

ADJUSTMENT OF PUBLIC ADMINISTRATION IN EU ASSOCIATION PROCESS

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Summary

The object of this work is to show the present situation of public administration in Croatia concerning the process of Association to European Union and to define in which direction the further adjustment have to go. Namely, Croatia has by signing the Agreement of stabilization and association started a number of great adjusting of legalization with EU legal acquest, and great changes is nearly all parts of social and managing life. One of the most important bearer of stated changes is surely the public administration. It's importance is additional empfahized by Madrid criterion too, that is, administrative criterion for the state candidates. Public administration will be defined as the main bearer of all changes, and the success of all reforms is based on successful reform of public administration.

During investigation of the present statement and sugestions for the future adjustments, we investigated the present statement in negotiations of accession between Croatia and EU for the reason that they define the direction and the way of adjustment process. In Croatia the monitoring is present from the moment of request, and the results are carefully controlled and are published as returning informations and measurement for further process. Furthermore, the Government and Ministry for Foreign Affairs regulary publish the reports of achieved reforms and national programs which on the best way show the position of Croatia in the complete process. Everything stated before make the firm base for evaluation of the present, and the proposal for improvement of the statemnt.

Instead of results, we can conclude that the process of reform of public adminsitration is nenecessary and it is the last time to do it. For the reason that the process of accommodation lasts some time, it can be said that the formal steps are present, but it is not even enough, because there is lack practice, and the time is shorter and shorter.

Key words: association to EU, public administration, memebership criteria, reform of public administration, condition for membership, *governance*, tax system, health sector, energetics, references

1. Introduction

Among other conditions which Croatia has to fulfill to become the member of EU, there is a request for reforms of public administration. The objective of reforms of public administration are the same as criteria for membership which demands European Union, and they are based on efficacy of institutions which have to enable the right function of market economy and respect the fundamental principle of democracy. Reform is engaged in

legalization of public administration, its managing structures and strengthening of capacity which are needed for better functioning and more efficacious public administration. That what is important to emphasize is the importance of such reforms, without respect to negotiations of association to European Union and the dynamics to the complete process.

To reach the niveau of development and on this way to realize the economical prosperity and progress, Croatia has to perform the reform of public administration, that is reform of greater systems where the authority and administration have effect on each other.

The first part of the work gave a short summary of relation between Croatia and EU, and the conditions and criterion which were defined by Stabilization and Association Agreement, as the first contracted relation between Republic of Croatia and EU, concerning public administration.

The second part showed the present situation and organization of public administration in Croatia with special review on lack in functioning and organization of public administration, and references in which direction the reforms of public administration have to go.

Further, there is a description of separate sectors of public administration and that is the tax system, health sector and sector of energetics of Croatia.

2. Relations between Croatia and European Union

The plan of EU is performing of common foreign and security policy which purpose is:

- protection of fundamental interests and common value of Union
- strengthening of Union security and its member states
- strengthening of international security and preserving of peace
- development and strengthening of democracy, legal state and respect of human rights and fundamentals of freedom
- stimulating of international cooperation.

Request for membership in EU can submit each European state which is constituted on the principle of freedom, democracy, respect of human rights, fundamental freedom and rules of justice. Three criteria are stated (so-called Criterions from Copenhagen) which all future members have to fulfill before admittance in complete juridical membership of EU¹:

1. POLITICAL: stability of institutions which ensure democracy, rules of justice, respect of human rights and right of the minority and accept of political goals of Union;
2. ECONOMIC: existing of efficacious market economy
3. JURIDICAL: adoption of complete juridical acquiescence of EU.

There is also the fourth criterion by which efficacious performing and application of juridical acquiescence of EU will be insured:

4. ADMINISTRATIVE: adaption of corresponding administrative structures with goal to insure the conditions for gradual and harmonious integration.

By request for membership starts the process for reviewing of state capability, which requests to be member of EU. Making distinction to present states—candidates, which first signed the agreement of cooperation, and after that the agreement of association, EU has to the states included into process of stabilization and association—Albania, Bosnia and Herzegovina, Croatia, Macedonia, and Serbia and Montenegro immediately offered the new generation of European agreement—Stabilization and Association Agreement.

Republic of Croatia and EU established relation by international acknowledgement of Republic of Croatia as independent and sovereign state on 15th January 1992. The most important step in the process of approaching of Republic of Croatia to EU was on 29th October 2001 by signing the Stabilization and Association Agreement. Republic of Croatia got on this way the status of associated member and potential candidate for membership in EU. Furthermore, it is the first state which has complete program of adoption to the standards of EU. National program for association to EU for 2003 the government of Republic of Croatia accepted on 12th December 2002.

Entry to EU and NATO and promoting of policy good-neighbourhood are the basic foreign policy goals of Republic of Croatia. By status of candidate Croatia will have the right of use of means from Funds of EU².

¹ *Croatia on the Road to the EU: From Candidacy to Membership*, Ministry of Foreign Affairs and European Integration, second extended edition, Zagreb, 2004.

² *Fifth enlargement of EU: 2004.*, Ministry of European Integration, Zagreb, 2005.

After finished negotiation in all parts of juridical acqust of EU, there are 31 of them, Croatia will be permitted to entry EU. There is stated time for negotitaion about membership, and it depends on performing of fundamental reforms on the area of law, economy, policy and administrative structures in the state. Owing to the Process of Stabilization and Association for West Balkan, EU has the frame for dialogue of civilian society with Croatia. At the same time bilateral activities between Croatia and other state – members of EU are stimulated.

Council for stabilization and association is constituted according to Stabilization and Association Agreement between Croatia and EU, and is valied from 1st February 2005.

