

# **Decent Work Country Report - Croatia\***

by

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## LIST OF ABBREVIATIONS

AB – Annual Bulletin  
CA – Collective Agreement  
CEA – Croatian Employers Association  
CBS – Croatian Bureau of Statistics  
CNB – Croatian National Bank  
CES – Croatian Employment Service  
CHII – Croatian health insurance institute  
CSW – Center for Social Work  
EBRD – European Bank for Reconstruction and Development  
ESC – Economic and Social Council  
EU – European Union  
EU-10 – EU new member states  
EU-15 – EU states before enlargement  
EQLS – European Quality of Life Survey  
EWCS – European Working Conditions Survey  
FINA – Financial Agency – FINA  
HDZ – Croatian Democratic Union (CDU)  
HGK – Croatian Chamber of Commerce  
HZJZ – Croatian Institute for Public Health  
HZMO – Croatian Social Insurance Institute  
HNB – Croatian National Bank  
HRM – Human Resources management  
IFO – International Financial Organisation  
ILO – International Labour Organisation  
IO – International Organisation  
IMF – International Monetary Fund  
HRK – Croatian national currency – kuna (for eur exchange rate see Table 2.2)  
LFS – Labour Force Survey  
MFIN – Ministry of Finance  
MFDIG – Ministry of family, defenders and intergenerational solidarity  
MHSC – Ministry of Health and Social Care  
MSES – Ministry of Education, Science and Sport  
MI – Ministry of Interiors  
NGO – Non-governmental Organisation  
NMS – New Member States  
OSP – Office for Social Partnership  
REGOS – Central Registry of Insured Persons  
SDP – Social Democratic Party  
SI – State Inspectorate  
SR – Statistical Report  
SSSH - Union of Autonomous Trade Unions of Croatia (UATUC)  
SY – Statistical Yearbook  
TA – Temporary Agency  
UNDP – United Nations Development Program  
WB – World Bank for Reconstruction and Development

# 1: INTRODUCTION<sup>1</sup>

Enjoying *rights to decent employment and working conditions*; coupled with decent social and living conditions, has certainly become one of the key values in promoting basic European labour standards, and, more widely - global labour standards (in connection with ILO decent work strategy; see Ghai ed. 2006). Decent work is not only major value and one's right; it is a major challenge for all actors in the globalised settings of ever increasing competition, where both for firms and individuals – pressures to be competitive are becoming only stronger. For post-socialist countries, as Croatia is, this challenge is double: both globalisation (via privatisation and liberalisation, international trade and capital opening etc.) and europeisation (via processes of EU accession) have been leading to radical changes in functioning of the labour markets and in working/life conditions of individuals, families, regions... Clearly, this is an on-going and un-finished process asking for adaptations and policy innovations. Changes have been dramatic on both levels: nominal (through new regulations and institutions) and real (through multiplicity of LM behaviours and working organisation practices). Yet, as radical as they are, these changes have been embedded in particular context of history, politics and tradition. This contextuality greatly affects the very notion of decent work, but its understanding too (in spite of its universality – Ghai, 5). While the very notion of 'decent work' has still not become the central one in organising actors' discourses on work, its basic elements have been all the time present (in actors' discourses and policy making), however without proper understanding of implied synergies and complementarities (as typical for ILO strategy on decent work).

It is important to stress that labour-market and working conditions in Croatia, as well as discourses on work, have been developing under the impact of long-term demographic and structural changes, transition-related reforms, war and state building in the first decade of transition; and democratic consolidation, economic progress, regional stabilisation and EU association processes in the second. By the end of the 1990s and into the 2000s Croatia has embarked on the path of democratic consolidation and economic growth with good prospects of EU integration. The second decade has brought 'normalisation' (economic and political), yet in many respects only 'nominal'. Labour market and work trends during the 2000s reflect this. Improvements have been registered in terms of many indicators: the EU accession process is greatly contributing to that, particularly when it comes to legal and/or institutional developments, but major 'hard realities' remain – as this report will show too (similarly to the earlier one –to which in a number of important respects the present report is complementary and building on it; see Franicevic 2007a).

This report gives an overview of working conditions in Croatia, along decent work concepts' multiple dimensions. While data mostly cover the 1996-2007 period, particular stress is on the most recent developments. In *Chapter two* given is short overview of economic developments in the 1990-2007 period, and much more detailed account of labour market developments – with particular stress on employment and unemployment issues. *Chapter three* presents trends in employment and working condition – it includes sections on changing employment status and contracts; on wages and poverty; on working time, child and forced labour, work and family balance, working rhythms and stress at work; safety and health; access to training; and ends with discussion on subjective perceptions. In *Chapter four*, social protection system and major involved issues are analysed; this includes social welfare, unemployment benefits., the pension and health systems, protection of maternity, children, elderly and war veterans. *Chapter five* deals with social dialogue, its actors (unions and employers in particular) and workers' participation. *Chapter six* is policy oriented and discusses some of the main challenges facing Croatia in increasing activity and employment; flexibility and security dilemmas; in achieving more equitable society – both across population and regions; and, finally, on actors' capacities to reform and to enforce these reforms. Finally, in the concluding chapter, some major trends and findings, as well as policy issues, are summarised.

## 2. ECONOMIC AND LABOUR MARKETS DEVELOPMENTS 1990-2007

In this section, an overview of major economic trends (in section 2.1) and, in more detail, of labour market trends (2.2) is presented.

