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## NEED FOR INTEGRATION OF LABOUR MARKET POLICY AND SOCIAL POLICY IN CROATIA

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### ABSTRACT

Croatia, like many other Central and Eastern European countries (CEECs), has been characterized during the past 20 years by U-shaped trends of GDP, strong and persistent declines in employment rates and unemployment pools desperately stagnant in spite of the rapid structural change taking place. The Mentioned remarkable increase in unemployment has not been accompanied by adequate scientific and political attempts to understand the causes of the rise in unemployment that took place. Line ministries and institutions throughout the entire period were assigned to develop programs of active labour market policy (ALMP). Until now, evaluations of ALMP in Croatia were reduced to attempts to analyse effectiveness of measures on diminishing overall rate of unemployment or unemployment of selected disadvantaged groups, without opening the question of how those measures should be integrated into other related policies. It is particularly important that labour market policy and social policy be co-ordinated so as to become mutually reinforcing. Co-ordination is, of course, desirable, but is often difficult to achieve. This paper is an attempt to point out the limitations and the real potential of ALMP, and its connections with welfare policy. First, we analyse the possibilities and limitations of active labour market policy (ALMP). A summary of ALMP suggests contradictory evidence as to the efficiency of different programmes. After a short review of the current situation regarding cooperation between employment and social policy in Croatia and providing different successful experience, we present proposals for improvement.

List of abbreviations used in the text

ALMP - Active Labour Market Policy

APEP - Annual Employment Promotion Plans

CBS - Central Bureau of Statistics

CSW- Centres for Social Welfare

CES - Croatian Employment Service

LFS - Labour Force Survey

NAEP - National Action Employment Programme

## **1. UNEMPLOYMENT AND ALMP IN CROATIA**

### **1.1. Importance of (un)employment and description of current situation**

Unemployment is one of the most serious issues confronting us. People out of work for long periods and their families are damaged and communities and the economy are weakened. Of course, Croatia is not unique in suffering comparatively high levels of unemployment as it goes through the process of transition to a modern market economy. Restructuring national industries is a painful but necessary stage in a journey to development. It exposes high levels of hidden underemployment and puts many people out of work. But at the same time it encourages greater economic efficiency, which the nation needs to flourish in an increasingly competitive world and creates the conditions for the growth of new and different jobs. Nor is high unemployment confined to transitional countries. Many of the member states of the European Union (EU) have also experienced persistently high levels of unemployment in recent years.

Many reasons have been suggested and disputed for this phenomenon. But what is clear is that EU recognises the vital importance of employment in ensuring economic and social well-being and has vigorously promoted labour market reform measures. The EU has done this primarily through the European Employment Strategy and annual guidelines to member states about reforming their labour markets. Within this process member states produce annual employment action plans taking account of the EU guidance and reflecting their own particular circumstances. Most candidate countries have also followed this practice as a discipline for labour market reform within the transitional and accession processes and as a preparation for gaining access to the EU's structural funds later. This is a valuable approach to labour market reform and one that should be followed.

Croatia has two sources of (un)employment statistics. Firstly, there are official unemployment data that are processed by the Croatian Employment Service (CES). Secondly, there is a set of indicators that are derived from the Labour Force Survey (LFS), which has been conducted since 1996 by the Croatian Bureau of Statistics (CBS), whose methodology is harmonised with the rules and instructions of the ILO and the Eurostat, ensuring the methodological comparability with the studies conducted by EU countries.

A decade-long decline in employment was reversed in 2001. After reaching the peak in 2002, unemployment started to fall and prospects for labour force began to improve. Although employment in crafts has increased there has been insufficient job creation in the economy as a whole, notably in the sector of small and medium enterprises. The rebalancing of the economy in Croatia took place almost entirely through job losses in agriculture and industry with few expanding activities until very recently in the service sector. The structure of manufacturing employment in Croatia is now similar to EU countries but with more labour intensive industries. The share of public sector employment has declined and accounts for around 30% of all employment.

According to estimates of the Central Bureau of Statistics, in mid-2009, the population of the Republic of Croatia was around 4,429,000, while working-age (15+) population amount 3.65 million persons, a figure which is quite stable in the last ten years (2001-2010). In the mentioned period the total activity rate varied between 47% and 49% which means that it was very low, particularly when compared with EU average. This also holds for employment rate. For the population 15-64 it was mostly below 55% showing signs of very slow increase in

first decade of 2000s (the employment rate for the total population in age 15-64 years grew from 53.4% in 2001 to 54.8% in 2005), and increased further to 57.0% in 2007 and 57.8% in 2008, but decreased significantly afterwards to 56.6% in 2008 and to 54.1% in the first three quarters of 2010. Total unemployment rate for the whole population in age bracket from 15 to 64 fell in the whole period from 15.7% in 2001 to 13.1% in 2005 and to 8.6% in 2008. After that there has been an increase to 9.3% in 2009 and particularly strong growth for 2.7 percentage points to 12.0% in 2010. Unemployment rate by prime age total population has been decreased from 32.6% in 2005 to 22.0% in 2008, but after that there has been recorded its increase to 25.1% in 2009 and to 31.3% in 2010. In comparison to male (whose average unemployment rate in the observed period was below 10%), female are significantly more exposed to unemployment and their average unemployment rate in the observed period was above 12%. However, it looks like that economic sectors where males are predominant labour force suffer more during the crisis and therefore male unemployment rate increased more from 7.1 in 2008 to 11.5% in 2010 (an increase for 4.4 percentage points) in comparison with sectors where predominantly are employed women, so female unemployment rate rose from 10.4% in 2008 to 12.7% in 2010 (an increase for 2.3 percentage points).

Briefly, according to LFS Croatia has a relatively low activity and employment rate particularly for women, youth and older persons. Mentioned groups have higher unemployment rate in comparison with average population, particularly prime age male.

