



## SIGMA

### Support for Improvement in Governance and Management

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## CROATIA

### POLICY-MAKING AND CO-ORDINATION

#### ASSESSMENT MAY 2008

#### 1. Coherence of the Policy-Making Framework

The legal framework for decision-making and policy formulation is set by the Standing Orders of the Government of the Republic of Croatia (Rules of Procedure). The Standing Orders were adopted in October 2000 (slightly amended in March 2001). In February 2005, the government adopted a significant amendment to the Standing Orders, requiring that ministries prepare, and include with their submissions to the government, four types of impact assessment statements. There were two additional amendments related to impact assessment in 2007. (See more details on impact assessment in sections 5 and 9, below.) Finally, in 2008, the Standing Orders were amended to create one additional Ministerial Coordinating Committee.

The Standing Orders set up a coherent decision-making process by establishing a series of three sequential steps (expert task forces, ministerial coordination committees, Inner Cabinet) through which proposals are to proceed before reaching the session of the government. The Standing Orders also cover all of the necessary elements for a policy development process, including mandatory inter-ministerial consultations, consultations with NGOs, and review by the Legislation Office, the Ministry of Finance, the Department of European Integration, and by all affected ministries. These procedures are well established within the system, are known to the participants, and are generally enforced by the General Secretariat of the Government (GSG).

The main weakness of the Standing Orders is that they do not deal with the planning and monitoring process. The Standing Orders do not address the government's setting of strategic priorities, annual work planning, and the monitoring of government decisions. It appears that the GSG does not have the necessary legal competences to perform planning tasks. This issue was addressed by the government's Public Administration Reform Strategy that was adopted in March 2008. At present, activities are underway to correct this weakness by introducing a planning and monitoring system based on cooperation between the General Secretariat of the Government, the Ministry of Finance, and the Central Office of Development Strategy and Coordination of EU Funds (CODEF). These plans are discussed below in sections 3 and 6.

***The overall legal framework for the ongoing policy development and decision-making process is clear and logical, and is largely understood, accepted and followed by the participants. The system has been in place for some years, and has not been changed significantly by successive governments. This stability greatly increases its acceptability and efficiency. The legal framework for planning and monitoring the work of the government is not adequate, but it appears that efforts are under way at this time to address this issue.***

#### 2. Inter-Ministerial Consultation on Policy Proposals

There are appropriate detailed requirements in the Standing Orders to ensure inter-ministerial consultations on legislative proposals and other items reaching the government. Article 27 of the Standing Orders specifies that "draft laws and other regulations shall be submitted for review by the Legislation Office, the Finance Ministry and the European Integration Ministry, and other state administrative bodies having jurisdiction over the matters to be regulated by the said draft laws. The same stipulation shall apply to reports,

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information and similar materials, if they contain draft conclusions that dictate duties for state administrative bodies or create financial obligations.” In addition, an April 2003 decision of the Inner Cabinet obliges the initiators of drafts submitted for decision “to convene a meeting of representatives of all bodies of state administration whose competence includes issues governed by the proposals...”.

In practice, the process of inter-ministerial consultations is adequate. The formal requirements for consultations are normally followed as specified in the Standing Orders, and the General Secretary of the Government can return items to initiators in cases where they are not followed. In addition, many major drafts are actually prepared by inter-ministerial working groups established by the government or by the Inner Cabinet. Within ministries, responsibility for consultations during policy development and early drafting phases generally rests with the sector preparing the draft. Final official consultations (coordination) are concluded at the level of the minister.

***Adequate procedures have been established for inter-ministerial consultation. The procedures are generally followed in practice, and are supplemented by informal contacts as well.***

### **3. Work Planning**

A dual process of agenda and work planning for sessions of the government is in operation. Items related to EU accession (legal harmonisation, institution-building, other programmes and commitments contained in the National Programme for Accession to the EU) are planned in advance for one year, and designated by quarter. An Annual European Integration Work Plan is prepared and approved by the government and parliament. Within the quarterly framework, ministries indicate at the beginning of the quarter the exact week in which a particular item will be submitted. The Annual EI Work Plan is updated every six months, and ministries’ obligations are closely monitored. Any delay is addressed immediately, including by the weekly session of the government. As a result, the European integration (EI) obligations in recent years have essentially been met.

