on the table and gaining support.

While political infighting within the ruling coalition and between the SDP and the resurgent HDZ distracted the government from addressing many key challenges in 2013, anti-corruption efforts moved forward with new high-profile arrests. The media landscape remains immature, with low standards and opaque ownership structures. Though dynamic, civil society too often aligned with socially conservative—if not retrograde—causes such as the marriage referendum that are undermining human rights in Croatia.

**National Democratic Governance.** EU membership notwithstanding, the government made little progress on tackling the country's many economic and political challenges in 2013. Privatizations and other reforms intended to shore up the economy foundered as public frustration over unemployment and other issues grew. The ruling SDP drew criticism not only for its handling of the economy but also its stance on social issues such as minority rights. In a rebranding effort,

the opposition HDZ attacked the SDP-led government as “communist” while shifting focus to a socially conservative agenda backed by veterans, conservative civic groups, and the Croatian Catholic Church, including a national referendum to effectively ban gay marriage. The EU threatened Croatia with financial sanctions after the Croatian parliament pushed through an amendment to the European Arrest Warrant in a move widely seen as intended to protect a Yugoslav-era secret police chief from extradition to Germany for questioning in a murder case. *Croatia’s rating for national democratic governance remains unchanged at 3.50.*

**Electoral Process.** Croatia held its first elections for the European Parliament in April, followed a month later by local elections. The polls were well organized even as low turnout reflected growing voter apathy. The HDZ presented a strong challenge to the ruling SDP in both elections in a sign of its comeback after losing the 2011 parliamentary elections. The year also saw two referendums. *Croatia’s rating for electoral process remains unchanged at 3.25.*

**Civil Society.** In Croatia, nongovernmental organizations (NGOs), labor unions, religious groups, and other civic organizations remain active and extremely effective compared to civil society in many Balkan countries. In 2013, these groups pursued initiatives on everything from the environment to a successful referendum to define marriage as between a man and a woman. However, the latter effort, spearheaded by a conservative group allied with the Croatian Catholic Church, reflected a broader conservative turn in Croatian civil society toward stances and policies on issues such as gay rights, sexual education, and abortion that are at odds with European ideals and norms on minority rights. Due to this shift, *Croatia’s rating for civil society declines from 2.50 to 2.75.*

**Independent Media.** Croatia’s media landscape suffers from a lack of independent, quality outlets with high reporting standards. Hrvatska Radio Televizija, the public broadcaster, remains the most-respected source of news despite management problems and a complex financing structure that the government has been trying to reform for years. Private television is too focused on entertainment, while quality investigative journalism is scarce in a print media market dominated by a few murky conglomerates with little interest in improving standards. Digital media outlets are emerging but so far unable to fill the quality gap. *Croatia’s rating for independent media remains unchanged at 4.00.*

**Local Democratic Governance.** Despite a relatively small population, Croatia has an extremely complex local governance structure with over 400 municipalities. In 2013, leaders made no progress on longstanding efforts to streamline local government. Implementation of a 2012 decentralization plan was hindered by the fact that rules granting more powers to mayors were not harmonized with national labor legislation, among other laws. The city of Vukovar’s move in November to effectively block implementation of national legislation on minority language rights

reflects longstanding tension between local and state-level government. *Croatia's rating for local democratic governance remains unchanged at 3.75.*

**Judicial Framework and Independence.** Despite over a decade of reform efforts, the judiciary remains Croatia's weakest institution. In November, the Constitutional Court upheld a parliamentary vote to hold the aforementioned marriage referendum following a successful signature-gathering campaign by a conservative civic group. However, the court declined to rule on the referendum's legality despite the explicit request of liberal-leaning citizen and civic groups. A debacle from the beginning, the Constitutional Court review revealed an immature, listless judiciary and will probably encourage more referendums on polarizing conservative social issues. In addition, the Finance Ministry fought with the courts for control over bankruptcy proceedings. The European Arrest Warrant (EAW) controversy, sparked within days of EU membership, reflected lingering issues with rule of law. Due to the judiciary's failure to take an active role in protecting minority rights, *Croatia's rating for judicial framework and independence declines from 4.25 to 4.50.*