The Council for stabilization and association (common constitution of EU and Croatia) respects the achieved macro economical stability in Croatia, and emphasizes that Croatia shloud continue with fiskal consolidation. Council stated that the continuation of perfomirng of reforms program should enable Croatia to be on line with competative pressure and market power inside Union in medium-term. EU respects the efforts which Croatia does on business area, minority rights, returning of refugees, regional cooperation, and emphasizes again that the full cooperation with the Hague Tribunal is a “very important” prerequisite for opening of admission negotiations³.

Croatia has clear promise to start the negotiation about memebership in EU as soon as the full cooperation with Hague Tribunal exists, and the problem of refusing of European constitution of referendum in France and Netherland will have no influence on its further memebership. Association to EU results important and permanent enlargement of competition on inland market and Croatia has to do everything to use the period of negotiation of association to preparte itself as better as possible.

The most important goal ist to be good prepared for memebership in EU. For that reason Croatia has to perform the deep reforms to satisfy agreement of stabilization and association to be able later to cary the burden of membership. One of reforms ist the reform of public administration where the priority has to be stated, the plans of activities must be elaborated and the performing of the same must be resoluted.

There is optimism that the negotitation can start in autmn 2005.

³ www.htnet.hr/fset.html 26.04.2005.

3. Adjustment of public administration

Croatia started with the process of adjustment to European Union demands after signing up the Stabilization and Association Agreement (further: SSA). Today, inadequacy is clearly visible in the functioning of the whole project. The main cause of obstruction is public administration in Croatia which should carry out the whole process. The fact is that without the public administration efficiency in implementation of changes and reforms, there can't be efficiency on any other level. As a confirmation, conclusion of International Monetary Fund (further: IMF) states that rise in the quality of institutions will result in rise of the gross domestic product per capita (GDP/per capita) in absolute and relative figures and in more stable economic growth (IMF, 2003.).

Starting point of every reform is a review of the present situation. Although authors use different terminology when defining the conception of public administration, it could be defined as institutions for enforcing legal rules, especially those which perform "positive" actions on the state level, as shown in table 1 (Boromisa, 2004.).

Table 1: Public administration in Croatia*

State administration				Other institutions
Ministries of	State Administrative Organizations	Central State Administrative Offices	Offices of the Government	Public sector
<ul style="list-style-type: none"> - finance - interior - Foreign Affairs and European Integration - Defence - the Economy, Labour and Entre-preneurship - the Family, Veterans Affairs and Inter-generational Solidarity - Culture - Agriculture, Forestry and Water Management - the Sea, Tourism, Transport and Development - Justice - Environmental protection, Physical Planning and Construction - Science, Education and Sports - Health and Social Welfare 	<ul style="list-style-type: none"> - State Geodetic Directorate - State Institute of Radiation Protection - Meteorological and Hydrological Service - State Office for Nuclear Safety - State Intellectual Property Office - State Bureau of Metrology - Central Bureau of Statistics - State Inspector's Office - National Protection and Rescue Directorate 	<ul style="list-style-type: none"> - for the Development Strategy - for e-Croatia - for State Property management - for Public Admini-stration 	<ul style="list-style-type: none"> - Office of the Prime Minister - for Public Procurement - for Human Rights - for Natonal Minorities - for Public Relations - General Adminis-tration Office of the Croatian Government and Parliament - for the Protocol - for Gender Equality - for Social Partnership - for the Prevention of Drugs Abuse - for Cooperation with NGOs - for Internal Supervision - Legislation Office - for Succession Settlement 	<ul style="list-style-type: none"> - Agency for Export and Investment Promotion - Agency for the Protection of Market Competition - Agency for the Supervision of Pension Funds and Insurance Companies (HAGENA) - Agency for Transactions and Mediation in Immovable Properties - Center for Human Rights - Central Register of Insured Persons (REGOS) - Croatian Academic and Research Network (CARNet) - Croatian Agency for Small Business - Croatian Demining Centre - Croatia Employment Institute - Croatian Hydrographic Institute - Croatian Information and Documentation Referral Agency - Croatian Institute for Health Insurance - Croatian Pension Insurance Institute - Croatian Privatization Fund - Croatia Securities Commission - Environment Agency - Export and Investment Promotion agency - Financial Agency (FINA) - Fund for the compensation of expropriated property - State Agency for Deposit Insurance and Bank Rehabilitation - State Institute for Nature Protection

* Local self-government not included

Source: www.vlada.hr

There are no rules about how big and organized the public administration of the one country should be. However, at the beginning of negotiations, EU provides only fundamental guidelines and criteria about the organization of public administration. After the current condition screening and actual problems defining, recommendations

are more detailed and on specific terms of every country based. At the same time, EU implement standards and criterion for monitoring of the whole process. That's how the timely control allows fast reaction in dealing with problems.

3.1. Governance vs. Public administration

Governance is a term which is being used in the context of Government efficiently and state managing. Ahrens (Ahrens in Bađun, 2004.) define *governance* as the capacity of the formal and informal institutional environment to apply and carry through a given government policy and to improve coordination in the private sector.

The linkage between *governance* and public administration is in their interdependency; public administration is only one of the protagonist of *governance* and the success of the *governance*, amongst other, depends on effective public administration.

Since the *governance* is a hard to measure, the quality of *governance* is assessed according to the following indicators:

- ✓ rule of law
- ✓ democracy
- ✓ freedom of the media
- ✓ corruption
- ✓ political stability.

3.2. Conditions for the accession to the EU

The Copenhagen criteria for full membership in the EU stipulate:

1. stability of institutions that provide for democracy, rule of law and order
2. ability to take on the obligations that are entailed by the Stabilization and Accession Agreement.

At the same time, EU provides fundamental guidelines about the way on which Croatia can accomplish that. It also give financial support in accession programs form, depending of programs and purpose which are being financed. Concerning *governance*, EU gives principles of a good *governance*⁴:

⁴ Bađun Marijana: *Governance and public administration in context of the EU accession*, Institute of Public Finance, 2004., page 129

- "openness in public communication and transparency
- citizen participation in political issues
- rose of responsibility for the politicians
- efficiency in political management."

