



# Croatia Country Strategy

2023-2028

Approved by the Board of Directors on 10 May 2023



**European Bank**  
for Reconstruction and Development

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		GCAP	Green City Action Plan	RO	Resident Office
		GDP	Gross Domestic Product	RRF	Recovery and Resilience Facility
		GEFF	Green Economy Financing Facility	RSF	Risk Sharing Facility
		GET	Green Economy Transition	SCF	Strategic and Capital Framework
		GHG	Greenhouse Gas	SME	Small and Medium sized Enterprise
		GVA	Gross Value Added	SOE	State-owned Enterprise
		GVC	Global Value Chains	TA	Technical Assistance
		HAC	Croatian Motorways Ltd	TC	Technical Cooperation
		HBOR	Croatian Bank for Reconstruction and Development	TFP	Trade Finance Programme
		HEP	Hrvatska elektroprivreda	TMT	Technology, Media, Telecom
		ICA	Industry, Commerce & Agribusiness	VC	Venture Capital
		ICT	Information and communications Technology	VCCP	Value Chain Competitiveness Programme
		IEA	International Energy Agency	VET	Vocational Education and Training
		IFI	International Financial Institution	WiB	Women in Business Programme
		ILO	International Labour Organisation	YiB	Youth in Business Programme
		IPO	Initial Public Offering	ZEB	Zero-emissions buildings
		IT	Information Technology	ZSE	Zagreb Stock Exchange

Croatia's commitment to and application of principles set out in Article 1 of the Agreement Establishing the Bank has continued over the period since the adoption of the previous Country Strategy

The most recent member of the European Union (EU), Croatia became a member of the euro area and Schengen zone on 1st January 2023, and is in the advanced phase of the negotiations for joining the OECD.

Croatia is well poised to transition to a sustainable growth model away from its current trade and services-oriented economy. Nonetheless, the country continues to lag significantly behind many of its EU peers and its resilience has been further tested by the triple shocks of the 2020 earthquakes, the Covid pandemic and the ongoing war on Ukraine. Transition gaps are particularly significant in competitiveness (with an economy characterised by heavy reliance on trade and tourism, heavy state involvement and a complex environment for doing business), green (where it does comparatively well against peers but is facing the challenge of diversifying its renewable energy sources beyond hydro), well-governed (in view of high state prevalence and limited administrative capacity at a national and municipal level to absorb EU funds and the need to develop and sustain institutions capable of planning, investing in and managing future urban infrastructure and services), and inclusion (with low labour force participation and high youth unemployment rates).

EBRD is well positioned to help strengthen private sector performance in the country, support Croatia's path towards meeting the EU's ambitious climate targets, and work with the government and municipals to implement the country's National Recovery and Resilience Plan (NRRP) as it absorbs the significant levels of EU funds that are flowing into the country. In particular, the successful deployment of the Recovery and Resilience Facility (RRF) and implementation of related reforms will be key in achieving transition impact and enhance resilience and competitiveness of the Croatian public and private sector, and represent unique tailwinds for EBRD to step up its support, while ensuring maximum complementarity. Ultimately, the Bank will continue pursuing its traditional focus to create a level playing field for the private sector in the country, further 'greening' the economy, and helping the national and municipal authorities navigate the Covid and earthquake shocks and promote inclusive growth. Continued strategic partnership with other IFIs, and donor support in the form of technical assistance grants will be key for the Bank to deliver on the following strategic priorities in Croatia in 2023-2028:

- Support **Competitiveness** Through **Innovation, Digitalisation** and **Good Governance**;
- Accelerate Croatia's **Green Economy Transition** and its Paris Alignment;
- Increase **Resilience** through **Inclusion** and strengthened **Stakeholder Engagement**.

# Croatia – EBRD Snapshot



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## EBRD investment activities in Croatia (as of end-2022)

Portfolio	€989m	Active projects	89
Equity share	9%	Operating assets	€808m
Private Sector Share <sup>1</sup>	81%	Net cum. investment	€4,456m

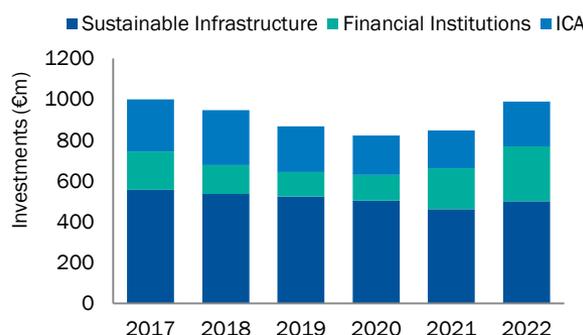
## Croatia context figures

	Croatia	Comparators
Population (million) <sup>3</sup> (2020)	4.05	Hungary (9.8) Bulgaria (6.9) Slovakia (5.5)
GDP per capita (PPP, USD) <sup>3</sup> (2020)	28,535	Hungary (33,144) Bulgaria (23,739) Slovakia (33,061)
New Business Density <sup>4</sup> (New registrations per 1,000 population, 2020)	4.4	Hungary (4.0) Bulgaria (1.4) Slovakia (5.1)
Unemployment (%) <sup>5</sup> (2021)	7.6	Hungary (4.0) Bulgaria (5.3) Slovakia (6.8)
Youth unemployment (%) <sup>5</sup> (2021)	21.9	Hungary (13.5) Bulgaria (15.8) Slovakia (20.6)
Female labour force participation (%) <sup>5</sup> (2021)	45.8	Hungary (52.8) Bulgaria (49.0) Slovakia (55.1)
Energy intensity TES/GDP (GJ/2015 \$) <sup>6</sup> (2019)	6.4	Hungary (7.6) Bulgaria (13.2) Slovakia (7.2)
Emission intensity/GDP (kgCO <sub>2</sub> /2015 \$) (2020) <sup>6</sup>	0.3	Hungary (0.3) Bulgaria (0.6) Slovakia (0.3)

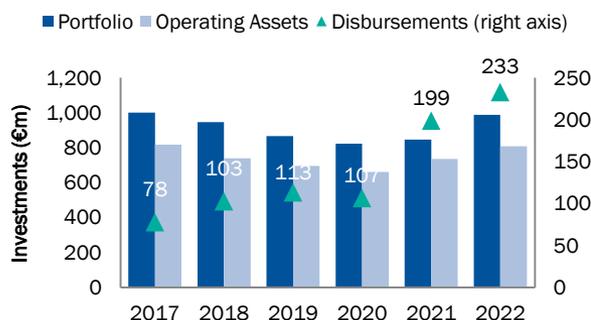
## ABI and operations



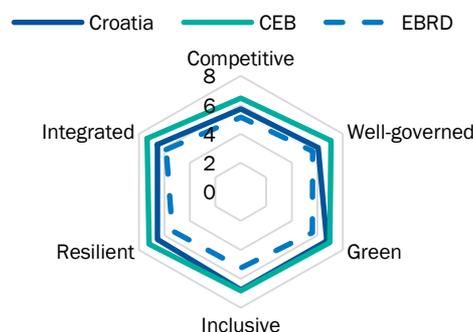
## Portfolio composition



## Portfolio dynamics



## Transition Gaps<sup>2</sup>



1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2022-2023; 3 IMF WEO; 4 WB Entrepreneurship Survey and database; 5 ILO; 6 IEA



# 1. Implementation of Previous Strategy (2017-2022)

## 1.1. Key Transition Results Achieved during Previous Strategy (1/2)

### Strategic alignment 2017-2022

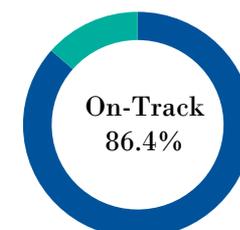
#### Annual Business Investment (ABI)