**Corruption.** A key part of the EU accession process, the government's aggressive anticorruption campaign continued in 2013 with the ongoing trial against former prime minister Ivo Sanader and the HDZ in the Fimi Media case—the largest corruption investigation in Croatia's history. Authorities also launched another high-profile case, charging the longtime head of the Croatian Chamber of Commerce with embezzlement. At the same time, critics say the prosecutor's office has too much power and a mixed track record of prosecutions. *Croatia's rating for corruption remains unchanged at 4.00.*

**Outlook for 2014.** The government will probably seek the EU's help on the economy and the looming ideological battles over issues such as minority rights. However, the European Commission has signaled reluctance to intervene in minority rights and other social issues, leaving the government to hope that its economic reforms will begin to take hold in 2014 to bolster its image and credibility with an increasingly skeptical public. The odds of an economic rebound are long, though, so the HDZ will probably continue its resurgence amid mounting political apathy and ideological clashes.

# MAIN REPORT

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## National Democratic Governance

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.50	3.50	3.50	3.25	3.50	3.50	3.50	3.50	3.50	3.50

Despite realizing the milestone of European Union (EU) membership 1 July, Croatia struggled at home in 2013. Led by the Social Democratic Party (SDP), the government pursued reforms to shore up the flagging economy amid political clashes over polarizing social and ethnic issues championed or supported by the opposition Croatian Democratic Union (HDZ), the resurgent center-right party founded by Franjo Tuđman, Croatia's first president after independence from Yugoslavia in 1991. However, the ultimately unsuccessful economic reforms contributed to a perception that leaders lack a vision for tackling the country's many challenges.

EU membership notwithstanding, Croatians have soured on the political elite. Support for the SDP and HDZ, the country's two main political parties, hit historic lows in December: 24.1 percent and 21.1 percent respectively.<sup>1</sup> The public's complaints are mostly economic: Croatia's unemployment level is the third-highest in the EU, youth joblessness is a staggering 50 percent, investment is low, and taxes are rising. In response, Finance Minister Slavko Linić pursued what he called an aggressive reform agenda that included privatizing the country's last state-owned bank and tackling the grey economy by, for instance, cracking down on tax evasion by forcing companies to use computer generated receipts and follow new revenue reporting rules.<sup>2</sup> However, the reforms were as unpopular as they were ineffective—perhaps none more so than a requirement that outdoor green markets use cash registers in order to generate the receipts—because they primarily affected small businesses while large enterprises such as Agrokor, the Croatian food and drinks conglomerate, were protected by their close ties to the state. Agrokor has especially strong government links—state-owned companies often pay employee bonuses in coupons to Agrokor grocery stores.<sup>3</sup> The application of tighter fiscal controls to Agrokor, or the Europress Holding media conglomerate—which is also closely tied to the state—is difficult to imagine.

In addition, critics faulted the government's revenue raising efforts for focusing on privatizations rather than courting new investment outside the tourism industry. Some accused the SDP-led government of abandoning its social democratic values. In September, the government's image suffered another blow over its response to a massive healthcare strike. On 18 September, some 46,000 nurses and doctors stayed home over cuts to overtime pay and other benefits.<sup>4</sup> The strikers demanded the benefits be reinstated, but the government took a tough stance, and the two sides were still at an impasse at year's end. The year also saw disputes with labor unions over ongoing attempts to amend the labor law, among other issues.