Concerning public administration, only general instruction are given, but it is strongly emphasized that the public administration should carry out and will be responsible for all the reforms and changes in society.

European Commission, in the SSA, has clearly identified the public administration reform as one of the areas to which resources from the CARDS assistance programme will be direct. For the 2001.-2004. period, 23 million euros have been earmarked for assistance to the reform of the public administration, which includes:⁵

- "improving the legislative framework regulating the work of public administration, the aim being to achieve as great transparency in hiring, promotion and the salaries system as possible,
- enhancing the institutional capacities of the Ministry of Justice, Administration and Local Self-Government and other institutions crucial for the management of public administration,
- professional further training of civil servants."

3.3. Valuation of Croatia's public administration

Valuation of current state of affairs in public administration is made out through the Croatia's success in fulfilling political, economic and legal criteria. State of affairs in public administration and progress of public administration is based on European Commission's reports. Those reports are based on the Croatian comparison with other candidate countries (table 2).

⁵ Badun Marijana: *Governance and public administration in the context of Croatian accession to the European Union*, Institute of Public Finance, 2004., page 131

Table 2: Sources for the public administration comparison in Croatia, candidate countries and EU

EU	Candidate countries	Croatia
<ul style="list-style-type: none"> ▪ European Commission reports on EU policies performance ▪ State Aid Scoreboard ▪ 2002 Reviews of the Internal Market ▪ Internal Market Scoreboard ▪ Internal Market-Infringements 	<ul style="list-style-type: none"> ▪ Report on candidate country performance ▪ Accession partnerships ▪ Action plan for enhancing administrative and judiciary structure ▪ PHARE programme projects 	<ul style="list-style-type: none"> ▪ European Commission reports on SSA performance ▪ The SSA plan for performance ▪ National programme for the EU accession ▪ Legislative adjustment plan ▪ CARDS projects

Source: Boromisa Ana-Maria: The readiness of the public administration for the EU accession, Institute of Public Finance, 2004., page 165

Although Croatia had harmonised many legislative rules with the *acquis communautaire*, there are many problems in their implementation. The greatest points of weakness for Croatia's public administration are:

- great number of ministries and other state organizations which cause overlapping of authority and problems in coordination
- great number of local self-government units
- huge wages costs for the public administration (11% GDP) vs. its bad performance
- adjournment of public administration reform
- inadequate professional qualification structure of civil servants
- low wages and lack of rewards system which could keep the best personnel in public administration
- inexistence of programmes for professional education and training of civil servants
- lack of transparency in public administration work which cause mistrust of citizens
- political instead of professional criteria in hiring officials and civil servants
- often changes of legislative causes difficulties in public administration work and enhance instability of institutions which carry out those rules.

3.4. Recommendations for public administration reform

Because of the SSA, deadlines for the adjustments are close. Need to conduct public administration's reform is urgent. Although public administration reform is one of the most important in the whole process, it isn't the only one. That means that all reforms have to be comprehensive and have to be carried out even without EU accession process. It is very important that the citizens of Croatia take part in the whole process in order to achieve transparency and trust in rule of justice and public administration.

Institute of Public Finance, independent and professional research institution, observe accession process from the point of public finance and from the economical, legal and institutional perspective. Institute of Public Finance published recommendations for the public administration reform as a part of the Croatia's *monitornig* project for the year 2004.⁶

Recommendations consist of steps which have to be taken with the purpose to strengthen public administration, as follows⁷:

- "strengthening the rule of law
- depoliticisation of the public administration
- opening up towards the public
- increased motivation of civil servants for their work
- additional criteria for promotion in the civil service
- suppression of corruption
- development of new culture among civil servants
- education and training for higher quality work from officials
- debureaucratisation
- monitoring the quality of governance."

It is important to emphasize that previously stated recommendations are concerned with not only public administration but the all other sectors included in the SSA.

The whole accession process late in comparison with the other candidate countries. One of the reasons for that is unexistence of clearly defined development strategy for the public administration. The second reason is in lack of instruments for measuring effectiveness of public administration. There is also constantly present

⁶ Ott K.: *Croatian Accession to the EU: institutional challenges*, Institute of Public Finance, 2004.

⁷ Bađun Marijana: *Governance and public administration in the context of Croatian accession to the European Union*, Institute of Public Finance, 2004., page 150

problem with the financial means. All this should be guideline for the Government and all the people and institutions included and responsible for the forthcoming public administration reform.

In a proceeding of this paper, examples from some sectors of public administration (health system, tax system and energy sector) will be represented in a consideration to the public administration reform.

4. Adjustment of the Croatian tax system

Accession of Croatia to EU brings transfers from the EU budget, but it also brings the loss of customs revenue and the need to adjust the structure of tax revenue. Harmonisation of the Croatian tax system with EU guidelines could bring us new revenues from excises (on mineral oils), and due to the harmonisation of the customs system a reduction of revenue is expected because of payment of one part of the customs duty in the EU budget.

A part of budget revenues from value added tax (further: VAT) and customs duty will be channelled off in the EU budget, and at the same time a space will be opened for the increase of certain kinds of revenues (excises). As a counterbalance to this net drain there will be transfers from the EU budget into our national budget.⁸

Croatian tax system is, after the achievement of independence of Croatia, comparable with tax systems of the EU members. All the essential taxes conceptually correspond to the same kinds of taxes of EU member countries. However, there is still space for adjustment, before all the adjustment of value added tax which is desirable to be carried out as soon as possible. Income tax doesn't need adjustments because it is allowed for the members to settle the taxation of income in their countries on their own but with respect to the fundamental principles of the single market (the free movement of goods, people, services and capital). In the area of profit tax and some rates of excise duties, the maintenance of the current situation is in the interest of Croatia, therefore their adjustments should be postponed until the moment when they will have to be done because of the accession to the EU.