According to the CES figures, in the period 2001-2008, the number of persons unemployed decreased from 395,000 to 240,000 almost by 155,000 or by almost 40%. A particularly significant decrease was recorded in 2008 (10%), when the number of the unemployed reached a level of 237,000. An economic crisis in the following period has caused the increase of registered unemployed persons by more than 26,000 (or 11%) in 2009 and even bigger rise in 2010 by almost 40,000 people or 15%. Until recently, there was a constant rise in the share of the long-term unemployed (those who have been waiting for more than one or two years for a job - almost 50% of all unemployed wait for a job longer than 1 year).

Unemployment in Croatia is the result of a lack of structural changes in the economy. The destruction of jobs in the context of the liquidation and bankruptcy of a large number of companies has not been matched by sufficient job creation in the private sector. Relatively high real wages, institutional rigidities and wide-spread skills mismatches appear to be major impediments for a more dynamic labour market performance. And even though the number of unemployed has been decreasing over the last several years, women continue to dominate this category and, moreover, increase their share therein.

The most important causes of poverty and social exclusion are unemployment and a relatively high rate of economic inactivity. Unemployment and low activity rate are mainly the consequence of insufficient demand for labour force and the mismatch in labour supply and demand. In order to facilitate and improve employment, the structural mismatch has to be eliminated or reduced first of all through an active labour market policy directed primarily toward those persons who have lower employability prospects or toward those who are long-term unemployed, such as young people, older workers, particularly women and, people with disabilities.

The magnitude of the unemployment problem has prompted the Government to announce new employment policy measures. According to it, CES subsequently developed a number of Active Labour Market Measures (ALMP). These initiatives represented a substantial shift

away from the traditional bureaucratic delivery of employment services, towards services that are both more customer oriented and more closely integrated into other areas of government activity such as the provision of cash benefits and social services. However, situation changed in the period from 2002 to 2010, so we provide a short history of recent ALMP measures in Croatia.

## 1.2. A short history of recent ALMP in Croatia

High unemployment led the Government of the Republic of Croatia in the beginning of 2002 to launch the National Action Employment Plans (NAEP). Under this Programme, between the start of application of active measures from the Program of the Government of the Republic of Croatia (1 March 2002) and 4 August 2005 when the program was terminated, 57 609 contracts on co-financing of employment and education had been signed. Furthermore, 11 015 contracts or 19% of the total number of concluded contracts were signed in 2005 only. Implementation of the Program helped 80 371 registered unemployed persons, out of which 47% were women, to get a job. Under the Promotion Employment Program, educational activities were organised both for known and unknown employers, as well as education programs aimed at enhancing one's prospects to retain a job.

In the period 2002-2005, under the active labour market policy, a total of 80 371 unemployed persons had been employed, out of which 47.2% were women. It is fair to say that overall, in the period of 2002-2005, ALMP had been efficient considering the number of those who were employed, but insufficiently focused on the less employable population groups because virtually all persons registered with the Croatian Employment Service had been able to access at least some of the incentives. At the same time, another unfavourable aspect is that wage subsidy measures should account for the major part of the total spending on ALMP measures, whereas not enough emphasis is placed on improvement of qualifications, acquisition of knowledge and competence, and improvement of employability and adaptability for both unemployed and employed persons. Furthermore, the 2002-2005 active policy programs contained a significant share of *dead weight*<sup>1</sup> and other adverse effects such as displacement<sup>2</sup>. So far, there has been virtually no systematic evaluation of the ALMP measures. The exception is the public works program (implemented in an earlier period) which, according to the assessment, had failed to improve either the employability or the wages of participants after completion of such a program. There had been no significant investments in this program.

Having considered and analysed the labour market in the Republic of Croatia, and because of the need to determine priorities in addressing the unemployment-related problems, the Government of the Republic of Croatia adopted at the end of 2004 the National Action Employment Plans (NAEPs) for the period 2005-2008, and later for the periods 2009-2010 and 2011-2012. The aims of the NAEPs are: improvement of the labour market efficiency in Croatia, raising employment and reducing unemployment, and adjustment to the processes of Croatia's accession to the EU. The National Action Employment Plans are based on the

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<sup>1</sup> “Dead weight” subsidy is a subsidy given to a person who would have gotten a job even without subsidies. Substitution means employing a subsidised person instead of another person not entitled to a subsidy. It is important to note that impact of substitution may have social justification if the persons in question belong to a group whose employability is low.

<sup>2</sup> Displacement means loss of jobs in companies that are not employing subsidised workers but are forced to lay off a number of workers under the pressure from the competition which is benefiting from the subsidies system.

European Employment Strategy, and although they are linked to the annual guidelines for labour market reforms in the member countries, they also take into account specific Croatian features. The Croatian NAEPs consist of the key measures, extremely desirable measures and desirable measures. The active and preventive measures that constitute an integral part of the National Plans are designed so as to contribute to promotion of higher employment and better social inclusion, at the same time enabling the unemployed and economically inactive to join the various forms of training that increase their competitiveness and facilitate their integration in the labour market. They are supported in their task by modern institutions active in the labour market. Equally, new measures are aimed at increasing the number of new and better jobs through promotion of entrepreneurship and a more favourable business environment.

Based on the NAEP for the particular period, Annual Employment Promotion Plans (APEPs), together with instruments for their enforcement were drafted. The enforcement measures are aimed at: developing entrepreneurship through co-financing of the incorporation costs of new cooperatives, starting new trades and crafts, subsidising interest on entrepreneurial loans, promoting self-employment, providing loans to entrepreneurs in tourism, providing education of the long-term unemployed and persons with low level of qualifications, as well as the young early school leavers, in order to enable them to acquire additional knowledge and skills that are in demand in the labour market, thus increasing their employability and matching the supply and demand in the labour market. In elaboration of these enforcement measures, a particular emphasis is placed on promotion of integration and prevention of discrimination against persons with an unfavourable labour market position (persons with low employability, unemployed single parents of minors, unemployed Croatian war veterans etc.): by co-financing the costs of employment, inclusion into public works programs executed by local government units, enforcement of measures from the National Program for the Roma. The measures from APEPs include: active and preventive measures for the unemployed and economically inactive, creating new jobs and developing entrepreneurship, promoting development of human capital and life-long learning, promoting integration and combating discrimination against persons with an unfavourable labour market position, reducing unofficial employment and regional differences.

