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## ANALYSIS OF PUBLIC PROCUREMENT CHARACTERISTICS IN THE REPUBLIC OF CROATIA

**Abstract:** *The issue of public procurement comes up from the very fact that in this process budgetary and other public funds are spent. This is rather a significant amount of public funds - on the global level, public procurement reaches up to 12% of GDP and 29% of budget funds. A series of rules and regulations have to be applied, aiming to regulate public procurement procedures to make them transparent, efficient, and strictly formal and normatively regulated. Therefore, public bodies are expected to effectively implement public procurement by applying the principle of 'best value for money' and with high standards of ethical and moral behavior. Croatia, like all countries in the world, faces a series of problems related to irregularity in public procurement, especially corruption as a general social problem. By becoming a member of the European Union, Croatia undertook to adapt its legislation to the legislation of the European Union. The purpose of this paper is to present the effects of improving public procurement legislation in Croatia by analysing available statistical data.*

**Keywords:** *public procurement; financial value of procurement; instruments of public procurement; transparency; market competition*

**JEL classification:** *H4, H5*

### 1. Introduction

All physical and legal persons have the need to procure various goods, services, and works in order to perform their functions and conduct their activities (Gregurić-Bajza and Čavlina, 2023). However, there are significant differences regarding the buyers. In the process of purchasing goods, services, and works, physical persons as buyers spend their own funds primarily to meet their own needs. Unlike them, private legal persons as buyers, when entering into relationships with the seller, must adhere to certain formal procedures - while using their own funds and satisfying their own interests, they are obliged to comply with the legal provisions that regulate the relationships of stakeholders in such a process. In contrast to physical and private legal persons, public legal persons at the state, regional, and local levels as buyers in the procurement process of goods, services, and works most often use public funds and act in the public interest. Through public procurement procedures, the performance of almost all public functions is ensured by procuring or purchasing goods, services, or works necessary for the operation of the state, local self-government, and other public bodies, commercial companies with state ownership, and other entities prescribed by law. Public procurement is applied to contracts

of higher value. Therefore, a series of rules and regulations aim to regulate public procurement procedures to make them transparent, efficient, and strictly formal and normatively regulated. It is essential that the procedures and rules are publicly recognizable and that accessibility is ensured for everyone under equal conditions without discrimination, while simultaneously striving for the broadest social oversight of the management and disposal of public funds. Institutionalization and legislative regulation of public procurement in the Republic of Croatia are recent. It was regulated for the first time by the adoption of the Regulation on the procedure for the procurement of goods and services and the assignment of works in 1995, and in the following period, under the influence of international organizations and the accession to the European Union, public procurement was legislatively regulated by the adoption of the Law on Public Procurement in 2007 with application from January 1 in 2008. Croatia, like all countries in the world, faces a series of problems related to irregularity in public procurement, especially corruption as a general social problem. By becoming a member of the European Union, Croatia undertook to adapt its legislation to the legislation of the European Union. Therefore, the European rules on public procurement have been implemented in the Law on Public Procurement, and

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the new directives passed at the level of the European Union will bring about changes in the system of public procurement in the Republic of Croatia. In addition, the improvements aim to remove the shortcomings that have proven in practice as a result of insufficient regulation and vagueness of legal provisions. The legislator gave the contracting authorities the option of choosing the criteria for awarding the contract between the lowest price and the most economically advantageous offer, but the application of the lowest price criterion is preferred. In the Law from 2011, which entered into force on January 1, 2012, the principles of the directives on public procurement in the European Union from 2004, freedom of movement of goods, freedom of business establishment and freedom to provide services, as well as the principles arising from them, were implemented. which are the principle of market competition, the principle of efficiency, the principle of equal treatment, the principle of non-discrimination, the principle of mutual recognition, the principle of proportionality and the principle of transparency, which are also adopted in the Law on Public Procurement from 2016.

According to the Public Procurement Act in the Republic of Croatia (2016, Art. 1, para. 2), public procurement is the procurement through public procurement contracts for goods, works, or services acquired by one or more buyers, from economic entities selected by those buyers, regardless of whether the goods, works, or services are intended for public purposes. Public procurement is, therefore, a legally prescribed procedure for spending public funds by public buyers. The fundamental goal to be achieved through regulated procedures is to ensure the justification of expenditure and the rational use of public funds, i.e., to prevent the use of public funds for arbitrary purposes.

This paper analyses the available recent scientific-professional and normative literature, provides a framework for viewing the process and significance of public procurement as well as its relevant instruments. The data were collected from the Electronic Public Procurement Bulletin of the Republic of Croatia. The main goal of this paper is to review the effects of improving public procurement legislation in Croatia by analysing available statistical data. Having a well developed public procurement system can imply numerous benefits such as greater economic efficiency, more developed private sector, decreased corruption, lower overspending of public funds, reduced bureaucracy and formalities, shorter deadlines and many others.