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<sup>1</sup> In working on this report I greatly benefited from assistance being given by numerous experts from labour unions, ministries, government offices, State inspectorate, NGOs; Croatian Bureau of Statistics; World Bank and UNDP Croatia offices. Some of my colleagues helped me with data analyses too: I am particularly grateful to Vedran Šošić (Croatian National Bank) and Sanja Mudrić (University of Rijeka). However, they don't share in any of the report's shortcomings. I also thank Hermine Vidovic from WIIW for allowing me to use tables and figures from her work.

## 2.1 Economic developments 1990-2007

In many respects Croatia has been a typical transformation case, experiencing sharp fall in output and employment in early 1990s, and recovery thereafter. However, its particular path was under the impact:

- Of Yugoslav federation's disintegration coupled with series of wars leading to major human, social and economic dislocations and costs.
- Of the new state building, strongly influencing choices on policies and reforms.
- Of pluralisation of economics (privatisation, new entry, FDI) and politics (political parties and trade unions replaced one-party, one-union model; NGOs increasingly being present).
- Of particular path-dependencies, pertaining to economic system of self-management but to some important cultural and normative legacies too.

Typical Washington Consensus policies (stabilisation, liberalisation, privatisation) were playing out in the very particular political and moral economies context (Franičević 2002) leading to major failures, economic recession of 1999 and de-legitimization of established modes of governance and politics. With democratic consolidation brought about by January 2000 elections, and confirmed by 2003 elections, and with increased credibility of EU integration, the EU factor will become increasingly influential in framing policies and reforms, as well as bringing institutional dimension in the forefront. Yet, failures in implementation and (low credibility of) new institutions' enforcement, high role of informal and widespread corruption contribute to Croatia' being 'land-in-between' – between front-running CEE transition countries and lagging SEE countries. 'In more immediate context, an issue of viability of favourable economic trends is increasingly becoming influential in recent economists' and policy makers' debates.

This 'great transformation' has been characterised by major economic, political, institutional and social changes but 'deficits' too, by continuities (i.e. privatisation) and discontinuities (war, but end of the war too) (more in Franičević and Bičanić 2004 and Franičević and Bičanić 2007). The effects – instant, short-term and long-term ones - on the population, economy and society at large - were dramatic. This applies to labour markets and working conditions at greatest extent too.

### 2.1.1 The 1990s

The 1990s were marked by dramatic falls in output and employment in the first half, and increasing output but coupled with increasing unemployment and stagnant employment in the second half. Table 2.1 illustrates some of the major trends of the 1990s:

**Table 2.1: Croatia 1990-1999, basic macroeconomic indicators**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP, yearly growth rate	-9.9	-21.1	-11.7	-8.0	5.9	6.8	5.9	6.8	2.5	-0.9
GDP bill. €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.9	178	19.3	18.7
Employment, yearly aver., thousands*	1 568	1 432	1 261	1 238	1 211	1 196	1 195	1 187	1 272	1 058
Registered unemployment, thousands	161	254	267	251	243	241	261	278	288	321
Registered unemployment, rate**	9.1	13.2	13.2	14.8	14.5	14.5	16.4 (10.0)	17.5 (9.9)	17.2 (11.6)***	19.40 (14.5)**
Commodity exports, bill. \$	4 019	3 292	4 597	3 903	4 260	4 632	4 511	4 170	4 541	4 279
Comm. imports, Bill. \$	5 187	3 828	4 460	4 666	5 229	7 509	7 787	9 104	8 383	7 777
Foreign debt, bill. \$	2 967	2 741	2 636	2 638	3 020	3 809	5 308	7 452	9 588	9 925
Gvt. expenditures & net lending, % of GDP****			37.7 (period's average)		44.1	48.9	51.9	50.9	53.6	55.9
Gvt. balance including arrears, % of GDP***					1.5	-1.4	-2.2	-3.0	-2.4	-8.0

Sources: CBS, CNB, HZMO; World Bank 2001 (last two rows)

Notes: \*non-agricultural: legal entities, crafts and trades, free lances; \*\*official rate of unemployment & ILO based in brackets; \*\*\*number of insured/number of pensioners (Croatian Agency for Social Insurance, HZMO); \*\*\*\*Consolidated general government

In addition, dramatically was increasing dependency rate due to fast increase in numbers of pensioners – due to many firms’ failures, low employability of war veterans, and due to surviving firms’ defensive restructuring mostly based on, often dramatic, cuts in employment. On the other hand, the state was, if not explicitly encouraging, supportive of such solutions. Privatisation, by many found as inefficient and unjust, was coupled with major weaknesses and failures leading to numerous contestations (see Franicevic and Sisek, 2001 on workers’ actions in defending their legitimate stakes) and demands for full revision in the wake of 2000 elections.

Success of October 1993 Stabilisation programme, followed by establishing territorial integrity in 1995, thus bringing much needed peace, brought much more stable environment both economic and political one. However, in the context of stability of prices and exchange rates, mounting were major macroeconomic deficits: fiscal, trade and savings/investment. Pressures to catch-up for lost years were strong and hard to resist: in the 1994-1998 period (if 1994 = 100) real wages 1998 index was 179, much above industrial productivity – 145, and economy productivity – 138.1 (Franicevic 2002) – growth of wages ahead of productivity will last up to 1999 (gross wages) and 2000 (net wages)(Vidovic 2006, 26).