Against this background, the HDZ steadily rebuilt after a string of setbacks going back to 2011. That October, prosecutors expanded the so-called Fimi Media case, the biggest corruption investigation in Croatia's history, to include the HDZ as a legal entity alongside existing charges against Ivo Sanader, the former prime minister and longtime HDZ head, and other party members for allegedly funneling money from public companies to a slush fund from 2003 to 2009. It was Croatia's first legal case against a political party and contributed to the HDZ's defeat in the December 2011 parliamentary elections and the subsequent ouster of then prime minister Jadranka Kosor as party leader. (She was later ejected from the HDZ altogether.) Kosor's successor, the more conservative—and, some critics say, autocratic—Tomislav Karamarko has spearhead the HDZ's strategic shift. Under his leadership, the party tried to evoke Croatia's Yugoslav past by labeling the SDP-led government and its policies as "communist." At the same time, the HDZ began distancing itself from the economics and politics of the Tuđman and Sanader years—widely blamed for Croatia's current economic troubles—by shifting focus to high-profile social issues such as Serbian minority language rights and gay marriage. In 2013, the party opposed implementation of a law requiring Cyrillic alongside Latin script on public buildings in areas where ethnic Serbs comprise over one-third of the population. It also supported a national referendum for a constitutional amendment to define marriage as between a man and a woman. The HDZ's socially conservative agenda appeared to help carry the party to a strong finish in the 2013 local elections, addressed in detail in the following section.

Aside from the economy, two issues dominated the political and media landscape in 2013. One involved the fall implementation of the aforementioned law on bilingual signs, which the government passed in 2002, in line with European standards on protecting minority rights. The law was particularly controversial in Vukovar, which was nearly destroyed during a three-month siege by Serb forces in 1991 and saw protests led by veterans and other ad hoc groups both before and after the signs were put up in September.<sup>5</sup> Most of the signs were broken or removed. As a result, the government suspended implementation of the law in Vukovar. The other issue was Brussels' demand that Croatia repeal an amendment to the European Arrest Warrant (EAW)—adopted right before EU membership—that exempted crimes committed before 2002 from the purview of the warrant. The move was seen as intended to prevent the extradition of Josip Perković, a communist-era Yugoslav secret police chief accused of ordering the 1983 murder of a defector, to Germany. After the European Commission threatened sanctions, the Croatian parliament repealed the amendment in December.

In October, President Ivo Josipović traveled to Belgrade for his first state visit to Serbia and addressed the parliament. However, there were no major breakthroughs in bilateral relations, and both countries continued to press mutual genocide charges from the 1990s conflict at the International Court of Justice.<sup>6</sup> The court was to begin hearing arguments in the cases in March 2014.

## Electoral Process

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25

In April, Croatia held its first elections for the European Parliament (EP), followed by local elections a month later. In both contests, the SDP and HDZ finished neck-and-neck amid low voter turnout, signaling the citizenry's frustration with the political class.

In the EP elections, the HDZ-led coalition won a plurality with 32.86 percent and six seats. The SDP-led bloc took 32.07 percent and five seats, followed by the Croatian Labor Party with 5.77 percent and one seat. Voter turnout was 20.83 percent, reflecting a general decline in turnout nationwide and a hangover from the sheer frequency of polls in recent years, including parliamentary elections in 2011 and the 2012 referendum on EU membership. Many voters were also ambivalent, if not cynical, about an election widely seen as affecting only the political elite.

The HDZ's slight upset of the SDP likely reflected its association with European integration efforts under Sanader and Kosor. The candidates themselves were also key, as the elections were the first held under "open lists" that allow voters to choose a person rather than just a party. Some said the HDZ-led bloc owed its victory to Croatian Party of Rights leader Ruža Tomašić, a widely popular politician despite a euroskeptic, strongly conservative bent.<sup>7</sup> She secured the bloc's victory by receiving the most votes on the HDZ list, even though she was the sixth name on their list. More experienced if less charismatic, former foreign minister Tonino Picula placed first for the SDP-led bloc.