APEP 2007 was particularly successful. It includes various measures for encouraging entrepreneurship, development of cooperatives, co-financing of employment, education and self-employment. The measures including employment, education or acquiring additional knowledge and skills in demand on the labour market are targeted at the long-term unemployed, young people without previous working experience, persons of older working age, persons with lower educational qualifications, as well as persons who left school (drop-outs). Further, a part of operational measures pertained to promoting integration and the fight against discrimination of persons in unfavourable position in the labour market (e.g. people with disabilities, persons who have lower employability prospects, unemployed single parents of children under age, treated drug addicts etc.) through co-financing employment and inclusion into the public works programmes implemented by local self-government units.

In various APEPs, CES is tasked with enforcement of *preventive and active measures* with a focus on a more inclusive labour market. Preventive measures include improving the quality of services and efficiency of the CES. Active measures include co-financing the costs of employment for young persons below the age of 29 who have no working experience, long-term unemployed and older unemployed persons (women above the age of 45 and men above the age of 50). The Service is also responsible for co-financing education for a known and unknown employer, co-financing employment of special groups of the unemployed, carrying out public works and enforcing measures from the National Program for the Roma.

In 2007, 4,750 contracts were received about the support for employment and education, financing of education of unemployed persons, as well as for co-financing of employment in public works programmes. Through the implementation of active policy measures in 2007, a total of 8,494 persons were employed or included in education/training (93.1% of the planned 9,125), of whom 4,296 persons were employed through employment support, 707 persons were included into training for a known employer (professional development grants), 2,960 persons were included into training for an unknown employer, and 531 persons were employed through public works programmes. Of the total number of persons covered by the measures in 2007, 4,346 (or 51.1%) were women.

In 2008, a total of 7,531 persons were employed, out of this total number, 3,641 persons were women or 48.3%. In 2009, a total of around 6,000 persons were included in the implementation of the ALMP, where off total number, almost 3,000 were women. Results of the ALMP – the number of persons employed through these measures are presented in Table 1. In the years preceding the crisis, the coverage rate for active programmes was slightly over 3%, and it fell to 2.5% in 2009. (The programme coverage rate is the percentage of the unemployed who participated in any active labour market programmes, such as training, skilling, subsidized employment or public works. It should be noted that training and skilling are also provided for employed workers in Croatia, so the estimate of the coverage rate for the unemployed is probably biased upwards).

As the full data (primarily structure of participants and their characteristics) for 2010 are not yet available, we provide comparative data for 2009 and 2008. In 2009 a total of 3,025 people participated in educational programmes tailored to meet labour market needs, of whom 1,447 were women. Of the total number of women included in education (1,447), 77% or 1,112 were prime-age women. As regards educational level, persons with completed secondary education had the highest share (67.3% or 749), followed by persons with lower educational level (23.6% or 263), and persons with tertiary education qualifications (8.9% or 100). The information on the coverage of prime-age women with secondary qualifications is an indicator of their inadequate education, primarily arising from reproduction of occupations which are not in such a great demand on the labour market, which is a reflection of a lack of co-ordination between educational and economic reforms, lack of work experience due to reduced demand on the labour market, and family and other socio-economic factors that may influence their employment opportunities. Women were primarily included in educational programmes for economist professions (bookkeeper, accounting and financial expert worker, administrative secretary, real estate agent), tourist and catering industries (hotel maid, cook, waitress, pastry cook, cleaning lady) and health care (care giver, masseuse, sanitary technician).

According to the available aggregate data by the end of the year of 2010, the total numbers of 13,088 persons were included in the implementation of active labour market policy measures. Out of the total number, 6,468 were women with a share of 49.4%. Employment was achieved using the following measures: Employment co-financing with 2,423 persons or 18.5%, Education co-financing for the known employer with 614 or 4.7%, Education financing for an unknown employer with 4,566 persons or 34.9% per cent, Financing in public works with 5,037 persons or 38.5% and Occupational training without commencing employment (448 or 3.4%). Furthermore, by the end of 2010, the total number of 304 persons were included in the implementation of the measures within the National Programme for Roma/Action Plan for the Decade of Roma Inclusion 2005-2015, out of whom 84 (27.6%) women.

Table 1: Number of employed persons and their structure according to the measures of the Active Labour Market Measures in 2008, 2009 and 2010

Measure	2008 <sup>1</sup>	Structure 2008 in %	2009 <sup>2</sup>	Structure 2009 in %	Indices 2009/2008	2010 <sup>3</sup>	Structure 2009 in %
Measure 1 - Employment co-financing of young persons without working experience	1,003	13.3	213	3.4	21.2	2,423	18.5
Measure 2 - Employment co-financing of the long-term unemployed	1,290	17.1	298	4.7	23.1		
Measure 3 - Employment co-financing of persons above the age of 50	706	9.4	116	1.8	16.4		
Measure 4 - Employment co-financing of special groups of the unemployed	351	4.7	65	1.0	18.5		
Measure 5 - Education co-financing for a known employer	1,105	14.7	644	10.2	58.3	614	4.7
Measure 6 - Education financing for an unknown employer	2,361	31.4	3,025	48.0	128.1	4,566	34.9
Measure 7 - Public works	699	9.3	1,935	30.7	276.8	5,037	38.5
Measure 8 - Public works - individual projects	16	0,2	-				
Occupational training without commencing employment						448	3.4
<b>Total</b>	<b>7,531</b>	<b>100</b>	<b>6,296</b>	<b>100</b>	<b>83.6</b>	<b>13,088</b>	<b>100</b>
The measures in the framework of the National Programme for the Roma / Decade of Roma Inclusion 2005 - 2015	247		244		98.8	304	

1- Period covered from March 25 until December 31, 2008.