Populist policies of the 1990s were leading towards ‘large’ but ‘weak’ state syndrome: as Table 2.1 illustrates, the share government expenditures in GDP remained high during the period. Throughout the period, even when formally running a balanced budget, the implicit deficit was covered by the sale of assets and foreign borrowing. Yet, by the end of the period this deficit is becoming increasingly explicit as well: -8.0% of GDP (including arrears). Growth of GDP was mostly based on consumer’s consumption (encouraged by strong rebound of real wages in 1994-1999 period and clientelistic policies of the state subsidising consumption of war veterans and victims). Comparatively low private savings rates were coupled with increased foreign borrowing which has greatly contributed to the growing share of external debt in GDP (only recently this will become an important issue in national debates).

Dramatically growing unemployment, coupled with multiple consequences of war, made hundreds of thousands vulnerable to decreasing living standards. While poverty and overall uncertainty had increased, an important buffer (besides state social policies and paternalism), but road to wealth accumulation too, was *unofficial economy* – it was estimated (by discrepancies in national accounting) that in the 1990-1995 period the UE was about 25% of GDP and in 1996-2000 it felt to an average of 10% of GDP. Importantly, one of the main components of UE is *unregistered work* (see Ott 2003, 443) In Crnković-Pozaić (1997, 181) proportion of the UE in total employment was estimated at 25.8%. Most of those registered as unemployed weren’t receiving unemployment cash benefits and for those who were receiving, the amount was far from being enough even to support oneself – ‘most persons who work on their own account started out their small enterprise from necessity, and were before that mainly unemployed’ (Crnković-Pozaić 2001, 316) Among them, in the 1997-2000/2 period 23.8% were previously inactive, 48.1% unemployed and 28.2% employed; different is for business owners and free professions: 66.9% of them were previously employed, 23.5% unemployed and 9.6% inactive (2001, 307). However, considerable decrease was registered during the 2000s. But still: ‘Out of 1.5 million workers defined as employed according to ILO criteria, 91.1% declared themselves to be working, 6.3% were working but were pupils, students, housewives or pensioners and therefore “inactive”, and 2.4% were “unemployed”. This implies (she continues) that 8.7% of the workforce and 5.8% in 2004 do not feature in the employment statistics from establishment sources. *They represent the legal but unregistered or illegal employment in Croatia.*’ By her account in 2002 there were 133 thousands and in 2004 around 90 thousands working in unofficial economy. (Crnković-Pozaić 2007, 99)

On the other hand, the second half of the 1990s will bring consolidation and recovery of many large firms, stronger FDI in some sectors (mainly through privatisation), but also stabilisations of unions with high unionisation shares in such firms and/or public sector. In the context of high nominal workers protection, the state looking for accommodation with both employees and employers, will make institutions of social dialogue and collective bargaining functional, even if imperfectly. Following the WB advice, only with the 2003 changes to the Labour Law (first labour law was enacted in 1995), EPL index was reduced from high 3.58 to 2.76 (first proposal was 2.25 but it was rejected due to unions’ opposition; Matković and Biondić 2003) and thus brought close to the EU-15 average (2.4 in 2003) but still higher than OECD 2.0; and slightly higher than CSEE average – 2.4 (Cazes and Nesporova 2007).

With such trends *segmentation* of labour markets seemed to be pronounced, exposing Croatian workers not only to different opportunities and rules of the game on the LM, but to increasing differentiation of working conditions too – ranging from completely unprotected informal work to modern HRM practices increasingly

being introduced by large foreign-owned firms and some domestic large firms: it will open major policy dilemmas when approaching flexibility vs. security tradeoffs in recent years. (to be discussed in Ch. 6)

The period's end was marked by economic recession and failures of a number of privatised firms, causing job losses, and growing pressures for political and economic reforms through delegitimisation of semi-authoritarian politics and demands for revision of privatisation. In such a setting January 3, 2000 parliamentary elections will open an avenue to democratic consolidation and international normalisation (with important conditionalities attached to opening avenues for EU accession), but to economic growth in a setting of greater stability and more realistic European expectations. (More in Franicevic 2002; and Franičević and Bićanić, 2007)

### **2.1.2 2000-2006: on the growth path...**

The first half of the first decade of the 2000s brought major improvement in the economy's performance as well as in Croatia's international position, including signing *Stabilisation and Association Agreement* in October 2001, achieving an EU candidate status in June 2004 with negotiations being opened in 2005. Economic growth in 2000s picked up, followed by decreasing unemployment and slowly increasing employment. While expectations of radical break with most notorious legacies of the 1990s have not been fulfilled – the 2000s brought important democratic consolidation, international normalisation, and economic progress (based on consolidation of the PE model of the 1990s as argued in Franicevic and Bicanic 2007). High growth, though slower than in a number of neighbouring postsocialist countries; increased investments (not only in infrastructure) and FDI (yet, with low share of greenfield investments – Vidovic 2006); consumers' spending explosion and improved living standards indicators; and all this coupled with price and exchange rate stability, moderate fiscal consolidation and increasing international reserves – seem quite remarkable achievement and provide a setting for further reforms in line with EU harmonisation and IFOs demands. However, important deficits remained, economic and institutional, potentially threatening the future viability of economic growth and social expenses. Deficit of low/stagnating exports coupled with increasing trade deficit and current account's deficit as a share of GDP; increasing external vulnerability, with foreign debt growing to above 80% share of GDP - may considerably limit overgrown state to finance social expenses related both to social and health insurance,<sup>2</sup> but to upgrading national systems of education, training and research and development. (Table 2.2 below illustrates some major macroeconomic trends). Institutional deficits (e.g. corruption, judiciary, low reform capacity in some areas...) are increasingly becoming a major barrier in speeding-up the EU association processes.