At the moment, for all other items, there is only a four-year Government Programme, and most items do not have specific deadlines and are not generally monitored by the General Secretariat of the Government (GSG). This shortcoming in the planning system had been noted by the Croatian authorities, and commitment to correct it had been made in the government PAR Strategy (adopted 19 March 2008).<sup>1</sup> In the meantime, work is under way by a joint CODEF/ Ministry of Finance working group (in cooperation with the GSG) to elaborate a methodology for annual planning and monitoring of the work of the government.

***The detailed planning and monitoring of the European integration agenda is striking, and indicates the capacity of ministries and central coordinating organs to carry out business in an orderly manner. At this time, and following the adoption of the PAR Strategy, efforts are under way to improve the annual planning and monitoring of all of the business of the government.***

### **4. Dispute-resolution Mechanisms**

A well-developed sequential process is in place to resolve disputes among ministries. Essentially, there are three possible steps between the submission of proposals to the General Secretariat of the Government and its discussion at the government session. The first step is submission to one of three expert task forces, made up of senior ministry officials, which meet on Mondays. The second is discussion in one or more of the four ministerial committees (called “coordinations”), which meet on Tuesdays. The third step is discussion in the Inner Cabinet, which meets on Thursdays, just before the formal government session. The expert task forces and the “coordinations” are organised by topic – Domestic Policy; Foreign Policy, Social Services and Human Rights; Regional Development, Reconstruction and Revitalisation of Returnee Areas; and Economic Affairs. Each of the four task forces mirrors one of the four “coordinations”, and its conclusions are reported directly to the latter. In each of the steps, the emphasis of the discussion is on a list of issues that remain unresolved from the previous stage (if any). If there are no outstanding issues, one or more of these steps may be skipped. Each of the expert task forces and parallel “coordination” is served by a team that is part of the General Secretariat of the Government.

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<sup>1</sup> As the PAR strategy is not yet available in English, all references to its content are based on verbal reports of meetings held in Zagreb, 21-24 April 2008.

At present, the Inner Cabinet and the government have the same membership (Prime Minister, four deputy prime ministers, and all ministers). The Inner Cabinet meets for a closed session just before the session of the government, which is open for press coverage. After the session of the government, there is a meeting of the fifth “coordination”, on Croatia’s EU Accession Negotiations. The membership of this “coordination” is the same as the membership of the government.

By all accounts, Croatia has developed an extensive and effective process of dispute resolution and filtering.

***The dispute-resolution system is entirely appropriate and functions well.***

## **5. Central Co-ordination Capacity**

The General Secretariat of the Government (GSG) is able to ensure effective logistical support to the decision-making process, including scheduling of meetings, preparation of material for ministers, recording and distribution of decisions, and archiving. The GSG has a clear mandate to ensure that items entering the decision-making process (the three steps leading to the session of the government) are completed according to the requirements of the Standing Orders. In cases where documents have not been adequately prepared or are not accompanied by supporting documents in accordance with the Standing Orders, the Secretary of the Government has adequate authority to return them to the initiator. The Secretary of the Government is responsible for deciding if an item needs to go through all three steps or – if issues are sufficiently resolved – it can proceed more directly (e.g. directly to one of the “coordinations” without going first to a meeting of an expert task force).

A useful feature of the GSG is that it includes a Secretary (and a number of professional staff) for each of the four “coordinations”, and this team also acts as secretariat to the corresponding expert task force. This arrangement ensures continuity in the administrative processing of items through the decision-making procedures, from the time they enter the GSG and through their discussion and decision in the government session.

The independent Legislation Office is an expert body responsible for reviewing all normative acts before they are scheduled for discussion. Although somewhat short-staffed, the Office is able to review all of the acts and send comments to ministries, thereby ensuring constitutional, legal, and linguistic coherence. The Office attends all meetings of the “coordinations” and the Inner Cabinet as well as the sessions of the government in order to respond to legal issues as they arise. The Office is co-located, and cooperates closely, with the GSG.

There are weaknesses in the central coordination, however. First, the GSG does not have any capacity for policy coordination; it focuses almost exclusively on logistical support to the government and its working bodies (the expert task forces and the “coordinations”). Given the limited time available for these bodies to study the proposals before them, this lack of policy advice to support their deliberations reduces these bodies’ effectiveness. In particular, this weakness reduces the capacity of the system to provide cross-sectoral perspectives on proposals and to assess their coherence with other government policy and strategic objectives. An opportunity to add a policy-coordination dimension to the work of the GSG was afforded by the introduction of impact assessments as a prerequisite to the preparation of items for decision. However, the decision of the government has been to place the responsibility for reviewing impact assessments in a specialised Office rather than in the GSG (see section 9 below).