In the May local elections, the HDZ demonstrated its comeback by effectively tying the SDP.<sup>8</sup> As usual, it performed well in rural areas while the SDP won in Split, Rijeka, and most other big cities. While the SDP and coalition partners took two cities and one county (*županija*) more than HDZ, its advantage was relatively small. The SDP also had to contend with several strong independent candidates. In the capital Zagreb, longtime independent Mayor Milan Bandić's personal brand again proved stronger than the SDP. Presenting himself as an everyman, Bandić benefited from the SDP's national retreat from social issues, winning a strong 66 percent majority in the second round of voting. The HDZ signaled its tacit support for Bandić by running a previously unknown candidate. In the coastal city of Split, the SDP was more successful. It managed to sideline Ivan Grubišić, the popular center-left retired priest who had planned to run for mayor as an independent, by promising to support his bid for county prefect (*župan*) instead—a contest Grubišić ultimately lost to the HDZ in arguably the biggest upset of the May polls.<sup>9</sup> However, Grubišić's exclusion from the Split mayoral race cleared SDP candidate Ivo Baldasar's path to victory over the increasingly unpopular incumbent Željko Kerum of the Croatian Civic Party.

In the May polls, there were 4 percent more women on the ballots than in the 2009 local elections.<sup>10</sup> The region of Istria and Zagreb had the most women candidates.

Addressed in detail in the Civil Society section, two referendums were also held in 2013. In April, a vote to prevent tourism development in the coastal city of Dubrovnik failed due to low turnout. In December, however, voters backed a constitutional amendment to define marriage as exclusively between a man and a woman.

#### Civil Society

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.00	2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.75

From labor unions with influence over government policy in areas like healthcare to groups and organizations focusing on social policy, Croatian civil society is dynamic and effective. Broadly speaking, civil society is divided into two groups. One group identifies as socially liberal and focuses on human rights, gender issues, labor rights, and the environment.<sup>11</sup> The other, more conservative bloc includes organizations affiliated with the Catholic Church, veterans, and ethnically defined cultural groups. While both groups were politically active in 2013, the conservatives were far more successful and appear ascendant as they pursue a socially conservative agenda on issues such as gay rights, sexual education, and abortion that is in many cases at odds with European norms and ideals.

In 2013, the conservative bloc's key initiative was a national referendum to add a constitutional amendment stipulating that marriage be defined as between a man and a woman. The campaign leading to this referendum was spearheaded by In the Name of Equality, a coalition of church-affiliated and socially conservative civil society organizations (CSOs). Their actions were partially triggered by a sexual education program that the government had introduced in schools in January and that, because of the inclusion of homosexuality in its curriculum, received strong opposition from the HDZ and the Croatian Catholic Church. The group gathered over 740,000 signatures in support of the referendum, well above the 450,000 required to force a parliamentary vote.<sup>12</sup> On 8 November, the parliament voted to hold the referendum despite opposition from some parliamentary deputies and citizens' groups that asked the Constitutional Court to review its legality. After a controversial two-day session, the judges said they had found no reason to overrule the parliament, and the referendum went ahead on 1 December.<sup>13</sup> Some 66 percent of voters supported the amendment, with 33.51 percent opposed. Turnout was approximately 38 percent.<sup>14</sup>

Although the referendum was arguably the most successful civic initiative in Croatia's history, its ramifications for LGBT rights are unclear, as the government has pledged to pursue legislation strengthening civil partnerships. Overall, there was little progress on LGBT rights in 2013. Under tight police security, LGTB pride parades were held in Zagreb and Split without major incidents for the second year after violence at the 2011 Split event. Now in its 12<sup>th</sup> year, the Zagreb parade has become a fixture supported by the mayor and major political and civic leaders. In Split, the third annual parade was held with the public support of Mayor Baldasar, whose predecessor had not supported the two previous rallies.