## 2. Public procurement review

Public procurement is viewed as a mechanism that ensures public purchasers efficiently and transparently spend public funds (Staničić 2017, p. 531). The goal of public procurement is not only the purchase of goods, services, or works but often also the promotion of public policies in a range of different areas (economy, society, politics, innovation, sustainability, etc.). Therefore, public procurement is viewed not only in the context of market transactions but also as a potential means of achieving desired political objectives (Harland, Telgen & Callender 2013). The estimated scope of public procurement, about 12% of GDP and 29% of government expenditures (OECD 2022b), confirms its strategic role in socio-economic development (Ambe 2019), and its potential to address broader social issues is attractive to policymakers (Grandia and Meehan 2017). In this context, public procurement is seen as a tool for achieving political and social goals. At the European Union level, it is intended as a market instrument used to achieve smart, sustainable, and inclusive growth while ensuring the most efficient use of public funds (Directive 2014/24/EU 2014, p. 2).

Public procurement is one of the key areas of financial interaction between the public and private sectors, discussed in recent years as an instrument for implementing economic policy measures and goals. Therefore, its effectiveness and the risks arising from the institutional character of public procurement become important issues. Regulatory instruments seek to find solutions to achieve transparency, create opportunities for business entities, and establish a public procurement market based on equal competition conditions. Two public procurement systems are in use, a centralized and a decentralized public procurement system, as well as a combination of these two systems. In the case of a decentralized public procurement system, contracting authorities in government bodies covered by the relevant legislation are responsible for carrying out procurement activities (SIGMA 2000). The decentralized approach to the public procurement system is widely used in the world. Placing the procurement function closer to the needs of end users in a decentralized approach is cited as an advantage of applying this approach compared to a centralized one, which leads to greater economic efficiency and a greater ability to promote the development of the private sector, including small and medium-sized enterprises. In addition, a decentralized public procurement system reduces opportunities for corruption through protectionism or favoritism. It also reduces the room

for mistakes, which in the context of a large procurement can lead to unnecessary overspending of public funds. Decentralized procurement also allows for less bureaucracy due to shorter deadlines and less formalities for buyers and suppliers. The costs of purchasing goods produced in the local community are lower, which enables customers to purchase goods at lower prices.

In contrast to the decentralized system of public procurement, in the centralized system one state organization performs the function of procurement on behalf of all public bodies for the purpose of meeting common needs. SIGMA (2000) cites the achievement of significantly lower prices for goods and services and better services at a lower price as key arguments in support of the application of centralized procurement. In addition, centralized procurement increases the purchasing power of the centralized agency. Furthermore, the application of technical and environmental standards in public procurement is facilitated, and more attention is paid to contract management and better problem solving, for example, defective items, services at a lower level than specification, maintenance after purchase, etc. Centralized public procurement requires fewer employees in public procurement and accordingly less costs for employee training and easier human resources management. Since the documentation on public procurement is centralized, it is easier to monitor and control procedures and processes in public procurement, that is, greater control of public procurement is possible. Several mechanisms are in use to organize procurement processes based on a centralized approach: national procurement organizations, regional and local procurement organizations, joint ventures and partnerships, cross-border procurement agreements, specialized agencies focused on one or more areas of supply or services and framework contracts. States can use these mechanisms, combining them with an overall approach based on decentralization. One such mechanism implemented in the Republic of Croatia based on the Law on Public Procurement from 2016 is partnership for innovation which is combined together with a decentralized approach to public procurement.

### 3. Characteristics and goals of public procurement

The inclusion of social and ecological (green) criteria in public procurement procedures significantly expands the objectives to be achieved by public procurement, leaving the framework of the primary objectives of public procurement, which

include the efficient disposal of public funds, achieving the best price-quality ratio, i.e. obtaining the best possible product, service or works at the lowest possible price and protection of market competition (Šikić and Turudić, 2017, p. 420). At the same time, the state moves away from economic goals and reaches for goals that bring exceptional positive effects to society. These goals are seen as secondary goals. Social goals mean goals such as encouraging socially responsible public procurement by purchasing ethical products and services and using public tenders to create opportunities for employment, dignified work, social and professional inclusion, and better conditions for the disabled and people in a disadvantaged position. Ecological (green) goals imply encouraging the development of awareness of environmental protection and environmentally conscious business, that is, the application of business processes with minimal negative effects on the environment. Green procurement is understood as a tool for sustainable development and includes the integration of ecological criteria into the public procurement process. By determining such criteria, public bodies encourage the spread of ecological technology and the development of environmentally friendly products.

The concept of sustainable public procurement emerges when considering the social and environmental criteria within public procurement processes. It is defined as the process by which organizations meet their needs for goods, services or works and utilities in a way that achieves 'value for money' throughout the life cycle in terms of generating benefits not only for the organization (the public contracting authority) but also for society and the economy, while minimizing and, if possible, avoiding adverse effects on the environment (UNEP 2021, p. 15). The term green public procurement is also represented in the literature (Palmujok, Alhola & Ekroos 2010; Neto & Caldas 2018), but it can be said that the term sustainable public procurement more explicitly includes social and economic consideration of sustainable development. The European Commission (European Commission 2008, point 3.1.) defines green procurement as a process in which public authorities seek to procure goods, services and works with a reduced impact on the environment during their life cycle compared to goods, services and works with the same primary function which would otherwise have been acquired. From the above definitions, the application of the concept of 'value for money' can be seen.