4.1. A share of tax revenues in GDP

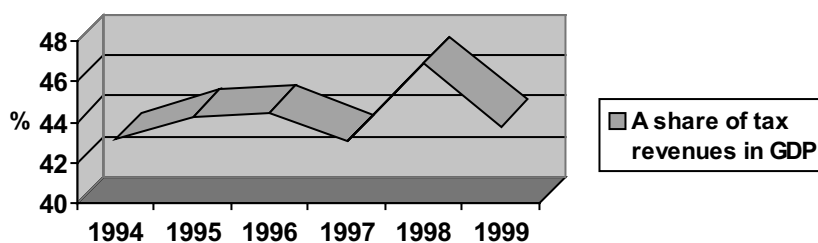
A share of tax revenues (including contributions) in GDP, in most countries of the EU, during the 1990s, was continuously rising, and it rose from 39% of GDP in 1990 to 42% of GDP in 1999. Reasons for this tax increase are larger expenditures

⁸ Cuculić J., Faulend M., Šošić V.: *Fiscal aspects of accession: Can we enter the European Union with a budgetary deficit?*, Institute of Public Finance, 2004, pages 47-73.

for retirement and health insurance and for public welfare, and also an increase of interest rates and increased governmental aid for government owned corporations.

From 1994 to 1999, tax revenues in Croatia came on average about 44,3% of GDP. A large jump of a share of tax in GDP is in 1998 when VAT was introduced, as it's shown in picture 1.

Picture 1: A share of tax revenues in GDP in Croatia in 1994-1999



Source: Arbutina H., Kuliš D., Pitarević M.: Comparison and harmonisation of the Croatian tax system with the tax systems in the European Union, Institute of Public Finance, 2003., page 86.

Croatia was in the 1999 collecting 18,5% of GDP from turn-over tax, and only 7,6% of GDP from income tax and profit tax. However, the problem is that Croatia is collecting a great percentage of GDP via contributions: in 1999 13,6% vs. 11,4% in EU in 1998.⁹

4.2. Income tax

In most of EU countries there is a cut in the highest rates of income tax and a reduction in the number of brackets for the taxation of the income of natural persons. Since a basic goal of the EU is reduction of tax burden, in comparison to the average of EU counties, Croatia has the lowest maximum rate of income tax and smaller number of tax brackets. From that, it can be concluded that the rates and the number of brackets of income tax in Croatia in harmony with the goals of the EU.

⁹ Arbutina H., Kuliš D., Pitarević M.: *Comparison and harmonisation of the Croatian tax system with the tax systems in the European Union*, Institute of Public Finance, 2003, page 87.

4.3. Profit tax

During 1990's in the EU there was an expanding of a base in profit tax because of abolition and reduction of some tax incentives and reduction of a basic rate of profit tax.

In a period from 1994 until today in Croatia, the profit tax rate has been reduced from 35% to 20%. Regarding the member counties, only Ireland within the EU has a lower rate of profit tax (16%) than Croatia, so it seems that Croatia has achieved the basic goal of the EU-reduction of tax burden better than most countries in the EU, and even before she became a member.

With profit tax, there are problems with corporate taxation. First problem is that dividends that a subsidiary company from one member country of the EU pays to its main company in another member county are taxed twice because both countries are taxing it. Second problem is a double taxation burden as a consequence of corporative restructuring of companies which are tax payers in different member countries. Both problems are resolved on the EU level with two directives: The parent – subsidiary directive and Merger directive¹⁰.

4.4. Value added tax

During the 1990s in the EU there is an increase of standard rates of VAT. In Croatia VAT was introduced in 1998 and there was no changes in amount of the standard rate, but there was changes in a zero rate taxation. Standard rate of VAT in Croatia (22%) was in 2002 higher than the unweighted average of 15 EU countries (19,47%).

The key regulation of the EU in the area of the harmonisation of taxation of consumption with implementation of a general consumption tax is so-called the Sixth directive which prescribes three levels of tax rates: a standard rate which may not be lower than 15%, one or two reduced rates for good that are stated in annex (H) which may not be lower than 5% and the zero rate. The original concept of Croatian rules in regulating tax rates – one-rate system with a zero rate and refunding of pre-payment of tax only for export, and even with today's regulations on tax rates, Croatia is fitting into regulations of the Sixth directive.

However, there must be certain harmonisation regarding the tax exemptions. The comparison with the provisions of the Sixth directive shows that there are three groups of exemptions:

¹⁰ Arbutina H., Kuliš D., Pitarević M.: *Comparison and harmonisation of the Croatian tax system with the tax systems in the European Union*, Institute of Public Finance, 2003, pages 90-93.

1. tax exemption which is consistent with the provisions of the Sixth directive (a rent of the residential property)
2. tax exemptions which aren't consistent with the provisions of the Sixth directive (banking services and insurance services)
3. tax exemptions which are partially consistent with the provisions of the Sixth directive (other exemptions inside the country).

The Sixth directive prescribes that banking and insurance services are exempted from VAT irrespective of who performs them, while Croatian VAT law prescribes that exemption exists only if those services are carried out by given institutions (banks, savings banks, saving and loan organisations, insurance and reinsurance companies) and that is discriminatory towards the companies that also carry out these services but they aren't exempted from the tax by the law. Further, the Sixth directive prescribes the right to be exempted to all institutions that carry out activities of organising special games of chance, preschool education, elementary, secondary and tertiary education, culture, health care, welfare and religious services, while in Croatia that right has only those subjects that are founded according to the Institutions Act and if they are financed from the Budget.

So it's obvious that those exemptions should be harmonised with the solutions from the Sixth directive.