2- Period covered from May 25 until December 31, 2009.

3- By the end of December in the year of 2010

Source: Yearly Report by Croatian Employment Service, available on [www.hzz.hr](http://www.hzz.hr), for 2010 the Monthly Statistical Bulletin, year 23 (12).

The only active labour market programme that was significantly expanded during the crisis is public works (index 276 in 2009/2008), but it still covered only a small fraction of the unemployed. Public works in Croatia mostly include reimbursement of employment costs to the municipal authorities who provide public utility jobs to the unemployed. The wage rate under public works programmes is set at a low level: 75% of the minimum wage (30% of the average wage). Public works provide temporary employment and are primarily meant as an income-support programme, and therefore, they do not substantially improve the future employment prospects of the participants. Regardless of the adverse characteristics presented here, public works and related programmes (such as workfare or work experience



programmes) can be used as a mean to provide temporary income support to those unemployed who are not eligible to unemployment benefit (new labour market entrants and/or informal sector workers).

There was an increase in the number of people employed through Measure 6 Education financing for an unknown employer (index 128.1 in 2009/2008). Its objective is the improvement of the job prospects of unemployed persons through skill upgrading. For the above measures most participants are long-term unemployed persons. Long term unemployed persons are faced with higher risks of falling into penury, while a depreciation of human capital due to unemployment and a weak link with the labour market enforce the vicious circle of social exclusion and poverty. Regarding unemployment and long-term unemployment - often important factors that determine poverty - Croatia does not differ much from other countries in transition, although its rates are higher than the average in other EU countries. Among other proposals, it is important to increase the amount of unemployment benefit instead of prolonging its duration. It is also better to target labour policy measures towards the most vulnerable citizens and groups with lower employability.

All remaining programmes were reduced in size (total enrolment in ALMP fell by 26% in 2009 relative to 2007). Particularly in decline are the number of people employed through ALMP as recorded in Measure 3 - Employment co-financing of persons above the age of 50 (index 16.4 or drop of 83.6%) and Measure 4 - Employment co-financing of special groups of the unemployed (index 18.5 or drop of 81.5%). There has been some shift from Measure 5 - Education co-financing for a known employer, which as a matter of practice is provided largely to the workers already employed and towards Measure 6 - Education financing for an unknown employer, which is provided to the unemployed.

One should welcome the newly introduced Programme of professional training for work without concluding an employment contract. It should enable young unemployed persons to gain their first work experience. However, due to the Programme's recent introduction, the effects of are as yet unknown. In 2010 in mentioned programme participated 448 persons, but one can assess that their number will increase in the future.

As a conclusion, it can be said that active labour market programmes and measures, which are meant to help job losers to find new jobs, had and have an extremely low presence and coverage in Croatia (lower than in any EU country). Furthermore, their structure in Croatia had been inappropriate and mostly oriented to subsidies which do not improve the skills of the unemployed and (probably) have high deadweight costs and other adverse effects such as substitution and displacement. Finally, there have been no clear target groups. The situation changed for the better in the last few years: measures began to be increasingly oriented towards those with the lowest level of employability and disadvantaged people at risk of or in long-term unemployment. Furthermore, ALMP in Croatia have been monitored, but not fully and systematically evaluated for their net effect. Thus, it was impossible to answer what would have happened to the individuals had they not gone on active measures such as training and education. Recently, for the first time and only once ALMP activities have been evaluated (CES, 2008).

## **2. LIMITATIONS OF LABOUR MARKET POLICIES**

Of course, one has to be aware that the positive effect ALMP has on the employment chances of participants may be at the expense of non-participants, without having any real effect on the aggregate level. In the reverse situation, it is also possible to have no measurable effect on

participants but positive effect on a macro-level (de Koning, 2001). When, for example, unemployed people with good labour market prospects are trained in occupations in which a shortage exists, their job chances may not increase, but other unemployed may benefit from their transition to other labour market segments. Calmfors and Holmlund (2000) analyzing unemployment and economic growth mentioned positive employment implications of ALMP and stressed the difficulties in assessing outcomes of job creation and training programmes. There is a number of mechanisms that work in opposite directions. Wage pressure may be reduced if the programmes enhance the competitiveness of the long-term unemployed in the labour market. This would also happen if training programmes can facilitate the reallocation of workers from sectors with weak to sectors with strong demand for labour.

There are also plausible negative effects on regular employment. There may be direct crowding-out effects of job creation programmes on regular employment as employers have incentives to replace regular with subsidized labour. Such programmes may also increase wage pressure by effectively reducing the costs of unemployment. This is presumably especially relevant if the programmes are used as a means to allow the long-term unemployed to renew their benefit entitlement.

Even if activating labour market policy fails to reduce aggregate levels of unemployment, one could argue that it contributes to increasing mobility into and out of unemployment. Of course, there may be good arguments for preferring an open society where the burden of unemployment is shared between many people for a short period of time to a society with an underclass of long-term unemployed people. For people on social assistance or receiving unemployment benefit the probability of acquiring paid (permanent or flexible) job is extremely low. The longer people stay in social assistance and/or unemployment, the lower the likelihood into entering into employment and escaping from poverty.

The economic theory states that ALMP hardly affects total employment directly (de Koning et al. 2001). But when ALMP succeeds in reintegrating long-term unemployed (LTU) or social assistance recipients, the effective labour supply increases. Therefore, reintegrating the long-term unemployed and preventing long-time unemployment is certainly worthwhile. There are other meaningful activities in addition to paid employment which can be a source of social integration and individual fulfilment. Nevertheless, the preventing of long-term and recurring unemployment would be a major contribution towards combating poverty and social exclusion and/or social assistance recipients.