#### Technical assistance and investment grants



#### Transition impact performance<sup>1</sup>



#### Priority 1

Support private sector competitiveness through fostering innovation, operational and resource efficiency, as well as improvement of the business climate and economic inclusion

#### Key quantitative results

Results Indicators	2017-2021
No. of ASB clients reporting increased productivity	72
No. of ASB clients reporting increased turnover	90
No. of female-led companies	79

#### Key transition results

- Supported Zagreb Airport with a €58m loan for refinancing of concession and €19m financing for working capital needs to ease the company's liquidity constraints caused by the Covid-19 crisis.
- Improved operational performance by providing financing to multiple private sector clients, including €46m to Studenac, a food retail company, €11m to Mlinar, a leading bakery chain, and €10m to Lipovljani Lignum d.o.o., subsidiary of Florian Group, the European leader in hard wood panel production.
- Extended a €100m credit line with Erste Bank to finance the tourism sector under the EBRD Inclusive Tourism Framework for the Eastern Mediterranean.
- Provided €100m in senior credit lines with Raiffeisen Leasing Croatia and UniCredit Leasing Croatia.
- Invested €10m in Invera PE Fund, one of the first locally-led regional PE funds with focus on SMEs.
- Supported Pula shopping mall with €10m equity investment (a co-investment with ENEF).
- Engaged with the Renewable Association of Croatia, a local transmission operator, and other sector stakeholders to support renewables investments and Croatia's path towards achieving 2030 environmental targets.
- Carried out 96 SME advisory projects (out of which 30 WiB), 18 webinars, trainings and mentoring sessions with more than 650 SMEs between 2018 and 2021.

1. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio



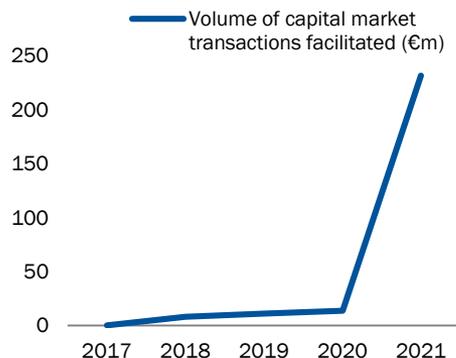
# 1. Implementation of Previous Strategy (2017-2022)

## 1.1. Key Transition Results Achieved during Previous Strategy (2/2)

### Priority 2

### Deepening financial markets to broaden access to finance with focus on capital markets developments

#### Capital market transactions facilitated



#### Key transition results

- Participated in multiple corporate bond issuances, including €3m investment in the pharmaceutical manufacturer JGL, and €2.6m in Atlantic Grupa, a local food and beverage company.
- Provided €9m for Erste Bank's local currency bond listed on Zagreb Stock Exchange.
- Invested in the first MREL eligible notes issuances by Croatian banks and first ever international bond issuance by Erste Bank (€89m), and local private placement issuance of Raiffeisen bank (€39m).
- Carried out feasibility study for ZSE to develop the SME Growth Market, a platform to promote development and access to finance for SMEs.
- Supported 'Funderbeam' platform to prove equity financing to local SMEs.
- Improved institutional and legal environment for local capital markets through assistance to the Ministry of Finance in preparing covered bond legislation and amendments to the Capital Market Act.
- Provided support to the Croatian Financial Services Supervisory Agency (HANFA) and ZSE to develop a new, streamlined Corporate Governance Code for listed companies.

### Priority 3

### Promote commercialisation of public companies, including improvement of corporate governance, and support the privatisation of some state-owned companies

#### Key quantitative results

Results Indicators	2017 -2021
No. of individuals benefitting from new/better municipal infrastructure	602.116
Water saved (m3/y)	1.137.000
No. of PPPs or concessions implemented	5

#### Key transition results

- Provided €43m syndicated loan to HEP to finance the construction of a new turbine plant with lower GHG emissions (incl. development of a comprehensive CGAP).
- Provided €55m financing to HAC, a state-owned national motorway company, for the construction of Corridor Vc, the main international transport corridor that connects eastern Croatia with Hungary and BiH.
- Financed the municipal transport company Pulapromet d.o.o with €5m loan for the acquisition of up to 20 new compressed natural gas buses for urban transport in Pula.
- Co-financed water supply and wastewater infrastructure upgrades alongside EU funds, including €9m to Zagreb County Water Company, €6m to Poreč Water Company, €4.5m to Zadar Water Company and €30m to Split Water Company.
- Carried out three projects with the Ministry of Physical Planning under the EC Structural Reform Support Service (SRSS) Programme: (i) Enhancing Competences of Supervisory Boards and Audit Committees in SOEs; (ii) Setting up a Unified Reporting and Monitoring Framework of SOEs, (iii) Programme for Activation and Commercialisation of Non-operating Core Assets in SOEs.
- Engaged with a range of key actors in Croatia on several urban regeneration programmes in Pula, Šibenik, Split and Zagreb.



# 1. Implementation of Previous Strategy (2017-2022)

## 1.2. Challenges to Implementation and Key Lessons

### Context for implementation

During the last country strategy period, Croatia made further progress in its integration in the EU, by entering the Eurozone and Schengen zone on 1<sup>st</sup> January 2023, and started accession discussions with the OECD in 2022. While the country made significant advancements in strengthening a multiparty democratic system, efficiency of the judiciary and perceived judicial independence remain low compared to EU peers, requiring further improvements and reforms. The impact of the COVID19 crisis and two strong earthquakes in Zagreb and Petrinja in 2020 aggravated an already challenging economic environment, marked by stagnating productivity growth and reliance on the tourism and services sector. Wide ranging support measures, including discretionary fiscal spending and extensive liquidity support alleviated the economic shock and contributed to a strong recovery in 2021, with a higher than expected 13.1% GDP growth. On a structural level, however, significant challenges remain with regards to low potential output growth (driven by very limited appetite for commercialisation and privatisation of SOEs), public institutions in need of strengthening (including the capacity to manage urban infrastructure and services), subdued investments in innovation and regional and gender inequalities. The implementation of NRRP represents a unique tailwind for the country to make decisive progress in strengthening the judiciary and public administration and advancing the digital and green transition. Since starting operations in 1993, the EBRD has invested over €4.4bn in 242 projects in Croatia.

### Implementation challenges

- Reliance of private and public sector on EU grants and below-market price financing limits commercial lending opportunities.
- Highly liquid and well-capitalised banking sector coupled with concessional funding to private sector via EIB and HBOR credit lines.
- Lack of continuity in decision making and knowledge of international best practices at national, regional and local level, as well as bureaucratic obstacles to doing business and inefficiencies of SOEs, among others.
- Very limited appetite for commercialisation / privatisation and public-private partnerships, which could improve following the successful implementation of the RRF's governance agenda.
- Constraints in renewable energy investment as a result of a complex administrative environment, low bankability and environmental implications.

### Key lessons & way forward

- Continue advocating for use of blended instruments combining lending, grants and advisory, where appropriate, to enhance new investments. Constructive cooperation with EU, EIB, HBOR and IFIs to limit market distortions and ensure complementarity.
- Support introduction of new financial products, e.g. (portfolio) risk-sharing facilities.
- Improve the business environment and increase institutional capacity-building at all levels of government, as well as continuing supporting restructuring efforts of SOEs through dedicated policy engagement toolkit.
- Continue advocating government engagement for a PPP agenda, policy activities and the use of in-house expertise, coupled with strong cooperation among IFIs. While the majority of the Bank's infrastructure clients are expected to remain in the public sector, the Bank will continue to emphasise support for private sector initiatives, where value for money can be demonstrated.
- EBRD will continue offering policy support to remove obstacles for commercially viable projects in the renewables sector.