A second weakness of the coordination system is the absence of capacity to monitor the implementation of government decisions, with the exception of monitoring of the European integration work plan. The GSG is not equipped to provide a check on the extent to which government decisions are implemented by ministries and other state administrative organisations. This weakness was recognised in the PAR Strategy adopted in March 2008. In line with this, work is currently under way to devise a system whereby the GSG would be able to monitor the ministries’ follow-up of government decisions.

***The system for logistical support to the government and its working bodies is in place and is implemented effectively by the General Secretariat of the Government. However, there is insufficient capacity and insufficient mandate in the GSG to provide the necessary policy coordination, policy advice, and monitoring information to decision-makers. Recommendations of the PAR Strategy on these issues are welcome and should be implemented as soon as possible.***

## 6. Central Capacity to Advise on Policy and Strategic Matters

To prepare a development strategy for Croatia, the government established the Central State Office for Development Strategy and Coordination of EU Funds (CODEF). In cooperation with ministries and outside experts, CODEF developed a document entitled “Strategic Development Framework for 2006-2013”, which was adopted by the government in August 2006. The document identifies 10 priority areas, and for each area it lists a series of goals. The goals are then followed by a discussion of instruments and actions that should be developed and pursued in order to meet the goals. The document does not contain an action plan with specific responsibilities and dates that can be directly monitored. Instead, goals and actions from the strategic framework are to be taken up by the “Pre-Accession Economic Programme”, which is prepared and monitored by the Ministry of Finance. The Pre-Accession Economic Programme is linked directly to the annual work plan for European integration. To ensure greater coherence of strategic and operational plans, the Ministry of Finance and CODEF have established a working group to develop guidelines for the preparation of annual strategies by all ministries. These strategies, which will be submitted to the Ministry of Finance, will be used to prepare an annual financial strategy, which would then be integrated into the budget planning process.

The adoption of a comprehensive development strategy by the government is a positive step. The recognition that there is a need to follow-up the strategy with a plan for implementation and monitoring is also welcome. It remains to be seen whether the approach devised jointly between CODEF and the Ministry of Finance can indeed provide an appropriate monitoring framework. It will be important to create an effective institutional link between the monitoring process, the European integration process, and the GSG, so as to ensure a link between the strategic framework and the ongoing decision-making process of the government.

The fragmentation of the Centre of Government (CoG) in Croatia has often been noted and remains an important issue. The institutional separation of the main strategic centres [CODEF, Ministry of Foreign Affairs and European Integration (MFAEI), and Ministry of Finance] from the transactional centre (embodied by the GSG and the closely linked Office of Legislation) is a cause for concern. At this time, neither the GSG nor the CODEF has a monitoring capacity to ensure concerted action by ministries.

***Croatia has a strategic development framework, and plans to integrate it with ministry strategies and the budget process. In the near future, it will be necessary to focus on ensuring concrete links between the strategy and the ongoing activities and budgets of ministries, and between the strategy and the ongoing decision-making process at the level of the government.***

## 7. Co-ordination of European Affairs

Responsibility for coordination of European integration activities is placed in the Ministry of Foreign Affairs and European Integration (MFAEI). Within the MFAEI, Directorate for Coordination and Monitoring of Adoption to EU System and Secretariat of the Negotiation Team, headed by a State Secretary, operates as a fairly autonomous structure. It is a well-functioning organisation that has been successful in leading the accession and harmonisation work within the administration. In 2006, responsibility for the coordination of EU funds was transferred to the CODEF, although TAIEX projects are managed by the EI Directorate in the MFAEI.

The 6<sup>th</sup> Annual Plan under the National Programme for Accession was adopted by the government in February 2008. The annual plan covers legal acts as well as policies and programmes (e.g. institution-building). It is detailed in terms of tasks, responsibilities and deadlines. The deadlines are monitored on a weekly basis by the ministerial “coordination” on European integration (chaired by the Minister of Foreign Affairs and European Integration), which meets after every government session and has the same membership as the government. Within each ministry, a State Secretary is responsible for European integration and each ministry and state administration organisation has a section for European integration. Most ministries have sufficient capacity to perform their EI obligations under the National Programme for Accession of Croatia into the EU. The MFAEI State Secretary responsible for European integration chairs a biweekly meeting of the heads of EI units in ministries to discuss progress with regard to all accession-related matters. Within MFAEI there is also a directorate (Directorate for the European Union and European Coordination) dealing with political criteria and bilateral relations related to European integration.