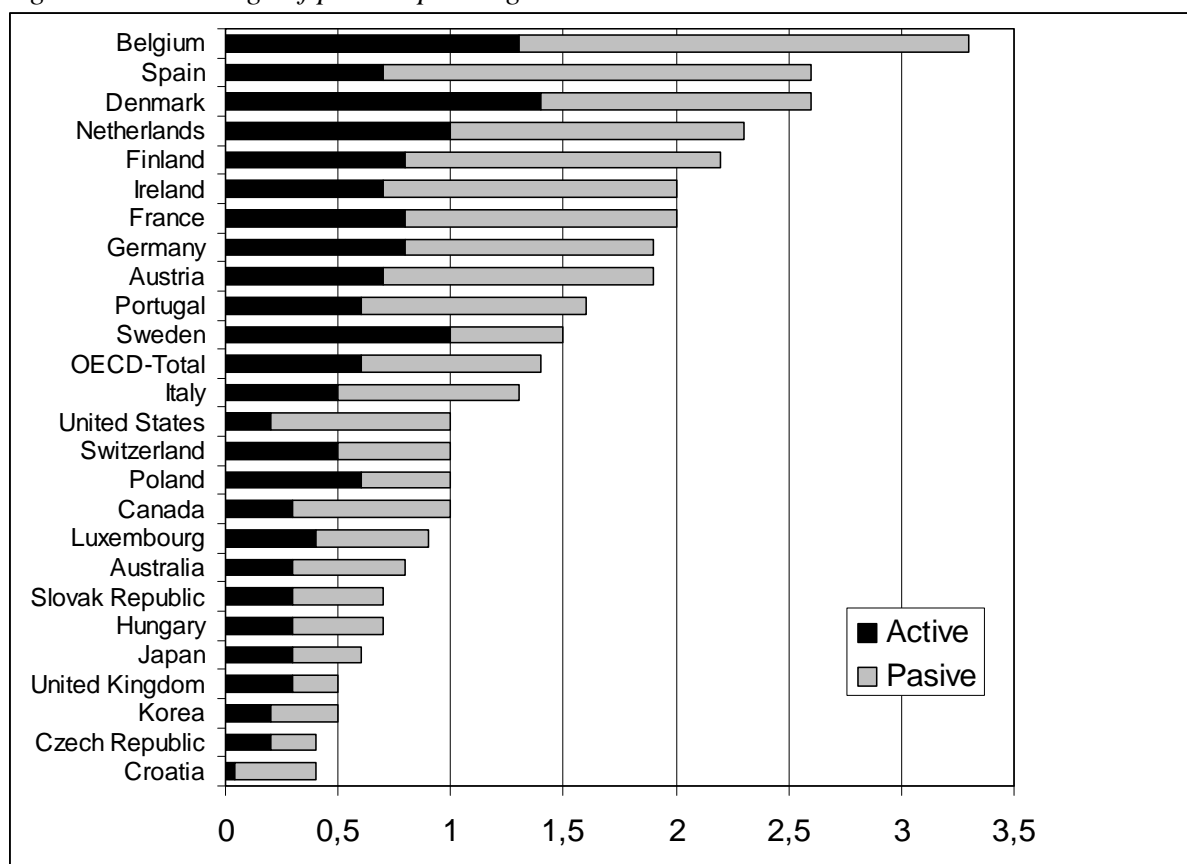
Unemployment generally becomes a social problem when people remain in it for long periods of time. Since long-term unemployment often leads to social exclusion, reintegrating the long-term unemployed may also contribute to their social reintegration.

ALMP could redistribute job opportunities so that fewer people become long-term unemployed and/or social assistance recipients. When total employment and total labour supply are given, this would imply distributing the unemployment burden among more people (assuming that not the same people are experiencing more unemployment spells as a result of the policy intervention). Clearly, an increase in total employment as a result of ALMP would be preferable to a redistribution of unemployment amount a greater number of people.

Croatia spends on all labour market programs around 0,4 % GDP, significantly less than other EU countries with similar income level. In these expenditures the share of active programs is also very low, ranging from 10 to 14 percent in past years. This is in sharp contrast to EU

countries where expenditures on active programs in most cases represent at least one-third of total labour market expenditure (Figure 1).

Figure 1: Percentage of public spending on LMP in GDP in 2008



Source: OECD and own calculation

Low expenditures on ALMP correspond to very low number of beneficiaries in relation to the number of the unemployed so the impact on overall unemployment couldn't be but negligible. Active labour market programs are run on a small scale in Croatia so in years preceding the crisis coverage rate was just over 3 % of unemployed and even diminished to 2,5 % in 2009. This clearly indicates that programs in Croatia had to be narrowly targeted to selected disadvantaged groups and were not meant to diminish growing level of unemployment. They were even less adequate to increase general employment level in time of crisis. Number of included persons was simply too small to have any noticeable effect. Because of the fiscal strain, despite being faced with the growing labour market tensions engendered by the crisis, the Government will not be able to significantly expand ALMP expenditures.

The overall spending on social assistance in Croatia is high by regional standards. In fact, Croatia allocates double the amount of GDP for social assistance programs compared to an average of the Central and Eastern European countries. However, despite a large allocation of budgetary resources for this purpose, the coverage of the poorest 20 percent of population with any of the hundred different social assistance programs remain on the low side compared to the best performing peers.

Resources allocated to social assistance would be sufficient to eliminate poverty in Croatia if they were spent efficiently. Higher efficiency would require the reallocation of resources

between programs: away from those poorly targeted towards the well targeted ones with strong positive impact on poverty. Therefore, there is a large scope for improving the system effectiveness.

The poor rely more on state transfers and less on earned income than the non-poor. Less than a quarter of incomes for the poorest 10 percent come from paid employment (wages), while for the non-poor, this share is almost two times higher, around half of their income.