## 2. Economic Context

### 2.1. Macroeconomic Context and Outlook for Strategy Period

#### Croatia – Main Macroeconomic Indicators

	2018	2019	2020	2021	2022 (proj.)
GDP growth (% y-o-y)	2.8	3.4	-8.6	13.1	6.5
CPI inflation (% avg.)	1.5	0.8	0.1	2.6	10.7
Government balance (% of GDP)	-0.1	0.2	-7.3	-2.6	-1.5
Current account balance (% of GDP)	1.8	2.8	-0.5	1.8	0.3
Net FDI (% of GDP) <i>[minus indicates inflow]</i>	-2.1	-1.6	-6.6	-1.4	-5.0
External debt (% of GDP)	82.4	74.1	81.8	81.1	60.0
Gross reserves (% of GDP)	...	...	...	...	...
General government gross debt (% of GDP)	73.2	71.0	87.0	78.4	73.0
Unemployment rate (%)	8.4	6.6	7.5	7.6	6.7
Nominal GDP (€bn)	51.9	54.8	50.5	58.2	62.1

Source: National authorities, IMF

**Weakening external demand and high inflation weigh on GDP growth.** Following a GDP growth rebound of 13.1 per cent in 2021, economic activity slowed to above 7.1 per cent year on year in the first three quarters of 2022. While investment remained strong, boosted by EU funds drawing under RRF in late-June, household consumption subdued, amid shrinking disposable incomes due to high inflation and rising energy bills. Export demand underperformed, but the 2022 tourism season seems to have surpassed the pre-pandemic record-strong season of 2019.

**Inflation accelerated notably since the start of the war.** The rise in inflation was mainly driven by food and fuel prices, as the government capped energy tariff increases. A tightening labour market supported core inflation, despite a fall in real wages. Nevertheless, Croatia met the price stability criterion in June 2022 and joined the Eurozone in 2023.

**Stability of public finances is ensured by strong revenues and termination of Covid-19 support, amid the need to cushion inflation.** Fiscal deficit declined below 3% of GDP in 2021, and the revised budget for 2022 envisages a 2.6% deficit. Strong economic activity and inflation should compensate any unforeseen expenses and additional support measures, although another revision with higher spending is not excluded.

**Growth will be constrained by the war-induced inflation and other headwinds.** In 2022, GDP growth will moderate as the war on Ukraine increased inflation pressures, but will remain above potential given the economy's resilience in the first half of the year. Private consumption will slow down going forward amid the decline in real wages, while the weakening eurozone economy will constrain export growth. Implementing the reforms outlined in the Recovery and Resilience Plan and earthquake reconstruction would boost investment and potential growth, which in the period prior to the Covid-19 crisis, was notably lower relative to peers.



## 2. Economic Context

### 2.2 Key Transition Challenges (I/II)

#### Competitive (5.7)

- The dominant tourism sector has weak links with other sectors, limiting spillovers of value added.
- **Croatia has not historically benefited from strong trade and investment integration** as other CEB countries, limiting growth of more complex sectors. Price competitiveness improved in recent years, supporting strong export growth.
- Despite recent improvements, **the business environment could benefit from further reduction of administrative barriers.**
- **SOEs have a significant footprint in the economy**, and their performance could improve with better governance framework.
- Digitalisation indicators suggest a good level of penetration when compared to peers although lagging behind in broadband connectivity and digital public services.
- Innovation capacity remains more limited compared to CEB peers.

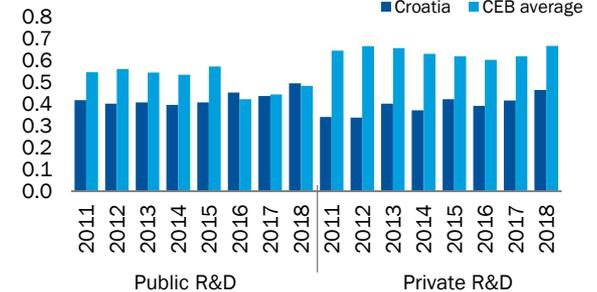
#### Well-governed (6.1)

- **The perceived quality of governance significantly lags behind CEB peers.** The largest gaps are under rule of law, regulatory quality and control of corruption dimensions.
- Croatia ranks 57th out of 180 countries in the Transparency International Corruption Perception Index 2022, which is an improvement compared to its ranking that had remained stagnant during the previous three years. Although this result puts Croatia among the top ten of EBRD's countries of operations, Croatia's CPI score remains among the lowest five in the EU.
- The level of perceived judicial independence, both among companies and among the general public remains low.
- Some assessments describe public administration as overly complex, in need of depolitisation and professionalisation. Some of the relevant reforms are included in the NRRP.
- Informality is among the lowest in the region, as suggested by the BEEPS survey.

#### Green (6.8)

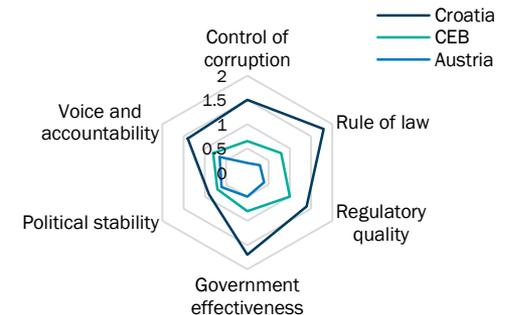
- **Croatia is in a better position compared to most EU peers in terms of green energy production.** A key advantage is the hydropower and the growing renewables sectors. However, solar has not developed as fast as wind generation and remains a fraction of total RE capacity.
- **While legislative barriers have been addressed, administrative, regulatory and technical issues constrain renewables' deployment.** Barriers include, among others, lengthy permitting, while complementary investments in networks are needed given the concentration of renewables along the coastline.
- **Energy intensity of the economy is higher than the EU average.** Heating remains largely inefficient, especially district heating.
- Circular economy and waste management gaps constrain Croatia's green transition.
- Just transition is important in the carbon-intensive Sisak-Moslavina and Istria regions.

R&D expenditure (share of GDP)



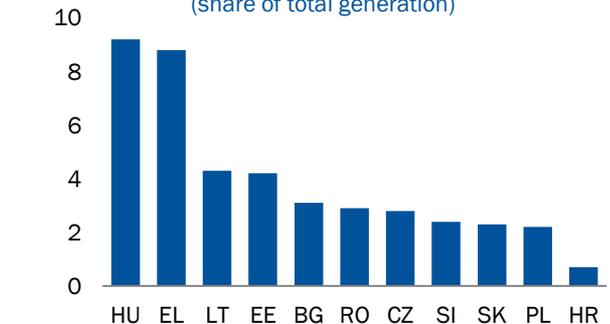
Source: European Innovation Scoreboard

Governance indicators



Source: World Bank's Worldwide Governance Indicators 2021

Electricity generation from solar PV  
(share of total generation)



Source: Ember Climate

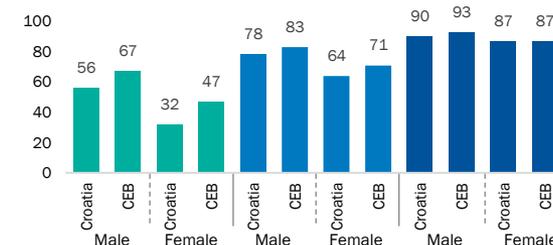
## 2. Economic Context

### 2.2 Key Transition Challenges (II/II)

Inclusive (6.8)

- **Labour participation rate is below peers and the EU average**, with gaps in terms of both gender, age and educational attainment.
- Gender inclusion is largely in line with CEB peers, **but women tend to have less secure forms of employment**. Women with lower education levels are also less likely to be engaged in the labour market compared to CEB peers.
- **Youth unemployment remains high**. Quality of education and scarce opportunities lead to migration and skills gaps.
- Regional inclusion is also one of the lowest in the CEB region, as rural areas significantly lag behind cities.
- Low vocational education and training and adult learning exacerbates skills mismatches, especially for the low-qualified.

