

# Employment Policy Review

## Croatia

International  
Labour  
Organization



# **Employment Policy Review**

## Croatia

Prepared by the International Labour Office  
and the Council of Europe  
in 2003 and 2004

The opinions expressed in this work are the responsibility of the authors and do not necessarily reflect the official policy of the Council of Europe.

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## Foreword

The period of political turbulence and restructuring confronted the countries in South East Europe with important challenges. They needed to restructure their national economies and put them back on a sustainable growth path, renew demand for labour and raise employment, as well as fight unemployment, underemployment and increasing gender inequalities and social exclusion of vulnerable groups.

The South-East European Ministerial Conference on Employment held in Bucharest on 30 and 31 October 2003 acknowledged the serious employment challenges faced by the Stability Pact countries. The Bucharest Declaration adopted at the Conference called for regional co-operation in addressing these challenges so as to achieve major improvements in national employment policies. The International Labour Organization and the Council of Europe were requested to give guidance and support to this effort by reviewing national employment policies, in close co-operation with the social partners and labour market institutions, providing policy recommendations and assisting in their implementation. This joint mandate is carried out under the auspices of the Initiative for Social Cohesion of the Stability Pact for South East Europe. The Ministers of Labour of the Stability Pact countries approve and update the objectives of this co-operation and the activities are designed and supervised by a Permanent High-Level Committee composed of the General Directors of Employment and representatives of National Employment Services.

Meanwhile, the “Bucharest Process” has become a significant reference point for employment policy development in South East Europe. The Sofia Conclusions, adopted at the 2nd Ministerial Conference held in Sofia on 21 October 2005, endorsed the process and placed even more focus on policy coherence and social dialogue.

This series of Country Reviews of Employment Policy (CREP) is the major outcome of this process. Each review is based on a national report produced by the relevant Ministry of Labour in co-operation with the National Employment Service. They are adopted at National Tripartite Conferences organised by the ILO, the promotion of social dialogue being a key component of the process

These country reviews can be used for strengthening labour market institutions and making their employment and labour market policies more coherent and effective within the framework of an integrated policy approach. Particular emphasis is placed on gender equality issues, especially in developing strategies aimed at mainstreaming gender in employment policies and promoting gender equality in follow-up activities.

The review process intends to contribute towards promoting decent and productive employment for women and men in the Stability Pact countries while converging towards the guidelines of the European Employment Strategy and strengthening stability and social cohesion in the region.

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## Introduction

### Objectives

The present Review of the Employment Policy of Croatia is intended to serve various purposes:

- To highlight the main challenges facing Croatia with regard to the labour market and employment situation, and to provide a set of recommendations for their improvement.
- To aid the implementation in Croatia of international labour standards and principles related to employment,<sup>1</sup> and in particular the **ILO Convention No. 122 (1964) on Employment Policy**, requiring governments of ratifying countries to formulate and implement, in close collaboration with the social partners, an active policy promoting full, productive and freely chosen employment. The general principles of an active employment policy are elaborated further in **ILO Recommendation No. 122 (1964)**.

Another very important set of standards that should guide Croatia's labour market and employment policy is defined by the **European Social Charter**, ratified by Croatia in 2003.

The report also aims to make operational the core elements of the **Revised Strategy for Social Cohesion of the Council of Europe (2004)** which states that access to employment for all and the promotion of decent employment are key elements of social cohesion and that "*investment in human resources is one of the most crucial areas of investment for future economic growth*". A number of guidelines and recommendations on improving access to employment, especially for the most vulnerable groups, have also been elaborated by the Council of Europe and could help Croatia in furthering access to employment for all.

The same applies to implementing the **ILO's Global Employment Agenda** for the pursuit of Decent Work for All. The conviction that employment is fundamental to the fight against poverty and social exclusion was a conclusion of both the World Summit on Social Development in 1995 and the 24th Special Session of the United Nations General Assembly in 2000 which called upon the ILO to develop a coherent and co-ordinated international strategy for the promotion of freely chosen and productive employment. The Global Employment Agenda is the ILO's response to this request. The Agenda's main aim is to place employment at the heart of economic and social policies. Consistent with the Millennium Development Goals, the Global Employment Agenda seeks, through the creation of productive employment, to improve the lives of the millions of people who are either unemployed or whose remuneration from work does not suffice for them and their families to escape poverty.

- Finally, it aims to help Croatia prepare for its forthcoming accession to the European Union by converging towards the **Guidelines of the European Employment Strategy**. The present report was accordingly drafted on the model of the Joint Assessment Papers on Employment Policies (JAPs), prepared by the European

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1. See Appendices I and II for a list of international instruments ratified by Croatia.



Commission and the countries preparing for accession, bearing in mind that Croatia is involved in the preparation of a JAP in conjunction with the European Commission, as part of its preparation for accession to the EU.

## **Background**

Croatia and Albania were the first countries to have their respective employment policies assessed by the Council of Europe and the International Labour Office, in compliance with the Declaration adopted by the Ministers participating in the South-East European Ministerial Conference on Employment held in Bucharest on 30-31 October 2003.<sup>2</sup> The “Bucharest Declaration”<sup>3</sup> mandated the ILO and the Council of Europe to assess the employment situation of the Stability Pact countries involved in the process of regional co-operation on employment, and draw up recommendations in a Country Review of Employment Policy (CREP).

On the basis of an outline for national background reports, prepared jointly by the ILO and the Council of Europe, Croatia agreed to draw up a detailed report on its labour market and employment policies. The ILO and Council of Europe team in charge of preparing the CREP subsequently collected further information, with the assistance of the Croatian Employment Service, in order to obtain a comprehensive overview of the employment situation in Croatia and draw up their recommendations.

This Review was submitted for discussion within the Croatian Ministry of Economy, Labour and Entrepreneurship and is therefore the result of joint efforts by the Croatian Government, the ILO and the Council of Europe. It was also the subject of a peer review by other Stability Pact countries, a procedure which complements the in-depth country reviews and forms an integral part of the “Bucharest Process”.

The Review was presented during the seminar “Croatia: employment policy in view of EU integration”, organised by the European Commission with the Government of Croatia and the support of the ILO, held in Zagreb on 15 and 16 September 2005. The CREP discussion was thus merged with the JAP launch in Croatia. This event provided an opportunity for the social partners to discuss and assess the findings of the CREP and the recommendations proposed. The aim of this discussion process was to promote a shared vision between the government and the social partners on priorities for the employment policy of Croatia.

Both the ILO and the Council of Europe are very grateful to the Croatian authorities for their efficient co-operation, and especially to the Croatian Employment Service.

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2. Forthcoming CREP: Albania, Moldova, Serbia, Montenegro, Bosnia and Herzegovina and “the former Yugoslav Republic of Macedonia”.

3. See Appendix III to this report.

## 1. Economic situation

Although real per capita income has not yet fully recovered to its 1989 level, Croatia has managed the transition to capitalism remarkably well. As a result of the Yugoslav succession wars, real GDP fell by a cumulative 40.5% between 1989 and 1993, but by 2003 GDP had recovered to 91% of the 1989 level.<sup>4</sup> GDP per capita measured at purchasing power parity was US\$10240 in 2002, which puts Croatia on a par with the poorest of the current EU member states but well above Romania and Bulgaria. The income distribution is fairly similar to Western European averages (the Gini coefficient was 0.28 in 2001), and slightly more even than in some of the other East European countries.<sup>5</sup> 16.9% of the population have an income below the official poverty line.

The main force propelling post-war growth was gross fixed investment, which surged by 38% in 1996 and 26% in 1997, because of reconstruction activities such as the rebuilding of houses and damaged infrastructure. After a small cyclical recession (with GDP falling by 0.9% in 1999), the economy recovered in the final quarter of 1999, when real GDP expanded by 1.5% year on year, and growth accelerated steadily in 2000-01. Croatia's GDP grew by 5.2% in 2002 in real terms, the highest growth rate since 1997, and by 4.3% in 2003. Growth in 2004 is estimated at 3.7%, and is likely to rise above 4% again in the years to come.<sup>6</sup> Having turned negative because of war, productivity growth resumed in the second half of the 1990s and has remained at or close to two-digit figures since the end of the recession.

The recovery of tourism since 2000, following the end of the Kosovo war, has made an important contribution to the continued growth of the economy since 1999. Since 2001, investment too, which accounts for roughly a quarter of GDP, has risen steadily as private businesses and – increasingly – public enterprises have initiated capital expenditure projects. Investment growth has also been supported by a rapid expansion of credit from the commercial banks to the corporate sector, and by significantly reduced interest rates as well now that capitalised foreign banks have entered the market.

Croatia exhibits a post-industrial economic structure, with services accounting for over 60% of GDP at basic prices in 2002. The public sector is large by European standards, with public administration, defence, and health and education services accounting for almost one-quarter of Croatia's GDP. Services have grown in importance, not just because Croatia has reached a more advanced stage of development but also because of the collapse in industry at the start of the 1990s. The disruption caused by the wars of the Yugoslav succession and the poor competitiveness of many export sectors led to a steep decline in traditional industries such as base metals, textiles, shoes, drinks and food processing. Although this was mitigated by growth in shipbuilding and pharmaceuticals, industry (including construction and mining) represented only roughly 30% of GDP at basic prices in 2002, compared with 36% in 1990. Agriculture is more important than in most countries in East-Central Europe, and accounted for about 8% of GDP at basic prices in 2002.

After a protracted period of hyperinflation at the beginning of the 1990s, Croatia has managed to bring consumer price inflation down to less than 2%. It was possible to contain an occasional rise over 5% in 1998 and 2000, which was to some extent due to the successful

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4. See UN Economic Commission for Europe: Economic Survey of Europe 2004/1.

5. See United Nations Development Programme: Human Development Report 2004.

6. See Economist Intelligence Unit: Country Profile Croatia 2004 and Country Report Croatia 2004.

exchange rate targeting of the central bank that binds the kuna closely to the euro. However, this has the effect of making the domestic money supply dependent on foreign exchange fluctuations. As a result, nominal interest rates could start on a downward path since the end of hyperinflation in 1993, with the exception of 1999 when the central bank tightened the money supply in order to stabilise the exchange rate and curb inflationary pressures.<sup>7</sup>

After the end of wartime disruptions, the government budget deficit was cut considerably and remained below 2% of GDP until recession hit the country in late 1998. In 1999, the deficit exploded to 8.2% of GDP and remained largely out of control for the following years in spite of a commitment made to the IMF in 2001 to balance the budget by 2004. However, from 2001 onwards the government pursued an austerity policy in order to cut current expenditure, which included heavy job cuts at the Ministry of the Interior and the Ministry of Defence, restrictions on the benefits of war veterans, and cuts in certain types of pensions. While these measures had unfavourable social implications, they also allowed the government to increase public investment in infrastructure projects. The deficit remained high at 6.3% of GDP in 2003. As a result of the structural budget deficit, total public debt and contingent liabilities have risen alarmingly in recent years. From 31.6% of GDP in 1997 they had grown to 53.2% of GDP in 2003, which was mainly due to a steep rise in foreign liabilities.<sup>8</sup>

Croatia has a large external sector with exports of goods and services accounting for almost half of GDP (51.7% in 2003). However the growth of exports in goods has been largely disappointing: in terms of real domestic prices, exports have hardly expanded since 1995. The main reason for this seems to lie in insufficient competitiveness in terms of quality rather than in terms of prices. The EU is the main trading partner, accounting for roughly 55% of exports (Italy and Germany taking the lead), and Bosnia comes second (around 15%). Ships and boats as well as clothing are the main export items. Croatia has a large structural trade deficit that is partly offset by income from tourism as well as workers' remittances and other transfers. There remains, however, a sizeable current account deficit which had fallen after reaching a high of 12.5% of GDP in 1997 but had risen again to 7.3% in 2003. In the aftermath of the war, Croatia had mainly relied on credit as a source of foreign finance. FDI flows began to increase in 1996, and between 1998 and 2003 the stock of foreign investment in Croatia had increased more than six times. The bulk of it has gone into financial and communication service industries as well as into property. In terms of both stocks and flows, Croatia is now the leading destination of FDI in South-Eastern Europe, with Austria and Germany as the main sources of funds. The steady inflow of foreign capital has led to a continued increase of foreign reserves while at the same time increasing the foreign debt burden to an alarming 81.8% of GDP in 2003.<sup>9</sup>

In the late 1990s the Croatian Privatisation Fund steadily divested itself of its large portfolio of shares, partly by means of sales at a discount to employees, but also through a voucher privatisation scheme designed to benefit primarily the victims of the war. Large privatisation projects include Hrvatski Telekom (HT), the state oil and gas concern (INA), and the electricity utility (HEP). In spite of this, the privatisation fund's plans to sell off half of the remaining 1,100 companies in its ownership by the end of 2003 was thrown into disarray in February 2003 because of widespread anger about the lack of transparency in the privatisation

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7. See Croatian National Bank: Bulletin. Various editions.

8. See International Monetary Fund Country Report No. 04/251.

9. See Croatian National Bank: General information on Croatia. Economic Indicators.  
[http://www.hnb.hr/statistika/e-ekonomski\\_indikatori.htm](http://www.hnb.hr/statistika/e-ekonomski_indikatori.htm).

process as a whole. Restructuring following privatisation will be a burden for the Croatian labour market for some time to come.

In addition to the goal of reducing the state's role in the economy, in recent years the government has attempted to reduce the dependence of the economy on Croatia's largest industrial firms, and thus has been placing increased emphasis on policies to support the growth and development of small and medium-sized enterprises (SMEs). These policies have included the broadening of research and development subsidies and lending support, the creation of an Agency for Small and Medium Businesses (HAMAG) in 2002, and other programmes in the areas of export promotion, innovation and business start-up. Nevertheless, the number of SMEs has increased by only 11% since 1996.<sup>10</sup> The Programme for Promoting the SME Sector of Croatia from 2004 aims at reducing bureaucratic and administrative barriers and at transforming the business environment to improve productivity and stimulate innovative enterprise.

**Table 1: Main Macroeconomic Indicators**

<i>Main Macroeconomic Indicators</i>						
<i>Year</i>	<i>Real GDP Growth Rate</i>	<i>Inflation Rate (Retail Price)</i>	<i>General Budget Surplus (per cent of GDP)</i>	<i>Current Account Balance (per cent of GDP)</i>	<i>External Debt (per cent of GDP)</i>	<i>Foreign Direct Investment Flows (Mio. US\$)</i>
1989		1200.0				
1990	-7.1	609.5				
1991	-21.7	123.0				
1992	-11.7	665.5				
1993	-8.0	1517.5				120.3
1994	5.9	97.6				117.0
1995	6.8	2.0		-7.5	20.2	114.2
1996	5.9	3.5	-1.0	-4.8	26.7	510.8
1997	6.8	3.6	-1.9	-12.5	37.1	532.9
1998	2.5	5.7	-1.0	-6.7	44.8	932.4
1999	-0.9	4.2	-8.2	-7.0	50.1	1467.2
2000	2.9	6.2	-6.5	-2.5	60.0	1088.7
2001	4.4	4.9	-6.8	-3.6	57.0	1561.3
2002	5.2	2.2	-4.8	-8.4	67.6	1124.0
2003	4.3	1.5	-6.3	-7.3	81.8	1955.9

Note: Data are from the background study, except for the current account and external debt, which are from the National Bank.