While in the traditional concept the emphasis was placed on the relationship of quality and consid-



eration of costs at the point of purchase, in recent years its meaning has been significantly expanded to cover the costs of use, maintenance and disposal, i.e. the total cost of ownership, given that practice has shown that in many cases the initial capital expenditure represents only a small part of the total cost of ownership. Therefore, the concept of 'value for money' in public procurement should, whenever possible, take into account the social and environmental implications for society and the environment as a whole. Sustainable public procurement promotes the incorporation of circularity into economies, which encourages and accelerates the transition to a circular economy. This leads to the notion of circular public procurement as the next phase of the concept of green procurement. According to the European Commission (2017, p. 5), circular public procurement is an approach to green procurement that recognizes the role of public bodies in their support for the transition from a traditional to a circular economy. Circular public procurement can be viewed as a process in which public bodies pay special attention to the purchase of goods, services and works that strives to contribute to closed energy and material loops within the supply chain, while minimizing and, in the best case, avoiding the negative impact on the environment and the generation of waste throughout the entire life cycle.

Obviously, effective public procurement is undoubtedly important for solving many challenges that modern countries face, such as growth and the creation of new jobs, fiscal discipline and sustainability of public finances, modernization of public administration, anti-corruption policy, access to SMEs companies to the market, citizens' trust in public bodies and democracy, innovation and ecologically and socially sustainable growth (European Commission 2018, p. 1). For this reason, the constant improvement of public procurement is sought. Improvements in the field of public procurement contribute to the achievement of the goals of public bodies aimed at building a fairer society in which everyone has equal opportunities, sustainable economic growth and greater participation of small and medium-sized entrepreneurs in the market. Key elements of modern public procurement are identified (European Commission 2018, p. 3):

- the best price-quality ratio: economical, efficient and effective procurement of required goods, works and services,
- transparency: timely publication of clear and easily accessible information on public procurement procedures,

- fairness: the characteristics of the public procurement procedure should be impartiality and equal treatment of all bidders,
- good management: public procurement should not be considered an administrative procedure, but an opportunity to achieve various social goals through smart spending and thus achieve greater trust in the state, green, social and innovation policies.

By establishing the aforementioned elements, a public procurement system that can respond to the various challenges of modern society is built. Through an overview of the conceptual definition and features of public procurement, it can be concluded that it is a very complex system that is subject to the influence of various factors and that requires constant monitoring and analysis and the application of innovative solutions that will bring improvements and result in increased efficiency.

### 3.1 Principles of public procurement in Croatia

The public procurement market constitutes a significant part of the Croatian economy, accounting for around 16% of GDP. Public procurement was first regulated in 1995 with the adoption of the Regulation on the Procedure for Procurement of Goods and Services and the Award of Works. In the following years, various external factors, such as membership in the World Trade Organization and the European Union, influenced the development of the public procurement system in the Republic of Croatia. The Public Procurement Act of 2012 incorporated the legal acquis of the European Union, creating a system based on the principles of the 2004 EU directives. These principles include the free movement of goods, freedom of establishment, and freedom to provide services, as well as principles derived from them, such as the principle of competition, the principle of efficiency, the principle of equal treatment, the principle of non-discrimination, the principle of mutual recognition, the principle of proportionality, and the principle of transparency (Public Procurement Act 2011, Art. 6). Changes in EU public procurement directives and weaknesses in the public procurement system itself led to further improvements and the adoption of a new Public Procurement Act in 2016, effective from January 1, 2017. The goals pursued by the Directive, adopted in the Republic of Croatia, are (Šprajc 2017, p. 4): simplifying public procurement procedures while increasing their efficiency, facilitating the participation of small and medium-sized enterprises

in public procurement procedures, anti-corruption measures, and strengthening the integrity of public administration as a key actor in public procurement procedures. The biggest change occurred in the application of the “most economically advantageous tender” criterion as the only criterion for evaluating tenders. The public procurement system in the Republic of Croatia has characteristics of a highly decentralized system. In 2021, a total of 1.480 purchasers participated in public procurement in the Republic of Croatia, with public purchasers making up 89,18% of the participants (MIGOR). Although the decentralized public procurement system is attributed to the democratization of society, the limitation of political power, and the increase in public procurement efficiency since placing the procurement function closer to the end user should result in economic efficiency, it is difficult to monitor the procurement process implementation in such a system, which can be conducive to various irregularities in public procurement. The Public Procurement Act of 2016 introduced a new institution, the innovation partnership, which is used in the centralized public procurement system and combined with a decentralized approach to public procurement. This institution allows for more flexible procurement of goods, services, and works, thus encouraging innovation.

According to Šprajc (2017), the legislator, by removing the relatively high-value threshold, has given small and medium-sized enterprises the possibility of broader access to public procurement procedures with more accessible information about potential procedures and procurements. The application of e-procurement certainly benefits small and medium-sized enterprises, allowing them easier access to public procurement beyond the country of their headquarters. The European Single Procurement Document and e-Certis can also be categorized as measures that facilitate small and medium-sized enterprises' access to public procurement. The legislator's (both European and Croatian) intention is, furthermore, to improve anti-corruption measures. Accordingly, a normative definition of conflict of interest in public procurement (Public Procurement Act 2016, Art. 76, para. 1 and 2) has been introduced, giving the public purchaser the possibility to exclude an economic entity from public procurement in case of conflict of interest. Anti-corruption measures also relate to the application of the economically most advantageous tender criterion as the only criterion in the selection of tenders.

The principle of free movement of goods, freedom of business establishment and freedom to

provide services represent the basis of the application of principles specifically related to public procurement, so they need to be explained in advance.