4.5. Excise duties (special taxes)

In the EU counties a various number of products are taxed by excise duties, but common for all countries is the taxation of alcoholic beverages and beer, tobacco products and mineral oils. From 1994 to 1999 in Croatia were introduced eight excises, but the number of excises is still smaller from the number of excises in most of the countries in the EU, where in some countries up to 20 various products are taxed by excises.

A share of excise revenues in tax revenues in Croatia is almost 80% bigger than the average in EU counties. In Croatia producers and importers are paying excises duties. Excises which are common defined for the EU countries have been introduced into Croatia too, and they are representing the most important excises that collect almost 90% of excise revenues.

There are some differences from the EU regulations due to excise taxing, and they are: lower rates (except for beer) then those in EU, and unharmonised categorisation of products (alcohol and mineral oils) which should be harmonised with the EU directives.¹¹

¹¹ Arbutina H., Kuliš D., Pitarević M.: *Comparison and harmonisation of the Croatian tax system with the tax systems in the European Union*, Institute of Public Finance, 2003, pages 95-101.

4.6. References

It can be stated that the total tax burden in Croatia is greater than in EU countries. It means that it should be reduced by reducing the contributions which are greater in Croatia than in EU countries or in the OECD countries. A basic condition for continuous reduction of tax burden is a reduction of expenditure of the national budget, and that mostly refer to solving the problems in retirement and health funds. Reform of those funds has a big part in a reduction of national expenditure and that would allow a reduction of tax burden.

In the area of income tax and profit tax, Croatian tax system is harmonised with the tax regulations and changes in the EU, so we shouldn't introduce more income tax rates or lowering a profit tax rate. For VAT some changes are necessary in connection with tax exemptions. Also, a standard VAT rate should be reduced and new VAT rates shouldn't be introduced. The regulations regarding excises are mostly harmonised with the demands of the EU. Exemptions are some lower tax rates than the minimum EU tax rates, and that is also a problem within the Union itself because member counties apply different rates for same products. Croatia has established a system of excise taxation which with its concept equivalents with the EU, and it will be rather easy, when it is necessary, to harmonise to European standards.¹²

5. Adaptation of health system of Republic of Croatia

The health of citizen today can be taken as indicator of life standard of some country, that is, region, and the development of public health service becomes one of the most important goal of each economic developed economy. We live in the time when, for the reason of process of globalization arise different political and economic association which fundamental purpose is to enable to the members of such association to achieve some common goals. One of this association which Croatia wants to reach is EU. To do the best preparations for admission to such integration, one of many reforms which has to be performed is surely the reform of public health service which is supported by United Nations through Health organization which health policy from 2000 was adopted also by us in the frame of national health policy.

To direct the process of reform, the first thing is to define the organization of Croatian public health service and to show the fundamental problems of our public health system, and accordingly, to find out the strategy for its settlement. A team of specialists is established for this purpose, and gathered the whole range of interdisciplinary specialists concerning this area.

¹² Ott K., Kesner-Škreb M., Bajo A., Bejaković P., Bubaš Z.: *The Economy of Public sector-situation, problems and possible solutions*, Institute of Public Finance, Newsletter, No. 4, 2000., pages 19-27.

The vision of development of Croatia public health service, which has between others theoretically been organized in the process of approaching to EU, has been described and official accepted from Parliament in July 2000 under the title “Reforms of system of public health service and health insurance in Republic of Croatia”.

5.1 Organization of Croatian public health service

Health activity has been defined as activity of the interest for Republic of Croatia, which is performed as public service and is performed by health institutions in state and private ownership and health workers in private practice. According to the Law of health protection, health protection of the citizen will be performed according to the regulations of comprehensiveness, continuity, approachability and complete approach in primary protection, and specialists approach in specialist-consiliar and hospital health protection without regard to age, sex, religion and ethnic belonging. Service of health protection is organized on the way that is performed in united system of health protection through primary and secondary health

protection which includes polyclinic-consiliar and hospital protection. Primary health protection is organized inside District institution for public health service, Health institution (Dom zdravlja), Institutions of first aid and similar. Polyclinic-consiliar and hospital protection are organized in the frame of polyclinics, general hospitals and specialized hospitals, and in the frame of clinics, clinical hospitals and clinical hospital centers.

As one of the basic characteristics of Croatian public health service and as one of important actor for organization and statement in Croatian public health service is surely the fact that the institutions for performing health protection mostly are in state ownership and in the ownership of the district and of the city of Zagreb. Principally, the ownership of health institution has been organized on the way that in state ownership are clinics, clinical hospital, clinical state centers and state health institutions, and in the ownership of the district there are general and specialistic hospitals, health institutions “dom zdravlja”, polyclinics, institutions for first aid, sanatoriums, institutions for treatment at home and district institutions for public health.

5.2. Definition of actual problems of health system

Problems which are actual in the health system in Republic of Croatia can be specified in 14 categories, as follows¹³:

¹³ <http://www.hrvatska21.hr/zdravstvo.pdf>

1. Former organization of health system is not coordinated to nacional health policy, and with recommendation of World health organization
2. The system of financing in health service is bad
3. The system of planning and management in health service does not correspond to modern conception of organization and management of health system
4. The controll system and promotion of the quality of health protection is undeveloped
5. Use of health protection is uneconomical and not enough efficacious
6. Deficit of informatic and modern communication help in controll of business in health service, controll od health statistic data and help in planning
7. Existing of great regional difference of approachability of health protection, as well as differences concerning economic possibilities of the citizen
8. Unreal awaiting of insurers and health workers concerning niveau and volume of health protection which the economy is able to pay
9. Longtime deficit of investing maintenace and capital investment into health service.
10. Unplanned develoment of health service capacity, and as result unevently concentration of specialists' medicine in big towns, specially in Zagreb
11. Unfavourable structure of the consts in health service
12. Unfavourable structure of employs with to great part of personell who do not belong to health service
13. Finance insolvency of Croatian Institution of health insurance
14. Longtime insufficient financing of some parts of health service.