## **2. Labour market situation**

### **2.1. Population and labour force participation**

According to the 2001 census, the Republic of Croatia had 4,437,460 inhabitants. Although data are not strictly comparable, this represents a 6.1% fall in total population compared to 1991 (based on the 1991 census definition). This is partly explained by a negative rate of natural increase, which is the effect of a long and steady decline in the birth-rate that has fallen as low as 8.9 live births per 1000 inhabitants, while death rates have been stable in recent years. The share of people of working age<sup>11</sup> in the total population is around 65% and will only start to decline after 2010, while the total population has been decreasing for over

10. See National Report.

11. Here, working age is meant to refer to people between 15 and 64 years of age.

15 years and will continue to do so.<sup>12</sup> The main determinant of demographic trends in Croatia however is migration. After a wave of emigration from Croatia to Western Europe at the beginning of the war, there was a large inflow of Bosnian refugees into Croatia when war broke out there. For similar reasons, the Serb population of the Krajina region decreased from 12% of the total to a mere 5% in 2001. In recent years however, a positive migration balance has systematically set off the negative natural decrease. Increasingly, migrants arrive in order to work in Croatia: the number of work permits issued to foreigners has risen from about a fifth of total immigrants in 1999 to almost half in 2003. Migrant workers are predominantly male blue collar workers originating from former Yugoslavia, although the share of college graduates is increasing.

According to the 2003 labour force survey (LFS), the total labour force comprised 1,793,296 persons. Labour force participation<sup>13</sup> in Croatia has followed a downward trend since the beginning of transition. The decline has been steady, independently of cyclical movements. When the first LFS was conducted in 1996, the activity rate stood at 56.2%. It then fell to 49% in the first half of 2001 before stabilising slightly above 50%. It stood at 50.2% in the second half of 2003, which is very low in comparison with current and prospective EU member states.

There are large differences in economic activity between sexes. While the male activity rate is 58.1%, only 43.3% of working age women are economically active. This relation has been stable during the last decade. While the activity rates for workers between 25 and 64 years of age have remained almost unchanged since 1996, the activity rates for workers aged 15-24 have decreased from 46.7% to 42.4% and for workers aged 65 and over from 13.7% to 6.9%. The low level of participation of older workers is due to the use of early retirement as a means of shedding labour in the process of industrial restructuring. Although changes in methodology mean that data are not strictly comparable, the educational level of the labour force seems to have increased in recent years.

## **2.2. Employment developments**

According to the LFS, Croatia had 1,536,500 employed inhabitants in 2003, which represents 83.6% of the 1989 figure.<sup>14</sup> The recent recovery improved total employment, which compares favourably with the average of the non-CIS transition countries, whose total employment hit a new all time low in 2003. Employment rates,<sup>15</sup> however, are at a very low level compared with most East and South-East European countries and have displayed a declining tendency throughout the 1990s. From 50.6% in 1996, employment fell to a low of 41.5% of the working age population in early 2001 before stabilising and reaching 43% at the end of 2003. As with activity rates, employment rates are very unequal with respect to gender. While the male employment rate reaches 50.3%, only 36.5% of working age women are employed, with particularly low rates for older women. The downward trend in employment has been quite

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12. See United Nations Population Prospects ([www.un.org/popin](http://www.un.org/popin)).

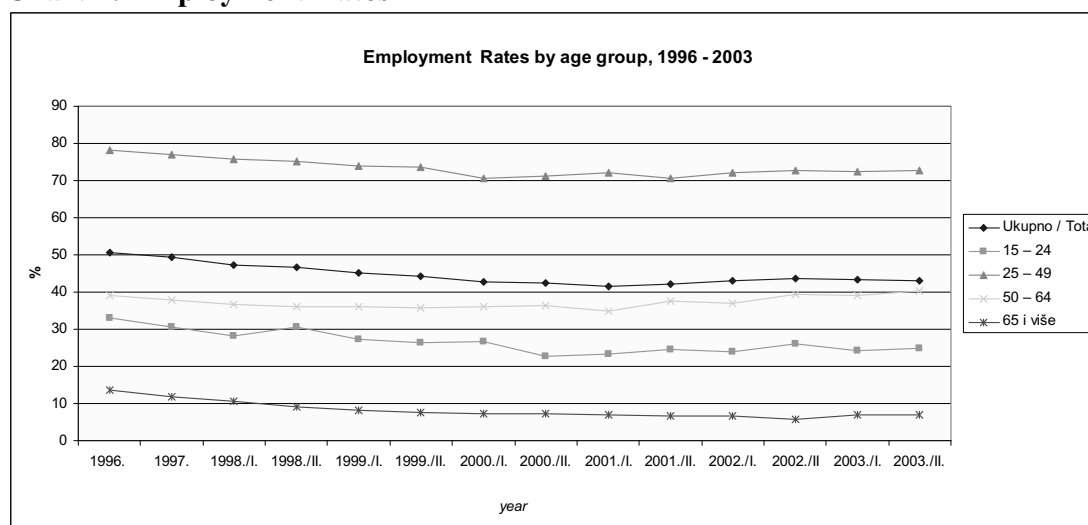
13. Defined as the proportion of the active population (employed and unemployed) in the total population over the age of 15. Therefore, working age henceforth refers to the 15+ age group. For the age group 15-64 (a measurement that is used for instance by Eurostat), the activity rate was 62.3% in 2003, as compared to the EU average of 69.3%.

14. According to the UN Economic Commission for Europe's 2004 Economic Survey of Europe.

15. Defined as the proportion of employed people in the total population over the age of 15 years. The respective rate for the 15-64 age group is 53.2%, which is very low compared to the EU average of 62.9%; of the current member states, only Poland has a slightly lower employment rate, as does Bulgaria.

evenly spread across age groups with the exception of workers between 50-64 years of age, whose employment rate has remained constant.

**Chart 1: Employment Rates**



Source: LFS

### 2.3. Structural changes in employment

The pattern of employment in the different sectors of economic activity is roughly in line with the general development trends of these sectors, such that a shift from employment in industry and agriculture to services can be observed. While the main loss of industrial employment occurred as early as the beginning of the 90s, agriculture continues to lose workers and services keep gaining. The single sector of strongest growth was construction, which increased its workforce by about 30% between 1996 and 2003, partly thanks to public infrastructure projects. Presently agriculture accounts for 16.8% of employment, industry for 29.2%, and services for 54%, which implies a much lower than average labour productivity in agriculture and a higher than average productivity in services. To the extent that agricultural productivity approaches Western European standards, severe pressure on the labour market will result. Women are over-represented in services and under-represented in industry. Employment in small and medium enterprises increased by 29% between 1995 and 2003, in contrast to the slight overall fall in employment over the same period. This indicates a sizeable shift from large enterprises to SMEs. The proportion of workers employed in SMEs, out of the total employment, is now 38%.<sup>16</sup>

The professions of greatest quantitative importance were “skilled agricultural and fishery workers” (14.5% of total employment), “technicians and associate professionals” (13.8%) – the occupational group which displayed the strongest growth in recent years, and “service workers and shop and market sales workers” (13.8%). While for men the professional group with the highest representation is “craft and related trade workers” (21.3% of male workers), for women it is “service workers and shop and market sales workers” (18.3%). In 2003, 75.8% of the employed worked as employees, 15.6% were own-account workers, and 3.8% were helping family members, while 4.8% were employers. Marked sex differences exist in the category of employers (there are roughly three times as many male employers as female

16. Since figures for total employment and for SME employment are taken from different sources, this percentage might not be entirely accurate.

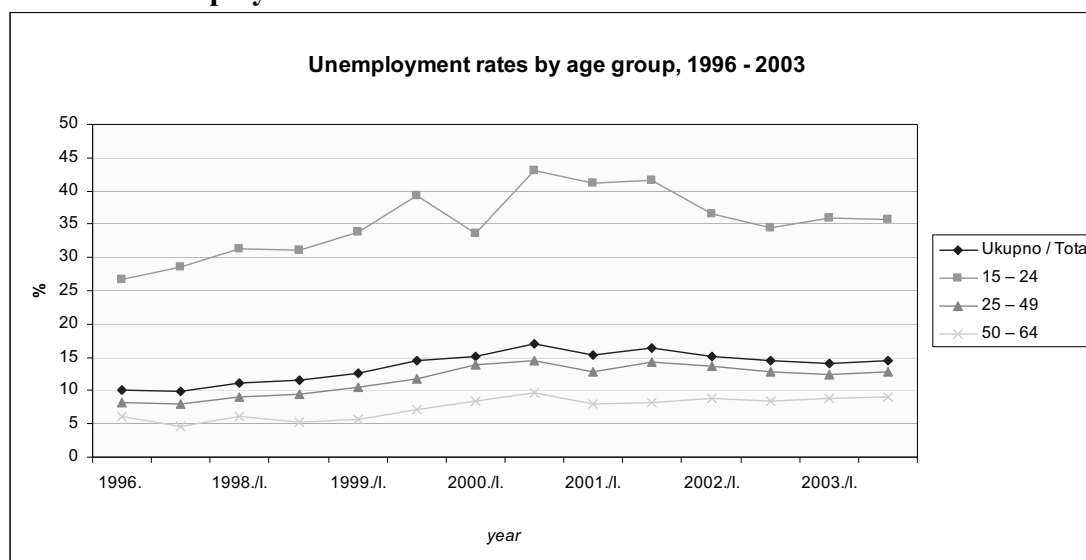
ones) and in that of helping family members, where less than 2% of male workers but more than 6% of female workers are employed. The proportion of helping family members decreased from 7.9% of employment in 1996 to 3.8% in 2003, while the others remained stable on the whole.

## 2.4. Unemployment

### *Overall trends*

The 2003 LFS places the number of unemployed in Croatia at 256,000, which represents a high unemployment rate of 14.3%. From low levels, unemployment shot up with the outbreak of war in 1991. It then remained constant at around 8% for some years despite the postwar boom in economic growth.<sup>17</sup> In 1996 unemployment started to rise steadily until it reached a peak of 17% in the second half of 2000, from which it recovered slightly to 14.4% at the end of 2003. Registered unemployment diverges systematically from LFS results, giving unemployment rates up to 50% higher. In 2003 for instance, registered unemployment stood at 19.2%, which represents the second largest divergence between LFS and registered unemployment in the whole of Eastern Europe, indicating the existence of an important informal sector. Informal economic activity is by nature very difficult to measure precisely, so that estimates of the magnitude of the informal sector range from 7% to 33% of GDP in 2000.<sup>18</sup>

**Chart 2: Unemployment Rates**



Source: LFS

### *Structural features of unemployment*

In 2003, the female unemployment rate stood at 15.8% which is about 20% higher than the rate for men, a gap that has widened in recent years. This gender difference holds across age groups. Unemployment trends for different age groups are similar to the trends of total unemployment, although the level of unemployment rates differs enormously. While prime age workers (25-49) have a slightly lower than average unemployment rate of 12.6% and

17. These are rough estimates, since there was no LFS before 1996.

18. See Katarina Ott: The Evolution of the Informal Economy and Tax Evasion in Croatia, 2004. For further information on the informal sector, see section 3.1.

older workers have a comparably low unemployment rate of 8.9%, young people have an alarmingly high unemployment rate of 35.9% according to the LFS. However, older workers' share of total registered unemployment has also grown quite dramatically from 5.7% in 1990 to 20.7% in 2004.

The duration of unemployment is a matter of particular concern in Croatia. In 2003, 32% of the unemployed had been looking for a job for less than half a year and another 13.1% had been unemployed for up to a year. This group of short and medium-term unemployed tends to display a higher level of qualification than the long-term unemployed. 13.9% of the labour force had been unemployed for between one and two years, while an alarming 39.4% had been unemployed for more than two years. The latter figure appears even more menacing if its development over time is taken into account. While the share in total unemployment of long-term unemployment up to two years has been fairly constant, unemployment lasting for over two years has increased from 26.5% in 1996 to 39.3% in the second half of 2003. This means that once people become unemployed, they increasingly tend to remain so.

A breakdown of the unemployed population by occupation reveals that the single largest occupational group among the unemployed is "service workers and shop and market sales workers" which represents 17.9% of the unemployed. This occupational group also showed the strongest increase in unemployment over the last decade. Yet there are even more unemployed workers who have never worked before (33.2% of total unemployment). The two sectors of activity generating the most unemployment are manufacturing and trade, which have also had the highest increase in lay-offs in recent years.

A comparison of the employment and unemployment structure by educational attainment presented in the table below shows that tertiary education considerably improves the labour market position of workers, while persons with secondary education and in particular those with blue-collar professions are disproportionately hit by unemployment. Also, demand for new labour reflected in the recruitment rates confirms this trend. While low levels of hiring in general show a persistent depressed demand for labour, still 41% of university educated jobseekers found new employment in 2003, compared with 35% of those holding a certificate from two-year post-secondary schools, 26% of jobseekers with higher secondary education, 28% of qualified and highly qualified workers and only 18% of semi-skilled and low-skilled workers and 14% of unskilled workers. The discrepancy between the low hiring rates of unskilled and semi-skilled workers and their seemingly better labour market position only reflects their low labour market participation, as many of them withdraw from the labour market after unsuccessful job-seeking. Unskilled and low-skilled workers are also those who stand to gain most from a recovery of labour demand. In 2002, an increase in total employment was accompanied by an increase in the proportion of workers having only basic education.



**Table 2: Employment and unemployment by level of education: per cent proportions, 2003**

Level of education	Employed persons	Unemployed persons
Total, of which	100	100
Uncompleted basic education	5.3	4.1
Basic education	17.7	18.6
Lower secondary vocational education	30.0	38.2
Higher secondary education	28.1	29.5
Two-year post-secondary education	6.7	3.5
University education	12.4	6.2

Source: LFS, figures quoted in the National Report.