However, the referendum's significance transcends LGBT rights as the lynchpin of a larger set of coordinated initiatives by conservative CSOs, the Croatian Catholic Church, the HDZ, and other center-right political parties against what they see as the SDP-led government's overly liberal leanings/inclinations. In a campaign at clear odds with European ideals, these groups launched a PR war with strident antigay rhetoric against the aforementioned sex education program. In a newspaper interview on the program, a prominent theologian said that "lesbians and fags will destroy Croatia." Deputy Bishop Valentin Pozaić called the "baleful" program a tool of indoctrination and demanded Prime Minister Milanović's ouster.<sup>15</sup>

Abortion was another key issue for the conservative bloc. Over the summer, the Croatian Catholic Church intervened on behalf of Jaga Stojak, a nurse fired from the Knin hospital after refusing to assist in an abortion. The case garnered considerable media coverage after church authorities publicly called for "Catholic religious rights." Stojak was ultimately reinstated, and in August, the Croatian Catholic bishop urged the parliament to outlaw abortion.<sup>16</sup> The church and conservative CSOs say they will push for a referendum on an amendment banning abortion.

Another issue caught between the liberal and conservative sides of civil society was the law on bilingual signs. Veterans' groups in Vukovar continued to pressure the government against the implementation of the law, and vandalism of the signs continued. Veterans' groups, meanwhile, played a key role in pressuring the government to suspend implementation of the law on bilingual signs in Vukovar.

Against this backdrop, the more liberal groups of civil society struggled in 2013. A major example is the initiative of Srdj is Ours, a Dubrovnik-based coalition of NGOs and citizens, against a government-supported proposal to build a golf resort on Srdj hill above Dubrovnik's coastal old town. The coalition pushed for a referendum in April 2013 after years of opposition and protest by locals and environmentalists, who worried that Dubrovnik would become overdeveloped. However, despite overwhelming voter opposition to the resort, the referendum failed because, at 31.5 percent, turnout was well below the 50 percent threshold. In July, the Dubrovnik city council approved the project.<sup>17</sup>

#### Independent Media

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.75	3.75	4.00	3.75	4.00	4.00	4.00	4.00	4.00	4.00

The media landscape in Croatia suffers from poor standards, limited financing, and a lack of independent outlets. The national broadcaster, Hrvatska Radio Televizija (HRT), is the most influential news source in the country. It emerged from Jugoslavenska radio televizija as one of the most respected branches in the former republic before becoming a government mouthpiece during the 1990s conflicts. Today, HRT is once again respected, popular, and influential regionally, if partly due to low standards in other Balkan media markets.

Despite the HRT's strong reputation regionally, the government has been trying to reform the broadcaster for years to improve its financing, independence, and management. However, it has made no headway on streamlining HRT's complex financing structure: a combination of viewer subscriptions, advertising revenue, and state budget allocations. Efforts to improve professionalism through key staff changes in 2012 foundered, partly because the newly appointed HRT Director Goran Radman saw his first year consumed by controversies over everything from his staff appointments to undeclared assets and an alleged conflict of interest.<sup>18</sup> Radman's choice of Željko Rogošić to lead the HTV1 program caused a stir after revelations that Rogošić's application included misleading (if not false) information on his journalism experience. HRT nevertheless remains the most important source of political news and analysis in Croatia, while popular, private television stations such as Nova and RTL are geared more toward entertainment, with a steady roster of soap operas, sports, and reality shows.

The quality of print journalism remained low in 2013. The Rijeka-based daily *Novi List*, the Serb minority weekly *Novosti* (published by the Serbian National Council), and a handful of other publications are trusted independent sources of investigative journalism, but most press coverage is sensationalist and partisan. The biggest market players are EPH, the German-Croatian conglomerate; Austria-based Styria Media Group; Todorić's Agrokor; and a few smaller subsidiaries of these companies. This dominant group remains focused on using its print media holdings for other business dealings, and professional standards suffer as a result. It also has close government ties that seem to lead to preferential treatment. For example, in August, EPH asked Finance Minister Linić to "forgive" up to 40 percent of its 508-million kuna (\$89.5 million) tax debt—a controversial request given the government's pledge to crack down on tax offenders.<sup>19</sup>