LM developments, in particular, have been characterised by increasing presence of structural problems of the economy and labour markets: as general LM situation has improved, particularly in terms of decreased unemployment, but increased employment too, in the forefront will come major structural problems of the labour market – long-termness of unemployment, skills' mismatches, particular groups' vulnerabilities (to low pay low employability, unfavourable working conditions) and, increasingly, regional differences. **While** the 2000-2007, period has led to some important improvements in LM and working conditions it has brought increasing concerns over trends in employment and working conditions, over trends in flexibility and security.

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<sup>2</sup> May 2007 World Bank progress report warns that while 'moderate fiscal consolidation has taken place' (reducing overall fiscal balance to -3.9% of GDP in 2005 and -3.1% in 2006 (preliminary), and -3.0 in 2007 (projected), 'further fiscal consolidation is also required because the scope for increasing tax revenues is limited' (and 'Croatia taxes directly and indirectly 39 percent of GDP' (NMS 10 average is below 30%) – and 'without cuts in public spending, tax reductions is not feasible' (World bank 2007b)

**TABLE 2.2: Croatia 2000-2006**

	2000	2001	2002	2003	2004	2005	2006
GDP growth %	2.9	4.4	5.6	5.3	4.3	4.3	4.8
GDP Current prices, bill €	19.977	22.171	24.468	26.232	28.681	31.263	34.220
GDP p/c €	4.560	4.998	5.507	5.906	6.397	6.968	7.706
Inflation rate %, average	4.6	3.8	1.7	1.8	2.1	3.3	3.2
Eur/HRK average CNB exchange rate, yearly	7.63	7.47	7.41	7.56	7.50	7.40	7.32*
Gross international reserves (bill. €) End period	3.783	5.334	5.651	6.554	6.436	7.438	8.725
FDI inflow, net (% of GDP)	6	7	5	7	3	5	3
3 month treasury bills interest	7.50	4.0	2.0	4.0	3.80	3.7	3.00
Trade deficit (bill. USD)	-3.455	-4.481	-5.819	-8.022	-8.565	-9.788	-11.126
Current account deficit (as % of GDP)	-2.4	-3.6	-8.5	-7.1	-5.1	-6.4	-7.8
Total employment (end of period, mill)	1.300	1.340	1.351	1.388	1.397	1.417	1.467
Registered unemployed (end of period, mil)	379	395	366	319	316	308	293
Registered unemployment rate (LFS in brackets)	22.6 (16.1)	23.1 (15.8)	22.3 (14.8)	19.2 (14.3)	18.0 (13.8)	17.9 (12.7)	16.7 (11.2)
Consolidated central gov't def. (% of GDP)	-7.5	-6.8	-4.9	-6.2	-4.8	-4.0	-3.0
Foreign debt aggregate (bill. EUR), end period	12.109	13.458	15.055	19.811	22.781	25.541	28.975
Foreign debt as % of GDP	60.6	60.7	61.5	75.5	79.4	81.7	84.7

Sources: CBS, CNB, CES; Note: 7.33 in 2007

### 2.1.3 ...but is it sustainable?

Sustainability of favourable trends may be questionable, with potentially complex consequences on future evolution of labour markets and working conditions. *In short term*, mounting are signs of 'overheating' (inflationary pressures, gaps on the labour markets), and increasing external vulnerability due to external imbalances, rapid credit growth and currency mismatches. World Bank and IFC 2007 report stresses that 'continued external vulnerability poses a risk to macroeconomic stability and leaves the Government with little room to manoeuvre in the event of shocks' (World Bank 2007b, 4) Recent IMF study warns that, 'traditional vulnerability indicators for SEE are at levels that historically have been associated with risks for growth reversals' (comparison with East Asia 1996 indicators show many commonalities, Sorsa et al. 2007, 10) and Croatia shares that vulnerabilities (its external debt-to-GDP ratio is among the highest in postsocialist countries; and share of short-term debt has risen in recent years too). Even if the EU integration process might mitigate these vulnerabilities, the report points to weaker institutional capacities and unfinished structural reforms (increasingly coming to light in the processes of Croatia's current negotiations with EU). Low efficiency of investment in Croatia is an indication of that too (relatively high level of investment has generated relatively modest growth – *ibid.*, 13; lower than in comparable CEE-5 and Baltic' countries) as is low TFP growth rate – 1.2 in 2002-2006 (vs. 4.0 in Baltic and 2.5 in CEE-5) (Sorsa et al. 2007), as is its low exports capacity. The authors conclude that SEE pattern of catch-up 'raises questions about sustainability of the large deficits, should the global environment change' (*ibid.*, 13) And add: 'a growth shock or a decline in housing process, or just a reduction in new credit, can trigger large adjustments in demand in SEE due to high reliance on foreign savings in the enterprise and banking sectors' (*ibid.*, 20). While the new Croatian government certainly didn't follow in its programme the report's advice to 'avoid procyclical fiscal policies and remove incentives to borrow', Croatian National Bank has been much more careful following the advice to 'contain growth in bank credit with tight monetary policies' (*ibid.*, 25), and this in spite of considerable accumulated international reserves. On the other hand, June 2007 *Economic Outlook for Central, East and Southeast Europe*, while aware of risks of overheating, offers, for SEE region more optimistic picture of sustained growth with macroeconomic stability ([www.wiiw.ac.at](http://www.wiiw.ac.at), press release on July 5, 2007).