### ***Regional features***

Large parts of Croatia suffered severe damage to economic infrastructure and to the housing stock during the war in the early 1990s. Owing to the exodus of the Serb population, only part of which has returned, many of these war-torn areas are also partially depopulated. In general, Eastern and Southern Croatia display significantly higher unemployment rates than other parts. Regions most affected by economic degradation and unemployment are in the hinterland of the coastal city of Sibenik (36% unemployment),<sup>19</sup> an infertile mountainous region; the area around the old industrial city of Sisak near Zagreb (32.6%); the environs of the West Slavonian towns of Lipik and Pakrac (25.5%); and the sub-region of East Slavonia (37.7%), where, in the town of Vukovar, some of the worst war damage occurred. In the northern peninsula of Istria (10.0%) on the other hand, which was well away from any military activity during the war, the economy suffered much less due to sustained tourism. The region of Medjimurje (17.5%), in the north-eastern corner of the country near the border with Slovenia and Hungary, is also relatively prosperous and noted for its long tradition of entrepreneurial activity. Zagreb (11.2%) remains the main hub of economic activity in the country and has attracted a large population from other parts of Croatia in recent years.<sup>20</sup>

### ***Unemployment situation of specific population groups***

Some population groups, namely IDPs and returnees and ethnic minority groups, suffer both higher unemployment rates than the majority population and difficulties in access to employment. Many international institutions active in Croatia have pointed out that Roma and Serbs are still too often excluded from socio-economic life in Croatia. The European Commission, for instance, stated in its Country Strategy Report for Croatia, 2002-2006 (CARDS) that “*ethnicity clearly affects the socio-economic situation, with the Roma population and returnees, especially those of Serb origin, enjoying living standards well below the average of Croatian society*”.<sup>21</sup> Similarly, the Committee of Ministers of the Council of Europe highlighted in its Resolution on the Implementation of the Framework Convention for the Protection of National Minorities by Croatia that “*measures of some urgency are needed to improve protection of national minorities in the field of employment, including the overall policy on unemployment*”.<sup>22</sup>

19. The figures refer to registered unemployment for the respective counties. Total registered unemployment for the observation period (2002/2003) stood at 20.6%.

20. See the working paper by Valerija Botric: Regional Differences in Unemployment. The Case of Croatia, 2003, arguing that regional differences in unemployment are persistent and call for targeted policies.

21. EU Country Strategy Report for Croatia, 2002-2006 CARDS.

22. Resolution CMN (2002)1 on the Implementation of the Framework Convention for the Protection of National Minorities by Croatia.

Discrimination on grounds of ethnicity hampers their access to employment and they sometimes completely slip through the net of social assistance. In the longer term, exclusion of these groups from employment (and from the social protection net) can result in more polarisation and tensions and put the social cohesion of the country at risk. For Bosnian Muslim refugees for instance, the problem is often one of lack of legal documentation, absence of Croatian citizenship and therefore inability to work except in the informal economy. For ethnic Serbian returnees, reintegration into the labour market is hampered by various factors:<sup>23</sup> lack of business and economic development opportunities in war-damaged areas, conflicts over residential property, discrimination by employers and widespread corruption that prevents them from finding a job. Furthermore, the problem of non-compensation for loss of employment during the war because of ethnic origin or political affiliation remains unsolved.

A recent Council of Europe report on Roma Access to Employment in Croatia<sup>24</sup> describes unemployment among Roma communities as much higher than for the majority population. Although there are no disaggregated data on unemployment based on ethnic origin, it is estimated that 13.5% of persons receiving social benefits are Roma, representing more than 50% of the Roma population. This is due to a combination of multiple disadvantages: lack of education and training, lack of skills, disappearance of traditional Roma occupations, reluctance of employers to employ Roma and in some cases, absence of citizenship and/or registered residence.

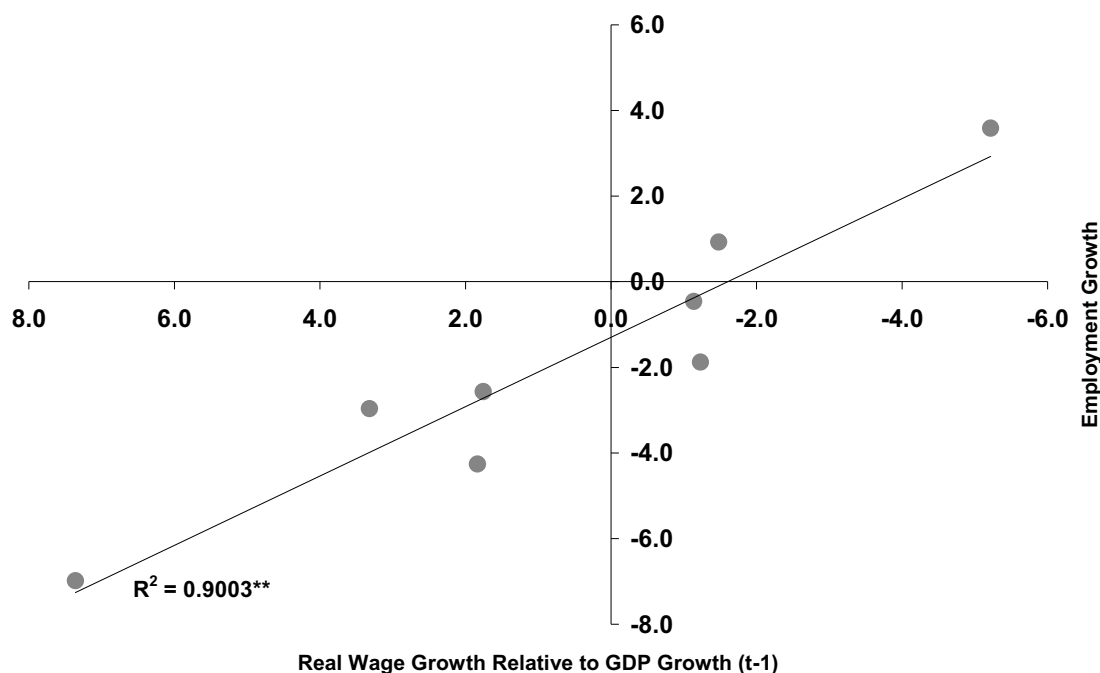
## **2.5. Wage developments**

The outset of transition was associated with falling production, increasing prices and rising unemployment. Real wages in Croatia were heavily affected by the conflict of 1991-1995, falling to a third of the 1989 level in 1992 and 1993 as a consequence of hyper-inflation. Since then, there has been an enormous and steady increase in the level of real wages across all sectors of economic activity and irrespective of the cyclical state of the economy. The average real gross wage has increased by 90.5% since 1994, while real net wages have more than doubled, increasing by 130.6%, pointing to a reduction of the tax impact on workers from 42.1% of the gross wage to 29.9% during that period. This wage growth is all the more remarkable given the fact that total GDP only increased by 44.4% during the same period. Wage growth outstripped GDP growth in every single year between 1994 and 2001. Interestingly, wage growth has been below GDP growth since 2001, which coincides with the fact that, for the first time since the war, economic growth has been translated into a growth in employment rates. This connection becomes clear in the graph below. As the graph shows, there is a very strong and statistically significant negative correlation between the growth in real wages relative to GDP and the change in the employment rate one year later. This means that for every percentage point by which wage increase exceeds GDP growth, the employment rate will fall by 0.8% one year later.

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23. See OSCE Mission to Croatia, 2004, Return and Integration on [www.osce.org/croatia/return](http://www.osce.org/croatia/return).

24. Report on Roma Access to Employment in Croatia, 2004, by Lovorka Kusan.



The average gross wage in Croatia in 2003 was 5623 kuna per month (or €744). The average net wage was 3940 kuna, equivalent to €521 or US\$987 at purchasing power parity. Wages are lowest in fishing (70.8% of the average) and agriculture (80%) and highest in financial intermediation (158%). Generally wage growth has been strongest in the service sector, notably in transport, storage and communications, education, financial intermediation, and health care, where wages have almost doubled since 1996. The minimum wage is not prescribed by law, but determined according to collective agreement, using a minimum basis for calculation of compulsory social security contributions. The minimum basis is defined as 35% of the average wage; for 2004 the minimum wage has been fixed at 1951.25 kuna (national report). The government usually has a pivotal influence over the fixing of the minimum wage, as it retains the right to decide in the event that no agreement is reached. Minimum wages above the national standard can be negotiated by the social partners through bilateral bargaining (see section 3.5 about collective bargaining).

### 3. Identification of main priorities for employment policy

#### 3.1. Employment protection legislation and labour market flexibility

The strictness of the legislation protecting employment may affect both employers' and employees' decisions; therefore employment protection legislation (EPL<sup>25</sup>) generates a number of effects on labour costs, employment and productivity, some favourable and some unfavourable. The primary objective of EPL is to give workers more employment and income security both in their current jobs and in case of redundancy. Advance notice informs workers

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25. EPL is understood here to refer to regulatory provisions that relate to "hiring and firing", particularly those governing unfair dismissals, termination of employment for economic reasons, severance payments, minimum notice periods, administrative authorisation for dismissals, and prior consultations with trade union and/or labour administration representatives.

of redundancy plans and gives them time to look for new jobs. But EPL also makes redundancies a more lengthy and costly proposition for employers.

Potential costs of stricter EPL may also increase labour market segmentation, i.e. the gap between “insiders” (workers in regular jobs enjoying high employment security) and “outsiders” (those in irregular jobs, such as fixed-term, seasonal or any type of informal employment, as well as unemployed jobseekers, not covered by EPL). In general, the risk of losing the job declines with age for “insiders”, while “outsiders” face difficulties of access to regular jobs, particularly in periods of higher economic volatility. In this way, stricter EPL may stimulate the rise in irregular forms of employment and reduce new hiring, mainly for regular jobs. This would result in higher unemployment, especially long-term unemployment. Stricter EPL is also expected to provide better employment protection for certain vulnerable groups who if dismissed would face difficulties in finding a new job and source of income. These groups include older workers specially protected by seniority rules, employed women during pregnancy and maternity leave, single parents taking care of small children, disabled workers and other groups. Employment protection thus helps mitigate discrimination against vulnerable workers, promotes their employment and helps in saving social welfare funds otherwise necessary for the income support of disadvantaged groups. In this way, stricter EPL ensuring higher job stability should enhance aggregate productivity through better enterprise adaptation, technological progress and constant training of workers while simultaneously ensuring higher income equality and combating discrimination. The expected overall effect is improved economic performance and living standards.

The costs of stricter EPL for society may be twofold. First, the labour market segregation between “insiders” and “outsiders” mentioned above contributes to increasing labour market rigidity, inequality and social exclusion requiring additional expenditure for their mitigation. Second, the fear of well-protected workers that they may lose their privileges and become exposed to uncertainties of the labour market prevents them from moving to more productive jobs elsewhere. But, as mentioned previously, stricter EPL may also contribute to smoother labour market adjustment, more social stability, sharing of adjustment costs between society and the enterprise sector, faster absorption of new technologies through pressures on enterprises, with positive impacts on productivity.

Employment protection legislation was very strict in Croatia by international standards until recently, when restrictions were lifted on both temporary and permanent employment. Croatia had one of the most rigid legislative frameworks in Europe in terms of the length of the lay-off period and the amount of severance payments; moreover, it had pockets of very highly protected workers in the public sector. Table 3 illustrates this by presenting summary EPL indicators for selected CEE countries using the OECD methodology: these indicators take into account a whole set of regulations describing various aspects of the legislation protecting employment, covering both permanent and temporary contracts, as well as collective dismissals.<sup>26</sup> The results of measuring EPL strictness in Croatia also compare the EU average and the OECD average. The indicators range from 1 to 6: countries with very flexible legislation have a low overall value (close to 0 or 1), while those with very strict legislation have a high value (5 to 6). Clearly, the high value of the overall indicator in Croatia was chiefly due to the stringency of the legislation on temporary employment and collective dismissals (with respective sub-indicators reaching maximum values for Croatia).

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26. This indicator is a weighted average of 22 items of strictness of employment protection.

**Table 3: Employment protection legislation strictness, late 1990s and early 2000s**

Country	Regular Employment	Temporary Employment	Collective Dismissals	Overall Indicator
Bulgaria	2.3	2.8	4.4	2.8
<b>Croatia</b>	<b>2.8</b>	<b>3.9</b>	<b>5.0</b>	<b>3.6</b>
Czech Rep.	3.0	0.5	4.3	2.2
Estonia	2.9	1.3	4.1	2.4
Hungary	2.1	0.8	3.4	1.8
Poland	2.3	1.0	3.9	2.0
Slovakia	2.6	1.2	4.4	2.3
Slovenia	3.4	2.5	4.8	3.3
<b>EU average</b>	<b>2.4</b>	<b>2.1</b>	<b>3.2</b>	<b>2.4</b>
<b>OECD average</b>	<b>2.0</b>	<b>1.7</b>	<b>2.9</b>	<b>2.0</b>

Sources: Cazes & Nesporova, (2003); Rutkowski (2003).

In mid-2003, amendments to the Labour Act were passed to increase labour market flexibility; the idea was to make procedures simpler and reduce costs. The new Labour Law<sup>27</sup> was implemented in January 2004 and was the subject of much debate, negotiation and conflict during the period of its design. Formal procedures of collective dismissals for example have been simplified: an employer who intends to lay off 20 or more workers needs to put forward a redundancy plan within 90 days of the intended redundancy. In the course of drawing up this programme, the employer is required to consult with the workers' council and the regional employment service.

Amendments were also introduced to generally reduce notice periods and severance payments (see box 1). The Labour Act stipulates only the lowest standards of workers' rights, while the higher level is left to negotiations: for example, workers are entitled to severance payments if they have at least 2 years of service with the same employer and if the dismissal is not the worker's fault; the level of severance payment is based on the net earnings received over the last 3 months of work. This level cannot be lower than ½ of the average monthly earnings paid to the worker and cannot be higher than 6 such monthly earnings unless otherwise provided by collective agreement or firm statutes.

In addition, non-standard forms of work have been introduced or developed further: a temporary work agency has been introduced,<sup>28</sup> general conditions for temporary employment have been liberalised and various forms of atypical jobs have been encouraged in order to increase labour market flexibility. Part-time work has been particularly supported by adapting retirement eligibility conditions, so that a person working part-time has the same rights as a person working full time.

On the whole, these changes have reduced separation costs that were considerable for the employers. Also, the speed of labour adjustment has been increased, which again is a very important cost saver and a booster of structural change. However, some groups of workers may become more vulnerable on the labour market depending on their status and labour contract: not all types of work have been defined as employment, and as such, are not covered

27. Amendments Official Gazette No. 114/03 and 142/03. Implementation 19 July, whereas Articles 27 and 28 have been implemented as of 1 January 2004.

28. Since the law on mediation and benefits during unemployment was passed, 8 new private agencies have been registered. Their main focus is on the placement of higher income posts, and the incidence of placements is very low at the moment. Temporary work agencies were allowed to start operating in January 2004.

by the Labour Law. For example, the Labour Law does not consider persons working on short-term contracts as employed even though mandatory contributions are paid for this type of work<sup>29</sup> (S. Crnkovic-Pozaic, 2004).

### Box 1

#### *Notice period* (Labour Code, Article 113)

Year(s) of service (job tenure)	Until December 2003	As from 1 January 2004
Under 1 year of service	2 weeks	2 weeks
1 year of service	1 month	1 month
2 years	2 months	2 months
5 years	3 months	2 months
10 years	4 months	2 months and two weeks
15 years	5 months	2 months and two weeks
20 years	6 months	3 months*

\* (2 more weeks if the worker has reached 50 years; one month if the worker is older than 55)

#### *Severance payments* (Labour Code, Articles 118, 119)

Law in effect	Lowest amount of severance payment	Highest amount of severance payment
<b>Until December 2003</b>	Half of the average monthly wages paid to the worker during the last 3 months prior to the termination of employment for each year of service	Not stipulated (although manager's wages cannot be used as basis for the calculation of severance payment).
<b>As from 1 January 2004</b>	Half of the average monthly wages paid to the worker during the last 3 months prior to the termination of employment for each year of service	May not exceed six times the average monthly wage paid to the worker the last 3 months prior to the termination of employment.