The freedom of movement of goods is one of the fundamental freedoms incorporated in the Treaty on the European Union and the fundamental pillars of the single market, which is achieved by abolishing customs duties, customs duties of a tax nature and quantitative restrictions and by prohibiting the adoption of measures with equivalent effect (Mintas-Hodak 2004, p. 112). The free movement of goods also applies to goods from third countries that are in free circulation in the member states of the European Union. With the creation of the internal market, all obstacles that could limit the movement of goods have been removed.

The freedom to do business was initially regulated by the Treaty on the Establishment of the European Economic Community from 1957, and together with the freedom of movement of workers, it constituted the freedom of movement of people (Marzocchi, 2022). In 2023, the freedom of business establishment and the freedom to provide services guarantee the mobility of business entities and experts within the European Union. These freedoms have not been fully realized and there are still obstacles that prevent their full realization and thus the completion of the internal market of the European Union (Ratcliff, Martinello & Litos, 2022). According to the right to establish a business, citizens of the European Union have the right to start and carry out independent activities and the right to establish a company under the same conditions as citizens of the relevant member state of the European Union according to its regulations. The freedom to provide services allows all persons who provide services to temporarily perform their activity in another member state where the service is provided (Directive 2006/123/EC 2006). In doing so, the same regulations apply to the performance of their activities as for citizens of the member state in which the service is provided.

In order to ensure the practical effect of the aforementioned principles and the openness of public procurement to competition, the primary legislation of the European Union is supplemented by the Public Procurement Directive (Directive 2014/24/EU 2014), and at the national level by the codification of public procurement. In the Republic of Croatia, the Public Procurement Act (2016) implemented the aforementioned principles. The principle of market competition and the princi-



ple of transparency will be explained in following paragraphs.

Application of the principles of market competition is, according to Turudić (2017), one of the primary goals of public procurement. Market competition refers to the continuous and systematic announcement of public procurement tenders, the participation of a large number of bidders, the evaluation of public procurement offers using criteria that result in the selection of the offer with the best value for money (Gregurić-Bajz and Čavlina 2023). But compared to the private sector, competition in the public sector has several specificities that do not support economic models, such as perfect information and a low level of barriers to entry (and exit) of suppliers. For example, the telecommunications sector and the information and communication sector include a concentration of consumption with a very small number of participants. Continuous and systematic publication of public procurement tenders whose value exceeds the threshold set by public procurement regulations creates prerequisites for increasing market competition and achieving a better price-quality ratio with the funds spent (European Commission 2018). At the level of the European Union, the Tenders Electronic Daily (abbreviated TED) platform of the public procurement electronic bulletin board is used for this purpose, and in the Republic of Croatia, the Electronic Public Procurement Bulletin of the Republic of Croatia. The size of public procurement highlights the importance of competition in public procurement and non-discriminatory market competition. Public contracting authorities, as well as private ones, often rely on the public procurement procedure, in which it is possible to choose from several bidders the bidder with the lowest price or, in general, the best possible 'value for money'. Low prices and/or a better product are desirable for the customer because they result in savings or the release of resources for the use of other goods and/or services. However, in order for this to be achievable, the existence of competition is necessary. Competition in public procurement is possible with a larger number of bidders in the public procurement procedure. With the aim of ensuring market competition, the Law on Public Procurement in the Republic of Croatia (2016, Article 329, Paragraphs 4 and 5) stipulates, among other things, that the number of participants in project tenders for public procurement should be sufficient to ensure true market competition, and in order to prevent discrimination, the legislator determined that in the case of a limited number of participants, the public contracting authority

has the obligation to apply non-discriminatory criteria. However, the number of bidders alone is not sufficient for the establishment of market competition, but true competition of participants in the public procurement process is necessary. Corruption and collusion distort the public procurement process and lead to unwanted consequences for society as a whole.

The concept of transparency implies the conscious publication of all imaginable information by the one who possesses the information, whether it is a civil servant, a business or a state entity, or even a private individual, to those to whom it is important (Osei-Afoakwa, 2014, p. 140). But governments often face the dilemma of whether transparency includes full disclosure of all information to all people at all times from all organizations. In the literature, however, the availability of information is placed within certain limits (Wakefield & Walton, 2010). Transparency is seen as a one-way activity of public bodies that provide information, communicate with citizens and make available the requested information. In a general form, Musa (2013) defines transparency as the availability of public information to the public, which, depending on the type, can be provided to citizens or other entities. However, transparency is not only achieved by the availability of information, but it must be relevant, accurate, timely, predictable and understandable (Osei-Afoakwa, 2014, p. 140). Where there is transparency, information is disclosed in an easily accessible manner, is truthful, appropriate, useful and balanced to enable interested parties to form an informed opinion about a particular object of their interest. Rawlins (2008, p. 6) by transparency means "openness", that is, honest and easily accessible information coming from business and public entities. Emphasis is placed on the availability of information and its truthfulness. Non-transparency exists where employees of public bodies are prohibited from releasing information through an official code of secrecy or where they deliberately operate in a covert manner. Between transparency and non-transparency as extremes is a continuum of degrees of transparency called translucency (Wakefield & Walton, 2010). Translucency represents a situation where full disclosure of information is not considered appropriate so information can be released to the extent that it informs, directs and engages key stakeholders (Osei-Afoakwa 2014). Ochrana and Pavel (2013) see transparency as one of the factors influencing the efficiency of public procurement. Financial interests in public procurement, the volume of transactions and the close interaction between