Labour participation rate, by gender and educational attainment

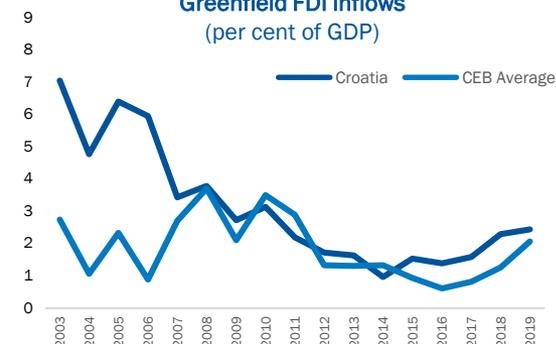


Source: Eurostat

Integrated (6.6)

- Total exports accounted for about 52% of GDP in 2021, the lowest in the region.
- Goods exports are less technologically-advanced compared to CEB peers, but are more diversified.
- Tourism and travel receipts account for about 70% of service exports, but other services have been growing in recent years.
- Formal barriers to FDI are in line with peers, but investment flows have been more modest.
- The quality of road infrastructure in Croatia is high, on par with selected OECD comparator countries, **but road connectivity within Croatia slightly lags behind that of peers**. Non-road infrastructure quality remains poor.
- While mobile coverage fares better than CEB peers, broadband access is more limited.

Greenfield FDI inflows  
(per cent of GDP)

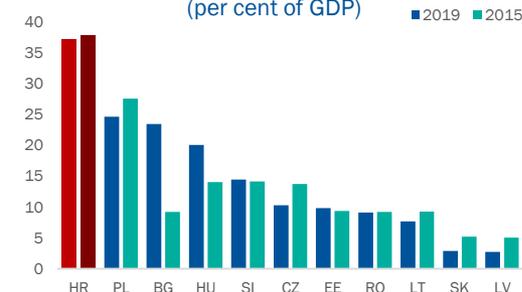


Source: UNCTAD, authors' calculations

Resilient (6.5)

- **Banks dominate the financial system**, with concentration being relatively high.
- **Capital adequacy is satisfactory, but the NPL ratio is higher than the CEB average** (5.4 % vs 3.6% at end-2020), and the share of FX-denominated loans is also higher.
- **Capital markets are sizeable, but there are liquidity issues**, while new listings on the Zagreb Stock Exchange have been scarce. Strong demand from local pension funds is higher than what the market can supply.
- Croatia has been conducting the liberalisation and unbundling energy reforms required by the EU, but several SOEs retain most of the market power. Tariff reform has not been finalised.
- Cross-border connectivity is strong, but there are gaps in the domestic network limiting expansion in renewable energy.

Stock market capitalisation  
(per cent of GDP)



Source: ECB, Eurostat, authors' calculations

# 3. Government Priorities and Stakeholder Engagement



## 3.1 Government Reform Priorities

- The **National Development Strategy 2030**, adopted by the Parliament in 2021, sets out 4 overarching strategic directions to support the economic, social and regional development of the country. These goals include (i) more sustainable economy and society, (ii) increased resilience to crises, (iii) green and digital transition, and (iv) balanced regional development
- In the medium-term **2021-2026**, these priorities are operationalised in the **National Recovery and Resilience Plan (NRRP)**, which outlines planned reforms and investments post-Covid19 recovery to be carried out with the support of EU funds (€5.5bn in grants). Main areas of intervention focus on
- **Digitalisation**: increase digital skills in the society by creating better educational programmes in schools and higher education institutions, as well as adult educational programmes. Adopt the Strategy for Digital Croatia for the period until 2032 and increase opportunities to attract digital global talent
- **Good (economic) governance**: raise effectiveness of judiciary, efforts to fight corruption and improving access to and effectiveness of public administration (digitalisation of services); increase public finances sustainability, foster growth and build up reserves for recessions thereby increasing predictability for business planning
- **Competitive and innovative economy**: foster entrepreneurship and develop a competitive green and digital industry, including sustainable tourism and agriculture, supported by increased R&D expenditures
- **Employment**: Reduce skill mismatch by developing targeted active labor market policies. Increase the attractiveness to young employees and encourage emigration of qualified expats and global digital talent
- **Energy and resource efficiency**: advance energy efficiency and transition to clean energy by simplifying administrative procedures. Adopt policies on sustainable infrastructure, within Programme for the Development of Green Infrastructure in Urban Areas 2021-2030, and the Programme for the development of circular management of space and buildings for the period 2021-2030. Further encourage buildings renovation in accordance with the energy renovation programmes 2030
- **Ecology and Bioeconomy**: in line with the Green Deal and EU biodiversity strategy, seek to foster transformation towards green agriculture reaching productivity gains in agri- and aqua cultures, reducing GHG emissions

## 3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Focus on digitalisation and innovation as key drivers for the country's future economic development and diversification and entrepreneurship
- Scale up support for green transition, via investments and strengthened policy advice to increase RES capacity and energy efficiency measures
- Help national and municipal authorities increase institutional capacity with financing and technical assistance in order to build resilience to withstand external shocks
- Create a skilled workforce, including in the green and digital area, to reduce skill gaps and labour shortages and enhance social and economic integration of vulnerable segments

## 3.3 Key Messages from Civil Society to EBRD

- CSOs endorsed the Bank's Croatia strategy priority of supporting competitiveness through innovation, digitalisation and good governance. In particular, CSOs consider that EBRD should support reforms aiming to remove market and administrative barriers for green innovation targeted at small and medium sized businesses
- Civil society representatives further endorsed the Bank's focus on accelerating Croatia's green economy transition and its Paris alignment. CSOs welcomed the focus on increasing renewable energy capacity. However, CSOs underlined the need for green infrastructure investments in rural and coastal areas, where improvements are lagging behind
- Civil society organisations, moreover, welcomed the Bank's strategy priority to increase resilience through inclusion and strengthened stakeholder engagement. CSOs highlighted the access to employment opportunities, skills and finance for underserved groups such as women, youth, refugees and other vulnerable groups, as an area they would like to see the Bank continue to focus