Notes: (1) in Croatia, in 2003, 322 000 workers had more than 20 years of service.  
(2) If the dismissal is the worker's fault, all notice periods are 50% of the entitled length.

### *Informal economy*

The existence of an important informal sector can also be interpreted as part of labour market flexibilisation; it is therefore relevant to assess its role in the adjustment process. High

29. S. Crnkovic-Pozaic, Labour market flexibility and employment security in Croatia. ILO 2003.

unemployment, the desire to avoid high taxation and social security contributions, as well as institutional weaknesses in checking the phenomenon are among the reasons that account for the importance of the informal economy in the labour market adjustment process. The sectors where undeclared work is most common are agriculture, construction, social and personal services, and especially hotels and restaurants, businesses and retailing. Manufacturing is not much affected, though. Working at least partly in the informal sector is not a prerogative of unskilled labour. Medical services and some types of business services also see a significant incidence of undeclared work. Under-reporting part of the income is one of the main forms of participation in the informal economy, even if its incidence varies. In a study on Croatian tax evasion (Madžarevic-Šujster, 2002), the evaded share of income tax and social security contributions is estimated to be in the range of 31% to 47%. The lion's share of evasion is represented by social security contributions in private SMEs, in particular in the construction, trade and tourism sectors. Public authorities of CEE countries have had different attitudes towards the informal economy as some countries see it as a buffer to moderate imbalances in the labour market (Renooy et al., 2004).

### **Recommendations:**

- *There is a need to review the entire EPL and to consider compensating the workers for any loss of employment and/or income protection by better income protection during unemployment and by effective assistance in re-employment (in this respect, see the relevant sections further on in the text).*
- *This reviewing process should be carried out in consultation with the social partners to find a balance between the interests and constraints of the three parties involved, i.e. maintaining competitiveness of Croatian employers vis-à-vis their competitors, financial constraints of the government, and decent work for workers.*
- *It is also necessary to reduce the informal economy through appropriate tax policy and legislative changes.*
- *It would be appropriate to enhance the enforcement of the law, through strengthening of labour courts and speeding up of their activity, as well as tightening up labour inspection.*
- *It is very important to reduce the dichotomy between regular forms of employment (the so called "insiders", i.e. workers in regular jobs enjoying high employment security under EPL) and other atypical forms of work ("outsiders", i.e. those in fixed-term, seasonal or any type of informal employment), not covered by EPL.*

## **3.2. Human resources development and active labour market policies**

### **3.2.1. Human resource development, education and training**

The Croatian education and training system consists of eight years of compulsory basic education followed by either higher secondary school (usually a four-year programme ending in the 'matura' or equivalent certificate) – general (grammar school) or vocational (art, technical and similar vocational schools) – or lower vocational training school (1-3 year programmes for blue-collar occupations). A majority of grammar school students and a certain proportion of higher secondary vocational school leavers go on to university or non-

university professional studies while others go to work. Very few young people do not follow any of these programmes and enter the labour market after completing compulsory education – often through short-term vocational courses. As a result, the educational standard of the population at or above employable age is fairly high. According to the 2001 Census, the illiteracy rate in the total population over 15 was 2.9%, while persons with basic or primary education represented 37.5%, persons with lower secondary education 27.2%, gymnasium leavers 4.8%, higher vocational education certificate holders 15% and those with post-secondary education 11.9%. The level of education increases in general for younger age cohorts.

Low recruitment rates and their variations by level of education point not only to low demand for labour in general and its concentration on better-educated people (some of them finally accept jobs beneath their qualifications and partly waste their capacity) but also to skill mismatches generated by a lagging response of the education and training system for youth and adults to changing demand for skills. The rather loose connection between the education and training system and the labour market is quite well known and there are several reasons for it.

First of all, public expenditure on education and training has been rather low but is moving closer to the OECD average of 5-6%.<sup>30</sup> The most under-funded part of the system is vocational education and training (VET). This is manifested in obsolete equipment of many vocational schools, low supply of books and other training materials, poor maintenance of buildings and low salaries of teachers and instructors, de-motivating the best of them, in particular males, to stay on. While public funding is low, enterprises are in general not prepared to subsidise the schools. As a consequence, the quality of vocational education and training suffers considerably.

Second, there is evidence that this low expenditure on VET is not efficiently allocated. The network of vocational schools and training centres is overlapping; in some regions there are several schools and centres offering the same courses and thus competing for students (and scarce funds) while their capacity is under-utilised and resources are wasted. Simultaneously, there is a shortage of certain programmes offering skills highly demanded by employers. Proper analyses of current and projections of future labour market needs are missing, so that the VET system is not adequately informed. This is exacerbated by the weak involvement of the social partners in VET policy and in the design of curricula and teaching methods of vocational schools and centres. Moreover, schools and training centres are financed according to the number of students and therefore are not motivated to react to changing needs. School leavers or trainees unable to find a job due to obsolete skills then have to be retrained at additional costs which come from another line of the same limited public budget (this time from the Croatian Employment Service).

Third, VET programmes are still too narrowly specialised, their curricula over-emphasise factual knowledge, and teaching methods are based on passive acquirement of knowledge and practical skills instead of active involvement of students and trainees. New competences, required by the world of work, such as sound numeracy and literacy skills, “learning to learn” skills, social and interpersonal skills, business and entrepreneurial skills, multiple technical skills, diagnostic-analytical and technical (media) skills as well as good command of one or

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30. Initial Vocational Education and Training in the Republic of Croatia – Assessment and Options for Development. Peer Review Report Croatia. European Training Foundation, Turin, March 2003.



more foreign languages are not taught at all, or insufficiently. There is also a lack of nationwide standards for VET programmes.

Fourth, adult training is largely underdeveloped. Training facilities previously owned by (mostly large) enterprises have been to a large extent closed down or shifted to public budgets. At present Croatian enterprises spend very little on skills upgrading or re-skilling of their employees, compared with enterprises in OECD countries. They prefer to hire workers who possess the requisite skills from the labour market. Also, existing vocational schools and training centres specialise mainly in initial training of youths while they do not adapt their courses sufficiently to the special needs of adult workers. Labour market training of unemployed persons is organised by the Croatian Employment Service, but the funds allocated to it are largely insufficient. Access of jobseekers to training is thus very limited while the short duration of offered courses in general raises doubts among employers about the quality of training.

Last but not least, access to VET remains problematic for some minority ethnic groups, in particular for the Roma. Access to VET in Croatia is conditioned by a requirement of having completed primary education, which many Roma have not. There are Second Chance education programmes that could offer them another opportunity to acquire skills, but these are not easily accessible for Roma and, in particular, for Roma women as they include no child care services. There is virtually no VET for upgrading the general level of skills which would suit Roma best. Finally, the few existing VET opportunities accessible for Roma are not based on a sound analysis of their situation and needs because there is an overall lack of information and data on the socio-economic and educational situation of the Roma.<sup>31</sup> The National Programme for Roma adopted by the Government in October 2003 aims *inter alia* to improve the employability of the Roma through education and training and to provide them with a training offer in self-employment and setting-up of small businesses. However, budgetary allocations for the implementation of the National Programme were very limited and hardly any of the planned measures in the field of VET were implemented.

### **Recommendations:**

- *Public spending on education and training needs to be increased and re-allocated in favour of strengthening VET – both initial and adult training, including labour market training for unemployed persons and those in danger of redundancy.*
- *Enterprises need to become increasingly involved in VET funding through e.g. compulsory contributions to a (possibly newly established) Vocational Training Fund. The Fund should be managed on a tripartite basis and subsidise both initial training and training provided on the job (while labour market training for jobseekers should continue to be funded by the Croatian Employment Service).*
- *Education and training and in particular VET have to adjust to changing skills requirements in the labour market. Schools and training centres should restructure their courses to discontinue programmes where there is clear surplus labour and replace them with programmes offering skills on demand. Curricula have to be constantly adjusted and modernised to include newly required competencies, and*

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31. Report on Roma access to employment in Croatia, by Ina Zoon and Lovorka Kusan, Council of Europe, September 2004.

*teaching should be made more proactive and participatory. Employment of graduates should be one important criterion for assessing the quality of training programmes, while the funding of schools and training centres can be used as leverage.*

- *VET policy should be formulated in a partnership of the relevant ministries with the social partners. There is a need for regular analyses and short to medium-term projections of demand for labour and skills through surveys of employers and forecasting models to inform and direct VET policy. The social partners should also be actively involved in the implementation and evaluation of VET policy at all levels.*
- *A lifelong learning approach to VET should be gradually developed.*
- *There is a need to establish a national accreditation system for VET facilities to improve their standards and enhance confidence of employers and the public in general. A national system of certification of qualifications should contribute to their nationwide recognition.*
- *The adult training system needs to be greatly strengthened in terms of its quality, adjustment to the needs of adults, and availability to workers with low or obsolete skills.*
- *More attention should be devoted to training in business start-up and management to stimulate small business development and self-employment, particularly in regions with high unemployment.*
- *Much more emphasis should be placed on education and vocational training of ethnic minority groups, in particular the Roma and displaced persons and returnees. The elements of the National Programme for Roma concerning education and VET should be translated into concrete programmes and measures with adequate budgetary allocations.*

### **3.2.2. Active labour market policies (ALMPs)**

Croatia launched active labour market programmes from the beginning of the 1990s as a response to its mounting unemployment. Between 1994 and 1996 the main programmes applied offered initial vocational training for youth, re-training of people with obsolete skills (jobless and employed but threatened by redundancy), and subsidised employment for vulnerable groups such as war veterans and their family members and older persons over 50. Other ALMPs focused on the promotion of self-employment of selected groups of workers, worker mobility, and also included programmes aimed at the retention of redundant workers. Monitoring of these programmes as to the re-employment rate and sustainability of employment after 2-3 years revealed their varying efficiency. Programmes directed at the retention of employed redundant workers, self-employment programmes for highly skilled workers and mobility measures emerged to be very effective. Training programmes scored around the average for effectiveness. In contrast, subsidised employment schemes and self-employment promotion of less competitive groups appeared to be rather unsuccessful. The

failure of the latter programmes resulted in a considerable reduction of all programmes from 27.5 thousand participants in 1994 to only 5.5 thousand in 1996.<sup>32</sup>

In 1998 the newly adopted National Employment Policy suggested a new, more active approach to labour market policies and their closer integration with economic measures promoting job creation by methods including local economic development and support to small businesses and self-employment. Emphasis has been placed on strengthening the National Employment Service (NES) through computerisation of its activities and databases, dissemination of good practices acquired by some regional offices among all offices, strengthening of internal co-operation and communication, and co-operation with other employment policy agencies such as the Ministry of Economy as well as co-operation with similar organisations abroad and with relevant international organisations. Active labour market programmes were further directed to the most hard-hit jobless persons, in the first place youth without work experience, war veterans, spouses or children of fallen soldiers, older workers over 45, disabled persons and workers threatened by redundancy. Programmes included professional training, training for small business management (usually offered to those having been granted loans), subsidised employment (by covering part of the wages and costs of on-the-job training), public works organised jointly with local offices in certain areas (e.g. coastal regions damaged by fire) or re-employment programmes in the case of mass layoffs. The number of persons benefiting from these programmes was rather low, some 15,000 between April 1998 and December 1999 when the whole programme was suspended for a certain time because of financial constraints. This means that only 5% of all registered unemployed persons could benefit from active policies, according to the 2000 Government report to the ILO on the observance of ILO Convention 122. No evaluation of these programmes in terms of their success in job placement of programme participants has been undertaken to our knowledge.

In January 2002 the Programme for the Promotion of Hiring was approved by the Government of Croatia and launched in March 2002 when registered unemployment reached its all time high – 415,000 persons. The targeting remains very much the same as in the previous labour market programmes. In the case of youth, the emphasis is on college and university graduates under 27 years of age in order to stimulate their employment in Croatia, where possible in their regions of residence, and to avoid their emigration outside Croatia. Other target groups include young people under 30 without or with little work experience, older workers (women over 45 and men over 50), workers with disabilities, unemployed war veterans, and unemployed spouses and children of soldiers killed or missing.

In the preparatory stage of the programme, the Croatian National Employment Service calculated the number of persons belonging to each of the targeted groups and estimated the potential number of beneficiaries among them, which was used for planning the total amount of necessary funds and their allocation. Moreover, it launched a major promotion campaign among final year students at 85 colleges for the sub-programme A “From College to Work”, offering them vouchers on the condition of completing their studies on time. Vouchers could then be used for five different programmes: replacement in government administration or public enterprises of retiring workers (with the idea of mentoring these new employees); subsidised employment in research projects in government administration or public or private enterprises; subsidised employment in selected regions or regions with labour shortages in

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32. S. Crnkovic-Pozajic and B. Vujcic, Employment and Labour Market Policies. Report prepared for the ILO project on employment and labour market policies in transition countries of Central and Eastern Europe. ILO 1998.

certain occupations; subsidised employment in local administration and private enterprises; and provision of loans and other assistance for starting own-account activities.

The other sub-programme B “From Classroom to Workshop” is designed to support the employment of jobless youth with vocational education and/or training but without prior work experience. Sub-programme C “From Education to Work for All” subsidises employment of other young people under 30 with only minimal work experience. It offers either internships for up to 12 months, in the case of lawyers in notary offices, courts and law offices for up to 24 months, or on-the-job training followed by employment for a fixed period related to the period of the subsidy. Sub-programme D “With Experience to Profit” is directed at older jobless workers to subsidise their employment for up to 18 months. The following sub-programme “A Chance for Us Too” promotes employment of disabled persons with particular employment difficulty for up to 24 months. Finally, sub-programme F “Work for Defenders” targets war veterans or spouses and children of dead and missing soldiers and subsidises their employment for up to 36 months. In all these sub-programmes, employers receive subsidies in the form of a certain percentage of the gross or net salary of the worker, differentiated by the sub-programme component, an evident reflection of the seriousness of hiring difficulties (in sub-programme A the wage subsidy is replaced by a social insurance contribution subsidy). In certain components, employers may receive a premium for keeping the worker for an extended period. Programme participants eligible for the self-employment component of sub-programme A are granted a start-up loan plus other assistance free of charge while those benefiting from subsidised employment in selected regions or regions with labour shortages can obtain a relocation subsidy.

The National Employment Office launched a promotion campaign on the programme and its components among potential beneficiaries – both persons belonging to one of the eligible groups and enterprise managers, entrepreneurs and public administration officials who could apply for an employment subsidy. It also administers the programme.