The end of 2007 has brought a change in atmosphere – due to stronger inflationary pressures, particularly concerning basic necessities (foodstuff, energy, utilities) - a sense of urgency has been created by unions threatening with social action if prices and wages are not put in line. High growth expectations are still

nourished but revised to lower values: from high 6.3% in 2007 to 5.1% with further decrease in unemployment – *PBZ macroeconomic forecasts*, November 2007; from 6% in 2007 to 4.9% in 2008 in *Economic Institute of Zagreb Croatian Economic Outlook Quarterly*, No.32, 2007. However, the most recent statement by Željko Rohatinski (CNB governor, on Jan. 23, 2008) – warned that expectations on 2008 growth should be further reduced, while inflationary pressures will be met by adequate anti-inflationary monetary measures. *The terrain of that growth will certainly be more contested*, as unions will try to protect workers' wages and rights and as firms will have harder time to improve (or even sustain) performance and competitiveness, as IFOs and EU are pushing for more decisiveness in reforms of public sectors and social protection systems. It is quite possible that more confrontational period in relations between employers and employees (in spite of the government's efforts to contain them through) might follow with capacities for social dialogue increasingly tested; as mounting may be pressures on the new government to micro-manage (as establishment of the government's committee, in which social partners are included, for dealing with price increases attest - pushing large firms to reduce prices of some necessities voluntarily, which did happen by the end of January 2008) .

Mounting are also signs that Croatia's road to EU might be slower than hoped for: in spite of that on-going nominal harmonisation with EU will increasingly influence and constrain policy and institutional choices, also influencing LM and working conditions in years to come. However, typical low credibility of enforcement due to low administrative capacities, weak judiciary, but high corruption too may actually increase the gap between nominal and real changes, thus opening new avenues for conflict and politicisation.

*In the longer term*, increased competitiveness of Croatian firms and increased activity rate of population will certainly be necessary if Croatia is to embark on higher growth path; even if current path will be sustainable (in face of mounting external deficits and/or vulnerabilities). This might lead to increased pressures to more radical reforms of labour market and industrial relations; and provoke trends towards greater LM flexibility and greater intensification of work. However, in the context of increasing uncertainties, politics of labour and work may come under more pressures from all sides in order to 'insure' against potential risks. To this I'll return in Ch. 6 again

## 2.2 LABOUR MARKET DEVELOPMENTS 1990-2007

*LM evolution is under the impact of unfavourable demographic trends*, which are influencing policy choices and discourses. *Population is falling* (from 4499 million in 1991 to 4195 in 2001); *pronounced is ageing* (share of 65+ in total population increased from 7.4% in 1961 to 12.4% in 1991, and to 16.3% in 2001); *share of working age population*, after reaching its peak in 1991 *is decreasing*: in 2001 it was 66.4%. (Gelo et al. 2005)

*Activity rate is comparatively low*: in spite of decreasing unemployment, share of inactive population remained 50.8% in 2005 and 50.2% in 2006 (CBS LFS, 2005 and 2006, 2d half). On the other hand, *increasing economic inactivity* – as Tables 2.3 a,b show – associated with early retirement, increasing numbers of disability benefits recipients, support of war veterans, a sizeable informal economy and a growing discouraged worker effect (Vidovic 2006, 24) puts Croatia among the top countries concerning *the inactivity rate*<sup>3</sup>. This points to serious under-utilisation of human resources, but serious policy challenges, yet – opportunities too, to be faced in years to come.

*Employment/population ratio*, after reaching its lowest level in 2001 (41.5%, 1<sup>st</sup> half), has been around low 43% in last years. (CBS LFS) (See: Tables 2.3a, b). *Employment rates* (employed aged 15-64, divided by total 15-64 population) in the 2002-2006 period have been slowly increasing, but still they are comparatively low (if compared to EU-15 and EU-25): 53.4; 53.4; 54.7; 55.0 and 55.6 (in 2006). Respective numbers for men are: 60.5; 60.3; 61.8; 61.7 and 62.0%; for women: 46.7; 46.7; 47.8; 48.6 and 49.4% (Eurostat).