# 4. Defining Croatia Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2023-2028)	What We Want to see in 2028
<ul style="list-style-type: none"> <li>Weak productivity growth hindered by low economic diversification and integration.</li> <li>Among least innovative economies in the EU (bottom 3rd), with weak private sector driven R&amp;D activity.</li> <li>Sectoral composition of FDI less conducive to growth with high concentration in financial sector.</li> <li>Lagging behind peers in broadband connectivity and digital public services.</li> <li>Poor performance and weak corporate governance of SOEs.</li> </ul>	<ul style="list-style-type: none"> <li>EU membership as anchor: having adopted the euro, started a comprehensive process of removing administrative and regulatory burdens on business, and improving SOE governance.</li> <li>National Development Strategy of the Republic of Croatia for the period until 2030 to support a sustainable economy and digital transition.</li> <li>Availability of EU funds as an opportunity to spur private capital in promising areas (e.g., digitalization).</li> </ul>	<ul style="list-style-type: none"> <li>Track record of providing companies tailored financing products and advice to grow and improve competitiveness.</li> <li>Extensive work on developing capital markets through innovative financial instruments and facilitating alternative access to finance</li> <li>EBRD's recently adopted Digital Approach provides a framework for supporting digital transition in CoOs</li> <li>Extensive experience to improve corporate governance of SOEs.</li> </ul>	<p><b>Support Competitiveness Through Innovation, Digitalisation And Good Governance</b></p>	<ul style="list-style-type: none"> <li>Strengthened private sector competitiveness post Covid-19</li> <li>Increased levels of digitalisation and innovation</li> <li>Improved economic governance</li> </ul>
<ul style="list-style-type: none"> <li>RE sector dominated by hydro (47% of total electricity generation), solar and wind remain underdeveloped</li> <li>Inefficient energy consumption and more carbon intensive industry than CEB peers; significant energy and carbon intensity in buildings</li> <li>Significant gaps in municipal waste management (household waste, land filling)</li> <li>High vulnerability to climate impacts chronic and acute risks for key economic sectors such as tourism, agriculture, industry and RE</li> </ul>	<ul style="list-style-type: none"> <li>NECP 2030 targets include RE at 36.4% in final energy consumption and GHG emission reductions in line with ESR.</li> <li>NRRP allocation to green renovation of buildings and ZEB obligation increase energy efficiency incentives but NCEP 2030 EE target shows low ambition (as emphasised in EC recommendations).</li> <li>Adoption of Climate Change Adaptation Strategy for the Republic of Croatia until 2040, to be followed by an action plan.</li> </ul>	<ul style="list-style-type: none"> <li>Expertise in advancing RE and increasing grid capacity.</li> <li>EBRD GCAPs take a systematic approach to promote more sustainable infrastructure and municipalities.</li> <li>Extensive financial and technical support to address resource efficiency issues and promote climate mitigation measures.</li> <li>Expertise to mitigate risks through Paris Alignment and physical climate risk screening.</li> </ul>	<p><b>Accelerate Croatia's Green Economy Transition and its Paris Alignment</b></p>	<ul style="list-style-type: none"> <li>Increased renewable energy capacity and diversified energy mix</li> <li>Improved energy and resource efficiency</li> <li>Improved climate resilience / Paris Agreement</li> </ul>
<ul style="list-style-type: none"> <li>Behind CEB peers in almost all dimensions that entail a good governance system.</li> <li>Third weakest public administration's performance in the EU, with low implementation capacity</li> <li>High youth unemployment rate (around 20% in 2020) and regional disparities in resources endowments with implications for migration patterns, skills gaps, labour shortages</li> <li>Low growth of female labour force participation, with women having less stable forms of employment and often work in informal jobs</li> </ul>	<ul style="list-style-type: none"> <li>Following the earthquake in 2020, passed the law governing the reconstruction of the affected buildings, regulating state intervention in the reconstruction phase.</li> <li>Ambitious reforms in NRRP in the area of active labour market policies which should enable wider participation of inclusion target groups.</li> <li>National Development Strategy of the Republic of Croatia for period until 2030 to enable citizens' active participation in the digital society and economy.</li> </ul>	<ul style="list-style-type: none"> <li>Strong track record of supporting municipal authorities in building capacity via financing and advisory and assisting investment implementation with technical assistance.</li> <li>Wide experience in strengthening economic inclusion and access to opportunities via tailored financing products and market relevant skill development for underserved segments, including a new focus on digitalization.</li> </ul>	<p><b>Increase Resilience through Inclusion and Strengthened Stakeholder Engagement</b></p>	<ul style="list-style-type: none"> <li>Stakeholders and institutions governed more effectively at the national level with more private sector participation</li> <li>Strengthened and more resilient national and municipal infrastructure</li> <li>Increased access to skills, employment opportunities and finance for underserved segments</li> </ul>

# 5. Activities and Results Framework (1/3)



## Priority 1: Support Competitiveness Through Innovation, Digitalisation and Good Governance

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
<b>Strengthened private sector competitiveness post Covid-19</b>	<ul style="list-style-type: none"> <li>• Provide direct lending, equity, quasi equity and advisory to corporates, FI and SMEs, ensuring close coordination and complementarity based on competitive advantages of individual IFIs.</li> <li>• Support local SMEs to adopt innovative practices and product innovation through indirect financing (potentially through RSF), and advisory, potentially in cooperation with EIB (e.g. ASB).</li> <li>• Support capital market development, incl. participating in capital market transactions in the FI and corporate sector, incl. new innovative financial products (e.g. green bonds and covered bonds).</li> <li>• Explore opportunities to support and invest in IPOs, incl. SOEs.</li> <li>• Support cross-border investments (ICA and TFP), assist export-oriented enterprises, and explore portfolio risk-sharing facilities.</li> <li>• Finance FDI investments in strategic sectors (e.g. renewable energy), technology transfer and innovation.</li> </ul>	<ul style="list-style-type: none"> <li>• Total volume/number of loans disbursed by PFIs for corporates/SMEs</li> <li>• Number of clients reporting increased sales and/or productivity</li> </ul>
<b>Increased levels of digitalisation and innovation</b>	<ul style="list-style-type: none"> <li>• Support digitalisation and innovation within the private sector, including MSMEs.</li> <li>• Strengthen digital infrastructure (e.g. broadband, 5G, fibre) and skills, through direct financing and advisory.</li> <li>• Support start-ups through advisory and continue supporting incubators and accelerators.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of clients (incl. start-ups) supported with digitalisation and innovation</li> </ul>
<b>Improved economic governance</b>	<ul style="list-style-type: none"> <li>• Focus on improvement of corporate governance of SOEs as opportunities arise.</li> <li>• Support reforms to unlock better utilization and increased efficiency of publicly-owned assets (e.g. optimization in state-owned property management).</li> <li>• Continue supporting regulatory compliance of the banking sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory, legal or institutional frameworks improved for improved economic governance</li> </ul>

# 5. Activities and Results Framework (2/3)



## Priority 2: Accelerate Croatia's Green Economy Transition and its Paris Alignment

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
<p><b>Increased renewable energy capacity and diversified energy mix</b></p>	<ul style="list-style-type: none"> <li>Finance renewable energy projects (with focus on solar and wind) for corporates and public sector through direct or indirect financing</li> <li>Support the integration of renewables into the national electricity grid</li> <li>Work with the authorities, regional and local self-government units, and Association of Renewable Energy to develop pre-conditions for development of offshore wind and agri solar</li> <li>Explore opportunities for green capital market transactions (e.g. green/sustainability bonds)</li> <li>Support energy security investments, diversification of energy sources and routes, provision of vital energy services (incl. supply of gas, fuel and electricity)</li> </ul>	<ul style="list-style-type: none"> <li>Total renewable electricity capacity installed (MW)</li> <li>CO2e emissions reduced/avoided (tonnes/yr)</li> </ul>
<p><b>Improved energy and resources efficiency and circular economy</b></p>	<ul style="list-style-type: none"> <li>Support the development of circular economy through financing and advisory of waste management, recycling, advanced storage solutions</li> <li>Continue to finance energy efficiency and green technologies in the industrial and building sectors</li> <li>Promote and expand the Green Cities programme</li> <li>Support environmentally sustainable and climate resilient investments and practices with a focus on the P&amp;T sector and more broadly in ICA</li> <li>Support dedicated green skills training in private and public sector</li> </ul>	<ul style="list-style-type: none"> <li>Primary energy saved (GJ/yr)</li> <li>Materials reduced/recycled (tonnes/yr)</li> </ul>
<p><b>Improved climate resilience and Paris Alignment</b></p>	<ul style="list-style-type: none"> <li>Integrate climate resilience into a holistic physical and urban planning approach (GCAPs, urban regeneration etc)</li> <li>Continue awareness raising and supporting regulators and institutions to manage, assess, and disclose ESG and climate risks</li> <li>Explore opportunities to finance climate resilient infrastructure projects</li> </ul>	<ul style="list-style-type: none"> <li>Number of legal, institutional and/or regulatory improvements supporting climate resilience</li> </ul>