The current economic crisis has revealed that the social protection system in Croatia is relatively ill fitted to cope with increase in unemployment and the corresponding fall in incomes. Poverty has significantly increased and the social protection system did little to mitigate the effects of the crisis. After all, only two programs: unemployment benefit and social welfare support, have partly cushioned the impact of the crisis. However, the coverage of both programs is low, and accordingly many of the workers and families affected by the crisis were left without adequate income support. But every crisis creates an opportunity for reforms.

An economic crisis quickly turns into a social crisis: workers lose jobs and earnings, and their families fall into poverty. There is a strong relationship between one's labour force status and his/her income status in Croatia. An unemployed person is about three times more likely to be poor as an employed person and at the same time, the risk of poverty declines with an increase in the number of the employed household member. So the increase in unemployment is bound to translate into higher poverty.

The economic contraction led to a rapid worsening of labour market conditions. The resulting fall in labour incomes quickly translated itself into the rising poverty. At the same time, due to the budgetary strain, the fiscal space to increase expenditures on social protection has been extremely limited. Hence it is important to design employment and social safety net policies capable to mitigate the adverse social effects of the future economic downturns and alleviate their poverty impact. The purpose of the ensuing policy discussion is thus to suggest ways to strengthen the social protection system in Croatia so that it can effectively tackle vulnerability to poverty resulting from the future unemployment.

Given the resources spent on social assistance, the outcomes in terms of poverty reduction can be significantly better. There is a need for activation policies to prevent labour market exclusion, and to reintegrate the long-term unemployed into the labour market. Activation interventions should be tailored to the needs of different categories of clients by dividing them into different categories based on the distance from the labour market and the amount of help needed. Social inclusion of disadvantaged groups should be promoted by supporting their access to the labour market, focusing on the long term unemployed beneficiaries of social assistance.

Due to fiscal constraints, a balance needs to be struck between fiscal and social considerations. Determining spending priorities is thus critical. When the government budget is strained and unemployment is rising, then only those labour market programs should be expanded that have a clear positive impact either on incomes of the unemployed or on their employment opportunities to ensure that the most vulnerable of them do not lose contact with the labour market and drift into inactivity.

The incidence of long-term unemployment is high in Croatia by regional standards, and most of the long-term unemployed are clients of the social assistance system. The lack of harmonization leads to a costly system which negatively impacts value for money. If Croatia aims to strengthen the poverty impact of social spending the Government should consider consolidating administration to the extent possible by merging relevant functions.

To avoid disappointing results, it is particularly important that labour market policy and social policy be co-ordinated so as to become mutually reinforcing. Income protection and unemployment benefits as well as employment protection legislation should create incentives for labour market integration and efficiency. Co-ordination is, of course, desirable, but is often difficult to achieve. Labour market policy tends to be short-term and action oriented while social policy is more long-term, and culturally and socially oriented. There will probably always be some tensions between these different types of policies and the cultures they relate to. Complexities and interrelationships among labour market policy and social policy explain why the calls for cohesion, integration and co-ordination have become legion (Sohlman and Turnham, 1994).

### **3. CO-OPERATION BETWEEN LABOUR MARKET POLICY AND SOCIAL POLICY IN CROATIA**

Centres for Social Welfare are legal persons founded by the Ministry of Health and Social Welfare, usually with several CSWs existing in each county. According to the law, CSWs are primarily responsible for administrative decisions of the first instance on access to benefits/services in the area of social welfare and family law and their execution. They also participate in court proceedings either by provision of information or being a party to a suit, particularly when it concerns protection of personal interests of children and other family members who are not able to provide for themselves or for their rights and interests. They carry out control over foster families, provide care for children who run away from family or an institution, apply educational measures on children with behavioural disorders outside their own family or with stay in the family, and provide home care assistance. They also have a general preventive and analytical duty. Additionally, CSWs also carry out duties of counselling regarding problems in marriage and family, upbringing of children, adoption; participate in suppressing the addiction to alcohol, drugs or other narcotics. However, this duty is gradually being shifted to Family Centres, which are being created in each county largely out of current CSW staff providing the counselling activities.

#### **3.1. Background information on Centers for Social Welfare**

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regarding problems in marriage and family, upbringing of children, adoption; participate in suppressing the addiction to alcohol, drugs or other narcotics. However, this duty is gradually being shifted to Family Centres, which are being created in each county largely out of current CSW staff providing the counselling activities.

The Croatian Employment Service (CES) - was established as a public institution owned by the Republic of Croatia and subject to the legislation governing institutions. The person in charge of the management of the Service is the Director who represents it and acts on its behalf. CES performs the activities from the scope of its work in the following organisational units: Central Office and 22 regional offices with accompanying 94 branch offices. In this way CES presence on the whole territory of Croatia has been guaranteed. CES Central Office established work policy, methods and techniques are implemented in the practice by regional offices, which attain its goals in the field in direct contacts with unemployed persons, employers and other interested organisations. The Central Office provides guidelines for the work in the Regional and Local Offices through its logistical support from all the aforementioned activities, such as vocational guidance, job mediation, information, publishing, analysis and data processing, legal, personnel and financial administration and other. The second level within the CES structure is Regional Offices. They perform professional and work activities from the CES priority functions, as well as provide support for them via monitoring and analysis of employment trends, in other words of unemployment in their counties. The work of the Regional Offices cannot be imagined without their cooperation with economic subjects, whether it be the case of small or medium-sized entrepreneurs or local government or self-government. Furthermore, the Regional Offices have to identify the needs of their county and implement their activities in line with these specificities. The third level in this structure is local offices. CES priority functions are job mediation, vocation guidance and provision of financial support to unemployed persons. Furthermore, CES organises and provides training for employment includes various forms of training, rehabilitation, education and skill improvement of the unemployed and employed persons with the goal to increase their employability. From various documents, for example Ministry for Health and Social Welfare (2007), it is quite obvious that there is a weak co-operation and insufficient co-ordination between social welfare services and employment services to provide an integrated response to the needs of service users.