During the period from March 2002, when the programme started, to June 2004, 48,700 applications in all were received and 55,100 persons were newly employed. By far the greatest interest (two thirds of all applications) centred on measure C, and in particular its component offering on-the-job training followed by employment, which was also designed for a large group of persons with vocational education and training but no work experience. Other components lagged well behind – measure F (6,600 persons employed), D (4,300 persons), A (3,900 but mainly the component subsidising employment in private enterprises or local administration or municipal enterprises), B (1,200) and E (200). The programme review undertaken in December 2003 showed the interest of employers in the programme, compared with estimations made by the National Employment Office: the number of jobseekers benefiting from the programme exceeded the planned number by 14%. In terms of variations by component, planned figures were exceeded by multiples of 4.6 for component D, 2.6 for component C and 2.1 for component F while the planned figures for programmes B, E and A remained unfulfilled. However, the focus of employers’ interest in obtaining subsidies for employing differing target groups is expressed in the share of subsidised employment in the total new employment of registered jobseekers by target group as provided by the following table:

**Table 4: Re-employment of registered jobseekers during the period March 2002-autumn 2003**

	A	B	C	D	E	F
Employment of registered jobseekers	8,216	13,986	192,266	11,204	9,755	22,977
Employed in subsidised jobs	2,979	1,032	29,486	3,206	136	5,190
Per cent proportion of subsidies to all new employment of registered jobseekers	36.3	7.4	15.3	28.6	1.4	22.6

Source: S. Crnkovic-Pozaic, op. cit.

The table shows that employers were mainly interested in obtaining subsidies for university graduates, followed by older workers with work experience and war veterans while, for other target groups, in particular disabled workers and youth with secondary education but no work experience, employment subsidies did not attract the interest of employers. All in all, the proportion of registered jobseekers benefiting from active labour market policies at the end of 2003 reached 12.7% at the maximum.<sup>33</sup>

In the same period 2002-03, the actual programme costs reached almost 400 million kuna, amounting to 53.1% of the total planned expenditure. With regard to individual components, sub-programme D spent 3.6 times more than originally planned, actual costs of sub-programmes C and F slightly exceeded the plan, while other sub-programmes used only a fraction of planned expenditure. The large unspent amount may indicate important savings, so that the actual cost of one subsidised employment opportunity is lower than originally expected. However, it also reveals unrealistic cost estimates projected by the Office. The overall expenditure on ALMPs over this 22-month period equalled 0.2% of GDP in 2003, which is still very low as against the EU-15 average but also by comparison with a number of new EU member countries of Central and Eastern Europe, particularly considering the persistent high level of unemployment in Croatia.

### ***Micro-finance for employment promotion***

Measure A5 in the Programme of the Republic of Croatia for the Promotion of Hiring made loans for self-employment available to young graduates up to 27 years of age. Indeed, small businesses, and even one-person enterprises, contribute to investment, growth and employment, as was recognised in the Croatian Government's Programme for Promoting the Small and Medium-Sized Enterprise Sector (May 5, 2004). It is well justified that active labour market policies also include measures to encourage entrepreneurship, also among the unemployed. In the light of successful experiences in Western Europe, this usually includes a package of support measures, financial and non-financial. Access to seed capital is essential for new and existing micro-enterprises and small enterprises. If well-designed and accurately targeted, the cost-efficiency of these programmes, measured in terms of survival rates of the enterprise created, compares favourably with other labour market policies.<sup>34</sup> It may be important to recall further that such measures are strongly endorsed and recommended in the *European Guidelines for the employment policies of the Member States*.<sup>35</sup> The poor

33. Ratio of the number of programme participants to the number of registered jobseekers on 31 December 2003. This calculation was made on the assumption that all persons participating in the programme from March 2002 to December 2003 were still employed in subsidised jobs at the end of this period.

34. For more detailed information, see *Microfinance in Industrialised Countries, Helping the unemployed to start a business*, ILO, 2002.

35. Council Decision of 22 July 2003; 2003/578/EC.

performance of measure A5, far from calling into question the fundamental justification of such initiatives, shows the need to pay attention to sound design of such programmes, taking into consideration factors such as motivation, maturity (usually individuals with working experience), education, social capital of the individual, sector and location of the activity.

### ***National Programme for Roma***

The existing ALMPs do not specifically target ethnic minority groups such as the Roma and Serbs (IDPs and returnees) who are most at risk of being long-term unemployed and de facto excluded from the labour market. The National Programme for Roma plans first of all to hire Roma counsellors in employment offices. Measures foreseen include incentives for employers that would hire Roma, public works programmes, and generation of jobs for Roma in the specific area of recovering and recycling raw materials. It is planned to include a proposal for the organisation of these activities in the programme to be funded by CARDS. Nevertheless, as mentioned in the CARDS report,<sup>36</sup> in 2004 only 10% of the funding needed to implement the National Programme for Roma was allocated, and there was nothing for the CES which had requested €530,000 for implementing employment-related measures. As a consequence, no specific employment programme has been launched so far at national or local level.

The category of the long-term unemployed is now going to be a top priority of the newly adopted (July 2004) National Employment Action Plan. There is no mention of specific groups among the long-term unemployed in the Action Plan, but it is likely that Roma and other disadvantaged groups would fall into this category and thus benefit from new programmes to be designed. However, priority VII of the Action Plan deals with promoting the integration of and combating discrimination against people at a disadvantage on the labour market. It clearly targets disability but contains no mention of other disadvantaged groups such as ethnic minorities.

### **Recommendations:**

- *With regard to the high level of non-employment (both open unemployment and hidden unemployment, i.e. discouraged passive jobseekers), the Government should consider significantly increasing the level of spending on ALMPs.*
- *The list of target groups for ALMPs needs to be expanded to include long-term jobless and discouraged jobseekers. Before doing this, an in-depth analysis needs to be conducted to understand the re-employment barriers for diverse sub-groups of long-term unemployed and discouraged inactive persons, in order to identify specific measures which would deal with these barriers and contribute to improving their employability and re-integration into the labour market.*
- *It would be useful to extend the list of ALMPs to include public works focusing on ecological projects or on regions still in need of post-war rehabilitation of physical infrastructure; this would create a more favourable environment for enterprise development and job creation. Public works need to be combined with training in order to improve the employability of public works participants.*

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36. EC Country Strategy Paper for Croatia, 2002-2006, CARDS.

- *As indicated earlier, some of those registered as jobseekers, besides formally inactive persons, are regularly or casually involved in the informal sector. In order to gradually reduce informal labour, appropriate measures in labour legislation and the tax system need to be combined with stricter labour inspection plus incentives for employers to create new formal jobs and for persons to start own-account activities or take up available jobs.*
- *It is important to strengthen some ALMPs, which are currently underdeveloped and aimed only at selected small groups of jobseekers, such as self-employment promotion and labour market training, to make them accessible to other jobseekers as well. Training for skills upgrading or re-skilling should be made available to all groups of jobseekers, not only to youth and employed workers threatened by redundancy.*
- *ALMPs contained in the National Programme for Roma should be mainstreamed into the overall policy with regard to active measures.*
- *Programmes for employment promotion of disabled workers need revisiting in order to improve their efficiency. In line with the current trend of mainstreaming disability in employment and social policy, the adoption of anti-discrimination legislation with regard to disability, gender, age, ethnic origin, etc. is strongly recommended. Consideration should be given to widening the mandate of labour inspectors so as to enable them to investigate issues of discrimination at work (which is now only punishable under penal law).*
- *It is advisable to introduce a monitoring system for regular monitoring of outcomes of ALMPs to obtain information on each programme as to the re-employment rate after termination of participation and sustainability of re-employment (after one year or two years) and costs of re-employment per participant. Performance monitoring needs to be complemented by net impact evaluation after a certain period.*
- *The need for an unemployment prevention/early action approach of the CES and appropriate tools to be applied are mentioned in the part dealing with Employment Services.*
- *Currently the social partners are represented in various forums discussing the direction of employment policy and ALMPs, but their role seems to be marginal at the stage where ALMPs are implemented and evaluated, including decisions on the level and allocation of funds for ALMPs at the national, regional and local levels. Their role should be strengthened at all stages, which also requires substantial capacity-building on both the labour and the management side.*

### **3.3. Employment Services**

The Croatian Employment Service (CES) has been undergoing a fundamental reform process since the late 1990s. In particular, the 2001 Law on Mediation and Benefits during Unemployment marked a significant change in the orientation of the work of the CES. The Law introduced international standards into the definition of unemployment based on the ILO methodology, provided tools for the CES to motivate jobseekers better for active job-seeking and introduced competition into mediation (regulation on operation of private agencies and temporary work agencies). It also helped further computerisation of CES services and

suppressed the obligation for employers to declare vacancies to the CES. In general, the Croatian Government is expecting the CES to play a central role in the smooth operation of the labour market. Its current responsibilities include: mediation, preparation for employment, vocational and career guidance and the implementation of ALMPs.

The aim of the reform process was to improve its overall performance and the quality of service delivery and namely:

- to deliver better quality services to employers;
- to deliver better and more personalised services to jobseekers;
- to strengthen its role at the local and regional levels, particularly through the setting up of local partnerships;
- to foster the mobility of jobseekers through career guidance and the establishment of mobility centres, especially in areas where privatisation and restructuring of big state-owned companies occurred and led to mass redundancies;
- to become the main source of background information for development, education planning and policy-making.

The reform process was backed by exchange programmes with similar foreign institutions and training provided by other countries, such as the UK which trained CES staff instructors. Besides training of the staff of employment services, measures were taken to improve the management capacity of the NES, such as giving the social partners equality of influence in the management board of the CES and introducing tender procedures to recruit the Director General of the CES and the regional directors.

With respect to improvement of the quality of services delivered to the users (jobseekers and employers), innovative measures were also introduced, for instance the setting up of one-stop-shops (limited so far to foreigners willing to work in Croatia) and of self-help opportunities for users. Seven teams in the CES for the implementation of ALMPs at the regional level have been created; they include specifically trained specialists of the CES. In general, a stricter division between administrative services and counselling has been established.

Despite these very important steps, the performances of the CES are still hampered, on the one hand, by excessive centralisation and a lack of flexibility in the system that prevents local offices from adapting the programmes (and particularly the implementation of ALMPs) to local needs and situations. On the other hand, the decentralisation of tasks is sometimes not accompanied by adequate decentralised finance. This is particularly evident in the case of the National Programme for Roma, for which the CES requested funding (see section 3.2.2) that it did not obtain in 2004. As a result, the local offices which have a prime responsibility to meet the needs of the Roma jobseekers are in most cases helpless.

The CARDS programme for Croatia should help to tackle these challenges as it includes support to the further modernisation of the CES, such as the completion of the



decentralisation process, further computerisation, increased involvement in local partnerships and the setting up of career guidance centres and mobility centres.<sup>37</sup>

### **Recommendations:**

- *Despite recent reforms, there is a need for further co-operation with the social partners at the national and local levels alike, particularly if the CES is to meet the needs of employers more adequately.*
- *It is important to ensure that local employment agencies can effectively: 1) ensure service delivery, through adequate funding and further training of the staff and 2) have an increased capacity to influence policy-making according to local needs and be in a position to launch initiatives to react to local situations and problems. In fact, the CES still works along the lines of a centralised system and a more bottom-up approach would be needed.*
- *Consequently, local partnerships with NGOs, local authorities and other actors involved in employment are to be further encouraged. Existing good practice should be disseminated by the CES. This is particularly true for areas with acute employment problems and areas which were most affected by the war and where few opportunities of economic development exist so far.*
- *There is an overall need for more synergies and co-ordination of the CES with social welfare institutions so as to prevent categories of people from slipping through the social safety net. The same applies to co-operation with private agencies.*
- *Specific attention should be paid by the CES to the situation and needs of other vulnerable groups than those currently highlighted in ALMPs, and in particular returnees and ethnic minority groups, with a view both to addressing the high level of unemployment among these groups and to preventing further exclusion from the labour market. When dealing with vulnerable groups, specific attention should be given to the situation of women.*

### **3.4. Passive labour market policies**

#### ***3.4.1. Income support in unemployment***

The system of income support in unemployment in Croatia consists of an insurance based system and a welfare system. The eligibility conditions include the minimum length of previous work (at least 9 months during the 24 months prior to the employment termination) when contributions to the unemployment benefit system were paid, employment termination through no fault of the worker, reporting to the employment office within a fixed period after employment termination, regular contact with the employment office stipulated by law, and no refusal of a suitable job without serious reasons defined by law. Previous work experience is not required for women with a child under one year. Special eligibility conditions also apply to those jobseekers meeting the conditions of the Act on Rights of Croatian Defenders from the Homeland War and the Members of their Families. Registered unemployed persons whose unemployment benefits have expired or whose level of benefits and/or overall income

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37. See EC Country Strategy Paper for Croatia, 2002-2006, CARDS.

is below the subsistence minimum and who have not refused employment offered during the 6 months prior to the submission of the application can receive means-tested social assistance.

The level of unemployment benefits depends on the length of employment and varies from 78 to 390 days. There are two exceptions to this rule: for older unemployed workers (currently men with 32 years of service gradually extended to 35 years in 2007 and women with 27 years of service to be extended to 30 by 2007) who draw benefits until their re-employment or retirement (for a maximum of 5 years), and for women with a child under one year of age until the child reaches one year of age. The minimum level of benefits is 20% (currently approximately 800 kuna) of the average wage while the upper limit is fixed by the Government, currently at 1,000 kuna. The average benefit was 937 kuna or 23.8% of the average net wage in 2003. The proportion of the average benefit to the average net wage has been on a steady decline since 1997 when it stood at 33.7%. Social assistance is not time-limited as long as the recipient meets the stipulated conditions, and its amount can reach up to 400 kuna per month.

In addition, workers whose long-term employment was terminated by the employer for economic and other reasons (not related to their conduct) specified by law, are entitled to a lump-sum depending on their last employment tenure: two monthly wages if they worked for 20 and more years, four monthly wages in case of 25 years and over, and six for 30 years and over. This is separate from severance pay, again stipulated by law and paid by the employer.

Registered jobseekers participating in training are also eligible for monetary assistance for the period of training, which equals the lowest monetary compensation paid by the employment office. Those taking a job outside their place of residence can receive a lump-sum mobility grant to pay the removal expenses for themselves and their family members. There are also other forms of assistance for those in need, such as housing assistance, food assistance, etc.

The payment of benefits is discontinued if the person finds a new job, accepts a temporary job with earnings exceeding the maximum level of benefit in any month or refuses a job in his/her profession within a 50 km distance from his/her residence (provided that there is public transport available, the employer covers transport costs, and travel to and from work does not exceed 2 hours). These conditions are, however, not applicable to mothers with more than 3 children.

Rather strict conditions and the limited duration of benefit payment result in a low proportion of benefit recipients in total registered unemployment. This reached almost 30% in 1991, dropped to 22% the following year and oscillated between 10% and 21% thereafter. In 2003 the proportion of benefit recipients reached 20.6% while some 17% of registered jobseekers received social assistance (as explained above, some may receive both at the same time).

The total amount of funding of unemployment benefits reached 764 million kuna, i.e. 0.4% of GDP in 2003. This percentage seems to be very low in comparison with a number of new EU countries, particularly taking into account the high level of unemployment, although this amount does not cover the expenditure on social assistance for the unemployed.