EPH owner Ninoslav Pavić is believed to control almost half of the market, but the share may well be greater, as Pavić's business partners and connections are murky. Some believe he maintains close ties to Agrokor's Todorić, as well as twice-convicted entrepreneur Miroslav Kutle. For at least a decade, these three men were connected through privatization and post-privatization scandals relating to media, real estate, and advertising ventures, mostly through secret deals that were never publicized. Former Prime Minister Kosor's government called a session of the National Security Council in June 2011 to discuss the lack of transparency in national media ownership, but the current government has not pursued the issue.

Internet penetration and use continue to rise as coverage improves in urban areas. Household computer access is also up.<sup>20</sup> However, digital journalism has failed to fill the quality gap in the Croatian press. Internet news portals such as Index.hr and T-portal compete with the websites of print publications such as *Večernji list* and *Jutarnji list* for the same stories and find it hard to support and give more space to investigative pieces. While quality news and analysis can be found on smaller sites, their readership is expected to remain small.<sup>21</sup>

## Local Democratic Governance

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75

For a population of fewer than 4.3 million people, Croatia has 429 municipalities, 126 cities, and 20 counties (*županija*). It has been suggested that Franjo Tuđman created this system to better control the country during the 1990s conflict, but as time went on, *županija* administration officers served primarily to consolidate the president's power and that of the HDZ. In 2013, there were few developments in local democratic governance as plans to restructure municipal government stalled amid mounting tension over decentralization efforts.

Over the past decade, a stream of proposals for reorganizing Croatia's expensive, inefficient local governance system have been put forward by different experts, political parties, and the EU, including a plan to reconfigure 20 counties into between two and five regions. However, the geography of Croatia and disputes between cities vying for regional city status present many political challenges. The question of whether Zadar, Split, or Knin will be the capital of Dalmatia is a sensitive issue fueled partly by competition over EU loan allotments.<sup>22</sup> Additionally, the public generally opposes reducing the number of municipalities. People prefer to have their villages called towns, which employ at least a few people in local administration. Villages do not get funding for these positions.

In 2013, the government began to implement a decentralization plan that shifts significant power and responsibility to local mayors and county prefects. Mayors elected in 2013 have more direct responsibility for public companies supported from city budgets, including the power to name their executives. In addition, a new legal mechanism was created for sanctioning poor mayoral performance. It empowers local councils to oust mayors who fail to produce acceptable city budgets every year. In the event of a protracted conflict between a mayor and his or her local council, both face early elections. However, the regulations to increase mayoral oversight proved difficult to implement, partly because they are not harmonized with labor and other legislation. In November, Split Mayor Baldasar said he lacked the legal authority to make staff changes in a local administration performing well below expectations.<sup>23</sup> At year's end, the government had made no progress on legislative harmonization.

Despite the shortcomings in decentralization efforts, mayors and local administrations are often powerful and can significantly affect local reform efforts. Stipe Petrina, the independent mayor of the coastal city of Primošten, renamed the President Franjo Tuđman road in protest of what he described as Tuđman's "economic pillaging" of the country through privatization.<sup>24</sup> Petrina is also widely seen as controlling the successful development and tourism economy in Primošten due to his strong leadership of the town. In early November, meanwhile, the Vukovar city government adopted a temporary measure banning Cyrillic script on public buildings in direct opposition to Zagreb's efforts to implement the law on minority languages. At year's end, the ban remained in effect.

## Judicial Framework and Independence

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50

Judicial reform in Croatia faced a number of unexpected challenges in 2013. In addition to longstanding problems such as a large case backlog and ethnic bias in court rulings, a dispute with the European Commission (EC) and balance-of-power issues between the courts and executive revealed a weak, at times listless judicial system clearly in need of further reform.