#### **Box 1 - Models from other countries**

In **the Netherlands**, one can see a model of one-stop shop and outsourcing instead of integration. The Netherlands instituted a comprehensive reform of their social assistance and employment services institutions in 2002. Since then, three types of actors have been involved in providing employment services and financial benefits to able-bodied adults lacking income:

- Central Organization for Work and Income (Centrale Organisatie voor Werk en Inkomen (CWI));
- Institute for Employee Benefit Schemes (Uitvoeringsinstituut Werknemersverzekeringen (UWV)); and,
- Municipalities.

In this model, the CWI presents a one-stop shop in which every person that wants work or financial support can go to. The CWI assesses the situation of the client in terms of his or her distance from the labour market, using a system called *kansmeter* based on the characteristics

of the person. A person who is seen as without any problems in accessing the labour market is referred to vacancies, temporary employment agencies, and other intermediaries so that he or she does not need to enter the system. However, many clients also need financial assistance. This is not the role of the CWI, but of UWV and the municipalities. The UWV provides contributory unemployment benefits while municipalities provide non-contributory benefits. CWI collects information about the client and passes it along with the client to UWV and municipalities who have their front offices in the premises where CWI is housed. If a client is transferred to the UWV of a municipality, the responsibility for helping them find a job is also transferred to the UWV or municipality. These no longer implement active labour market measure, but completely outsource them through public tenders to certified private reintegration firms on an outcome basis.

**In the United Kingdom**, a new Job centre plus system is a model of integrated services for all able-bodied adults and their families. In 2001, the Department of Work and Pensions restructured its agencies for employment and benefit matters, creating three agencies based on respective customer groups:

- Job centre Plus provides an integrated service to people of working age. It offers help to people looking to move into work and support for people who can not. All employment service, social assistance, and family benefits to people of working age are provided here.
- The Pension Service is a dedicated service for current and future pensioners.
- The Disability and Carers Service supports disabled people and their carers, both employed and unemployed. It is responsible employed and unemployed. It is responsible for delivering benefits related to disability. The UK model also uses outsourcing of employment services, although not as extensively as the Australian, Danish or Dutch models do. Under a centre-left government, it has been a concerted model to modernize the state provision of services and benefits.

**Slovakia** presents an example of a transition country that went the same path as the UK. In 2004, the government merged the National Employment Bureau with the former Social Affairs Departments of the General County Offices. Before the merger, there were 79 County Employment Bureaus as well as 8 Regional Employment Bureaus and the Central Employment Bureau. On the social side, each of the 8 General Regional Bureaus and 79 General County Bureaus had a social department responsible for all non-contributory benefits, family protection and other issues (practically identical to CSWs in terms of responsibility). After the merger, Central Office of Employment, Social Affairs and Family was created with 46 Bureaus of Employment, Social Affairs and Family across the country. The first-contact network was not diminished though as these were preserved as branches. At the same time, the merger and elimination of management layers allowed decrease of staff of 900 without sacrificing any employees directly serving clients.

Over 50,000 of people registered as unemployed receive social welfare payments. They have to attend a centre of social welfare and an office of the Croatian Employment Service. Their attendance at the employment office confirms that they meet the conditions for being registered as unemployed. The employment office is responsible for helping and encouraging them to find and take up employment. The CSW is responsible for assessing their needs and for making social welfare payments. Registered unemployed people who get social payments deal with two institutions largely as though they are unrelated. And by the same token, two institutions are dealing with the same people largely because of the same circumstances – that they are unemployed.

Information goes between the CES and the CSW to confirm that the unemployed person is registered as unemployed and has attended the employment office. The exact arrangements vary between different offices; in some cases the information is physically transported by the client in the form of a piece of paper signed by a counsellor; in other offices there are electronic links. The CES also generates monthly paper list of people registered as unemployed for the CSWs.

According to the experiences from various countries (some presented in Box 1) the whole range of coordination models could be applied. On one end of the spectrum, there could be a full merger along the lines of the UK or Slovakia. This would mean that whatever the institutional set-up chosen by counties, the social and employment services would be provided jointly both physically and organisationally. This could take a form of:

- a joint Social Welfare and Employment Centre at the county level with branches across the county
- or several Social Welfare and Employment Centre across the county supervised directly by the county administration

At the same time, this would require an institutional change within the county administration, where the social welfare and employment competences would need to be brought together (or more likely to be created in the case of employment, where counties currently have little authority or administrative capacity).

On the other end of the spectrum, there is a number of steps that could increase in coordination without a full merger:

- co-location. Even though the international experience with co-location as a measure to better co-ordinate implementation of employment and social policy is not highly impressive, it could be considered for two other reasons. First of all, co-location can be the first step towards more formal co-operation between the two services (this was the UK experience). Secondly, even if co-location provides no co-ordination benefits, it still decreases administrative burden for the clients by having the services in the same location
- presence of representative of one institution on the administrative council of the other one and vice versa. Both services currently have administrative councils that perform a supervisory and advisory function over the directors of CSWs/CES Regional Offices. A modified version of these bodies is envisioned under the decentralisation options in the previous reports. Therefore, one of the easiest steps to improve co-ordination would be to appoint a representative of each agency to the administrative of the other one. The natural choice would be that of directors; however, this would need to be considered in the light of potential conflict of interests – each director would be simultaneously, to some extent, supervising and supervised by the other director, depending on the exact powers of the administrative council.
- joint councils at the county level or regular meetings of managers. This could be seen as an alternative to the previous bullet, where a separate new formal or informal body could be established where the top managers of both services in a county would meet on a regular (monthly or quarterly) interval. This would involve top managers at the county level and at the branch level.
- agreements on sharing of information and co-operation plans. These agreements could contain many areas, ranging from synchronisation of IT systems and data exchange to co-operation plans stipulating both joint actions and synchronisation of individual action



- staff exchanges. Since one of the reasons for increased collaboration is the mental and psychological “distance” between the two services, temporary or permanent exchanges of staff could go a long way towards alleviating the problem and forging closer links.