### **Recommendations:**

- *Income support to jobseekers needs to be increased and its payment extended to provide a decent income for those who cannot find a job, in order to prevent them*

*from falling into poverty. At the same time, it should not allow people who are able to work to become dependent on welfare and eventually supplement the benefits with income from informal work. A premium for taking up a job early could be introduced while local labour offices should be stricter on active job-seeking and strengthen the checking of informal work of benefit recipients (earnings from formal and informal work, plus any other income received while drawing unemployment benefits, should not exceed the minimum subsistence level).*

- *Long-term jobseekers and those not eligible for income support or whose benefits have expired should have access to poverty relief measures such as public works and/or temporary work to make sure that they do not lose their work skills; but these measures need to be combined with training to improve the workers' employability and chances of re-employment. Participation in such training programmes should be made conditional for the provision of income support.*

### **3.4.2. Early retirement pension**

As already mentioned above, older unemployed workers eligible for unemployment benefits can receive them until their re-employment or retirement if by 2003 they have completed 32 years of employment for men or 27 years for women. If older jobseekers have already completed 35 years of employment for men and 30 years for women and have reached a minimum retirement age, they can apply for early retirement pension. In 1998 the entitlement rules were tightened in order to discourage older persons from early retirement and stimulate their longer employment. The minimum age is thus being gradually extended by 6 months during the period of 1999 to 2007 from 55 for men and 50 for women in 1998 to 60 for men and 55 for women as of 1 January 2008. Before 1998 the early pension had been temporarily reduced by 1.33% for every year of early retirement until the person became eligible for old-age pension, which was paid in full. Since 1998 the early pension is reduced by 0.34% for every calendar month of early retirement (i.e. 4.08% annually) and the total reduction is then credited to an old-age pension. Eligibility for early retirement thus depends on the years of service and the age of the jobless person and not on the reasons for unemployment.

The number of persons who retired earlier has considerably declined over the 1990s until now as a result of tightening the rules for early retirement. The average annual number of early retirees for the period 1990-1996 was 30,700 persons<sup>38</sup> but fell to 21,900 in 1996 and after 1998 it varied between 6,000 and 7,600 persons. During the period 1999-2003 a total of 36,416 new early pensions were granted, of which 1,833 were approved as a result of advance payments of social contributions.<sup>39</sup> In December 2003 the average monthly early pension equalled 1,656 kuna. Total expenditure on early retirement pensions (paid from the Pension Fund) amounted to 723.6 million kuna, which corresponded to 0.38% of GDP.

#### **Recommendations:**

- *Population ageing makes it inevitable to increase the retirement age and tighten conditions for early retirement, in order to ensure financial sustainability of the pension system. While it is preferable to grant older workers unemployment benefits rather than early retirement in order to maintain their attachment to the labour*

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38. Crnkovic-Pozaic and Vujcic, op. cit.

39. There is a possibility for enterprises laying off workers to pay social contributions for the rest of the period until their old-age retirement as a lump sum in advance.

*market, for those having contributed for long periods, those with health problems or with low adaptability to new employment conditions, the option of early retirement should be maintained.*

- *In order to allow older workers to remain employed longer, there is a need for active labour market measures which would be widely accessible to them and would primarily improve their employability through training and retraining. Expansion of subsidised employment for older workers could also be beneficial.*
- *A substantial improvement of working conditions in many jobs is important for making work more attractive to older workers than remaining on income support or accepting early retirement.*
- *Enacting and implementing legislation against age discrimination is also an important step to be considered since a large number of older workers and especially older women suffer from ageist stereotypes.<sup>40</sup>*

### **3.5. Income policy**

#### **3.5.1. Wage policy**

As indicated above, high increases in wages (which were outstripping GDP growth) have been recorded in Croatia, in particular during the second half of the 1990s. In order to strengthen competitiveness and improve the current account, wage restraint was introduced following the IMF three-year economic programme for the period 2001-03.<sup>41</sup> The memorandum included a wage freeze in public enterprises in the first years of the wage policy implementation and a wage growth for the rest of the economy below annual productivity gains.<sup>42</sup>

Recent figures for Croatia indicate that some moderation in wage growth has been achieved, although wage growth still exceeded the rise in producer prices (1.9% in the first quarter of 2003). As pointed out in chapter 2, real wage growth has been below GDP growth since 2001 when employment rates started increasing; this would suggest the existence of a trade-off between wages and employment increase. Moreover, with a marked acceleration of industrial output growth accompanied by enterprise restructuring, measured labour market productivity in industry improved in 2003 and increased more than average nominal gross wages (which increased by 5.7% in the first three quarters of 2003 compared to 7.3% in 2002 for the same period, UNECE, 2004). As a result, there was a reduction of unit labour costs in the first quarter of 2003. However, according to a recent report on Croatian competitiveness, unit labour costs were between 4% and 70% higher in Croatia than in other new EU and accession countries.<sup>43</sup>

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40. An important conclusion that can be drawn from the replies to an ILO survey undertaken in the EU accession countries, the Russian Federation and Ukraine is that attitudes and stereotypes leading to age discrimination are an important barrier that older people face in the labour markets of these countries. See Fortuny M., Nesporova A. and Popova N.: Employment promotion policies for older workers in the EU accession countries, the Russian Federation and Ukraine. Employment Paper 50/2003, ILO, Geneva 2003.

41. Memorandum of Economic and Financial Policies (MEFP) signed by Croatia in 2001.

42. 1-2 percentage points.

43. Annual report on Croatian competitiveness, National Competitiveness Council, Zagreb 2003.

### ***Wage formation system***

As elsewhere in CEE economies, the way wages are determined has radically changed with the systemic transformation that these countries have experienced. Collective bargaining in these countries generally has a more limited role than in the majority of Western EU member states. In Croatia, more than half the workforce is estimated to be covered by collective agreements but the implementation of signed collective agreements is rather weak, with surveillance and enforcement mechanisms underdeveloped. Remuneration and more generally working conditions, in a large part of the private sector and in particular in SMEs, are determined by bargaining on an individual basis or unilaterally set by the employer. However, even the payment of salaries on the basis of an individual contract is not to be taken for granted as employment without any type of contract or payments differing from the contractually agreed levels are also widespread practices.

As in other CEE countries, bilateral collective bargaining at national level is rather underdeveloped. Instead, tripartite social dialogue plays a relevant role and is sometimes the main stage of action for social partners and a relevant source of their legitimacy. The state usually plays a leading role.

#### **Recommendations:**

- *Wage policy in Croatia should continue to support macroeconomic stability. Wage growth should be moderate in order to maintain Croatia's competitiveness and contribute to employment growth; however, it is important to keep in mind that wages represent an important economic instrument for boosting demand and increasing workers' motivation and productivity.*
- *It is necessary to enhance implementation of signed collective agreements through surveillance and enforcement mechanisms. The role of the social partners should be strengthened in this implementation process, which also requires capacity building on both the labour and the management side.*
- *It is also important to support bilateral collective bargaining at national level by adopting and implementing appropriate legislation.*

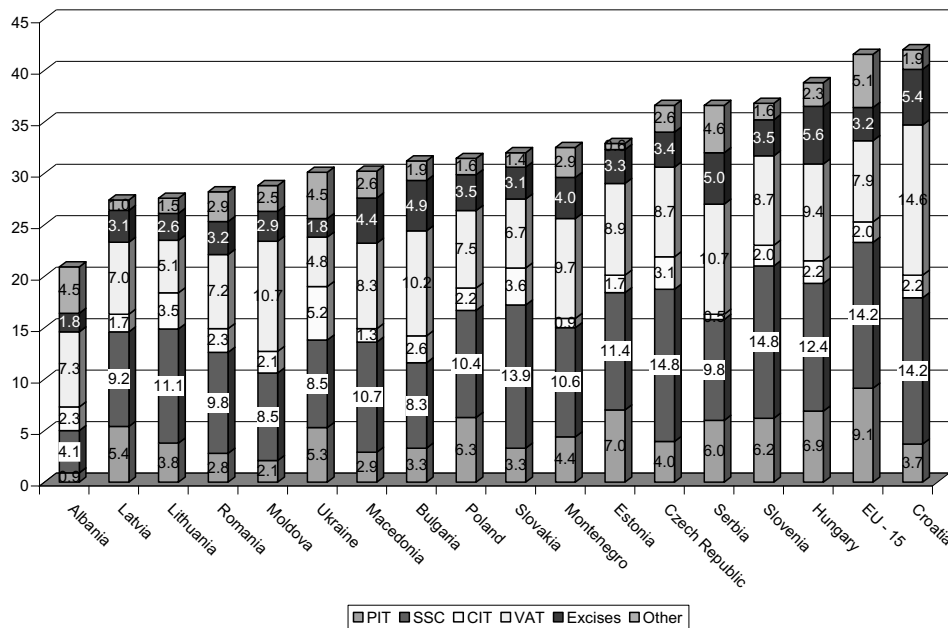
#### **3.5.2. Tax policy**

Although the Croatian Government has managed to reduce the tax burden significantly in recent years from 51.1% of GDP in 1998 to 42.0% in 2003, it still has a far higher share of taxes in GDP than any of the East European countries.<sup>44</sup> The lion's share of the reduction in tax revenues has been borne by reductions in personal income tax, customs duties and social security contributions.

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44. This refers to a sample of the 17 Central and East European countries covered by the ILO sub-regional office (with the exception of Bosnia and Herzegovina, for which data were not available, while Serbia and Montenegro are treated as separate economies).

### Taxes as percentage of GDP



Source: IMF Country Reports 2004 and 2005

Concerning the structure of government revenue, Croatia relies heavily on value-added taxes and excises, which account for almost half (48%) of the total tax revenue (including social security contributions, which account for another 34%). The revenue from personal (3.7%) and corporate (2.2%) income taxes is almost negligible in comparison. Although the reliance on indirect taxes is typical for transition countries (indirect taxes account for 37.9% of tax revenue in the East European countries), Croatia is an extreme case: except Bulgaria, none of the other countries collects so much of its tax revenue through indirect taxes. Equally, except for Albania and Moldova no country collects less revenue through personal income tax – the average for the East European countries is 13.4% and 22% for the EU-15, while for Croatia the value is 8.8%. Social security contributions and corporate income taxes are more in line with EU standards.<sup>45</sup>

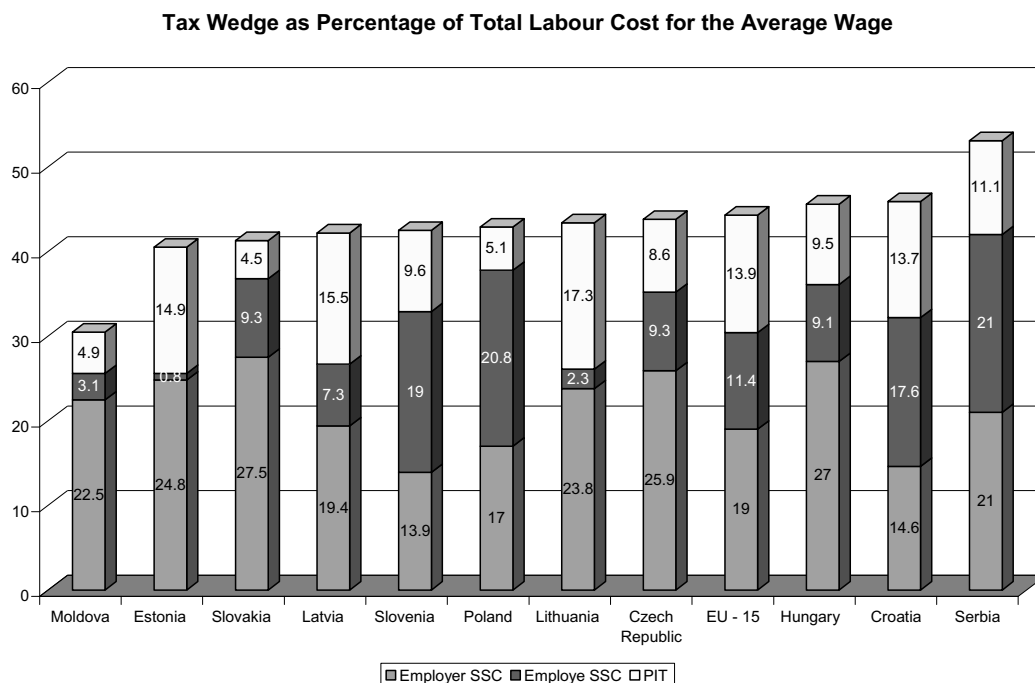
Although taxes are very high in Croatia for a middle income country, taxes on labour are by no means excessive, because of the large share of indirect taxes in total revenue. The marginal personal income tax rate payable on the average wage is 25%. Given the allowable personal deduction of 1500 kuna per month and a marginal tax rate of 15% for income up to 3000 kuna, the effective rate of income taxation for the average wage is 13%. To this a municipal surtax of 1.3% (in villages) to 3.9% (in Zagreb) must be added. A top marginal rate of 45% was introduced in 2003.<sup>46</sup>

Social insurance contributions include 19.5% of gross income for old age, disability and survivors' insurance (of which 5% goes into mandatory private savings), 16.5% for health and maternity insurance (and an additional 0.5% for work injuries), and 1.75% for unemployment insurance. From this 37.7% of the gross income, a little more than half (55%) is borne by the employee. Taking taxes and social contributions together, the tax wedge on the average

45. See UNECE: Economic Survey of Europe 2004.

46. See Croatian Ministry of Finance: Tax Regulations.

income is 45.9%,<sup>47</sup> which is the second highest figure in a sample of East European countries including the new EU member states Serbia and Moldova, but the difference to the average (42.9%) is not large.<sup>48</sup> Therefore high unemployment rates and low employment rates in Croatia cannot be blamed altogether on excessive labour taxation.<sup>49</sup>



Source: World Bank: EU-8 Quarterly Economic Report, April 2005 and own calculations

It could be argued that the total tax burden is too high for a middle income country such as Croatia. This argument is based on the assumption that the Croatian state collects more taxes than it would need to cope with market failures, thereby curtailing overall efficiency and growth. However, given the fact that the Croatian Government spends a sizeable part of its revenue on (infrastructure) investment, and that growth rates have been high on average, this argument remains theoretical.

### Recommendations:

- *From the standpoint of employment creation, the present tax structure is favourable and should not be changed, since the tax burden on labour is not excessive and hence does not represent a disincentive to employment.*
- *Nevertheless the tax wedge should not be increased and given the large size of the informal economy, an overall reduction in the tax burden should be envisaged.*

47. This figure has to be treated with caution, as it excludes deductions other than the tax allowance as well as benefit receipts. It is furthermore based on stipulated contributions only, not on average amounts actually paid.

48. The OECD average is 36.5%, although some middle income OECD countries such as Mexico or Korea have significantly lower wedges (around 15%). See OECD: Taxing Wages, 2004.