5.3 Strategy of reforms in health service

With the goal of solving problems in croatian health system, as mentioned before, the vision of development of health service in Republic of Croatia has been developed, and concerning its goals it is founded on european health policy¹⁴:

“The health system in Republic of Croatia will promote the quality of life through saving and promoting of the health for each person and the whole population. The measurements of protection and promoting will be carried out on effective and rational way, as well as treatment and rehabilitation of the patients. The system will put the patient into central and active position, and will be founded on high ethic and moral normas.”

¹⁴ <http://www.hrvatska21.hr/zdravstvo.pdf>

Croatian national health policy has been accepted. One of the most important points of this policy is the effort on different ways to emphasize the importance of preventing actions in health service, as it is the case in developed economies, and not curative as it is in the moment in our practice.

Through preventive operating in health service there is the wish of promoting health way of life which end result is regularly decreasing or even removal of health risks, which for the citizens means prolonging duration and quality of life, and for health system it means the possibility for further development and promotion of health service with lower costs, as result of such business philosophy.

Inside national health policy we can differentiate 3 main goals¹⁵:

1. Decrease of differences in health and health service
2. Prolonging of life
3. Better quality of life concerning health.

Differences in health and accessibility to health services for different categories of population are mainly for the reason in differences of social-economic statement of some parts of population in society. Such statement is truly present in all countries, and for that reason as one of the goals of national policy is decreasing of such differences is emphasized. On this way each citizen will get the possibility of approaching better health protection without regard to which socioeconomic category he belongs, that means the differences between citizen in realization of their rights on health protection will be decreased.

Prolonging of life and better quality of life concerning health is connected to promotion of measurements for decreasing the risk from early death and prevention, that is decreasing of lost in quality of life for the reason of health problems.

To achieve the goals defined inside the vision of reforms of Croatian health service and Croatian national health policy, it is necessary to apply good defined strategy for reforms of health service.

The three fundamental direction of strategy are¹⁶:

1. Reestablishment of stable and quality health system
 - performed through goals and measurements of national health policy with corresponding reorganization of health institutions, planning and education of staff.

¹⁵ <http://www.hrvatska21.hr/zdravstvo.pdf>

¹⁶ <http://www.hrvatska21.hr/zdravstvo.pdf>

2. Strategy of adopting and insurance of health life

- concerning measurements of promotion of health, better quality and prolonging of period of life

3. Strategy of promotion of health protection

- concerning measurements of early discovery and quality treatment of illness, measurements for healing, prevention from consequences of illness and better quality of life concerning health.

Goal of application of these strategies of complete system of health service include organizations of health administration, system of financing which is in this moment not satisfactory, and achieving of financial stability of health system. One of the first step of reform of health service is the reform paying system and the system of health services.

At the same time it is necessary to approach the possible greater informatization of health system, by which greater efficiency will be possible, and it is necessary to emphasize further education and specialization of specialists' staff through corresponding institutional and personnel strategy.

The goal of association to EU, inside the reforms of health service in Republic of Croatia, it is necessary to follow and adapt to regulations of EU in health protection and its supplements and changes for the reason of establishing more efficiently and successful system of health service with the goal to insure as greater grade of health insurance of citizen as well as more efficient approach to EU.

6. Adjustments of Croatia's energy sector

Adjustment of Croatian energy sector is conducted in harmonisation with the EU law legislative. It includes Croatian electricity market setting up and HEP group reconstruction. Process of reform is under Croatian energy laws regulation. Adaptation to the EU system is a process of the gradual acceptance of its rules and standards. The membership criteria define the necessary level of harmonisation with the EU system that must be attained by applicant states. In evaluation of fulfilment of membership criteria, the European Commission takes into account, besides other, the conformity of the national political system in establishment of the market economy which energy sector is a part. In the energy sector, new requirements have been set up for states that wish to join EU. According to what has been achieved to date by certain groups of countries, the main difficulties in meeting EU demands and measures that might help to solve them are identified.

HEP Group is a part of the energy community and preconditions for the opened electricity market are taken.

6.1. Membership criteria

In each sector of the economy, fulfilment of the membership conditions is evaluated according to how much the economic and legal criteria for membership are met. The fulfilment of economic criteria for membership implies: a) the existence of a functioning market economy (liberalisation of prices and trade, demand and supply equilibrium established by market forces) and b) the capacity to cope with competitive pressure and market forces within the Union.

The legal conditions imply the acceptance and application of the *acquis communautaire*.

At the level of states members and at the level of the Union no effective market economy in energy has yet been set up. For example, the system of market laws at EU level is only just developing, and this is one of the elements for the estimation of whether there is an effective market economy. For this reason, in the energy sector the level to which membership conditions has been fulfilled is monitored with respect to the degree of liberalisation achieved within the EU. Fulfilment of conditions for membership in the energy sector is estimated above all according to the ability to accept and apply the *acquis*.

6.2. Current situation analysis

In this the key determinants for an estimation of the state of affairs are as follows:

- decide on an overall energy policy with clear timetables for restructuring the sector;
- prepare for the internal energy market;
- improve energy networks in order to create a real European market;
- prepare for crisis situations, particularly through the constitution of 90 days of oil stocks;
- address the social, regional and environmental consequences of the restructuring of mines;
- waste less energy and increase the use of renewable energies such as wind, hydro, solar and biomass in their energy balance;
- ensure the safety of nuclear power plants in order for electricity to be produced according to a high level of nuclear safety;
- ensure that nuclear waste is handled in a responsible manner; and prepare for the implementation of Euratom Safeguards on nuclear materials.

The current level of the fulfilment of membership conditions is evaluated according to a comparative analysis of energy in the Republic of Croatia, in the

applicant countries and in the EU. Elements for an evaluation of the state of affairs are bounded on key definitions for the evaluation of the conformity of the applicants with the *acquis* and the results of previous negotiations. Since during membership negotiations:

1. the capacity of an applicant to take part in the single market,
2. adequacy of reserves and
3. nuclear safety have been defined as key points, the analysis is focused on these determinants.

