

Croatia

by Petar Dorić

Capital: Zagreb
Population: 4.3 million
GNI/capita, PPP: US\$20,810

Source: The data above are drawn from the World Bank's *World Development Indicators 2015*.

Nations in Transit Ratings and Averaged Scores

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Electoral Process	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Civil Society	2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.75	2.75
Independent Media	3.75	4.00	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00
National Democratic Governance	3.50	3.50	3.25	3.50	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	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.50
Corruption	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00
Democracy Score	3.71	3.75	3.64	3.71	3.71	3.64	3.61	3.61	3.68	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

European Union (EU) membership has not fostered a renewed will to push through reforms in Croatia. The economy contracted for 12 successive quarters as the ruling Social Democratic Party of Croatia (SDP) and the main opposition party, Croatian Democratic Union (HDZ), continued their decades-old fight over the legacy of Yugoslav communism and who is responsible for the nontransparent privatizations of the 1990s.

The inability of either party to outline a path back to economic growth increased citizens' disillusionment with the political system. The stalemate boosted support for a third party, Croatian Sustainable Development (ORaH).

The relationship between business and government remained cozy and unhealthy by the standards of an open society. In a pre-bankruptcy settlement, the government forgave taxes owed by media conglomerate Europapress Holding (EPH), raising criticism of lack of transparency and favorable treatment in exchange for positive news coverage.

More Croatian citizens are taking part in civic actions, which is both encouraging and reveals the divisions in society. Overall, Croatians took a more active role in shaping electoral legislation in 2014. However, there is concern that interest groups are using referendums to circumvent the legislative process. During the year, some groups petitioned for referendums to address strategic economic goals while others had the goal of restricting minority rights.

National Democratic Governance. The SDP-led government did little to push forward needed reform or lead by example in 2014. It spent the year sparring with its traditional rival, HDZ, while the economy continued to shrink. The emergence of a third party alternative and protest initiatives provides something to watch in the upcoming election year. *Croatia's rating for national democratic governance remains unchanged at 3.50.*

Electoral Process. Citizen groups proposed changes to electoral law that would introduce preferential voting and lower political party thresholds. At year's end, the government was still looking for compromise, offering new electoral regulations that include some of the preferential vote options. *Croatia's rating for electoral process remains unchanged at 3.25.*

Civil Society. Nongovernmental organizations (NGOs), as well as both conservative and liberal interest groups, continued to actively participate in Croatian political life, especially via several referendum initiatives; some of these were successful, some were rejected by the Constitutional Court, and some were on hold at year's end.

Labor unions, religious groups, and other civic organizations in Croatia are effective at exerting pressure compared to their counterparts in many Balkan countries. Because civil society initiatives are sometimes at odds with the norms of an open and democratic society, *Croatia's rating for civil society remains unchanged at 2.75.*

Independent Media. In March 2014, the Zagreb municipal court found journalist Slavica Lukić of *Jutarnji list* guilty of “shaming”—the first conviction under the new, broader defamation penalties in effect since 2013. The pre-bankruptcy settlement of EPH, in which Croatia’s tax authority appears to have played favorites and erased the media company’s debt in a backroom deal, illustrates the opaque and too tight-knit relationships between politicians and news publishers, advertisers, and other businessmen. *Croatia's rating for independent media remains unchanged at 4.00.*

Local Democratic Governance. Policymakers dithered on reforms to decentralize the country, even as public pressure increased for them to do so. Some fiscal policies were adopted in 2014, but all major changes have been postponed to 2015 or beyond. *Croatia's rating for local democratic governance remains unchanged at 3.75.*

Judicial Framework and Independence. In June, the government presented a plan to reorganize the court system. The plan, which does not address Croatia’s ongoing problems with judicial professionalism or independence, is supposed to go into effect in 2015. Judges continued to drag their feet when dealing with alleged war crimes committed by Croatians. *Croatia's rating for judicial framework and independence remains at 4.50.*

Corruption. The pace of anticorruption efforts has slowed since Croatia’s successful EU accession. Despite the high-profile arrest of Zagreb mayor Milan Bandić in October, the public continued to perceive the ruling elite as deeply corrupt and the government’s efforts to address the problem as limited and self-serving. *Croatia's rating for corruption remains unchanged at 4.00.*

Outlook for 2015. Croatia’s political class is gearing up for confrontation and campaigning in 2015. Unless the opposition provokes early elections, the next parliamentary elections will take place in December. The elections could focus attention on the need for public sector reforms and speed up their implementation. However, the moribund economy may be an excuse to do nothing, as policymakers will be unwilling to worsen the plight of voters who would lose jobs or other benefits because of such reforms.

