

# **Corruption-related Developments in Croatia: Trends and Affairs since 2020**

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## ***Introduction***

”HDZ is committed to the fight against corruption”, Prime minister and President of the ruling Croatian Democratic Union (HDZ) party, Andrej Plenković declared few days prior to 2020 Parliamentary elections. To recall, during its 2016 – 2020 mandate, eight ministers were dismissed from service for corruption-related affairs (Cimic, 2020), a major corruption emerging from the so called Agrokor and Borg affair went public (R.I., 2018) and the State secretary and a number of high ranking officials were detained in custody under suspicion of giving favourable treatment to investors (Tomsic, 2020). It seems voters believed him as the conservative HDZ consolidated its power in Croatia after the 2020 elections.

The aim of this article is to present an overview of corruption-related developments in Croatia since the previous article on this matter was written and published (2020). It will question how or if the corruption perception in Croatia changed during the last two years. Additionally, it will provide an insight on what different good governance related indicators suggest in terms of commitment and success in the fight against corruption in Croatia. The article will conclude with an analysis of corruption affairs occurred since the 2020 elections with particular emphasis on the most recent corruption affair involving malfeasance in the national oil company INA. The intention of this article is solely to present the developments in anti-corruption endeavours in Croatia and, as it was the case with the previous one, to trigger further research looking into corruption-related developments during longer time-span and cross referencing it with other social phenomena.

## ***Status quo on the fight against corruption***

This year, just as in 2020 and 2021, Croatia is marked as a corrupt country in terms of Transparency International's Corruption Perceptions Index. Croatia is ranked 63<sup>rd</sup> with a score of forty-seven and countries with an index below fifty are considered corrupt. In addition, Transparency International reports that forty-one percent of respondents in Croatia thought corruption has increased in the previous twelve months in Croatia and fourteen percent of public service users paid a bribe in the same period (Transparency International, 2022).

According to Eurobarometer, ninety-four percent of Croatians feel that corruption is widespread in Croatia and almost seventy percent of respondents believe that level of corruption in Croatia increased during the last three years (European Commission, 2022a).

World Bank Worldwide Governance Indicators in particular the ones capturing the perceptions of the extent to which public power is exercised for private gain (Control of Corruption) and the extent to which agents have confidence in and abide by the rules of society (Rule of Law), show that Croatia has experienced a slight improvement in 2020 in terms of rule of law (in 2019 Croatia ranked 64<sup>th</sup> and in 2020 62<sup>nd</sup>); however, regarding the control of corruption a negative trend has continued in 2019 and 2020 (Kaufmann et. al, 2010).

In December 2021, Council of Europe's Group of States against Corruption (GRECO) published its new compliance report in which it assessed measures taken by the Croatian authorities to implement recommendations issued in the Fifth Round Evaluation Report on Croatia, adopted in early December 2019. GRECO concluded that Croatia did not implement any of the 17 recommendations contained in that Evaluation Report (GRECO, 2022). "More is needed to prevent corruption and promote integrity in government and police", the compliance report concludes.

European Commission in its 2022 Rule of law report for Croatia emphasized that "while the effective investigation of corruption continued, including on high-level corruption, the number of indictments and final judgments for corruption decreased." "The excessive length of criminal proceedings continues to undermine the effectiveness of the anti-corruption framework.", the report concludes (European Commission, 2022b).

Overall, it can be said that according to abovementioned indicators, Croatia is experiencing a stagnation regarding anti-corruption and rule of law endeavours. Still, Croatians perceive corruption is continually increasing. This is largely due to high profile corruption cases they read and hear about in the media. In the following chapter, the article will present some of those cases that have occurred in the last two years; in particular, the arrest of the former minister for regional development and EU funds and the latest one involving malfeasance in the national oil company INA.

### ***Former Minister suspected to embezzled €1.8 million from the EU funds and national budget***

In November 2021, media reported about the arrest of the former Minister of the Regional Development and EU Funds Gabrijela Zalac, director of the Central Finance and Contracting Agency SAFU, Tomislav Petric, and two entrepreneurs in the case called "Software".