49. This observation is also in line with Jan Rutkowski: Does Strict Employment Protection Discourage Job Creation? Evidence from Croatia, 2004, who argues that other factors than taxation must be responsible for low employment in Croatia.

- *The heavy reliance on indirect taxation could be challenged on social grounds, as indirect taxes disproportionately affect the poor and the virtual absence of personal and capital income taxation increases social inequalities.*

### **3.6. Social dialogue**

The foundations for social dialogue in Croatia were laid by the labour law that came into force on 1 January 1996. It created the legal framework for the development of free and independent workers' and employers' organisations. It also guaranteed and protected freedom of association against any interference by public authorities in the internal affairs of trade unions and employers. In addition, it regulated worker-employer relations including the procedures for bipartite collective bargaining and employees' information and consultation rights. As far as tripartite social dialogue is concerned, it started to develop in 1993 when a voluntary agreement was reached between the government, the chamber of commerce (replaced later on by the independent association of employers) and three trade union confederations to establish an Economic and Social Council (ESC) at a time when tripartite discussion was taking place on labour law and public sector reform. Between 1993 and 1995 the ESC did play a useful role since it enabled the representatives of the government and the social partners to discuss labour policies, in particular the formulation of the labour law, as well as to reach a tripartite agreement addressing a wide range of public sector issues such as the restructuring of public companies.

After this promising start, social dialogue got into an impasse until 1997. The agreement concluded in 1995 was not implemented properly, and some institutional confusion between the ESC and the council for social partnership covering the public sector prevented tripartite social dialogue from operating effectively. In 1997 a new ESC was established but its operation was hampered again by the political climate prevailing in Croatia at that time (nationalist government) and the tense relationships between the trade union confederations and the government over the issue of representativeness.

Tripartite co-operation between governments and social partners take place in the framework of the ESC that was revamped in early 2000. It is composed of 15 members (5 representatives from each side – government, trade unions and employers' organisations) and has two functions. On the one hand it is an advisory body to the government delivering opinions on draft legislation in the field of labour and social security; on the other hand it serves as a forum for consultation and negotiation of tripartite agreements. The consultation process between the government and the social partners covers a wide range of issues such as wage policy, employment policy, occupational health and safety, economic policy and privatisation. The ESC addresses two further issues – gender and education.

Regarding the negotiation function, in December 2001 representatives of both social partners and the government came together in a favourable climate and concluded a comprehensive tripartite agreement entitled "Partnership for Development", covering the period 2002-2003, with the purpose of moving forward the revitalisation and restructuring of the national economy, which was expected to enhance competitiveness and reduce the high unemployment rate.

The agreement had five annexes, three of which concerned employment. Annex 3, for instance, was dedicated inter alia to employment policy, while Annex 2 dealt with education and science. The remaining appendices addressed other issues, such as restructuring and



privatisation, wage policy and the ratification of European and international standards. The implementation of this tripartite agreement experienced some difficulties, with the result that three signatory confederations out of four abrogated the agreement, while the fifth trade union confederation, the NHS, had not signed it in the first place. The former blamed the government for not respecting its commitment to act quickly in formulating the details and time-frame for implementation. With four trade union confederations out of five outside the agreement, it lost legitimacy. In comparison to the agreement signed in other countries in the region such as Albania and “the former Yugoslav Republic of Macedonia”, which are meagre in terms of content, the agreement in Croatia proved to be much more comprehensive and concrete. One can conclude that in Croatia the process of monitoring the implementation of tripartite agreements needs to be urgently improved to avoid being denounced by social partners if the government is to build and strengthen the confidence of the social partners in tripartite social dialogue institutions.

Regarding the overall functioning of social dialogue in Croatia, there are differences in assessment by the respective players. For the government, the development of social dialogue in Croatia is moving in the right direction by comparison to the previous period. It cites the involvement of social partners in the work of the ESC as well as in other bodies such as the pension fund, the national council for occupational health and safety, the Croatian Employment Service, and the National Council for Competitiveness (a multipartite body). Employer representatives think that the fragmentation of trade unions constitutes an obstacle for an effective social dialogue. Finally, the representatives of trade unions point out their insufficient involvement in the government’s decision-making process on issues including labour legislation reform and employment policy. The trade unions were very disappointed with the way the labour legislation reform was handled by the government under the pressure of the IMF and the World Bank in 2003. They accused the government of ignoring their proposals for a balanced labour law and for implementing the prescriptions made by the two international financial institutions.

All in all, what seems to emerge is that even though the institutional and legal framework for social dialogue is in place in Croatia, some efforts are needed on the part of the three actors to ensure a better-functioning social dialogue. Improved communication between the actors and a more efficient monitoring system appear necessary at this stage.

### **Recommendations:**

- *Even though the institutional framework for tripartite social dialogue is in place and improvements have been observed in its functioning since the beginning of the years 2000, there seem to remain some gaps that need to be addressed such as the lack of communication between the government and the social partners, in particular the trade unions. The latter expect more communication and consultation on the part of the government when it comes to legislative or policy changes. It is therefore important that the government involve the social partners more effectively before decisions are made on issues such as labour law reform that are of key concern for them.*
- *From the actors’ point of view it seems that the excessive fragmentation of the trade union movement with the existence of 5 national trade union confederations has probably negatively influenced their capacity to participate effectively in social dialogue and therefore curtailed their influence in the reform process in the country.*

*More co-operation on the workers' side would certainly be much welcome to improve their positions in social dialogue with the government and employers.*

- *The conclusion of tripartite agreements between the government and the social partners is a positive achievement. However, in Croatia there seem to be some problems with the implementation of agreements, which is undermining the confidence of social partners in the social dialogue process. Therefore it is of high importance that an agreement-monitoring system be put in place. This monitoring should be tripartite as is the case in West European countries that have experience in concluding tripartite agreements such as Ireland, Netherlands, Portugal and Spain.*
- *The linkage between national tripartite social dialogue and bipartite social dialogue at lower levels of the system of industrial relations (that is the company and the sectoral levels) should be increased.*

#### **4. Conclusions**

The labour market in Croatia underwent fundamental changes over the last few years: legislative changes were introduced, new institutions were built, new policies were designed and the social dialogue has been developing. At the same time, after the economic crisis of the years 1998-99, unemployment is now decreasing because of a positive macro-economic climate and government investments in infrastructure.

However, the Croatian labour market is still characterised by its rigidity, centralisation, segmentation and lack of mobility of the labour force and important regional imbalances as a consequence of the war. The prospect of beginning preparation for accession to the European Union will no doubt help Croatia overcome these challenges and continue and deepen ongoing reforms of its employment policy.

The present report is conceived as a tool for the Croatian Government to identify priority areas where progress is still needed. It is in line with the priorities set in the National Employment Action Plan for 2004 and aims to contribute to the preparation of Croatia for discussions on employment with the European Union.

##### ***Better balance between flexibility and security of employment***

Croatia had, until recently, some of the strictest employment protection legislation (EPL). Changes were introduced in the labour legislation in 2003 to increase labour market flexibility. It is important that the Croatian Government continue reviewing the EPL as a whole. In particular, it should consider compensating workers for any loss of employment and/or income protection by better income protection during unemployment and by effective assistance in re-employment. This reviewing process should be carried out in consultation with the social partners to strike a balance between the interests and constraints of the three parties involved, i.e. maintaining competitiveness of Croatian employers vis-à-vis their competitors, financial constraints of the government and decent work for workers.

Further reform of EPL should also aim to reduce the dichotomy between regular forms of employment, i.e. workers in regular jobs enjoying high employment security, and other

atypical forms of work, i.e. workers in fixed-term, seasonal or any type of informal employment, not covered by EPL.

Croatia still has an important informal sector, and appropriate tax policy and legislative changes are necessary if it is to be downsized. It would also be appropriate to enhance the enforcement of the law, through strengthening of labour courts and speeding up of their activity, as well as through the strengthening of labour inspection.

### ***Investing in human resources***

It is very important that Croatia invest more in education and training in order to tackle the serious skill mismatches on the labour market. Therefore, public spending on education and training needs to be increased and re-allocated in favour of strengthening VET – both initial and adult training, including labour market training for unemployed persons and those in danger of redundancy. Enterprises also need to become increasingly involved in VET funding through e.g. compulsory contributions to a (possibly newly established) Vocational Training Fund.

Education and training and in particular VET have to adjust to changing needs on the labour market. Schools and training centres should provide more programmes offering skills on demand. Assessment of the quality of training programmes should be carried out and the curricula and training methods should be adapted accordingly, the better to meet the needs of the labour market. A lifelong learning approach to VET should be gradually developed.

VET policy should be formulated within a partnership between the relevant ministries and the social partners. There is a need for regular analyses and short to medium-term projections of demand for labour and skills to be conducted through surveys of employers and forecasting models to inform and direct VET policy. The social partners should also be actively involved in the implementation and evaluation of VET policy at all levels.

More attention should be devoted to training in business start-up and management to stimulate small business development and self-employment, particularly in regions with high unemployment. Finally, much more emphasis should be placed on equality of access to education and vocational training for particularly vulnerable groups, including the Roma, displaced persons and returnees who are more at risk of being excluded from the labour market.

### ***Pursuing and adapting active labour market policies***

Croatia has been developing programmes of ALMPs over the last 15 years but the level of spending on ALMPs should still be significantly increased so as to tackle the high level of open and hidden unemployment.

Training for skills upgrading or re-skilling should be made available to all groups of jobseekers, not only to youth and employed workers threatened by redundancy.

It would be useful to extend the list of ALMPs to include public works focusing on ecological projects or on regions still in need of post-war rehabilitation of physical infrastructure, which would create a more favourable environment for enterprise development and job creation.

Public works need to be combined with training in order to improve the employability of public works participants.

The relevance of ALMPs should be regularly assessed. It is therefore advisable to introduce a system for regular monitoring of outcomes of ALMPs. Performance monitoring needs to be complemented by net impact evaluation after a certain period.

The social partners' role in implementing and evaluating ALMPs needs to be reinforced, including their part in decisions on the level and allocation of funds to ALMPs at the national, regional and local levels. Their role should be strengthened at all stages, which also requires substantial capacity building of both social partners.

It is important that the list of target groups for ALMPs be expanded so as to include long-term jobless, discouraged persons and particularly vulnerable groups such as disabled persons and ethnic minorities (Roma and Serbs especially). ALMPs targeting these groups should be based on an in-depth analysis of re-employment barriers facing them, in order to identify specific measures to tackle these barriers and help improve their employability and re-integration into the labour market. Existing specific programmes need to have their efficiency improved, and they should be mainstreamed into employment and social policies. Furthermore, it is crucial that comprehensive anti-discrimination legislation with regard to disability, gender, age, ethnic origin, etc. be adopted, and that it should be enforceable.

### ***Improving the performance of the Croatian Employment Service***

The Croatian Employment Service (CES) has undergone substantial reforms aiming at improved performance in the delivery of services to jobseekers and employers. However, it is still facing excessive centralisation and some degree of rigidity in its operation. As it is a key tool in the regulation of the labour market, it is essential to continue the efforts towards a more effective and modern system. Therefore, it is important to complete the process of decentralisation and to adopt a more bottom-up approach in the relations between the central administration and local offices, so as to meet local needs more adequately. Particular attention should be paid to the implication of further decentralisation that regional and local offices should be given adequate means to implement their tasks. Moreover, there is a need for more involvement of the social partners at all levels of operation of the CES.

Consequently, local partnerships with NGOs, local authorities and other actors involved in employment are to be further encouraged. This is particularly true for areas with acute employment problems and areas which were most affected by the war.

There is an overall need for more synergies and co-ordination of the CES with social welfare institutions so as to prevent categories of people from slipping through the social safety net. In general, more attention should be paid by the CES to the situation and needs of vulnerable groups that are not currently highlighted in ALMPs. When dealing with vulnerable groups, specific attention should be given to the situation of women.

### ***Maximising the impact of passive labour market policies***

It is important to find a correct balance between support to prevent jobseekers from falling into poverty and incentives to avoid their becoming dependent on welfare and at the same time supplement their benefits with income from informal work. Therefore, income support to

jobseekers needs to be increased and its payment extended to provide a decent income for those who cannot find a job. Long-term jobseekers and those not eligible for income support or whose benefits have expired should have access to poverty relief measures such as public works and/or temporary work to make sure that they do not lose their work skills; but these measures need to be combined with training to improve the workers' employability and chances of re-employment.

Population ageing makes it inevitable to raise the retirement age and tighten conditions for early retirement is in order to ensure financial sustainability of the pension system. In order to allow older workers to remain employed longer, there is a need for active labour market measures, which would be widely accessible to them and would primarily improve their employability through training and retraining. Expansion of subsidised employment for older workers could also be beneficial. A substantial improvement of working conditions in many jobs is important for making work more attractive for them than remaining on income support or accepting early retirement. Eventually, early retirement should still be an option for those with health problems or with low adaptability to new employment conditions.

Enacting and implementing legislation against age discrimination is also an important step to be considered, since a large number of older workers and especially older women suffer from ageist stereotypes.

### ***Income policy***

Wage policy in Croatia should continue to support macroeconomic stability. Wage growth should be moderate to maintain Croatia's competitiveness and contribute to employment growth; however, it is important to keep in mind that wages represent an important economic instrument for boosting demand and increasing workers' motivation and productivity.

To that effect, it is necessary to enhance the implementation of signed collective agreements through surveillance and enforcement mechanisms. The role of the social partners should be strengthened in this implementation process, which also requires capacity building on both the labour and the management side. It is also important to support bilateral collective bargaining at national level by adopting and implementing legislation.

As for taxes, an overall reduction in the tax burden should be envisaged to reduce the share of the informal economy. Moreover, the heavy reliance on indirect taxation could be challenged on social grounds, as indirect taxes disproportionately affect the poor and the virtual absence of personal and capital income taxation increases social inequalities.

### ***Social dialogue***

Even though the institutional framework for tripartite social dialogue is in place and improvements have been observed in its functioning, there remain some gaps that need to be addressed such as the lack of communication between the government and the social partners, in particular the trade unions. It is important that the government involve the social partners more effectively before decisions are made on issues that are of key concern for them. In general, it is important that the tripartite social dialogue system become more stable through more systematic consultation between the government and the social partners.

It is also of high importance that a system to monitor the implementation of tripartite agreements be put in place. This monitoring should be tripartite.

Finally, the linkage between national tripartite social dialogue and bipartite social dialogue at lower levels of the system of industrial relations (that is the company and the sectoral levels) should be increased.



## APPENDIX I

### List of relevant Council of Europe instruments ratified by Croatia

Convention	Ratification date	Status
European Social Charter	26.02.2003	Ratified
Framework Convention for the Protection of National Minorities	11.10.1997	Ratified

#### **Declaration contained in the instrument of ratification of the Charter deposited on 26 February 2003:**

The Republic of Croatia declares, in accordance with Article 20, paragraph 2, of the Charter, that it considers itself bound by the following Articles of Part II of the Charter:

- Article 1: The right to work;
- Article 2: The right to just conditions of work;
- Article 5: The right to organise;
- Article 6: The right to bargain collectively;
- Article 7: The right of children and young persons to protection;
- Article 8: The right of employed women to protection of maternity;
- Article 9: The right to vocational guidance;
- Article 11: The right to protection of health;
- Article 13: The right to social and medical assistance;
- Article 14: The right to benefit from welfare services;
- Article 16: The right of the family to social, legal and economic protection;
- Article 17: The right of children and young persons to social, legal and economic protection.