MAIN REPORT

National Democratic Governance

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3.50	3.50	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50

Observers of the states that emerged following the breakup of Yugoslavia have considered Croatia a positive example because of its remarkable trajectory from war-torn entity to European Union (EU) member. Today's Croatia is a safe and popular tourist destination, with beautiful islands and beaches that attract the occasional Hollywood celebrity. However, a closer look reveals a country whose government fails to provide its citizens with the services and opportunities they want and expect.

The government's push for democratic reform has dissipated in the last few years, raising concerns that backsliding may be imminent. Party infighting increased in 2014, as did mud-slinging between the ruling party and the opposition, likely because of the shrinking economic pie. The rising popularity of a third political party option could partially change this dynamic if its leaders maintain this positive momentum.

As politicians bickered, government institutions went about their own business with less scrutiny. The political class gives the impression they believe all missions have been accomplished now that Croatia has joined the EU. Other external catalysts for reform, such as the International Criminal Tribunal for the former Yugoslavia (ICTY), are also gone, after exerting pressure for over decade. Nevertheless, Croatia's dysfunctional economy suggests the country's politicians have more work to do.

Croatia's unemployment is the third highest in the EU and gross domestic product (GDP) has been falling for three years. Half of young Croatians actively seeking work cannot find it.¹ Unemployment usually drops at the peak of the tourist season, but it remained at 22.4 percent in August 2014. That figure represents approximately 300,000 citizens without jobs, according to official sources, but independent media say the figure may be closer to 500,000.² Rather than courting new investment outside the tourism industry, the state has sought to raise revenue by selling off state assets and raising taxes.

Since Croatia gained independence, power has passed back and forth between two parties, the Croatian Democratic Union (HDZ), now in the opposition, and the Social Democratic Party of Croatia (SDP), which leads the current government. Sick of the status quo, Croatian voters may give power to a third party, Croatian Sustainable Development (ORaH), in the next round of elections. As a left-wing, environmentalist party, ORaH attracts leftist voters disappointed with the SDP. The party was formed in 2013 and its popularity rose sharply in 2014; according to a monthly poll by Promocija Plus, the party had 16.8 percent support in October.³

Prime Minister Zoran Milanović has a tendency to suppress dissent in his own party, SDP. A number of disagreements within SDP in 2014 demonstrated this lack

of democratic internal structure. Milanović had to deal with a rebellion within his ranks in May, led by his former minister of finance, Slavko Linić, from a regional power center in the city of Rijeka. Milanović managed to calm down Rijeka's party rebels and keep SDP together. However, this is a frozen conflict within SDP that can re-erupt.

Linić has accused the secret services of eavesdropping on him and his associates, a charge the Ministry of Interior denies.⁴ In June, Linić formed a parliamentary commission to investigate. The conflict pushed up ORaH's popularity to 24 percent in the larger Rijeka region (Primorsko-goranska županija and Istarska županija) in September, with the SDP trailing at 20 percent.⁵ HDZ is traditionally unpopular in this region.

Multiple ministers and other officials in Milanović's government were embroiled in scandals during the year, further shaking public confidence in SDP. In June, corruption charges were filed against Marina Lovrić Merzel, an SDP Member of Parliament (MP) and county prefect. Vukovar mayor Zeljko Sabo was also embroiled in a bribery scandal that forced new elections for his post in June, which were won by the HDZ candidate.

SDP performed badly in the May 2014 European Parliamentary election, garnering 29.9 percent of votes, compared to 41.4 percent for HDZ, and 9.4 percent for upstart ORaH. Election results indicate that the public feels betrayed by a government that pledged a social democratic agenda but instead implements a neoliberal one oriented towards boosting tourism and creating a market for foreign imports.