The European Public Prosecutor's Office (EPPO) has launched a probe and proposed pre-trial detention against four suspects on suspicion that they embezzled €1.8 million from the EU and Croatian budgets (HINA, 2021) by overpaying for the public procurement of an information system financed by the EU funds (Grgurinovic, 2021). EPPO reported that "it is alleged that the first suspect, in her joint capacity as Minister of the Regional Development and EU Funds (MRRFEU) and President of the Governing Board of the SAFU, took actions aimed at ensuring a privileged position for the second and the third suspects, as well as the companies linked to them. These activities occurred in 2017 and 2018, in the process of the public procurement of an information system for strategic planning and development management. The privileged position of the second and the third suspects was ensured by: adjusting the MRRFEU Procurement Plans for 2017 and 2018 to benefit the second and third suspects and the companies linked to them; inflating the estimated value of the procurement of that information system; changing the type and manner of procurement; and adjusting the technical specifications of the software required for the MRRFEU's purposes to the software that the suspects and their companies had at their disposal. The former minister decided that the MRRFEU would make this purchase at a price much higher than the market price for the development of software with such technical specifications and functionalities. It is alleged that, in order to carry out what was agreed, the former minister first decided, in 2017, to conduct a negotiated procurement procedure without prior publication of a public invitation to tender, with an overestimated procurement value of HRK 9,860,000.00 (EUR +/- 1.31 million); and in that process, the companies linked to the second suspect were invited to submit their bids. In order to ensure the continuation of the negotiated procurement procedure without prior publication of a public invitation to tender, and by using her joint authority as Minister of the MRRFEU and President of the Governing Board of the SAFU, the former minister requested that the fourth suspect, the Director of the SAFU (the agency responsible for the ex-ante control of EU-funded MRRFEU public procurement procedures) made sure that the SAFU, in the ex-ante control of the documentation of the procurement of software licences unduly estimated at HRK 9,860,000.00, did not dispute the negotiated procurement procedure. When, in October 2017, the Croatian State Commission for the Supervision of Public Procurement Procedures annulled the public procurement procedure due to the breach of the law on public procurement, the former minister and the second suspect continued, in 2018, to take action to award the contract to the companies of the second suspect. Finally, after having conducted an open public procurement procedure, the MRRFEU concluded a purchase contract for this information system with the companies linked to the third suspect, a business partner of the second suspect,

with the price unrealistically set at HRK 12,991,000.00 (EUR 1.73 million) – although the realistic price of that system would have been approximately HRK 2,000,000.00 (EUR 265,000). The above amount was paid to the account of the company of the third suspect, after which a part of the money was transferred to the accounts of the companies of the second and third suspect, and a part was withdrawn in cash. As much as 85% of the procurement of that software was financed by the EU's Operational Programme Competitiveness and Cohesion grant.”

### ***Reselling natural gas and generating unjustified profit of at least EUR 113 million***

In August 2022, five people were arrested for malfeasance in Croatia's national oil and gas company INA (Ferencic, 2022). An investigation launched by Office for the Suppression of Corruption and Organised Crime (USKOK) includes five individuals and a local company suspected of reselling natural gas belonging to oil and gas company INA, with damages for INA estimated at HRK 1.046 billion (EUR 139 million). They are suspected of selling INA's natural gas to the suspected company at prices significantly below market prices between June 2020 and 27 August 2022 in order to then resell the gas to a foreign buyer at market prices, generating an unjustified profit of at least HRK 848 million (Tsoneva, 2022). The two top suspects were named as Damir Skugor, head of INA's natural gas retail department and a member of the ruling HDZ party, and Josip Surjak, head of Croatia's national bar association.

### ***Corruption-related Government Regulations and Response***

The Fifth Round Evaluation Report on Croatia published by GRECO and adopted in early December 2019 provides us with useful insight on the effectiveness of the legal framework in preventing corruption and promote integrity. GRECO states that “Croatia a well-developed legal and policy arsenal to promote integrity and prevent corruption in the public sector. (...) There are however a number of areas where the prevention of corruption needs to be enhanced, in legislation and practice.” (GRECO, 2022:4). Relevant anti-corruption legal framework include an Anti-Corruption Strategy 2015-2020 accompanied by more detailed two-yearly Action Plans, the Law on the Prevention of Conflicts of Interest, the Law on the Right of Access to Information and the recently adopted law on whistle blowers (GRECO, 2022:4).

It is necessary to complement existing legal framework by a code of conduct for persons with top executive functions as well as rules on how to engage with lobbyists and other third parties seeking to influence the government's decision-making. Finally, when it comes to police, a

requirement for police staff to report integrity-related misconduct they come across in the service should be established, GRECO concludes (GRECO, 2022:4).

## ***Conclusion***

The aim of this article was to present an overview of corruption-related developments in Croatia since the previous article on this matter was written and published (2020). Several different good governance related indicators suggest that Croatia is experiencing a stagnation regarding anti-corruption and rule of law endeavours. More is needed to prevent corruption and promote integrity in government and police, reported GRECO while the EC emphasized the excessive length of criminal proceedings that continue to undermine the effectiveness of the anti-corruption framework. Meanwhile, Eurobarometer reports that most of Croatians believe level of corruption in Croatia increased during the last three years. This is in large part due to high profile corruption cases, some of them presented in this article.

While Croatia did make some improvements on fight against corruption, in particular in policies and institutional framework, it still struggles to enforce these measures and prevent corruption from happening.

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