On 26 February 2003, Croatia also ratified Protocol No. 1 which adds new rights. Croatia has accepted 40 of the Charter's 72 paragraphs and three of the four Articles of Protocol No. 1.





## APPENDIX II

### List of ILO conventions ratified by Croatia

Convention	Ratification date	Status
C3 Maternity Protection Convention 1919	08.10.1991	ratified
C8 Unemployment Indemnity (Shipwreck) Convention, 1920	08.10.1991	ratified
C9 Placing of Seamen Convention, 1920	08.10.1991	denounced on 8.11.2005
C11 Right of Association (Agriculture) Convention, 1921	08.10.1991	ratified
C12 Workmen's Compensation (Agriculture) Convention, 1921	08.10.1991	ratified
C13 White Lead (Painting) Convention, 1921	08.10.1991	ratified
C14 Weekly Rest (Industry) Convention, 1921	08.10.1991	ratified
C16 Medical Examination of Young Persons (Sea) Convention, 1921	08.10.1991	ratified
C17 Workmen's Compensation (Accidents) Convention, 1925	08.10.1991	ratified
C18 Workmen's Compensation (Occupational Diseases) Convention 1925	08.10.1991	ratified
C19 Equality of Treatment (Accident Compensation) Convention, 1925	08.10.1991	ratified
C22 Seamen's Articles of Agreement Convention, 1926	08.10.1991	ratified
C23 Repatriation of Seamen Convention, 1926	08.10.1991	ratified
C24 Sickness Insurance (Industry) Convention 1927	08.10.1991	ratified
C25 Sickness Insurance (Agriculture) Convention, 1927	08.10.1991	ratified
C27 Marking of Weight (Packages Transported by Vessels) Convention, 1929	08.10.1991	ratified
C29 Forced Labour Convention, 1930	08.10.1991	ratified
C32 Protection against Accidents (Dockers) Convention (Revised), 1932	08.10.1991	ratified
C45 Underground Work (Women) Convention, 1935	08.10.1991	ratified
C48 Maintenance of Migrants' Pension Rights Convention, 1935	08.10.1991	ratified
C53 Officers' Competency Certificates Convention, 1936	08.10.1991	ratified
C56 Sickness Insurance (Sea) Convention, 1936	08.10.1991	ratified
C69 Certification of Ships' Cooks Convention 1946	08.10.1991	ratified

C73 Medical Examination (Seafarers) Convention, 1946	08.10.1991	ratified
C74 Certification of Able Seamen Convention, 1946	08.10.1991	ratified
C81 Labour Inspection Convention, 1947	08.10.1991	ratified
C87 Freedom of Association and Protection of the Right to Organise Convention, 1948	08.10.1991	ratified
C90 Night Work of Young Persons (Industry) Convention (Revised), 1948	08.10.1991	ratified
C91 Paid Vacations (Seafarers) Convention (Revised), 1949	08.10.1991	ratified
C92 Accommodation of Crews Convention (Revised), 1949	08.10.1991	ratified
C98 Right to Organise and Collective Bargaining Convention, 1949	08.10.1991	ratified
C100 Equal Remuneration Convention, 1951	08.10.1991	ratified
C102 Social Security (Minimum Standards) Convention, 1952	08.10.1991	ratified
C103 Maternity Protection Convention (Revised), 1952	08.10.1991	ratified
C105 Abolition of Forced Labour Convention, 1957	08.10.1991	ratified
C106 Weekly Rest (Commerce and Offices) Convention 1957	08.10.1991	ratified
C109 Wages, Hours of work and Manning (Sea) Convention (Revised), 1958	08.10.1991	ratified
C111 Discrimination (Employment and Occupation) Convention, 1958	08.10.1991	ratified
C113 Medical Examination (Fishermen) Convention, 1959	08.10.1991	ratified
C116 Final Articles Revision Convention, 1961	08.10.1991	ratified
C119 Guarding of Machinery Convention, 1963	08.10.1991	ratified
C121 Employment Injury Benefits Convention, 1964	08.10.1991	ratified
C122 Employment Policy Convention, 1964	08.10.1991	ratified
C129 Labour Inspection (Agriculture) Convention, 1969	08.10.1991	ratified
C132 Holidays with Pay Convention (Revised), 1970	08.10.1991	ratified
C135 Workers' Representatives Convention, 1971	08.10.1991	ratified
C136 Benzene Convention, 1971	08.10.1991	ratified
C138 Minimum Age Convention, 1973	08.10.1991	ratified
C139 Occupational Cancer Convention, 1974	08.10.1991	ratified
C147 Merchant Shipping (Minimum Standards Convention), 1976	19.07.1996	ratified

C148 Working Environment (Air Pollution, Noise and Vibration) Convention, 1977	08.10.1991	ratified
C155 Occupational Safety and Health Convention, 1981	08.10.1991	ratified
C156 Workers with Family Responsibilities Convention, 1981	08.10.1991	ratified
C159 Vocational Rehabilitation and Employment (Disabled Persons) Convention 1983	08.10.1991	ratified
C161 Occupational Health Services Convention, 1985	08.10.1991	ratified
C162 Asbestos Convention, 1986	08.10.1991	ratified
C179 Recruitment and Placement of Seafarers' Convention, 1996	08.10.1991	ratified
C182 Worst Forms of Child Labour Convention, 1999	08.10.1991	ratified

*Sourc:* ILOLEX, 13.2.2006 <http://www.ilo.org/ilolex/>



## **APPENDIX III**

### **The Bucharest Declaration**

**South East Europe Conference on Employment (SEE-EC)  
Bucharest, 30-31 October 2003**

#### **Improving Employment in South Eastern Europe**

The Delegates to the Conference of Bucharest, meeting under the chairmanship of Mrs Elena Dumitru, Minister of Labour, Social Solidarity and Family of Romania, at her invitation and at the invitation of the Council of Europe and of the Belgian Federal Public Service Employment, Labour and Social Dialogue, under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe,

Bearing in mind the expectations with regard to further co-operation with the EU and within the region,

Recalling the Thessaloniki Declaration adopted on the occasion of the EU-Western Balkans Summit on 21 June 2003,

Considering the important preparatory work leading to this Conference,

**approved unanimously the following declaration:**

**We, the Ministers responsible for Employment of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Romania, Serbia and Montenegro and “the former Yugoslav Republic of Macedonia”, as well as the Head of the Economic Administration of UNMIK,<sup>50</sup> recognise the common problems we face in the area of employment as a result of the restructuring linked to the transition to market economies, insufficient levels of investment as well as the damaging effects of the conflicts in the region in the 1990s.**

We acknowledge:

- the substantial reduction in employment and, despite the reforms and restructuring already under way, the consistently high unemployment and relatively slow pace of job creation, the wide skill mismatches and regional disparities, and their adverse consequences for poverty and social cohesion;
- the need to improve employment policies and employment services, including training;
- the need to further develop specific measures and programmes to improve access to employment of vulnerable groups;

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50. Associated to this process according to Security Council Resolution 1244 on Kosovo.

- the need to promote labour mobility and to remove obstacles preventing it;
- the need to improve social dialogue.

**Together and in partnership with relevant national and international institutions, we are convinced that we can better address these common problems, through improvements of our policies, reinforcement of our institutional capacities, pooling of our expertise in employment matters, and improved co-ordination of available international assistance.**

**We commit ourselves to a process of regional co-operation in the areas of employment, labour markets and training, as described in detail in the Appendix to the present Declaration. The process, intended to better addressing the above-listed problems, is aimed at:**

- **preparing our future integration into the European Union** by converging towards the objectives and guidelines of the European Employment Strategy;
- **implementing the Council of Europe standards in employment matters** – the European Social Charter and the Revised Social Charter – and creating a situation conducive to the application of Council of Europe Recommendations concerning the promotion of employment; and
- **making operational the core elements of the International Labour Office’s Global Employment Agenda in our countries.**

**We are aware that the success of our effort will depend on the creation of a favourable investment climate based on macro-economic stability, full co-operation with social partners, sound legal and regulatory frameworks and governance standards as well as on the development of small and medium enterprises. In this context, we commit ourselves to concentrate our efforts on the following areas:**

- promotion of entrepreneurship;
- greater mobility, by:
  - fostering a more flexible labour market but balanced with reasonable employment and income security for workers;
  - examining the possibility of promoting the free movement of workers in the region by means of bilateral agreements;
- incentives for employment creation and training;
- improvement of the performance of the national employment services;
- non-discrimination in access to employment, in remuneration and in working conditions, with particular attention to gender equality;
- handling of the social consequences of privatisations and restructurings;

- improvement of the quality of employment (contracts, remuneration, skills and qualifications, health and safety at work, employment related social protection, etc.);
- specific programmes for vulnerable groups (including access to credit);
- improvement of social dialogue and enhanced involvement of social partners in the formulation and implementation of social and economic policies;
- the transformation of undeclared work into regular work;
- adequate and comprehensive labour market information.

**We issue a plea for assistance from international stakeholders to achieve the goals of this Declaration.** We acknowledge the important support we have been receiving from international and bilateral institutions. In particular, we acknowledge the important analytical and policy development work of the International Labour Organization, the Council of Europe and the World Bank.

**Under the auspices of the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe, we look particularly to the Council of Europe and the International Labour Organization for strategic guidance and support in ensuring an efficient follow-up to our meeting along the lines described in the Appendix.**

**We commit ourselves to meet again in the Spring of 2005 to assess progress achieved over the next 18 months in implementing the goals set out in this declaration.**

**Done in Bucharest on 31 October 2003**

**Valentina LESKAJ**  
Minister of Labour and Social Affairs  
Albania

**Safet HALILOVIĆ**  
Minister of Civil Affairs  
Bosnia and Herzegovina

**Rumen SIMEONOV**  
Deputy Minister of Labour and Social Policy  
Bulgaria

**Davorko VIDOVIĆ**  
Minister of Labour and Social Welfare  
Croatia

**Valerian REVENCO**  
Minister of Labour and Social Protection  
Moldova

**Elena DUMITRU**  
Minister of Labour and Social Solidarity  
Romania



**Dragan MILOVANOVIC**  
**Minister of Labour and Employment**  
**Serbia and Montenegro**

**Jovan MANASIJEVSKI**  
**Minister of Labour and Social Policy**  
**“The former Yugoslav Republic of**  
**Macedonia**

**as well as**    **Jürgen VOSS**  
**Associate Head for Economic Reconstruction**  
**United Nations Interim Administration**  
**Mission in Kosovo**

**We, the representatives of the Stability Pact for South Eastern Europe, the Council of Europe and the International Labour Organization, commit ourselves to ensure the follow-up to this Conference.**

**Miet SMET**  
**Chair, Initiative for Social Cohesion**  
**Stability Pact for South Eastern Europe**

**Gabriella BATTAINI-DRAGONI**  
**Director General of Social Cohesion**  
**Council of Europe**

**Bernard SNOY**  
**Director, Working Table II**  
**Stability Pact for South Eastern Europe**

**Göran HULTIN**  
**Executive Director – Employment Sector**  
**International Labour Organization**

## Appendix

### Operation of the process of co-operation on employment in South Eastern Europe

1. **The Council of Europe** is in charge of co-ordinating the process of co-operation, in close relation with the **International Labour Office**, under the auspices of the **Social Cohesion Initiative of the Stability Pact for South Eastern Europe**.

2. **The Ministers responsible for employment of the beneficiary countries of the Stability Pact for South Eastern Europe** will approve and regularly update the objectives of the co-operation on employment as well as the programme of activities. They will meet every 18 months. The next meeting will take place in the Spring 2005.

3. **An assessment process of national employment policies will be launched for each country:**

- 3.1. This assessment process will take into account the key elements of the Global Agenda for Employment of the International Labour Organization, the European Employment Strategy and the relevant Articles of the European Social Charter and of the Revised Charter and relevant Recommendations of the Committee of Ministers of the Council of Europe;
- 3.2. In the case of Bulgaria and Romania, the assessment process will rely on the Joint Assessment Papers (JAPs), prepared with the European Commission;
- 3.3. The national social partners will be fully associated in the process;
- 3.4. The assessment process will be inspired by the methodology applied between the European Commission and candidate countries in their co-operation on employment within the framework of the EU enlargement;
- 3.5. Employment experts from Belgium and other EU member states will be invited to contribute with their experience in implementing the European Employment Strategy.

4. **A Permanent High-Level Committee (PHLC) composed of the General Directors of Employment** of the beneficiary countries of the Stability Pact for South Eastern Europe will design the programme of activities; set up working groups; mobilise human and financial resources in support of the programme of activities; supervise its implementation and prepare the ministerial meetings.

- 4.1. The following partners will be able to participate in the meetings of the Permanent High Level Committee, as observers:
  - 4.1.1. the social partners of the countries concerned by the review of national reports;
  - 4.1.2. representatives of international organisations of social partners (IOE, ETUC);

- 4.1.3. representatives of interested international organisations (UNDP, UNECE, OSCE, OECD,...) and international financial institutions (World Bank, CEB, EBRD, EIB,...);
- 4.1.4. representatives of interested donor countries.
- 4.2. The technical contribution of the European Commission will help the process of co-operation.
- 4.3. The Permanent High-Level Committee will meet at least twice in between ministerial meetings. It will meet in Working Groups with experts to examine, in particular, the following questions:
  - 4.3.1. **Review of national employment policies (Working Group I).** The Working Group I will meet under the leadership of the **ILO**;
  - 4.3.2. **Capacity-building, quality of service delivery in employment services and improvement of programmes specifically designed for vulnerable groups (Working Group II).** The Working Group II will meet under the leadership of the **Council of Europe**;
  - 4.3.3. Each Working Group will meet at least once in between ministerial meetings.
- 4.4. The Working Groups will pay particular attention to the identification of projects to be funded by international stakeholders and donors. **The collection and co-ordination of demands and offers for assistance will be monitored by the Initiative for Social Cohesion of the Stability Pact for South Eastern Europe.**

5. **The terms of reference and rules of procedure** of the Working Groups will be set up at the first meeting of the Permanent High-Level Committee, to take place in Brussels on 9 and 10 December 2003, at the invitation of the Belgian Federal Public Service for Employment, Labour and Social Dialogue.

#### 6. **Financing the co-operation process:**

The above-mentioned international organisations and international financial institutions are invited to provide long-term assistance to our process of co-operation on employment.

In particular, we ask for support from the stakeholders of the ISC of the Stability Pact for South Eastern Europe.

#### 7. **Entry into force of the process of co-operation:**

The process of co-operation, as described above, will enter into force on **9 and 10 December 2003**, at the occasion of the first meeting of the Permanent High-Level Committee.