Nationally, dissatisfaction with the SDP-led government brought a boost in HDZ's approval ratings, despite party leadership's lack of concrete economic or political ideas. Instead, HDZ leader Tomislav Karamarko tends to make statements that exploit ideological divides within the country, bringing up divisive figures like Yugoslav leader Josip Broz Tito; independent Croatia's first president, Franjo Tuđman; and onetime minister of defense Gojko Šušak.⁶

The resignation of longtime HDZ supporter and MP Martina Dalić in September suggests that there is some internal frustration with HDZ leadership.⁷ Dalić said she was resigning from HDZ because the party lacks a program to bring Croatia out of recession. HDZ called her "a neoliberal," out of step with the party's social sensitivity.⁸

The newest stars on the Croatian political scene are onetime minister of environment Mirela Holy and her party ORaH.⁹ ORaH, which means walnut in Croatian, calls itself a "greenish" party. Some analysts say ORaH's platform and values harken back to the good old days of the "original SDP," by which they mean that they are both environmental protection-oriented and socially democratic.

From March to April, SDP's estimated popularity fell 1.7 percent to 20.7 percent, followed by HDZ at 20.2 percent and ORaH at 7.8 percent.¹⁰ By September, HDZ's popularity had risen to 25.7 percent and ORaH's was at 17.9 percent. In third place for the first time in two decades, SDP was at 17.3 percent.¹¹

Despite ORaH's rising popularity, Holy supported incumbent president Ivo Josipović for reelection at the end of 2014, preferring to capitalize on her party's

popularity in the next parliamentary election, planned for the end of 2015. Holy says ORaH will not form a coalition with SDP so long as Milanović leads it. She has also refused to invite Linić, the ousted finance minister and personal rival of Milanović, into her party.¹²

Holy's decision to support Josipović appeared to dilute her party's popularity somewhat,¹³ underscoring the inherent fragility of third parties and movements in Croatia. The election's main protest vote candidate, Ivan Sincić of the nongovernmental movement "Live Wall," won a surprising 15 percent of the general vote during the first round of the presidential elections, but in the end, only the candidates supported by SDP (Josipović) and HDZ (Kolinda Grabar-Kitarović) made it to the second round.

Croatia has reasonably cordial relations with its neighbors, though it has unresolved border issues with nearly all them. Croatia and Slovenia are still arguing over borders before the Permanent Court of Arbitration at The Hague. Another set of border disputes between Croatia, Bosnia and Herzegovina, and Montenegro is officially being addressed through diplomacy; however, as these cases have made no progress for years, it is likely that they, too, will end up being subject to international arbitration.

Relations between Croatia and Serbia remain highly complicated and had some bad moments in 2014. Extremists in both countries exploit deep ethnic prejudices at the expense of the normalization process, all while distracting citizens from pressing political and economic problems. In mid-November, ethnic polarization between ethnic Croats and Serbs within Croatia flared up after the ICTY's surprising release of Serbian politician and accused war criminal Vojislav Seselj for medical treatment. Almost immediately following his release, Seselj made a series of public statements displaying strong ethnic hatred. While he did not do so on behalf of the Serbian government, the perception in much of Croatia was that Belgrade authorities had allowed Seselj to organize the rallies at which he aired these beliefs. After Serbian prime minister Aleksandar Vucic called the resolution passed by the European Parliament condemning Seselj's rhetoric "anti-Serbian," Prime Minister Milanovic cancelled a visit to a high-profile economic summit in Belgrade in December.¹⁴

Legal battles with Hungary continued in 2014 as Croatia sought to reduce Hungarian energy group MOL's control over Croatia's state oil company, INA. Croatia wants to nullify a 2009 agreement that was apparently secured with a large bribe to then prime minister Ivo Sanader.

Electoral Process

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25

At elections to the European Parliament (EP) in May, HDZ confirmed its popularity by winning 6 of Croatia's 11 seats, while the ruling SDP won only 4.¹⁵ SDP lost to HDZ in most major cities, including Zagreb, Split, Zadar, Dubrovnik,

Osijek, Karlovac, Šibenik, and Vukovar; they won in Rijeka, Pula, Varaždin, and Čakovec. Mirela Holy's ORAH, a relative newcomer to the political scene, won an unexpected 9.42 percent of the votes, enough for 1 mandate.

Discouragingly, the campaign focused on parochial Croatian disputes (the building of a new bridge, for example) instead of broader European issues.¹⁶ Voter turnout was 25.24 percent, which is not unusually low for Croatia; indeed, only 20.83 percent of eligible voters turned out the first time Croatia selected MEPs, in 2013.