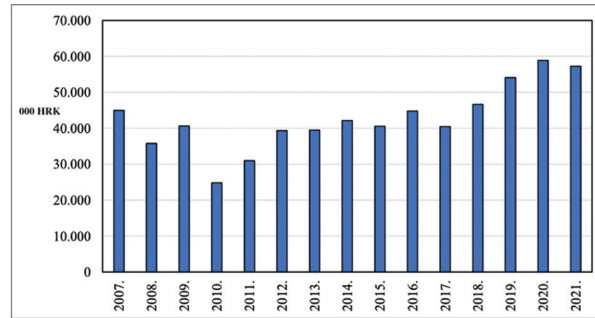
the private and public sectors create multiple opportunities for private profit and waste of public money at the expense of taxpayers. Therefore, transparency is seen as a key activity related to the level of risk of fraud and corruption.

#### 4. Quantitative indicators of public procurement development in Croatia

By monitoring statistical data, we are investigating the effects of improving public procurement legislation and the development of the public procurement market in the Republic of Croatia. In 2021, the total value of public procurement was 57,2 billion HRK (without value added tax, abbreviated VAT), which is a decrease of 2,8% compared to 2020 (figure 1).

The dynamics of the movement of the total value of public procurement in the Republic of Croatia in the period from 2007 to 2021 (figure 1) indicates the realization of different client needs in certain years through public procurement. The realized value of public procurement in 2007 was 44,9 billion. HRK (excluding VAT) is attributed to the amendments to the Public Procurement Act in October 2007 with application from January 1, 2008, which encouraged a greater number of clients to start public procurement procedures for the following period in accordance with the provisions of the current law, in order to have as much time as possible to adapt to the new legislation in the field of public procurement (Administration for the Public Procurement System 2008, p. 3). However, the realized value of public procurement can also be attributed to the development of the public procurement system in the past period, the increase in the awareness of the contracting authority about the correct recording and submission of reports on public procurement as a result of changes in the communication between the authorities responsible for the public procurement system and the contracting authority.

The reasons that led to an increase in the total value of public procurement in 2007 were also the reason for a decrease in the total value of procurement in 2008. The total value of the procurement was 35,8 billion HRK, which is a decrease of 20,4% compared to 2007. It is necessary to point out that the data in 2007 and 2008 should be taken with caution, given that until 2008 there was no automatic record of public procurement, and the record of public procurement depended on the sending of annual reports by the contracting authority in an online application on the website of the Administration for the System of Public



Source: created by authors based on data from the Statistical Report on Public Procurement 2008 - 2022

Figure 1. Total value of public procurement in the Republic of Croatia, 2007 - 2021

Procurement acquisitions. In addition, 2008 was the first year of application of the Electronic Public Procurement Notice (abbr. EOJN), and the contracting authorities had a short period to adjust to the new publication system, which led to irregularities in the technical part of contract publication. The economic crisis in the USA, which reached global proportions at the end of 2008, also affected the Croatian economy. Unfavorable economic trends, characterized by recession, were recorded until 2015, when GDP growth of 2,5% was recorded (Croatian Chamber of Commerce 2022, p. 1). The lowest value of public procurement was achieved in 2010 and amounted to 24,8 billion HRK, which compared to 2009 is a decrease of as much as 38,9%. Despite the recession, the total value of public procurement recorded growth in the following years. Namely, in 2013 the Government raised the threshold of the estimated value of the procurement of goods, services and works for which the rules on public procurement were applied from HRK 70.000 to HRK 200.000 for works and services and HRK 500.000 for works, in order to speed up the implementation of the public procurement procedure. In 2014, the total value of public procurement from 2007 was almost reached, amounting to 42,2 billion HRK, so that in the following year a decline was again recorded (by 3,7%). The application of the new Law on Public Procurement from January 1, 2017 had a similar effect on the realized total value of public procurement as in 2007 and 2008. After a larger number of clients started public procurement procedures at the end of 2016, in 2017 there was a decrease in the total value of public procurement. In the following years, the total value of public procurement will increase, reaching 58,9 billion HRK in 2020, which is also the highest ever recorded total value of public procurement. The drop in the total value of public procurement in 2021 by around 10% com-

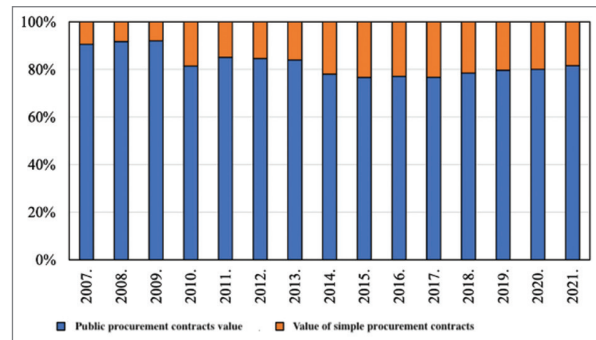
pared to 2020 can be attributed to the COVID-19 crisis.