6.3. Current level of fulfilment of the requirement for the membership

The ability to take part in the single market is evaluated according to the institutional and technical capacities of a given country. Institutional capacity implies the acceptance and implementation of that part of the *acquis* that makes possible the establishment of a market economy in energy and technical readiness assumes an appropriate infrastructure and interoperability of systems.

The creation of a single market in energy and of the corresponding *acquis* started with the liberalisation of the 1990s, in phases as follow¹⁷:

- In the first phase, transparent pricing was assured, and the access of third parties to the transport infrastructure was made possible,
- The second phase of liberalisation started in 1993. This made possible the allotment of licenses for the construction of transport capacities on a non-discriminatory basis, which thus enabled competition. Vertically integrated firms separated the accounts of individual activities (generation, transmission, distribution) and the approach of third parties to the greatest consumers of electricity and gas was made possible.
- In the third phase, which started in 1996, common rules for the electricity market were adopted (Directive 96/92) and for gas (Directive 98/30), and the preconditions for the free movement of electricity and gas in the area of the Union were created. The progressive opening up of the national markets started in 1999 for electricity, when a minimum of 26% of the total annual consumption was opened up to foreign suppliers. The market opening plan anticipated that in 2003 33% of the electricity market should be liberalised, after which, by 2006, there should be a further consideration of market opening.¹⁸

¹⁷ Boromisa Ana-Maria (2003.): *Energy in EU and in Croatia*, Institute of Public Finance, Zagreb, pages 173-191

¹⁸ Samardžija V(edt.): *Adaptations to the policy of the EU internal market: Expected effects*, Ministry of Foreign Affairs and European Integration, Zagreb, July 2002.

The European Council at its Lisbon summit (23-24 March, 2000) required gradual and total opening of the energy market. For this reason the European Commission in March 2001 proposed amendments to the directives for electricity and gas and the regulation on the conditions for access to the electricity network.

The proposals allow for the opening of national markets to electricity and gas by 2005, the supply of all consumers and the creation of a single energy market instead of 15 open national markets. The opening of the market means that in 2005 consumers will be able to choose which supplier of electricity and gas they want.

The applicants mainly successfully accept the basic principles of the EU system:

- transparency of market conditions and prices,
- guaranteed freedom of exchange of energy in the internal market and the opening of the electricity and gas market.

The main obstacles in the way of the liberalisation of the market (in the sense of limiting access to the market) are the same in both sectors. They are insufficient regulator power/delays, inadequate unbundling, high network tariffs, balancing regime, dominant incumbents, cross border issues.

In the Republic of Croatia the EU principles have been formally accepted, while the bases for harmonisation with the EU system, including the most recent proposals for market liberalisation, were created by the package of energy laws of July 2001 (the Energy Law¹⁹, the Law on the Electricity Market,²⁰ the Law on the Gas Market, the Law on the Oil and Oil Derivatives Market, the Law on the Regulation of Energy Activities)²¹.

These laws allow for the achievement of the preconditions that the Commission considers essential for market liberalisation. The vertically integrated concerns should have unbundled up by 1 July 2002. In the area of electricity this first of all means separating the generating, transmission and distribution firms, i.e., electricity supply, and the separation of the operation of the electricity system from generation and sales. Although the companies of the HEP group were founded within the statutory period, the unbundling did not take place. Hence it is still possible to shift resources from one activity to the other or to subsidise activities.

In the context of its enlargement, the EU has stressed the importance of nuclear safety. For the Republic of Croatia, the question of nuclear safety is linked with

¹⁹ "Official Gazete of Republic of Croatia" Number 68/2001.

²⁰ "Official Gazete of Republic of Croatia" Number 177/2004.

²¹ Boromisa Ana-Maria (2003.): *Enregy in EU and in Croatia*, Institute of Public Finance, Zagreb, pages 173-191