Several of the previous year's local elections had to be repeated in 2014 due to difficulties establishing functioning local governments and corruption investigations against some previously elected officials. In June, HDZ candidate Ivan Penava narrowly defeated the incumbent mayor of Vukovar, Željko Sabo, formerly of SDP, who had been accused of attempting to buy the votes of local city councilors.¹⁷ The zupan (county) of Sisak held new elections in October, after county prefect Marina Lovrić-Merzel was forced to resign over allegations of embezzlement, bribery, and abuse of office. The brief campaign grew heated as HDZ and SDP vied to make an impression before the upcoming presidential elections. In the end, the candidate supported by HDZ and its allies, Ivan Žinić, won 56.41 percent to SDP candidate Davorko Vidović's 41.55 percent.¹⁸

The first round of the presidential elections took place on 28 December. Four candidates competed: incumbent president Ivo Josipović of SDP; Kolinda Grabar-Kitarović, a diplomat, for HDZ; Milan Kujundžić, the leader of a new right-wing political party called "Croatian Dawn;" and Ivan Sincić, a previously unknown activist, who collected enough signatures to join the race. Ivo Josipović collected 38.46 percent of the first-round vote, followed by Kolinda Grabar-Kitarović with 37.22 percent, Ivan Sincić with 16.42 percent, and Milan Kujundžić with 6.3 percent. As no candidate collected more than 50 percent of the vote, the first two candidates went on to compete again in January. Voter turnout in the first round was relatively high at 47.12 percent.¹⁹

Two nongovernmental organizations (NGOs) put forward requests to amend Croatian electoral legislation in 2014. One proposal originated from In the Name of Families, a conservative association that identifies strongly with the Catholic Church.²⁰ The other one came from GONG, an organization that oversees elections in Croatia, conducts get-out-the-vote campaigns, and promotes transparency in political campaign funding.²¹ President Josipović recommended changes as well, although he did not elaborate on them, leading some to assume that he was mainly using the debate as a platform for election campaigning.

All the recommendations propose the introduction of preferential voting in national and local-level elections, an idea the public appears to support. Croatia currently uses preferential voting in European Parliamentary elections only. Where the parties differ is on the mechanism for making the change: In the Name of Families wants to push through its changes via a constitutional referendum, while GONG is calling for changes to the current electoral law, adopted through the parliament. In the Name of Families also wants to outlaw preelectoral coalitions between political parties, and wants people to be able to vote online. Both the

SDP and HDZ opposed the latter recommendations in 2014. At year's end, the government appeared to be considering a compromise between the different groups' demands.

Under current legislation, any referendum request must have the support of 10 percent of voter signatures, but it is not clear whether diaspora registries are part of that total. In the Name of Families collected 380,649 signatures for its referendum initiative but the Constitutional Court declared that 404,252 signatures were needed, so the referendum was rejected.²²

Civil Society

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.75	2.75

From labor unions to 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. The other, more conservative bloc includes organizations affiliated with the Catholic Church, veterans, and ethnically defined cultural groups.

The back and forth between these two social fronts defined much of 2014, with opposing groups even, at times, sharing similar positions. Since the successful referendum to define marriage as a union between a man and a woman in the constitution in 2013, In the Name of Families remains the most influential Croatian civic group, seen by some as the leader of a “neoconservative revolution” in social policy.²³ Previously, the organization's leader, Zeljka Markić, was the leader of an unpopular political party with a conservative agenda called Hrvatski Rast (Croatian Growth). In the Name of Families continued to push a social conservative agenda in 2014 while also making a shift towards more mainstream issues, like electoral reform. Indeed, the electoral reform effort brought together civil society organizations from both sides of Croatia's highly bifurcated society.²⁴

Citizens are increasingly willing to engage in such calls for referendum mechanisms. In mid-October, a new civilian initiative led by the union of highway workers collected 120 signatures in the first 30 minutes in support of a referendum to stop the government from leasing out the country's national motorways to private companies.²⁵ By the end of December, the initiative had collected more than 400,000 signatures but it was still unclear whether they would collect the number needed to force a referendum.