# 5. Activities and Results Framework (3/3)



## Priority 3: Increase Resilience through Inclusion and Strengthened Stakeholder Engagement

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
Stakeholders and institutions governed more effectively enabling private sector resilience	<ul style="list-style-type: none"> <li>Provide support to government on green post-earthquake reconstruction of public buildings and other selected reforms and investments</li> <li>Provide financing for private sector to withstand external shocks, including through indirect finance</li> <li>Work with key national energy sector stakeholders (e.g., HEP) overcoming local/regional bottlenecks in energy security</li> </ul>	<ul style="list-style-type: none"> <li>No. of legal, institutional and/or regulatory framework improvements</li> </ul>
Strengthened and more resilient national and municipal infrastructure	<ul style="list-style-type: none"> <li>Strengthen financial sustainability and operational efficiency, as well as capacity of municipal authorities through associated advisory and financing (e.g., post-earthquake recovery operations and other disruptions)</li> <li>Assist national and municipal infrastructure upgrades and expansion through financing and advisory</li> <li>Support urban regeneration programmes with TA and direct investments</li> <li>Support gender-responsive and inclusive sustainable infrastructure</li> <li>Support advanced and energy conscious smart technology in municipal, transport and energy companies</li> </ul>	<ul style="list-style-type: none"> <li>No. of operations strengthening national and municipal infrastructure</li> </ul>
Increased access to skills, employment opportunities and finance for underserved segments	<ul style="list-style-type: none"> <li>Augment the ASB programmes with policy engagement and roll-out of further inclusive products</li> <li>Continue scaling up WiB programme</li> <li>Support youth employment opportunities and entrepreneurship (start-ups) of youth through the Youth in Business programme</li> <li>Support social and economic integration of refugees, including women and children</li> <li>Work with the private and public sector to establish life-long learning opportunities for vulnerable segments of the population</li> <li>Support local municipalities and increase participation of local communities in (post-earthquake) urban regeneration</li> </ul>	<ul style="list-style-type: none"> <li>Total volume/no. of advisory clients benefitting from dedicated programmes, including trainings</li> </ul>



# 6. Mapping of International Partners' Complementarity in EBRD Business Areas

## EBRD Business Areas

		Sectors								Cross-cutting Themes				
		Industry, Commerce & Agribusiness				Sustainable Infrastructure		FI		Strategic Initiatives				
Indicative annual average investments/grants (€m, 2017-2022)		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank FIs	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
EU*	2,030						€	€			€	€		€
EIB	380	●	●	€			€	€	€		€	€		€P
EIF	250									€				€
IBRD/WB	145							€P			€	€		€
IFC	19								€	€	€			€
EBRD	170.9	€	●	€	●	●	€P	€	€P	€P	€	€P	€P	€

€ Area of significant investments      ● Focus mostly on private sector  
 P Area of significant policy engagement      ○ Focus mostly on public sector

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2017  
 \*Based on EU contributions (ESIF) to the Croatia Country Budget for 2014 - 2020 and RRF

## Potential Areas of Cooperation

### Green

- Continue cooperating with EIB and EU to identify investment opportunities and policy dialogue in the energy sector, and explore potential synergies in supporting green cities and municipal development to accelerate the country's green transition.

### Competitive

- Work with partner IFIs and HBOR to enhance private sector participation in the economy and competitiveness, coordinating investments and policy dialogue. Explore new areas of cooperation with EIB, including advisory.

### Resilient

- Identify investment opportunities with partner IFIs in the context of post-earthquake, post-pandemic, and the energy crisis.



# 7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect	Environmental and social implications
<ul style="list-style-type: none"> <li>• <b>Increased external vulnerabilities and continued disruptions to global value chains</b> might hamper post-pandemic and post-earthquake economic recovery and avert longer term investments.</li> </ul>			<ul style="list-style-type: none"> <li>• <b>Assessment and Management of E&amp;S Impacts:</b> Ensure that direct, indirect, cumulative and transboundary E&amp;S impacts of projects are appropriately assessed and mitigated in accordance with the EU EIA Directive and EBRD ESP and Performance Requirements (PRs). TC support to clients with the implementation of E&amp;S management systems and contractor management according to international standards may be required.</li> <li>• <b>Labour and Working Conditions:</b> Ensure that clients' labour practices comply with EBRD PR2, particularly in respect of labour rights and working conditions; contractor management and primary supply chain, prevention of gender-based violence and harassment and sexual exploitation and abuse, as well as management of ongoing crises (e.g. Covid-19 , war in Ukraine).</li> <li>• <b>Resource Efficiency and Pollution Prevention and Control:</b> Challenges remain in waste &amp; wastewater collection and treatment, district heating, and air pollution. Support clients to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with BAT as part of GET mandate. Develop circular economy and resource efficiency projects and transition to a low carbon economy through renewable energy projects, and strengthen resilience and adaptation to climate change as part of Paris Agreement alignment.</li> <li>• <b>Health, Safety and Security:</b> Assist in improvement of occupational and community health and safety inter alia in infrastructure and energy projects. TC funds may be required to address safety and security issues for both employees and communities impacted by the refugee influx, including safety and security for vulnerable groups such as refugees and mental health impacts.</li> <li>• <b>Land Acquisition, Involuntary Resettlement and Economic Displacement:</b> Ensure that any projects requiring acquisition of land, either permanently or temporarily, comply with compensation and livelihood restoration requirements of the Bank, and impacted stakeholders including vulnerable groups are meaningfully engaged and consulted.</li> <li>• <b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Challenges remain concerning the need to adequately consider the potential risks and impacts of project related activities to sensitive and/or legally protected and internationally recognised areas of biodiversity value and ensure that species and habitats of conservation importance are protected. TC funds for robust biodiversity assessments and/or implementation of particular biodiversity mitigation plans may be required.</li> <li>• <b>Cultural Heritage:</b> Ensure that appropriate assessment processes and mitigation plans are in place to protect tangible and intangible cultural heritage and to identify key stakeholders.</li> <li>• <b>Financial Intermediaries:</b> Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li>• <b>Stakeholder Engagement:</b> Support clients in developing and implementing stakeholder engagement plans to ensure meaningful consultation and public disclosure are carried out effectively throughout the project lifecycle.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Continued low appetite for commercialisation,</b> and limited government's interest in the use of PPPs in public infrastructure sector could curb EBRD's potential to promote relevant projects.</li> </ul>			
<ul style="list-style-type: none"> <li>• <b>Lack of reforms and limited administrative capacity</b> to implement RRF and structural funds could limit potential for market driven improvements in the economy's competitiveness and resilience.</li> </ul>			
<ul style="list-style-type: none"> <li>• <b>Vulnerability to climate</b> change may impact viability of municipal infrastructure projects.</li> </ul>			

High    Medium    Low

# Donor Co-Financing Assessment



European Bank  
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## Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including for

- Introduce new instruments like (portfolio) risk-sharing facilities and (quasi) equity instruments, combined with extended loans and indirect financing to strengthen SME's competitiveness
- Direct financing like grants to promote digital infrastructure and practices in the private sector
- Grants to promote investments in green infrastructure, diversify the energy mix and improve energy efficiency, as well as policy and advisory to foster a supportive regulatory environment
- Loans to MSMEs that are women-led or/and under-served regions, coupled with consultancy to better integrate migrants
- Grants coupled with advisory services for the state and municipalities to improve post-Covid, post-earthquake and climate resilience through better infrastructure and governance