While the judiciary and rule of law are longstanding weak points for Croatia, the country's direct confrontation with the EU over the Josip Perković case came as a shock. Three days before joining the EU, the government adopted a law exempting crimes committed before 2002 from the purview of the European Arrest Warrant (EAW), a move seen as intended to prevent the extradition of Perković, a communist-era Yugoslav secret police chief wanted for questioning in Germany on allegations that he ordered the 1983 murder of a defector. Under EU pressure, the government offered to repeal the change by July 2014, which EU Justice Commissioner Viviane Reding saw as foot dragging. After the threat of financial sanctions in September, Zagreb backed down. In December, the parliament amended the new legislation so the EAW would apply without exceptions from the beginning of 2014. Critics from the opposition accused Prime Minister Milanović of trying to buy time with a domestic investigation of Perković in order to prevent his extradition.<sup>25</sup>

In addition to reopening old questions about the politicization of the Yugoslav-era secret police and Perković's role in the Tuđman-era secret services, the EAW controversy highlighted several longstanding issues regarding rule of law and the judiciary. First, legislators pass laws without fully considering their internal and external implications. Second, Croatia lacks a legal framework to address war and state-sponsored crimes, which has slowed their prosecution. In a positive note, the EAW dispute demonstrates that the government is responsive to external pressure.

While the courts were not directly implicated in the EAW controversy, they played a key role in the gay marriage referendum, only the third national plebiscite in Croatia's history.<sup>26</sup> Under current regulations, any issue is open to a referendum. Less clear is who can legally bring cases to the Constitutional Court for review and the mechanisms by which the parliament would apply the court's rulings—a legislative gap that created considerable confusion in the run-up to the referendum. After the parliament voted on 8 November to allow the referendum, former prime minister Kosor—who became an independent MP after being ousted from the HDZ—proposed that the Constitutional Court review its legality. While the parliament roundly rejected her proposal, civic groups like Kontra and Iskorak successfully pressured for a constitutional review. After a two-day session, the court found no reason to overrule the parliamentary vote. However, the judges did not consider the constitutionality of the referendum because, they said, the parliament had not explicitly asked them to do so. They even suggested that the referendum must be constitutional because parliament approved it. Both murky, the ruling and the

appeal for review further muddled the Constitutional Court's place in the balance of powers. In addition, referendums are likely to proliferate as a way to circumvent the legislative process. After the Vukovar city government ban on bilingual signs in November, NGOs representing veterans announced plans for a referendum on the issue. Other referendums on social and ethnic issues are expected.

The application of the Financial Business and Pre-bankruptcy Settlement Act also raised balance-of-power concerns. Adopted in September 2012, then revised and applied in 2013, the law is designed to enable the government to assist companies facing bankruptcy by reviewing their cases in an expedited manner and assessing whether they are worth saving. However, in 2013, Finance Minister Linić tried to use it to effectively replace municipal and economic courts as the arbiter of bankruptcy cases. In some instances, the ministry tried to revoke the business licenses of private entrepreneurs, including large construction companies that were entering bankruptcy. This led to outright confrontation with the judiciary in July, when a Zagreb commercial court suspended the pre-bankruptcy settlement proceedings in a case involving the Dalekovod construction firm. The judge said some provisions in the Financial Operations and Pre-bankruptcy Settlement Act were unconstitutional and asked for a Constitutional Court review. He also said the act's application was tantamount to abuse of power because some creditors were offered more favorable conditions for the payment of their claims.<sup>27</sup> The Constitutional Court rejected the judge's appeal, and Linić criticized him for politicizing the case and questioning the executive's right to take over bankruptcy proceedings.