Transparency International and GONG are the most influential NGOs in Croatia. The two groups constantly organize activities in support of their anticorruption campaigns. They also work to raise awareness about voting and the need for institutional reform. Documenta, a human rights organization, has a mission to “initiate the process of dealing with the past, establish a factual truth about the war and contribute to shifting discussions from the level of disputes over facts (number of fatalities and similar) toward a dialogue on interpretations.” Also

known as the Center for Dealing with the Past, Documenta attracted criticism at various points in 2014 from conservative and veteran-based organizations, who accused the watchdog of harboring a “pro-Serb” and “anti-Croatian” agenda. One of Documenta’s main concerns is the lack of judicial interest in alleged war crimes committed by Croatians between 1991 and 1995.²⁶

In late 2013, conservative ethnic Croat parties on Vukovar’s council voted to ban the official use of Cyrillic script and exclude the city from Croatian minority rights legislation that allows for the official introduction of bilingualism in places where a minority makes up more than 30 percent of the population, as Vukovar’s Serb community does. The conflict over dual-language signs that had sparked these events after months of public protests continued in 2014.²⁷ Dissatisfied with the Constitutional Court’s solution (see Judicial Framework and Independence section), Croatia’s best-known Serb politician, Milorad Pupovac, protested against the “anti-Cyrillic” atmosphere in the country. According to him, the status of Croatia’s Serb minority was improving until the moment of EU accession but it has stagnated since.²⁸

War veterans’ organizations were highly visible in the political arena in 2014, participating in protests against the use of Cyrillic in Vukovar and in other demonstrations marking major war-related anniversaries. One month before the presidential elections, several hundred war veterans (some reports said thousands) organized an improvised encampment in the center of Zagreb, demanding improved economic conditions and political status, as well as the resignation of Minister for Veterans’ Affairs Predrag Matić and one of his assistants.²⁹ The encampment and standoff between the government and the veterans were ongoing at year’s end: the government is convinced that the protests were supported by the political opposition and the veterans believe that the government is out to humiliate them.

The December 2013 referendum, which pushed through a constitutional amendment defining marriage as a union between a man and a woman, galvanized activists. NGOs focused on LGBT (lesbian, gay, bisexual, and transgender) issues³⁰ agitated for sexual minorities’ rights throughout 2014, prompting the government to push a law through parliament in July that allows same-sex civil partnerships. These differ from “marriage” in that couples in partnerships—whether same-sex or not—cannot adopt unless the child in question is the product of one of the partners’ previous relationships. Conservative NGOs said they felt betrayed by the government’s circumvention of the recently amended constitution, but the Law on Life Partnership went into effect in August and same-sex couples began registering their relationships in town halls without recorded incident.

Independent Media

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3.75	4.00	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00

Croatia’s media landscape suffers from a lack of independent, quality outlets with high reporting standards. Private television focuses on entertainment, and investigative

journalism is scarce in a print media market dominated by a few murky conglomerates. Digital media outlets are emerging but are so far unable to fill the quality gap.

Croatia's national broadcaster, Hrvatska Radio Televizija (HRT), was one of the most respected offshoots of Yugoslav Radio Television (JRT) but became a government mouthpiece during the conflicts of the 1990s. Today, HRT is once again respected, popular, and—due partly to the low quality of its counterparts in other Balkan media markets—regionally influential. 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.

The criminal code that came into effect in 2013 penalizes “shaming” and “insult,” and prescribes substantial fines for “asserting or disseminating factual assertion which can damage someone's honor and reputation” through print or broadcast media, as well as online. In March 2014, the Zagreb municipal court found journalist Slavica Lukić of *Jutarnij list* guilty of “shaming”—the first conviction under the new, broader defamation penalties. The co-owner of Medicol, a private medical clinic, sued Lukić after she wrote about the clinic's finances, including the substantial government funding it receives. The judge in the case reportedly ruled that an individual can be held liable for “shaming,” even when reporting the truth, if the court feels that the information in question was not in the public interest. Lukić was fined €3,460.³¹

The case generated significant domestic and international criticism. Organization for Security and Cooperation in Europe (OSCE) Representative on Freedom of the Media Dunja Mijatović published an open letter to Foreign Minister Vesna Pusić on the subject: “This sends a chilling message which could restrict the free flow of information and hamper reporting on matters of public interest,” wrote Mijatović. “I call on the Croatian government to remove offenses against reputation from the criminal code and to fully decriminalize defamation... Free speech should not be subject to criminal charges of any kind.”³² Croatian minister of culture Andrea Zlatar-Violić also expressed her solidarity with Lukić.³³

The Croatian Journalists' Association (HND) organized a public petition against the defamation provisions in Article 148 of the criminal code.³⁴ According to HND, in April 2014 there were more than 40 criminal insult cases pending against journalists. After months of public debate, the government agreed to amend the article to protect individuals from penalization if they could prove the veracity of their statements *and* make a reasonable argument for the need to publish them.³⁵ However, the proposed amendment kept the terms “insulting” and “shaming,” and was criticized for its vague wording.³⁶ Journalists and media watchdogs are chiefly concerned that the broadly defined defamation ban causes self-censorship.