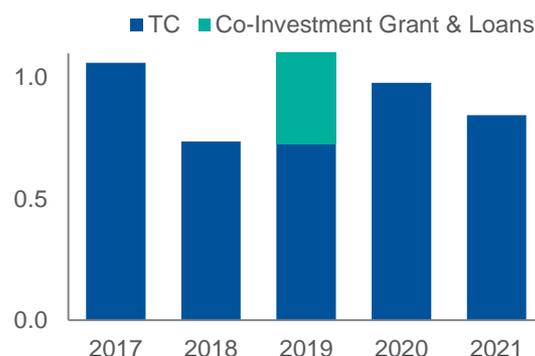
## Potential Sources of Donor Funds

- **Croatia only benefitted from TC funding.** Donor funds that allocate other type of instruments could be of interest for the new country strategy implementation period.
- The EU is a major and regular contributor of TC grants lately **through EBRD-Reform TSI1 fund** to fund public-sector reform-related activities
- To assist Croatia's green transition, **Green Economy Financing Facilities (GEFF)**, supported by the Croatian government, would enable scaling up green intermediated financing and green investments
- Support from **bilateral donors** will continue to be sought. Taiwan has been a substantial contributor over the last years and has opened its **High Impact Partnership on Climate Action (HIPCA)**'s contribution to non-ODA countries. Funds can also be channelled through other **Multi-Donor Accounts** such as the Small Business Impact Fund.
- Already the largest contributor, the **EBRD Shareholder Special Fund** can also serve as a vital complementary source of funding by helping to bridge mismatches between unmet needs and available support from donors (including for certain projects in the policy dialogue and governance areas)

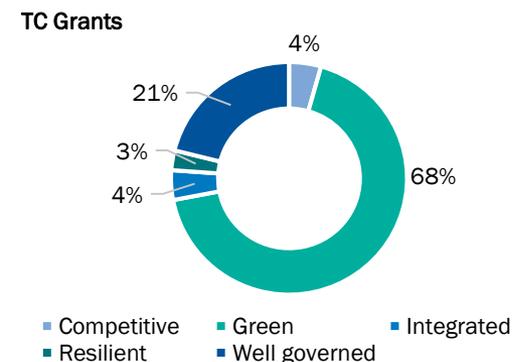
## Selected Affordability Indicators

		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current. \$) <sup>2</sup>	28,842	75 <sup>th</sup>
ODA Country	No	N/A
ODA as share of Gross National Income (%) <sup>3</sup>	N/A	N/A
ODA per capita (\$ - current prices) <sup>3</sup>	N/A	N/A

## Donor finance during last strategy (€m)<sup>4</sup>



## Use of grants in 2020-21<sup>5</sup>



1. Simple percentile rank reported as the share of EBRD economies represented below Croatia; 2. Source: WDI (2020 or latest available year); 3. Source: OECD (2019); 4. 2017-2021 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings; 5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2020 and 2021

Annex

PUBLIC



**European Bank**  
for Reconstruction and Development



# Annex 1 – Political Assessment in the Context of Article 1 (1/5)

Croatia's commitment to and application of principles set out in Article 1 of the Agreement Establishing the Bank has continued over the period since the adoption of the previous Country Strategy. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and for a meaningful role of civil society are largely in line with international and European standards, as assessed by the Council of Europe. The media are pluralistic and competitive and civil society operates independently. Elections are conducted in a manner deemed by the Organization for Security and Cooperation in Europe (OSCE) to be free and in line with international standards. Croatia has been a member of the European Union since 2013.

In the period since the adoption of the previous Strategy, Croatia has made further progress in all areas of democratic reform building on the efforts towards consolidating a multiparty democracy. At the same time, some challenges remain in the area of the rule of law and the fight against corruption, particularly as regards the efficiency of judiciary and the perceptions of judicial independence among the public. According to the 2021 EU Rule of Law Report, the level of perceived judicial independence among public and businesses is among the lowest in the EU and has seen a downward trend.<sup>1</sup>

## Free Elections and Representative Government

### Free, fair and competitive elections

Croatia is a parliamentary republic. The president is elected directly, but has largely a ceremonial role. The prime minister leads the government and requires support by the majority of the 151 members of the unicameral parliament to take office. All MPs are directly elected for a four-year term in 12 constituencies: 10 multi-member territorial constituencies electing 14 MPs each and two non-territorial ones.

Of the latter two, one elects three MPs that represent Croatian citizens living abroad and the other elects eight MPs representing 22 constitutionally recognised minorities.

All previous elections in the country were assessed as free by international observers from OSCE/ODIHR. The existing legal framework provides a sound basis for democratic elections. The new law on financing of political activities, election campaigns and referenda, adopted in 2019, has increased transparency of electoral spending. OSCE/ODIHR recommended further improvement in the electoral legislation designed to eliminate potential inconsistencies and fragmentation of complex legal provisions related to the conduct of elections.<sup>2</sup>

The last presidential election took place in December 2019, while the last general elections took place in July 2020. Both were assessed by OSCE as competitive, pluralistic, and well administered.

### Separation of powers and effective checks and balance

The separation of powers and scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight are largely in line with international standards. An appropriate system to ensure the accountability of elected officials is in place. The functioning of the parliament is in line with European democratic practices.

### Effective power to govern of elected officials

Croatia has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, which are not constrained by any non-democratic veto powers or other undue influences.

1. European Commission, 2021 Rule of Law Report, Country Chapter on the rule of law situation in Croatia; 2. OSCE/ODIHR, Presidential Election 2019, Croatia, ODIHR needs assessment mission report, 28 November 2019; OSCE/ODIHR, Parliamentary Elections 2020, Croatia, ODIHR Election assessment mission. Final report, 28 September 2020.



# Annex 1 – Political Assessment in the Context of Article 1 (2/5)

## Civil Society, Media and Participation

### Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations (CSOs) in Croatia. According to the Register of Associations of the Republic of Croatia there are currently over 39,000 registered domicile associations and over 200 active foundations. More than 400 of them declare protection of human rights as their main activity. Most CSOs are concentrated in large cities; however, civic engagement is expanding in smaller cities and rural areas as well. Financial viability has deteriorated in the last two years, adversely affected by the COVID-19 pandemic. CSOs continue to be largely reliant on project-based funding.

There are a few institutions responsible for cooperation between the government and CSOs, including the Council for Civil Society Development - an advisory body to the government tasked with the implementation of the National Strategy for Creating an Enabling Environment for Civil Society Development. While the CSOs in Croatia are active and free from restrictions, some report alleged political pressure.

The government is planning to make improvements to the e-Consultation Portal, as part of the Open Government Action Plan commitment.<sup>3</sup> The Action Plan, which calls for the development of mechanisms to allow the public efficiently monitor the implementation of public policy, recognises CSOs as partners in, inter alia, anti-corruption programmes and provides for CSO involvement in the development of a new anti-corruption strategy.

### Independence and pluralism of media operating without censorship

Croatia has a pluralistic media environment, which includes a number of nationwide public and private broadcasters, as well as print media and

internet portals and which offers citizens a wide range of political views.<sup>4</sup> A legal framework, ensuring balanced and equitable coverage, is largely in place and in line with international standards. Television remains the main source of information, while radio enjoys the highest rate of public trust.<sup>5</sup> Print media circulation has reduced over the last decade. About 78 per cent of people in Croatia use the Internet.

Freedom of expression and information are guaranteed by the Constitution, which prohibits censorship and establishes the right of access to information and public documents held by any public authority. The Agency for Electronic Media guarantees that media ownership information is available to public.