### Corruption

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00

In 2013, Croatia continued an aggressive anticorruption campaign with the investigation, arrest, or prosecution of several former high-profile officials, including former prime minister Sanader and Nadan Vidošević, a businessman and politician who led the Croatian Chamber of Commerce for 18 years. In December, the Criminal Code was updated under EU standards to help the judiciary tackle big cases of graft and misconduct.<sup>28</sup>

From day one, Sanader has been the key target in the government's anti-corruption efforts. His initial arrest in 2010 signaled a new era in prosecuting corruption. The multiple trials that followed and Sanader's conviction in 2012 for accepting a €5 million bribe from Hungarian energy group MOL in return for guaranteed rights in Croatia's state oil company INA sent a clear signal. At the end of 2013, meanwhile, Sanader's trial in the Fimi Media case was ongoing. He and the HDZ stand accused of siphoning off 70 million kuna (about €9.25 million) from state companies through the Fimi Media marketing agency during his tenure as premier from 2003 to 2009. Sanader is also awaiting more trials: one on charges

that he took a 17 million kuna (€2.25 million) kickback in a property deal and another for allegedly securing cheap electricity and loans for an associate's company.

In 2013, the government widened its net beyond Sanader with other high-profile investigations. In January, then head of military intelligence Darko Grdić was dismissed, and, along with several associates, accused of allegedly misusing some €734,000 in public funds from 2009 to 2012. In October, authorities arrested five officials and business leaders on charges of allegedly laundering 40 million kuna (€5.2 million) through a state road company from 2005 to 2011.<sup>29</sup> A month later the aforementioned Vidošević, known as the “Balkan George Clooney,” was detained on charges that he allegedly embezzled 33 million kuna (€4.2 million) from the Croatian Chamber of Commerce through a complex scheme involving fake invoices for advertising and marketing services.<sup>30</sup> He also stands accused of war profiteering and involvement in dubious privatizations. Vidošević, the former head of the Kraš chocolate company and an unsuccessful presidential candidate in 2010, has been involved in almost every aspect of Croatian political and economic life over the past 20 years. His arrest marked a shift in Croatia's anticorruption campaign, as prosecutors had in the past reduced or quashed charges against mid-level officials in exchange for cooperation in the ongoing Sanader trials. Several other suspects were arrested alongside Vidošević in November, and the case will probably lead to more investigations.

Though key to Croatia's successful EU bid, the government's anticorruption campaign has faced criticism. Some say the state prosecutor has too much power, pointing out that the number of cases under investigation always seems to rise around the time of the office's annual fall parliamentary report. Critics also point to a less-than-stellar track record. In the two and a half years since the adoption of a law abolishing the statute of limitations on crimes related to war profiteering and privatization, 8 people were sentenced in first-level courts, 44 charges were filed, and 10 people remain under investigation.<sup>31</sup> Critics also say the prosecutor's office selectively leaks information on key cases, affecting public opinion and probably court rulings.<sup>32</sup>

However, anticorruption efforts have had to contend with the political and economic complexities of post-independence Croatia. Croatia's emergence under wartime conditions allowed former President Tuđman to effectively control the new state institutions through his HDZ. After decades of a socialist-based economy, political patronage was hardly novel, but the conflict demanded creative ways of financing both the country and the war effort, as well as loyal managers to run those companies still deemed at least somewhat viable. The government extended economic opportunities to those it deemed politically loyal to Tuđman's vision of the Croatian state, creating a new elite that went on to finance the HDZ, sharing many of its interests.

In practice, the new system was not a huge change from the socialist era, but it was effectively undocumented and unregulated. Sanader's files suggest this led to two decades of rigged public tenders, tax evasion, monopolies, and other issues. For example, there is increasing evidence that all major construction projects where the

state was the investor were fixed, which explains why most of the major investments from the past decade are now under investigation. Today, this further undermines an already lackluster investment climate and economy beset by bankruptcies and foreclosures.

Understanding this legacy, however, offers little by way of a strategy for addressing these entrenched interests or finding justice. For example, the HDZ remains a viable political party despite being indicted for corruption in the Fimi Media case. Anticorruption efforts, while moving forward, will always have to contend with this complex legacy.

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