### 2.2.1 Changing structures of employment

*Table 2.4(below) illustrates major trends in changing structure of employment. Clearly, paid employment dominates but self-employment's share, after falling from 21.1% in 1996 to 17.6% in 2000, has grown to comparatively high 22.3% in 2005 but fell to 20.8% in 2006 (CBS LFS, 2d half). However, only 5.2% both in 1996 and in 2005 (and 4.9% in 2006) are employers (to this I turn in section 3.1.4)*

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<sup>3</sup> This proportion is lower (36.5%) based on the working-age population (15-64) but still among the highest in EU (Vidovic 2006, 25)

Table 2.4: Changing structures of employment 1996-2007

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 1 <sup>st</sup> and 2 <sup>nd</sup>
<b>Employed total (000)*</b>	1540	1593	1544	1492	1553	1469	1528	1537	1563	1573	1586	1586
<b>BY PROFESSIONAL STATUS, 2d half year (%) (1996 – November; 1997 – June)</b>												
<b>Employees</b>	<b>70.8</b>	<b>74.1</b>	<b>75.6</b>	<b>75.1</b>	<b>78.2</b>	<b>76.2</b>	<b>76.9</b>	<b>76.0</b>	<b>77.1</b>	<b>75.6</b>	<b>77.2</b>	<b>78.5</b>
<b>Self-employed</b>	<b>21.1</b>	<b>18.5</b>	<b>18.3</b>	<b>19.2</b>	<b>17.6</b>	<b>19.2</b>	<b>18.6</b>	<b>20.5</b>	<b>20.7</b>	<b>22.3</b>	<b>20.8</b>	<b>19.4</b>
<i>Own account</i>	15.9	13.6	12.8	14.2	12.6	14.4	14.1	15.8	15.2	17.1	15.9	13.6
<i>Employers</i>	5.2	4.9	5.5	5.0	5.0	4.8	4.5	4.7	5.4	5.2	4.9	5.7
<b>Helping family memb.</b>	<b>8.1</b>	<b>7.5</b>	<b>6.1</b>	<b>5.8</b>	<b>4.2</b>	<b>4.6</b>	<b>4.5</b>	<b>3.5</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>
	100	100	100	100	100	100	100	100	100	100	100	100
<b>BY SECTOR OF OWNERSHIP*</b>												
<b>State sector 1)</b>	<b>48.8</b>	<b>48.7</b>	<b>46.2</b>	<b>43.9</b>	<b>42.8</b>	<b>40.1</b>	<b>37.5</b>	<b>34.7</b>	<b>33.8</b>	<b>31.7</b>	<b>31.3</b>	<b>31.8</b>
<i>Employees</i>	67.3	65.7	61.4	58.5	56.2	52.9	49.2	45.8	44.2	42.2	40.8	40.4
<b>Private sector</b>	<b>51.2</b>	<b>51.3</b>	<b>53.8</b>	<b>56.1</b>	<b>57.2</b>	<b>60.0</b>	<b>62.5</b>	<b>65.3</b>	<b>66.2</b>	<b>68.3</b>	<b>68.7</b>	<b>68.3</b>
<i>Employees only</i>	32.7	34.3	38.7	41.6	43.8	47.2	50.8	54.2	55.8	57.8	59.2	59.6
	100	100	100	100	100	100	100	100	100	100	100	100
<b>BY SECTOR OF ACTIVITY*</b>												
<b>Agriculture</b>	19.9	17.8	16.7	16.5	14.6	15.5	15.2	16.9	16.4	17.3	14.2	13.0
<b>Industry</b>	29.1	29.5	29.8	30.6	28.8	30.0	29.6	29.7	29.8	28.5	29.4	31.1
<b>Services</b>	50.7	51.9	53.2	52.5	56.1	54.0	54.6	53.2	53.5	53.7	56.4	55.9
	100	100	100	100	100	100	100	100	100	100	100	100
<b>BY SEX*</b>												
<b>Male</b>	54.4	54.2	53.9	53.8	54.7	55.7	55.2	55.4	55.4	55.1	55.7	55.6
<b>Female</b>	45.6	45.8	46.1	46.2	45.4	44.3	44.8	44.6	44.6	44.9	45.3	45.4
	100	100	100	100	100	100	100	100	100	100	100	100

Source: CBS Labour Force Surveys: Notes: based on averages of two half-year LFS results (except for 1996, 1997 (annual surveys) and 2007 – quarterly surveys, average of Q1-2) 1) Data on state sector comprise employment in sector of state ownership and sector in transition.

*Sectoral structure of employment has changed too: increased has share of services – from around 51% in the period's start to some 56% by 2006/2007, while agriculture's share fell from 19.9% in 1996 to 13% in 2007. Main loss in employment was in industry whose share in employment was 35.9% in 1991 to reach 22.7% in 2000 and 20.5% in 2005 (EBRD dataset): during the 1990s close to 300 thousands jobs were lost; recently this downward trend has slowed down considerably<sup>4</sup>. In the 2002-2006 period pronounced growth in employment was in construction, wholesale and retail, business and personal services, while major losers were agriculture, public administration and defence.<sup>5</sup>*

Increasing is also share of *private sector employment* (from 26.3% in 1992, according to World Bank data, to 68.8% in 2006). LFS data show strong increase in the 1996-2007 period: from 51.2% to 68.7% in 2006 and 68.3% in 2007, 1<sup>st</sup> half; parallel to this has been an increasing share of private sector employees only – from 32.7 in 1996 to 59.6% in 2007. Parallel to this has been relocation of employment towards *small and medium firms*. Most of new jobs, with less security for employed, have been created in SMEs. Šošić's calculation from FINA dataset shows for SMEs (1-50 employees) much higher job creation rates in the period 1994-2004 than for the large ones. In spite of higher destruction rates net job creation in this sector has been positive throughout the period, resulting with growing share in employment structure (from 13.8% in 1994 to 35.1% in 2004) (Šošić 2007). However, in 2000s large firms' share in *commercial societies'* total employment is increasing: after lowest 42.1% in 2000 it reached 47.1% in 2003 and 48.1% in 2005; small firms' share peaked in 2000 (36.6%) to decrease to 33% in 2003 and 32.3% in 2005)(FINA data)<sup>6</sup>. If crafts and cooperatives are added (with an increase in employment from 205 thousands in 2000 to 258 in 2005), then share of SMEs in total employment has stabilised in last years around 64%<sup>7</sup>.