A legal framework for the protection of journalists is in place. However, there are reports of journalists becoming a target for hate speech and threats, both online and offline.<sup>6</sup> According to the Croatian journalists' association, 2021 saw an increase in lawsuits against journalists for defamation and insults, including numerous civil proceedings. While courts often rule in favour of the concerned journalists, high number of lawsuits poses a financial risk to journalists and can have an intimidating effect. Relevant international organisations have called for decriminalisation of defamation.<sup>7</sup> Croatian authorities have set up an expert group to advise on policy initiative to counter such lawsuits.

### Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place and public consultations are embedded in the legislative procedures.

3. Croatia is a member of Open Government platform since 2011; 4. This includes, according to the Ministry of Culture and Media, 27 TV channels, 137 radio stations (9 of which are non-profit), 280 electronic publications (124 non-profit) and 106 outlets broadcasting via satellite, cable and the Internet; 5. Eurobarometer, Public opinion in the European Union, Croatia country report 2021; 6. According to the Council of Europe Platform to promote the protection of journalists and safety of journalists, six active alerts have been issued in 2021: four under the category "Harassment and intimidation of journalists", one case under the category "attacks and physical safety and integrity of journalists", and one under the category "other acts having chilling effects on media freedom"; 7. OSCE, Regular Report to the Permanent Council, the Representative on Freedom of the Media, 25 November 2021.



# Annex 1 – Political Assessment in the Context of Article 1 (3/5)

## Freedom to form political parties and existence of organised opposition.

The freedom to form political parties is guaranteed by the Constitution and implemented in practice, as highlighted by the existence of a significant and diverse opposition able to campaign freely and oppose government initiatives. More than a dozen political parties are represented in the national parliament.

## Rule of Law and Access to Justice

### Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The Constitution recognises the right of any individual to have recourse to the judicial system to defend their rights. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention.

### Independence of judiciary

Independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality.

According to the 2021 EU Rule of Law report, while Croatian justice system has seen improvements in reducing the length of proceedings and backlogs, further improvements are needed to address efficiency and quality challenges. Moreover, according to the Report, the level of perceived judicial independence by general public has been on a downward trend since 2016. In 2021, the level of perceived judicial independence among the general public was among the lowest in the EU. Among the companies, the level of perceived independence in 2021 dropped to the lowest in the EU.<sup>8</sup>

### Effective policies and institutions to prevent corruption

The 2022 Transparency International's Corruption Perception Index (CPI) ranked Croatia as 57<sup>th</sup> out of 180 countries<sup>9</sup>, which is an improvement compared to its ranking that had remained stagnant during the previous three years. Although this result

puts Croatia among the top ten of EBRD's countries of operations, Croatia's CPI score remains among the lowest five in the EU.

The Ministry of Justice and Public Administration has a dedicated unit for coordinating the implementation of anti-corruption strategies and related action plans. The Council for the Prevention of Corruption (a government advisory body composed of representatives of public institutions and SCOs) and the National Council for monitoring the implementation of the Strategy for combating corruption report to the Parliament twice a year. A specialised prosecutor's office and a specialised police department are in charge of preventing, detecting and investigating complex cases. In addition, the new High Criminal Court was set up in 2021. The Ombudsperson's office is developing its new activities in the area of the management of reports by whistle-blowers. A new Anti-corruption strategy 2021-2030 was adopted in October 2021. It aims to strengthen the institutional and legal framework by addressing a wide range of issues, including relevant international recommendations. In 2022, the Parliament adopted amendments to remove immunity of the members of the government for corruption crimes.

Croatia has been a member of the Council of Europe's Group of States against Corruption (GRECO) since 2000. According to GRECO's Addendum to the second compliance report on corruption in respect of members of parliament, judges and prosecutors, adopted in September 2020, Croatia has implemented satisfactorily or dealt in a satisfactory manner with five out of the eleven recommendations contained in the Fourth Round Evaluation Report, while three recommendations have been partly implemented and three have not been implemented.<sup>10</sup>

### Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law and it is generally upheld in practice.

8. European Commission, 2021 Rule of Law Report, Country Chapter on the rule of law situation in Croatia; 9. Transparency International. Corruption Perception Index 2022; 10. Council of Europe, GRECO, Fourth Evaluation Round, Addendum to the second compliance report, Croatia, adopted 25 September 2020, published 21 October 2020.



# Annex 1 – Political Assessment in the Context of Article 1 (4/5)

## Civil and Political Rights

### Freedom of speech, information, religion, conscience, movement, association, assembly and private property

Overall civil and political rights continue to be well respected in Croatia.

The current assessment of Croatia's track record in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) started in 2020. In the previous cycle, Croatia had accepted 162 out of the 167 recommendations issued by UPR.

Croatia is a signatory to major international human rights instruments. The Constitution guarantees basic freedoms and rights of citizens recognised in international law. Freedom of speech, information, religion and conscience, movement, association and assembly are fully guaranteed. The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. Property rights are generally respected and protected.

### Political inclusiveness for women, ethnic and other minorities

According to the Croatian Constitution, the State recognises and guarantees the right of persons belonging to national minorities to the preservation, development and expression of their ethnic, cultural, linguistic and religious identity. According to the latest census conducted in 2021, among ethnic minorities the largest groups are ethnic Serbs (3.2 per cent of the population), Bosniaks (0.6 per cent), and Roma (0.5 per cent according to the census, although it is widely assumed that the actual share of Roma is higher). According to the Council of Europe, the country's legislative framework for national minorities is overall in line with the provisions of the Framework Convention. A comprehensive anti-discrimination legislation has been adopted, along with structures to promote equal treatment and address individual cases of discrimination at national and regional levels.

Citizens are free to self-identify as belonging to one of 22 recognised national minorities. In the Croatian parliament, eight seats are reserved for minorities: three for the ethnic Serb minority and five for the other 21 minorities (Hungarian and Italian minorities elect one MP each; Czech and Slovak minorities jointly elect one; Albanian, Bosniak, Montenegrin, Macedonian and Slovenian minorities jointly elect one; Austrian, Bulgarian, German, Jewish, Polish, Roma, Romanian, Ruthenian, Russian, Turkish, Ukrainian and Wallachian minorities jointly elect one).

While the legislation stipulates the gender quota of 40 per cent for the candidates for MPs, during the last general elections some 20 per cent of lists did not meet this requirement. Although an increase compared to previous elections, the share of women in the national parliament remains relatively low - 23 per cent in the current parliament elected in 2020. The previous President of Croatia was the first ever female President to hold the post; Croatia had in the past a female PM. On average women in Croatia earn less than men with equal level of professional qualifications, but the gap has been closing. Croatia ratified Istanbul Convention in 2018.

### Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are upheld in practice.

A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) carried out a rapid reaction visit to Croatia from 10 to 14 August 2020, given the challenges the government was facing in managing its extensive land borders and the high migration flows into the country. CPT examined the treatment and safeguards afforded to migrants, in particular along the border with Bosnia and Herzegovina. The report, published at the end of 2021<sup>11</sup>, contained criticism of alleged ill-treatment of intercepted migrants.

11. <https://rm.coe.int/1680a4c199>



# Annex 1 – Political Assessment in the Context of Article 1 (5/5)

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The Croatian government provided a detailed response to the above-mentioned CPT report, which upon Croatia's request was published by the Council of Europe on 1 March 2022 (<https://rm.coe.int/1680a5acfc>).

The authorities also informed that in June 2021 the country established an independent mechanism for monitoring the actions of police officers towards migrants, which is implemented in cooperation with competent civil society organisations as well as independent legal experts, in order to provide additional guarantees for the application of relevant provisions of the national, European and international law in the treatment of migrants.

A delegation of CPT carried out its latest visit to Croatia in September 2022 to review the progress made by the authorities in respect to its previous recommendations made after its 2017 periodic visit, with the focus on the treatment and conditions of the prisoners. The report has not been made public yet.