As we can see, there is a myriad of potential combinations. Our preferred approach for the medium term (next 4 to 5 years) is as follows:

- The CES remains responsible for registering unemployed welfare recipients and for ensuring they fully meet the conditions especially ‘actively seeking’ work;
- The CSWs remain responsible for assessing need;
- The CSWs remain responsible for setting up and maintaining payment arrangements;
- The CES is responsible for checking each month that the recipient continues to meet the conditions for unemployment and for allowing payment to procedure or for stopping payment.

Under these arrangements the client should not have to visit the CSW more than once unless there is a change in their circumstances. The CES will have a key role in the payment process as part of the authorisation procedure. This can be done either through negative or positive input from the CES. Negative input would require the CES to tell CSWs that the client ceased to meet the conditions for unemployment and to stop automatic payment. Positive input would require the CES to tell the CSW in every case every month that each client meets the conditions for unemployment and that automatic payment could continue. The CES and CSW should develop closer working relations on the ground particularly in planning the provision of measures for long term unemployed welfare recipients.

#### **4. CONCLUSION AND RECOMMENDATIONS**

There is clearly a strong association between long term unemployment, poverty and social exclusion. The problem of long term unemployment is growing. In the RC there has been a continual rise in the share of the long-term unemployed - those who have been waiting for more than one year for a job till recently accounted for more than a half of all unemployed. What can be concluded about the policy framework in Croatia as regards its effect on welfare recipients? The following are the most striking points:

There is nothing exceptional about the passive measures – unemployment compensation. This does not mean that they are without criticism but that *in themselves* they should not lead to worsening the flow of unemployed people into long term unemployment; Active labour market measures are diverse and recognised as a useful instrument of labour market policy. They are not yet sufficiently targeted to where most international evidence indicates they are effective i.e. disadvantaged people at risk of, or in, long term unemployment. Their scale is small and their availability is made particularly uncertain by the funding arrangements. They are not yet integrated as closely as possible with benefit (administration of unemployment compensation) and placement work;

Activation is developing well and the CES is creating the institutional capacity for it to become a central feature of the administration of unemployment compensation. It needs to be configured and reinforced so that it is present in all aspects of the administration of unemployment compensation and directed to lessening the flow of people into long term

unemployment; 'activation' works best through the accumulation of small effects at each stage of administration;

There is no focus in the range of policies measures on long term unemployed people: activation does not intensify with the duration of unemployment, active labour market measures are not directed towards those at a disadvantage in the labour market nor used in support of activation, and job brokering/mediation is understandably biased towards finding the best people to keep employers satisfied;

For long term welfare claimants the involvement of two distinct and separate organisations makes more difficult the integration of activities to support and encourage active job search within the administration of their payments system. The CES faces the dilemma of keeping employers happy and getting people of low employability and motivation into employment. This challenge is faced by all public employment services. In Croatia a strategy for doing so has yet to evolve. New measures need to be developed that specifically address the problems faced by long term unemployment.

There is no universal model for all countries, but there are some indications that Croatia could benefit from establishing a closer relationship between employment policy and social policy. In countries with high long-term unemployment, the interaction between benefit systems and employment policy is significant. Additionally, as countries move to placing an emphasis on active jobseekers, the link between policy and the delivery of social and employment services becomes more important. In Croatia, this link seems to be missing.

Although Croatian spending on ALMP increased before the economic crisis and fiscal limitations, there were problems related to *their short duration* and *relatively low consistency*. Different programmes started and enabled results that were better than expected, but the implementation of the programmes ceased (mostly because of insufficient financial possibilities or restrictions). Currently, the size of labour market programmes is too small in Croatia to have an impact on labour market conditions. Accordingly, the programmes would need to be substantially expanded in order to effectively mitigate the employment effects of economic downturns, particularly the adverse problems of long-term unemployment. However, only those programmes should be expanded which are cost-effective, and are found to have a significant net impact on labour. It is important to define clear targets regarding employment and the reduction of unemployment (particularly long-term) of minority groups. Furthermore, additional attention should be oriented towards increasing the scope (number of activities), the number of participants and the efficiency of the ALMP designed for improving the problem of long-term unemployment. As part of the process, there is a need to improve planning and resource allocation which are proposed for the active labour market policy.

As important recommendations one could propose:

- Further efforts in improvement of both the employability and retention of older workers will have to be enacted, in order to assist in contribution to the sustainability of social security systems, and improve the adequacy of incomes in retirement.
- It is necessary to continue shifting the emphasis from passive measures (financial support of the unemployed) to active forms of assistance (training measures and education in accordance with the changing labour market needs), in order to increase the employment of those with a low level of education or those with the knowledge and skills that are not in demand on the labour market.

- More attention has to be given to creating conditions for employment of the most endangered and vulnerable groups in the labour market, exposed to accumulated problems and the consequences of social exclusion, whose access to the labour market is consequently specially difficult (such as persons with intellectual and health problems, addicts, victims of violence, former inmates, homeless and similar).
- It is crucial to focus ALMP measures on long-term unemployed or groups those are at risk of doing so, instead of targeting almost all unemployed persons. In other words, it is necessary to decrease inflow in the long-term unemployment and to decrease the number of those who are already long-term unemployed.
- There is a need to provide intense, individualised mediation and career counselling/guidance services in employment, acquisition of job-search and job-creation skills, and training and education programs.
- There is a need to constantly design a development plan for professional rehabilitation, vocational education and training, employment and work of people with disabilities (provide professional rehabilitation, employment and work at open labour market according to individual capabilities and needs, and only exceptionally under special conditions and sheltered enterprises).
- The priority in the ALMP area is to develop the “culture of evaluation”, in other words of examining impacts of the ALMP measures and avoiding a disorganised approach (such as allocating significant funds and then the implementation of the programmes ceased).
- Current links with the services that would support integration and social inclusion of service users such as employment and social welfare are generally weak, and there is a need to strength them.

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