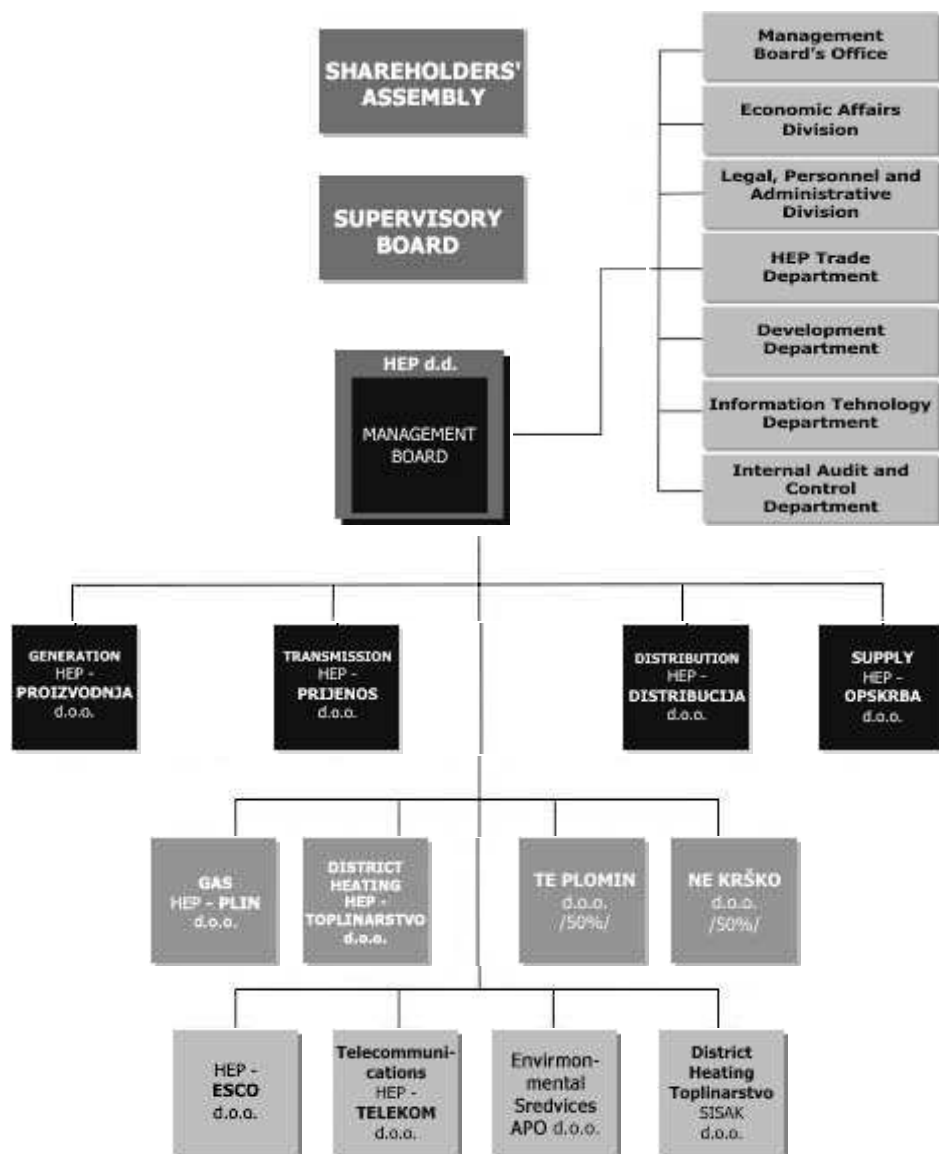
the Krško nuclear power plant. During negotiations with Slovenia, the Commission determined that Krško meets the safety standards of the EU. However, in line with the Nuclear Safety Report in the Context of Enlargement, seismic testing and the adoption of a national programme for emergency situations are required. Hence, unsettled matters in connection with Krško, especially those to do with the management of waste and the closure of the station, will have to be settled in line with EU regulations that, as Slovenia became a member in 2004., and will be obligatory and applicable to Krško power station.

6.4. Recommendations

Since the energy sector is state owned, and will, until EU accession, remain mainly state owned, it is mainly state or governmental bodies that are charged with implementation of the reform. For this reason, for successful reform of the energy sector, a successful state administration is also required, i.e., it has to be reformed, or some of its authorities have to be transferred to independent bodies. In order to strengthen competition and the creation of a single market, access to transmission and distribution networks will have to be assured without discrimination. In turn, in order to achieve this goal it is necessary for the network to be managed by an independent body, completely detached from generation and sales; that the national regulatory body, which has to be set up in all member states, determine, publish and approve charges for access to the network before they come into force. At the same time, the demand on the infrastructure is made that says the capacity of the transmission network to neighbouring countries must attain at least 10% of domestic generation. Although these proposals have not yet been adopted and are not applied in the EU, they could be looked upon as conditions for membership. The fulfilment of obligations and implementation of the directives about liberalisation of the energy market in member states is monitored by the European Commission.

Since the energy sector is state owned, and will, until EU accession, remain mainly state owned, it is mainly state or governmental bodies that are charged with implementation of the reform. For this reason, for successful reform of the energy sector, a successful state administration is also required.

Energy sector in Croatia is in a reform. The Croatian Energy Regulatory Council is founded as independent market operator. Inside HEP Group, main firms are separated: generating, transmission and distribution, as shown in figure 2. Operations for the services are separated from the HEP Group. Restructuring of the HEP Group should be finished at the end of 2005.

Figure 2: Restructuring of the HEP-group

Source: www.hep.hr

As was already stated, HEP Group is state owned and the success of the reform will depend on public administration effectiveness. Croatia has achieved a relatively

high level of formal conformity with EU regulations. Legislative is already adjusted with the EU, but still there are some rules that have to be carried out²².

Finally, the EU enlargement plan includes states neighbouring on the Republic of Croatia, and these states will have to implement EU regulations after accession. For this reason the acceptance and implementation of such regulations here is necessary not only for the sake of Croatia being able to join the EU, but also to make possible trade with the neighbouring states after the EU enlargement.

7. Conclusion

To adapt to European standards, Croatia starts the reforms of public administration. The goal of the reform is to ensure professional and effective public administration which will insure economic growth in land. Reform and modernization of public administration is strategically important in the context of European integration because of capability to fulfill the obligations taken by agreement of stabilization and association and better coordination and administration policy. EU insures to the countries – candidates financial and technical help in performing such reforms, and in the frame of pre-approaching programs. In Croatia such help is insured by CARDS program. By project CARDS 2001 started the process of reforms of public administration in Croatia. The project is concentrated to regulations and process of managing structures which are responsible for administration and development of human potential and public administration.

Success of present reforms and adoption of public administration can be discussed on two ways. In formal sense, Croatia has voted and changed many laws and legal acts by which the work and constitution of public administration and other state institutions is regulated. It can be said that adapting of the law with legal acquiescence of EU is very successful and follows foreseen dynamics. But in changes of adopted laws there are still great incompletenesses. Even some of bodies and institutions are formally founded in the frame of public administration, they are not organized yet and did not start to work. Further, many and often changes of law and sub-law regulations in the frame of public administration result slow and unsure public administration.

The terms for public administration are foreseen till the end of 2006. In this term the effective functioning of public sector should be insured, and it becomes the bearer of all other reforms of the society. Even the formal conditions exist, each day

²² Boromisa Ana-Maria (2003.): *Enregy in EU and in Croatia*, Institute of Public Finance, Zagreb, pages 173-191

practice is not present, and it is necessary to make clear and sharp measurements in the area of reforms of public sector, to fulfill the given terms, and to make possible further negotiation with EU.

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