Ministries must prepare a statement of compliance and a table of concordance with the *acquis communautaire* for every normative act they submit to the government. The EI Directorate is responsible for verifying compliance, and the signatures of the State Secretaries of both the initiating ministry and the EI

Directorate are required before normative acts can proceed to the government for decision. Croatia also established a negotiations team within the Office of the Minister of Foreign Affairs and European Integration. The EI Directorate acts as secretariat to the team, and there is an established process for developing and consulting on negotiating positions (including with parliament) prior to approval by the government.

*The structures established in Croatia to manage and coordinate activities of the government and the administration in relation to EU accession preparation and negotiations are adequate and function well.*

## **8. Involvement of the Council of Ministers in Budget Decisions**

Budget preparation is based on a policy document called the “Fiscal and Economic Policy Guidelines”, which is approved by the government each year around May. This document covers a period of three years on a rolling basis and is officially amended (and re-discussed) once more during the year in order to adjust it to the economic situation and the EI priorities. This document sets the policy framework and the notional allocation to budget-users, and provides an opportunity for the whole government to discuss the budget at the level of policy priorities. The draft budget is then subject to the normal process of sequential review by governmental working bodies and by the Inner Cabinet prior to discussion in the government session

*The involvement of the government in the budget preparation is adequate.*

## **9. Impact Assessment**

In order to strengthen the process of policy development in ministries, the government of Croatia adopted in February 2005 an extensive amendment to the Standing Orders of the Government, requiring impact assessments to accompany normative acts submitted to the government and to parliament. The amendment requires the following four assessments to be carried out for items submitted to the government for decision:

- Financial impact;
- Market competition and state aid impact;
- Social impact; and
- Environmental impact.

For each of these assessments, the amendment required that a methodology be prepared and adopted by the government by a prescribed date (between April and November 2005). All of these assessments were to become mandatory soon after the adoption of the methodology. The amendment also specified that methodologies were to be prepared by the four relevant ministries (Finance; Economy, Labour and Entrepreneurship; Health and Social Welfare; Environmental Protection, Physical Planning and Construction). The assessments themselves would be prepared by initiating ministries, and would then be reviewed by the relevant ministry that had elaborated the methodology (e.g. assessments of environmental impacts would be reviewed by the Ministry of Environmental Protection, Physical Planning and Construction).

To date, only the Fiscal Impact Assessment (FIA) has become operational. For about three years now, Fiscal Impact assessments have been prepared by ministries and reviewed by the Ministry of Finance. There is now improved capacity in ministries to prepare FIAs, as well as greater appreciation of the need for good financial analysis. As a result, plans have been made to revise the form and the guidelines and to make the analysis more precise and more comprehensive. The Ministry of Finance is also planning to do some *ex post* analysis of the predictive accuracy of the FIAs in order to sharpen the lessons learned from the process during the past three years.

The methodologies for social impacts and for environmental impacts have now been approved as well, but the process of preparing assessments is not yet operational. The methodology for economic impacts (market competition and state aid impact) is still in preparation. In the meantime, the government has decided to create a special office (expert service of the government), the Regulatory Impact Assessment System Coordination Office, “to coordinate the system of assessment of regulatory impact on the economy, social and environmental affairs” (Amendment to the Standing Orders of the Government, 28 June 2007, Article 2). It appears that the new Office will not deal with Fiscal Impact Assessments, which will remain solely with the Ministry of Finance. For the other three assessments, the Office will perform its tasks alongside the three

line ministries that have subject-matter expertise. How this system will operate in practice is not clear, as the Head of the Office is not yet appointed, and the Office has not yet become operational.

In addition to this process, it is encouraging to note that, as part of the preparation of negotiating positions, the Government of Croatia has sponsored cost-benefit analyses of the implementation of 15 chapters of the *acquis*, carried out by experts of the Croatian Economic Institute. The cost-benefit analysis was published and distributed widely.

*The introduction of requirements to conduct and submit impact assessments is a welcome development, but it remains uncertain if the approach adopted by the government – through various amendments to the Standing Orders – will have the intended results. The system appears to be unusually complex, and this may be one of the reasons why the 2005 decision to start impact assessments is not yet operational (with the exception of FIA). Of concern, too, is the creation of yet another Office to perform a role in the policy system, thus leading to further fragmentation of the system.*

## **10. Better Regulation**

As indicated in the section above, there are many activities related to regulatory impact assessment (RIA) in Croatia. For the moment, however, there is no over-arching “better regulation” policy.