With regard to the estimated value of the procurement, public procurement can be divided into simple (“trivial”) public procurement, which is not subject to the provisions of the Law on Public Procurement, and public procurement whose contracts are published in the Official Gazette, which is divided into public procurement of low value and procurement of great value. The threshold for applying the Law on Public Procurement has undergone changes during the period since the establishment of the public procurement system. The threshold of the estimated value of procurement, for which the Law on Public Procurement from 2011 did not apply, was HRK 70.000,00 excluding VAT. According to the Law on Public Procurement from 2016, for public procurement of low value, the estimated value is below the European thresholds, and above the so-called the value of a simple procurement (estimated value HRK 200.000,00 for goods and services and HRK 500.000,00 for works without VAT) for which the Law on Public Procurement does not apply. A high-value purchase is a purchase where the estimated value is equal to or greater than the value of the European thresholds defined by Directive 2014/24/EU. The thresholds of the European Union (abbreviated as EU) are not the same for all clients or for all items of procurement (goods, services or works).

The total value of public procurement is dominated by contracts published in the EOJN and framework agreements. They participated with more than 90% in 2012, but during the period until 2021, their share decreased to 81,5%. The lowest level of participation was reached in 2015 and 2017 with 76,7% (figure 2).

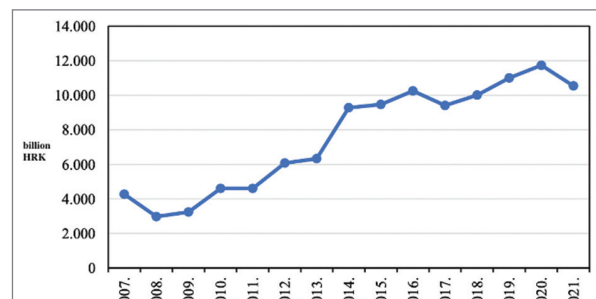
When analyzing the structure of public procurement with regard to the value of contracts, it is necessary to keep in mind that during the period from 2007 to 2021 there were changes in the thresholds of the estimated value of offers, so contracts of the same value in certain years were not classified in the same category of simple or “trivial” procurement, which also affected the change in the structure of public procurement with regard to the estimated value of the procurement. Statistical data show an increase in the total value of simple (“trivial”) purchases without VAT in the period from 2012 to 2021 (figure 3).

The total value of simple procurement (figure 3) realized in 2007 was 4,27 billion HRK, and in the following year a significant decrease to the value



Source: created by authors based on data from the Statistical Report on Public Procurement 2008 - 2022

Figure 2. Structure of the value of public procurement according to the value of public procurement contracts in the Republic of Croatia, 2007 - 2021



Source: created by authors based on data from the Statistical Report on Public Procurement 2008 - 2022

Figure 3. Total value of simple procurement in the Republic of Croatia, 2007 - 2021

of 2,97 billion can be seen (30,4%). The period until 2020 was marked by growth and decline in the annual value of simple procurement, but with a recorded overall growth. In 2021, the total value of simple procurement is 10,1% lower than in 2020. Volatility of the total value of a simple purchase can be attributed to changes in the thresholds of the estimated value of the purchase, up to which the purchase is considered a simple purchase, that is, a purchase that is not subject to the provisions of the Law on Public Procurement.

In the structure of published contracts on public procurement, contracts on public procurement of goods prevail, which take part in the range from 51,83% in 2013 to 66,0% in 2021 (figure 4). The share of public works contracts concluded in the period from 2012 to 2021 decreased from 20,3% to 13,0%, while the share of services decreased from 27,48% to 21,0%.

The structure of the value of concluded public procurement contracts does not follow the structure of the number of contracts. In the total value of contracts, the dominant place in 2021 is occu-

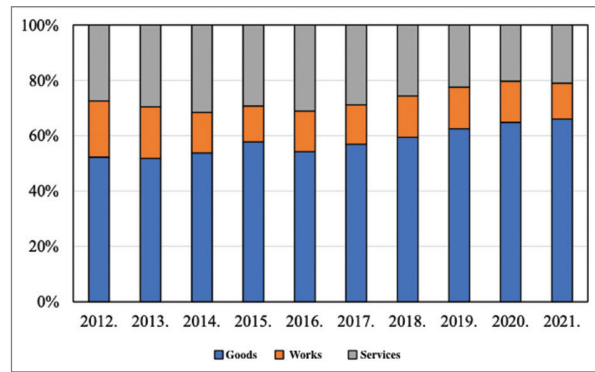


pied by contacted works worth a total of 24,6 billion HRK (figure 5).

The total value of concluded contracts for the procurement of goods increased slightly in the period from 2012 to 2021, by 3,4%, and services decreased by 5,2%. At the same time, the total value of completed public works more than doubled, from 11,3 billion. HRK 24,6 billion HRK. The increase in the total value of completed public works can be attributed to the increase in the prices of works in the past period, especially in construction as the leading activity in the execution of public works.