Hate speech in Croatia carries a maximum prison sentence of five years, and “insulting the Republic of Croatia, its coat of arms, national anthem, or flag” can lead to a three-year sentence.

Investigative journalists in Croatia also face enormous economic challenges. In the 2011 national census, 4,923 persons called themselves “journalists”—a figure that probably includes people employed in media-related jobs, such as camera operator or sound technician.³⁷ The Ministry of Culture estimated that the number of journalism jobs in Croatia contracted by between 1,500 and 2,100 jobs between 2009 and 2014, and Minister Zlatar-Violichas called the profession “lost.” In August 2014, the Ministry of Culture declared it was exploring ways to support a diverse print media.³⁸

Ownership of Croatian media outlets is not transparent. Media conglomerate Europa Press Holding (EPH) spent the first half of 2014 in pre-bankruptcy settlement negotiations with the Ministry of Finance over unpaid loans from numerous creditors.³⁹ Under the Financial Business and Pre-bankruptcy Settlement Act, the government assists companies facing bankruptcy by reviewing their cases in an expedited manner and assessing whether they are worth saving; in practice, though, the Ministry of Finance has replaced municipal and economic courts as the arbiter of many major bankruptcy cases, offering certain creditors more favorable repayment terms than others. EPH, at that time co-owned by its founder, Ninoslav Pavić, and Germany’s Funke-Mediengruppe, entered its pre-bankruptcy proceedings with unpaid loans worth €55.8 million⁴⁰ from Austria’s Hypo Alpe-Adria Bank, the state Croatian Bank for Reconstruction and Development, and other big companies and private banks.⁴¹ As early as February, newssite Index.hr reported that Finance Minister Slavko Linić, who then left office in May, had forgiven most of EPH’s unpaid taxes as part of this settlement.

Novi list, a respected daily newspaper based in Rijeka, also found itself in a struggle between ownership and management in 2014. The newspaper’s editor-in-chief, Branko Mijić, was fired in late 2014 after clashing with shareholder Albert Faggian, an entrepreneur with a murky history.

Local Democratic Governance

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75

Croatia is one of the most centralized countries in the European Union. Even with a population of fewer than 4.3 million people, the country is governed by numerous overlapping administrative structures: 429 municipalities, 126 cities, and 20 counties (*županije*). Critics hold that Franjo Tuđman, Croatia’s first president following independence from Yugoslavia, created this elaborate system to control the country during the conflicts of the 1990s and maintained it as a patronage network.

Over the past decade, various experts, Croatian politicians, and EU officials have proposed to reorganize this expensive, inefficient local government system. Proposals include a plan to merge 20 counties into somewhere between two and five regions. Local politicians who run cities vying for regional city status are hindering

reform. The question of which city, Zadar, Split, or Knin, will be the capital of Dalmatia is a sensitive issue because the winner will likely receive a larger share of EU funding. Public opinion is not in favor of this reform, as people want the jobs that come with the current municipal government system. At the same time, most of the public would also like to see a less bloated administration.

As the economy continues to shrink, the burden of this system has become clearer. Croatia's local governments employed about 42,000 people in 2014 at a cost of at least 4.7 billion kuna (\$776 million) annually.⁴² Other studies indicate that local governments are unable to finance their own expenses.⁴³ Despite this, in August 2014 the central government again postponed the merger of some municipalities and županije.⁴⁴ In the fall, officials discussed constitutional changes that would include territorial reorganization and reallocate some responsibilities from županije to big cities such as Rijeka, Split, and Osijek.⁴⁵ At the end of 2014, this plan was still in the proposal stage, and it is unlikely to be a priority in 2015, an election year.

Some calls for reorganization of local power structures have come from the cities themselves, but again how and when these changes will occur remains a question. In spring 2014, Split mayor Ivo Baldasar proposed that Zagreb should devolve some powers to other large cities like his own.⁴⁶ Even though Baldasar's request for more power and responsibilities seems logical, it raises concerns as he is known for hiring unqualified but politically loyal people in municipal government positions.