Finally, share of *women* in overall employment has remained quite stable during the period – with little variation their share has been around 45%, while *men's* share has been around 55%, reflecting their persistently higher unemployment but lower activity rates (see Table 2.3 a,b)

<sup>4</sup> In manufacturing, 285.0 thousands were employed in 2002, 288.4 in 2003, 288.9 in 2004, and 286.7 in 2005 (CBS).

<sup>5</sup> Based on establishments' data and without individual farming service sector's share in 2005 was 62.8 %, agriculture's 5.9% and industry's 31.2% (in 2002 respective shares were 61.3; 7.8 and 30.7 CBS, *Statistical information 2005 and 2006*. These differences in agriculture may be partly attributed to underreporting in order to avoid taxes and social contributions. (Vidovic 2006, 12 referring to Botrić 2003)

<sup>6</sup> E.g. in 2005 71803 firms were employing 813 thousands, out of which 1074 large ones – 391, 2969 medium ones – 160 and 67760 small ones – 263 thousands; FINA data, from [www.hgk.hr](http://www.hgk.hr).

<sup>7</sup> In Čučković and Bartlett (2006) share of SMEs in total number of enterprises is 99.6% and share in employment – 65.7%.

### 2.2.2 Labour market dynamics

*Dynamics of employment/unemployment shows some interesting properties.* LM developments were characterised by strong growth in unemployment until 2001; since 2001 decrease of unemployment (both registered and ILO based) set in. This was coupled with decreasing employment until 1995, stagnant or slowly decreasing until 2000; with 2001 employment growth set in, though very slow and weak thereafter, particularly in legal entities (stronger only in 2006). LFS data show clearly very slow increase: In 2005 number of employed was just 2.1% and in 2003 – 3% above the 1996 level).<sup>8</sup> Similarly to many NMS, in Croatia too ‘economic growth and consequently productivity gains in the period after 1995 were mainly achieved through substantial labour shedding or only meagre increases in employment latter on’. (Vidovic 2006, 3) This is pointing to potential structural and entrepreneurial barriers to net job creation – to this I turn soon. Table 2.5 illustrates these trends as well as differences between administrative and LFS data.

Significant differences have remained between registered unemployment and LFS unemployment: on one hand registered are many who don’t satisfy ILO unemployment criteria – they work informally, or are not either actively looking for the job or available for it (some 37% in 2005); at the same time 16% of LFS unemployed are not registered (for some of them unemployment is very likely short-term or transient). On the other hand incentives to register include eligibility to some benefits, e.g. for social assistance, maternity benefits, some local governments provided benefits; but not any more health insurance (Vidovic 2006) – more in Chapter 4.

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<sup>8</sup> It is important to note, with caution, that up to 2d half of 1999 not all Croatian territory was included in the sample frame, i.e. former Krajina and Eastern Slavonia).