## **11. Transparency, Consultation and Communication with the Public**

There are mechanisms in Croatia to address issues related to transparency, consultations and communications.

The consultation process related to items proposed by ministries is well established, and is checked by the General Secretariat of the Government (GSG). In addition, the “Tripartite Council” (bringing together representatives of employers, employees and the government) is an active forum for consultation and discussion on many important issues before they are brought to the government for decision.

There is a Public Relations Office, which is an expert service of the government, with a staff of 18. It is headed by the Government Spokesperson, a non-political position. The Office focuses on media relations and media analysis, and also has a department for direct contacts with citizens. At present the activities of the Public Relations Office are based on an annual plan, but a four-year communications strategy is now in preparation, and will form the basis for future annual plans. There is also a specialised communications strategy related to EU accession, which has been prepared and is managed by the Department of Education and Communications within the EI Directorate in MFAEI. All of the ministries have their own spokespersons. The Government Spokesperson is now making efforts to develop a network of spokespersons, primarily through joint training activities. The intention is to have these activities evolve into regular monthly meetings of spokespersons, which would improve the cross-government coordination of communication messages.

The weekly sessions of the government are open to the media, which can thus report directly to the public on all of the government’s decisions. The Public Relations Office is responsible for arranging additional media briefings as required.

The *State Gazette* is available on the Internet and is fully accessible.

*The procedures for ensuring transparency, consultation and communication with the public are adequate.*

## **12. Summary and Next Steps**

Generally, the Croatian policy development and decision-making system is operating smoothly, and has many good characteristics. The stability of the system over the years has contributed to its operational efficiency.

The main features of the policy system are:

- There is a generally adequate legal framework for the policy system.
- A good sequential system is in place for funnelling items and for conflict-resolution in preparation for sessions of the government.

- There is a good system within the General Secretariat of the Government to ensure logistical support to sessions of the working bodies and of the government. The system has continuity, as the same team handles items through the successive steps.
- A seven-year development strategy is in place to provide an overall policy framework; a monitoring process for the strategy is still being developed.
- The General Secretariat of the Government does not have legal competence to provide policy and strategic support to the government. Its competence in the area of work planning and monitoring of the implementation of decisions is insufficient.
- There are weaknesses in the policy development and legislative drafting capacities of ministries. With the exception of Fiscal Impact Assessment, the introduction of requirements for impact assessments has been delayed and cannot be assessed yet.
- The Centre of Government is fragmented, but working procedures and the existence of the expert task forces, coordination committees and the Inner Cabinet somewhat compensate for this fragmentation;
- An effective structure is in place to manage and coordinate European integration activities.

As noted throughout this report, the main weakness of the system is the fragmentation of the Centre of Government (CoG). At least five specialised services are supporting the policy system: the General Secretariat of the Government; the Legislation Office; the Public Relations Office; the Central Office for Development Strategy and Coordination of EU Funds; and the Regulatory Impact Assessment System Coordination Office. In addition, the Ministry of Finance and the EI Directorate in the MFAEI also play important functions in the policy management system.

It is important to acknowledge that, at present, the leadership of these bodies recognise the need to cooperate, and it seems that in practice good cooperation enables the policy system to function reasonably well despite its growing fragmentation. Over time, however, such cooperation may not be sufficient to sustain a coherent policy system.

#### **Next Steps:**

It is strongly recommended that, in the coming year (and in line with the PAR Strategy), Croatia undertake a comprehensive peer review of its policy management system, including an organisational review of the support provided by the administration to policy planning and coordination and to the government's collective decision-making. The review should focus on assessing the desirability of establishing a full-service, modern Centre of Government (CoG) in Croatia, and should result in an action plan for reform, specifying the legal, organisational, and personnel implications of the reform. The following issues should be explored:

- Building policy coordination and monitoring capacity of the General Secretariat of the Government;
- Incorporating the strategic functions of the CODEF and the policy management functions of the new RIA Office into a reformed General Secretariat of the Government;
- Introducing into the Standing Orders stronger requirements for annual planning and monitoring of the work of the government;
- Determining how best to manage the requirements for impact assessments, and how these requirements can be implemented in a manner that will ensure that they in fact contribute to higher-quality policy development in ministries.