Judicial Framework and Independence

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	4.50

Despite over a decade of reform efforts, the judiciary remains Croatia's weakest institution, with a large case backlog and evidence of ethnic bias in court rulings. The judicial system saw some minor improvements in 2014 as the government attempted to reorganize the courts and to amend a flawed bankruptcy law. The Constitutional Court showed increased willingness to hand down controversial decisions.

In June, the government presented a plan to reorganize the court system. A key goal of these changes, which are expected to go into effect in 2015, is to bring the average duration of first-level court proceedings down from 460 days per case to the EU average of 260. The government plans to decrease the number of city level courts from 67 to 24, the number of magistrate courts from 63 to 22, and the number of city level prosecutorial offices from 33 to 22. Officials also hope that the use of e-documents will increase efficiency and save money.⁴⁷ However, this reorganization does not address larger concerns of judicial professionalism and independence.

Croatia is still dealing with the legacy of the practice of politically and ideologically driven appointments to courts in the early 1990s. In May, speaking

at an event honoring the human rights NGO Documenta, a Split judge alleged that many court assistants spy on judges, monitoring their reading materials and church attendance. The judge said several judges were working thanks to a special recommendation procedure, despite not having passed the Croatian equivalent of the Bar Exam.⁴⁸

Leadership of the state prosecutor's office (DORH) and anticorruption office (USKOK) has changed very little in the last decade. Mladen Bajić served as state prosecutor for 12 years (reelected twice) before being replaced by his longtime deputy, Dinko Cvitan, in February 2014. Bajić did not go far: he was appointed as Cvitan's deputy.

In September, Cvitan told the parliament that the latest changes to the Criminal Code had not resolved the backlog of cases or sped up prosecution. He reported with some alarm that the number of open investigations against unknown suspects has surpassed the number of investigations against known suspects. Cvitan also noted poor results in prosecuting cases involving business crimes, local-level corruption, human trafficking, and drug trafficking.⁴⁹

In October, the government finally proposed some changes to the controversial Financial Business and Pre-bankruptcy Settlement Act, which was enacted in 2012 to help troubled companies quickly restructure and return to financial health. Opposition members of parliament and some judges have compared pre-bankruptcy settlements like the one for EPH to the nontransparent and unfair state asset sales that occurred in the early 1990s.⁵⁰⁵¹ The proposed changes—which had not been adopted at year's end—are intended to address the opportunities the law creates for abuse of power and conflict between the executive and judicial branches. Cases will be heard in front of trade courts and not at the state financial agency. The ministry of finance will also have to agree on the amount of debt owed to state institutions. However, the possibility that the executive branch will make arbitrary decisions to forgive the tax debts of certain companies would not be resolved by the proposed amendments.⁵²

In August, Croatia's Constitutional Court ruled that a proposed referendum on amending the country's Law on National Minority Rights was unconstitutional, as it would infringe on the rights of Croatia's Serb minority.⁵³ The discussion centers on the question of whether language rights should apply only where minorities make up at least half the local population—as the veterans' group behind the referendum initiative proposed—or one-third, as the current law demands and as is the case in Vukovar. The Constitutional Court ruled that the City Council of Vukovar must decide within one year where bilingual signs will hang, in accordance to national minority representation. The court also gave the national government one year to make legislative changes that specify a solution to the language issue in cases like Vukovar. Croatia's ruling elite viewed the court's decision as a compromise but Serb minority representatives called it a setback.

NGOs continue to express dismay at the lack of progress in prosecuting alleged war crimes committed by Croatians. Prosecutors and judges took little if any action in 2014 to further investigations, prosecutions, or rulings, according to a joint

report by Documenta, the Center for Peace, Non-Violence, and Human Rights–Osijek, and the Civic Committee for Human Rights.⁵⁴ The report asserts that the completion of the EU accession process has reduced political will on this front. Relatives of victims now often seek justice through the European Court of Human Rights.

Soon after the report's publication, a Split county court announced that it had opened a second case related to the infamous Lora prison camp that operated in Split from 1992 to 1997, occupied mainly by ethnic Serb residents of Split and prisoners of war.⁵⁵ The trial, which began in July 2014, was postponed for a few months when one of its lawyers fell ill, and then was further delayed to the end of the year.

Corruption

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00

Because Croatia gained independence in the midst of a war, its first president, Franjo Tuđman, effectively controlled the new state institutions through his party, HDZ. The armed conflict demanded creative ways of financing the country and the ongoing war, as well as reliable managers to run whatever companies from the socialist era still seemed viable. The government extended economic opportunities to those it deemed faithful to Tuđman's vision of the Croatian state, thus creating a new elite that went on to finance the HDZ and share many of its interests.