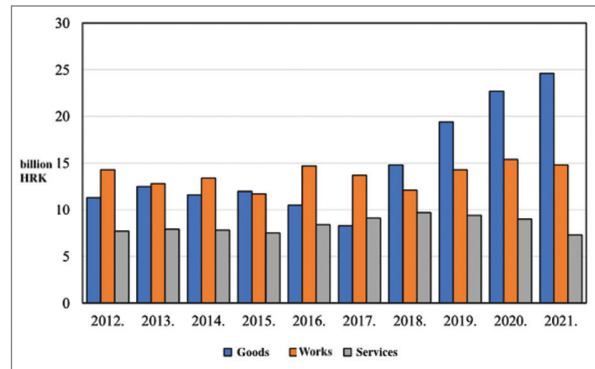
Analyzing the structure of the concluded contracts according to the subject of procurement, it is possible to observe the replacement of the value positions of the contract for goods and works (figure 5). The total value of contracts for the procurement of goods in 2012 was 14,3 billion HRK, which is 42,93% of the total value of concluded contracts, while in 2021 it participated with 31,6%. In 2012, the total value of public works contracts accounted for 34,06% of the total value of concluded contracts in public procurement, but the faster growth of the value of public works contracts compared to contracts for the procurement of goods leads to the leading position of public works contracts, which in 2021, they account for 52,7% of the total value of concluded contracts. The total value of public service contracts accounted for 23,01% in 2012, and this share was reduced to 15,6% of the total value of public procurement contracts in the Republic of Croatia in 2021.

As pointed out earlier in this paper, Croatia applies a decentralized public procurement system, in which public and sectoral contracting authorities participate. The dynamics of their number and structure shows that in 2021 there were 1.480 entities that published public procurement contracts in the Public Procurement Agency, which is a decrease compared to 2012 by 18%. There were the fewest entities in 2017, which can be attributed to changes in the legislative regulation of public procurement entities. In 2018, 1.323 entities announced public procurement contracts in the Public Procurement Office, which is a 36,3% increase compared to 2017. The growth in the number of entities continued in 2019, but at a lower rate of 14,6%. After an interannual decrease of 6,3% in 2020, in 2021 there is again an increase in the participation of public and sectoral contracting authorities in public procurement, by 4,2%. In the structure of public procurement entities, the dominant place is occupied by the public con-



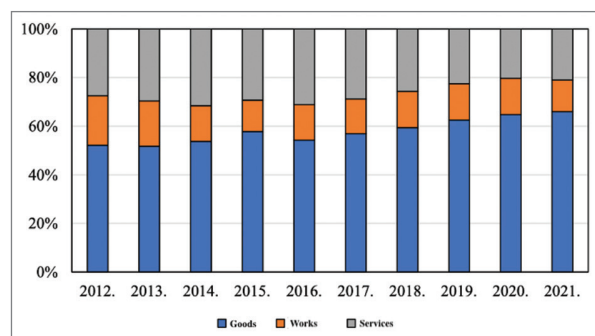
Source: created by authors based on data from the Statistical Report on Public Procurement 2013 - 2022

Figure 4. The structure of concluded contracts on public procurement according to the subject of public procurement in the Republic of Croatia, 2012 - 2021



Source: created by authors based on data from the Statistical Report on Public Procurement 2013 - 2022

Figure 5. Total value of concluded public procurement contracts according to the subject of public procurement in the Republic of Croatia, 2012 - 2021



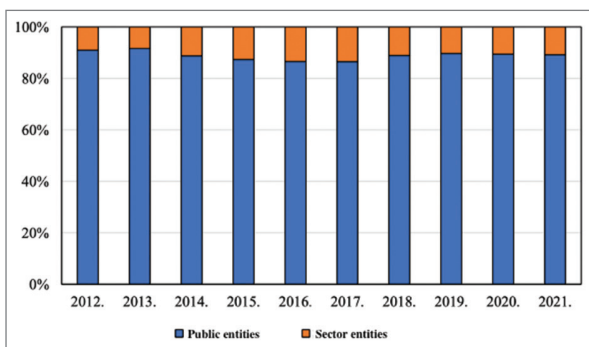
Source: created by authors based on data from the Statistical Report on Public Procurement 2013 - 2022

Figure 6. Structure of concluded public procurement contracts by procurement subject in the Republic of Croatia, 2012 - 2021

tracting authority, with 91,0% in 2012, or 89,1% in 2021 (figure 7). More than half of all contracts are published by public law bodies (58,5% in 2012,

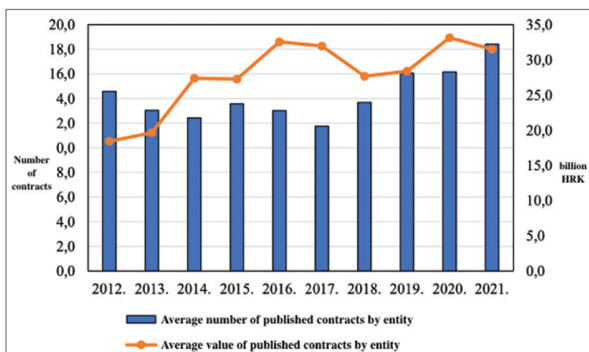
i.e. 53,5% in 2021), followed by local and regional public administration and self-government units (24,2% in 2012, or 33,4% in 2021). Obviously, among sectoral contracting authorities, the largest number of published contracts belongs to contracting authorities in the water supply sector, 96 in 2021, which accounts for about 6,5% of the total number of published contracts. They are followed by clients in the production, transmission and distribution of gas and thermal energy, but their share is only 0,9%.

By comparing the number of subjects and published contracts on public procurement in the Public Procurement Office in the Republic of Croatia, information is obtained about the average number of published contracts in the Public Procurement Office per client. In 2018, an average of 18,4 contracts per subject were announced, with an average contract value of 31,5 billion HRK per subject (figure 8).