This system of patronage was not a huge departure from the socialist era, but it was undocumented and unregulated, and its legacy remains deeply entrenched in present-day Croatia. Anticorruption campaigns have had some success over the last few years, but political will to fight graft is generally weak. Bribes, kickbacks, and fixed tenders continue to be the way business and government intersect.

A former employee of Sisak county, Jasmina Jovev, gave a television interview in February 2014 in which she accused county prefect and SDP parliamentary deputy Marina Lovrić Merzel of nepotism, embezzlement, and other corrupt practices. The SDP government, which ran on an anticorruption platform in 2012, had no choice but to respond to the widely rebroadcast accusations by having USKOK open an investigation against Lovrić Merzel that eventually led to her arrest. Many observers doubt she will be found guilty, despite what appears to be clear evidence of wrongdoing.

The European Commission's 2014 Anti-Corruption Report was more forgiving of Croatia's corruption than domestic public opinion has been. "Croatia has made considerable efforts to improve the anticorruption framework, although implementation has still to demonstrate sustainable results," the report said.⁵⁶ It goes on to list specific mechanisms for checking and avoiding conflict of interest for state actors, including in public procurement processes. Approximately 94 percent

of Croatians believe corruption is widespread in their country, according to the Eurobarometer Survey on Corruption quoted by the commission.⁵⁷ In response to the European Commission's report, the Justice Ministry said it would develop an anticorruption strategy.

A professor at the Zagreb School of Economics and Management, Vuk Vuković, analyzed public procurement procedures in 300 Croatian towns and counties between 2009 and 2011. Vuković found that some contracts appeared designed solely to cheat the state and steal taxpayer money. One company from Dubrovnik won 36 public tenders in the period under review—each worth exactly 20 million kuna (approximately \$3 million)—despite the fact that it had no employees. Other similar examples led Vuković to conclude that many companies working for municipal governments get contracts by persuading officials to craft the wording of various tenders in their favor.⁵⁸

Croatian citizens have little faith in their leaders where corruption is concerned. They perceive graft as being most prevalent among politicians, the judicial branch, and other public officials.⁵⁹ It does not help that those tasked with fighting corruption are perceived as corrupt, themselves.

In October, police arrested the powerful mayor of Zagreb, Milan Bandić, and several of his associates on suspicion of corruption and abuse of office. Reports have linked Bandić to a number of corruption probes since he broke with SDP a decade ago, but he has never been interrogated or detained until now. At the end of December, Bandić remained in custody while retaining his position as mayor of 25 percent of the country's population, making him the highest-ranking politician to be charged with corruption while still in office.⁶⁰ Initial reports that the police antiterrorist unit (PNUSKOK) had organized Bandić's arrest, rather than the state prosecutor, added to the perception that the state was reluctant to prosecute such an important figure.⁶¹

Rene Sinovčić, a local tycoon in the coastal city of Zadar, was arrested in November with six associates, five of them employees of the local tax administration office. Sinovčić is a colorful character from Croatia's privatization history whom Croatian media have linked to organized crime for years.

Every year brings rumors that Zadar mayor Božidar Kalmeta—who served as minister of transportation in two HDZ-led governments—is under investigation. In 2014, these whispers grew louder and were even echoed by Kalmeta himself,⁶² but at year's end no arrest had taken place and Kalmeta remained in office.

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- ⁶⁰ Though still extremely influential, former prime minister Ivo Sanadar had already left office by the time he was charged with corruption.
- ⁶¹ Index: USKOK nije htio hapsiti Milana, policija je morala (USKOK did not want to arrest Milan; the police had to do it) <http://www.index.hr/vijesti/clanak/uskok-nije-htio-hapsiti-milana-policija-je-morala/778582.aspx>.
- ⁶² “Kalmeta: ‘Ne smijem govoriti o detaljima istrage; dokazat ću svoju nevinost’” [Kalmeta: “I am not allowed to talk about details of the investigation: I will prove my innocence”], *Novi list*, 17 November 2014, <http://www.novolist.hr/Vijesti/Hrvatska/Kalmeta-Ne-smijem-govoriti-o-detaljima-istrage-dokazat-cu-svoju-nevinost>.