Source: created by authors based on data from the Statistical Report on Public Procurement 2008 - 2022

Figure 7. Structure of entities that published contracts in the Electronic Public Procurement Bulletin in the Republic of Croatia, 2012 - 2021



Source: created by authors based on data from the Statistical Report on Public Procurement 2008 - 2022

Figure 8. by entities that published contracts in the Electronic Public Procurement Bulletin in the Republic of Croatia, 2012 - 2021

## 5. Conclusion

The public procurement market makes up a significant part of the Croatian economy, which can be clearly seen from the share of public procurement expenditure in GDP. Financial resources of taxpayers that are spent on various common needs, such as roads, hospitals, schools, etc. through public procurement expenditures, accounted for 16.6% of GDP in Croatia in 2020. This share is even higher if state-owned companies such as utility companies that provide services like water and electricity supply, are also taken into account. This puts Croatia in the group of leading countries in terms of the share of public procurement expenditure in GDP in the European Union. Only four EU-27 member states (Netherlands, Estonia, Finland and Sweden) have a higher share of public procurement expenditure in GDP than Croatia. Modern public procurement systems are focused on finding solutions that lead to improvements in its implementation procedures, transparency of the system, creation of opportunities for business entities and the establishment of a public procurement market that provides equal conditions for all. Governments and legislative bodies are tasked with using the available instruments to improve the public procurement system and make the most of the resources they are given to manage. Public procurement instruments are constantly being improved in order to respond to the challenges of the environment and ever-present changes. By improving the public procurement system, increasing transparency, encouraging market competition, applying criteria for the most economically advantageous offer, green public procurement, etc., the financial values of procurement and the rational management of public funds are significantly affected. Optimal selection of public procurement instruments is a reflection of the specific goals of each state. Reforms aimed at improving the public procurement process reduce the possibility of corruption and encourage fair, transparent and efficient practices that implement the concept of 'value for money' in public spending. In the Law on Public Procurement from 2016, only one contract award criterion was applied, namely the most economically advantageous offer. Given that the application of this instrument refers to a larger number of criteria that are used in addition to the price or lifetime costs of the public procurement item, the legislator has made it possible to select a better offer based on the principle of 'value for money'. At the same time, this works towards increasing the efficiency of public procurement

and transparency, which results in a lower price for a higher procurement value. A decentralized public procurement system is applied in which the innovation partnership mechanism is incorporated as an element used in the organization of the procurement process based on a centralized approach. The analysis of the state of the public procurement system, based on statistical data on its development, the number and value of contracts indicated improving the effects of public procurement through an increase in the number and value of concluded contracts, a greater application of the open public procurement procedure and an increase in the participation of small and medium-sized enterprises. In the future period, it is certainly necessary to further improve the public procurement system while taking measures to harmonize it with the legal acquis and best practices in the European Union, taking into account the specificities of its own political, economic and social environment. In particular, it is necessary to direct additional efforts towards the further improvement of the institutional structure of the implementation of public procurement.

Quantitative indicators of public procurement presented in this paper can be linked to changes in public procurement legislation in the Republic of Croatia and harmonization with the legal acquis of the European Union, which aim to improve public procurement. The growth in the value of public procurement contracts indicates positive trends in public procurement in the Republic of Croatia. An analysis of statistical data on public procurement in the Republic of Croatia has shown an increase in the total value of public procurement from 2007 to 2021, from 44,9 billion HRK to 57,2 billion HRK (excluding value-added tax, VAT). The total value of public procurement in the Republic of Croatia is dominated by contracts published in the Electronic Public Procurement Gazette (EOJN) and framework agreements, with a share of 90% in 2012, decreasing to 81,5% in 2021. The total value of simple procurement realized in 2007 amounted to 4,27 billion HRK, and in 2021 to 10,5 billion HRK. Spikes in the change of the total value of simple procurement can be attributed to changes in the estimated procurement value thresholds up to which procurement is considered simple procurement, i.e., procurement.

The analysis of the number and the value of contracts, comparing the results achieved in public procurement by applying the criteria of the lowest price and the most economically advantageous offer, and looking at changes in relation to legal provisions in public procurement procedures, indicated improving the effects of public procurement through an increase in the number and value of concluded contracts and a greater application of the open public procurement procedure.

Given that public procurement expenditures constitute a significant portion of budgetary funds in many countries around the world, public institutions are expected to conduct public procurement efficiently by applying the principle of 'best value for money' and maintaining high standards of ethical and moral behavior to ensure a high level of quality in meeting public needs and protecting the public interest. It is an indisputable fact that ensuring the unhindered development of market competition in the public procurement procedure is in the public interest. Therefore, it is of utmost importance to protect the integrity of the public procurement procedure and to ensure that the maximum benefit for society is achieved. A transparent public procurement system should provide potential participants in the public procurement process with all the necessary information necessary for their participation in public procurement. Transparency is associated with public trust in public procurement. It provides insight into how taxpayers' money is spent and enables independent verification of the work of public services. For this reason, it is necessary to ensure the visibility of the flow of public funds, from the beginning of the budget process through the entire cycle of public procurement. It is also necessary to point out that laws by themselves are not sufficient to achieve a certain level of transparency and reduce possible risks arising from the lack of transparency in public procurement. Developing awareness of the transparency of all stakeholders is an important factor in building a transparent public procurement system.



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