**Table 2.5: 1989-2006 Employment and Unemployment LFS and registered (in 000 and %)**

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
GDP growth	-1.6	-7.1	-21.1	-11.7	-8.0	5.9	6.8	5.9	6.8	2.5	-0.9	2.9	4.4	5.6	5.3	4.3	4.3	4.8
Indexes, 1989=100	<b>100</b>	92.9	73.3	64.7	59.5	63.1	67.3	71.3	76.2	78.1	77.4	79.6	83.1	87.8	92.4	96.4	100.6	105.4
Indexes, 1996=100								<b>100</b>	106.8	109.5	108.5	111.6	116.5	123.1	130.0	135.6	141.4	148.3
<b>registered</b>																		
<b>Employment*</b>	<b>1618</b>	<b>1571</b>	<b>1443</b>	<b>1283</b>	<b>1239</b>	<b>1211</b>	<b>1195</b>	<b>1195</b>	<b>1188</b>	<b>1272*</b>	<b>1263</b>	<b>1258</b>	<b>1273</b>	<b>1289</b>	<b>1330</b>	<b>1355</b>	<b>1371</b>	<b>1423</b>
Yearly changes%		-3.0	-10.8	-11.1	-3.4	-2.6	-1.3	0	-0.6	0.7	-0.7	-0.4	1.1	1.3	3.1	1.9	1.2	3.8
Indexes, 1989=100	<b>100</b>	<b>97.1</b>	<b>89.2</b>	<b>79.3</b>	<b>76.6</b>	<b>74.8</b>	<b>73.9</b>	<b>73.9</b>	<b>73.4</b>	<b>78.6</b>	<b>78.1</b>	<b>77.8</b>	<b>78.7</b>	<b>79.7</b>	<b>82.2</b>	<b>83.7</b>	<b>84.7</b>	<b>87.9</b>
Indexes, 1996=100								<b>100</b>	99.4	106.4	105.7	105.3	106.5	107.9	111.3	113.4	114.7	119.1
Share of women	42.7	43.1	43.0	43.9	44.6	45.1	45.3	<b>45.4</b>	46.0	45.1	45.2	45.5	45.4	45.0	44.8	44.8	45.0	45.0
<b>In legal entities**</b>	<b>1567</b>	<b>1514</b>	<b>1315</b>	<b>1160</b>	<b>1108</b>	<b>1061</b>	<b>1027</b>	<b>1012</b>	<b>995</b>	<b>1071*</b>	<b>1058</b>	<b>1053</b>	<b>1056</b>	<b>1060</b>	<b>1088</b>	<b>1103</b>	<b>1113</b>	<b>1160</b>
Yearly changes%		-3.5	-15.1	-13.4	-4.7	-4.4	-3.3	-1.5	-1.7	7.6	-1.2	-0.5	0.3	0.4	2.6	1.4	0.9	4.2
Indexes, 1989=100	100	96.6	83.9	74.0	70.7	67.7	65.5	64.6	63.5	68.3	67.5	67.2	67.4	67.6	69.4	70.4	71.0	74.0
Indexes, 1996=100								<b>100</b>	<b>98.3</b>	<b>105.8</b>	<b>104.5</b>	<b>104.1</b>	<b>104.3</b>	<b>104.7</b>	<b>107.5</b>	<b>109.0</b>	<b>110.0</b>	<b>114.6</b>
<b>In crafts, trades, free lances***</b>	<b>51</b>	<b>58</b>	<b>129</b>	<b>123</b>	<b>130</b>	<b>149</b>	<b>169</b>	<b>183</b>	<b>192</b>	<b>201</b>	<b>205</b>	<b>205</b>	<b>216</b>	<b>229</b>	<b>242</b>	<b>258</b>	<b>258</b>	<b>263</b>
Yearly changes%		***	***	-4.8	5.7	14.6	13.4	8.3	4.9	4.7	2.0	0.0	5.4	6.0	5.7	6.6	0.0	1.9
Indexes, 1989=100	100		252.9	241.2	254.9	292.2	331.4	358.8	376.5	394.1	402.0	402.0	423.5	449.0	474.5	505.9	505.9	515.7
Indexes, 1996=100								<b>100</b>	<b>104.9</b>	<b>109.8</b>	<b>112.0</b>	<b>112.0</b>	<b>118.0</b>	<b>125.1</b>	<b>132.2</b>	<b>141.0</b>	<b>141.0</b>	<b>143.7</b>
<b>Unemployment (averages yearly)</b>	<b>140</b>	<b>161</b>	<b>254</b>	<b>267</b>	<b>251</b>	<b>243</b>	<b>241</b>	<b>261</b>	<b>278</b>	<b>288</b>	<b>322</b>	<b>358</b>	<b>380</b>	<b>390</b>	<b>330</b>	<b>310</b>	<b>309</b>	<b>291</b>
Yearly changes%		<b>15.0</b>	<b>57.7</b>	<b>5.1</b>	<b>-6.0</b>	<b>-3.2</b>	<b>-0.8</b>	<b>8.3</b>	<b>6.5</b>	<b>3.6</b>	<b>11.8</b>	<b>11.2</b>	<b>6.1</b>	<b>2.6</b>	<b>-15.4</b>	<b>-6.1</b>	<b>-0.3</b>	<b>-5.8</b>
Indexes, 1990=100	<b>100</b>	115.0	181.4	190.7	179.3	173.6	172.1	186.4	198.6	205.7	230.0	255.7	271.4	278.6	235.7	221.4	220.7	207.9
Indexes, 1996=100								<b>100</b>	<b>106.5</b>	<b>110.3</b>	<b>123.4</b>	<b>137.2</b>	<b>145.6</b>	<b>149.4</b>	<b>126.4</b>	<b>118.8</b>	<b>118.4</b>	<b>111.5</b>
<b>Unemployment rate – registered</b>	<b>8</b>	<b>9.1</b>	<b>13.2</b>	<b>13.2</b>	<b>14.8</b>	<b>14.5</b>	<b>14.5</b>	<b>16.4</b>	<b>17.5</b>	<b>17.2</b>	<b>20.8</b>	<b>22.6</b>	<b>23.1</b>	<b>22.3</b>	<b>19.2</b>	<b>18.0</b>	<b>17.9</b>	<b>16.6</b>

<b>Labour force surveys****</b>																		
<b>Employment</b>								<b>1540</b>	<b>1593</b>	<b>1544</b>	<b>1492</b>	<b>1553</b>	<b>1469</b>	<b>1528</b>	<b>1537</b>	<b>1563</b>	<b>1573</b>	<b>1586</b>
<i>Yearly changes%</i>									3.4	-3.1	-3.5	4.1	-5.7	4.0	0.6	1.7	0.6	0.8
<i>Indexes, 1996=100</i>								<b>100</b>	103.4	100.3	96.9	100.8	95.4	99.2	99.8	101.5	102.1	103.0
<b>Unemployment</b>								<b>170</b>	<b>175</b>	<b>199</b>	<b>234</b>	<b>298</b>	<b>277</b>	<b>266</b>	<b>256</b>	<b>250</b>	<b>229</b>	<b>199</b>
<i>Yearly changes%</i>									2.9	13.7	17.6	27.4	-7.6	-4.1	-3.9	-2.4	-9.1	-15.1
<i>Indexes, 1996=100</i>								100	102.9	117.1	137.6	175.3	162.9	156.5	150.6	147.1	134.7	117.1
<b>Unemployment rate</b>								<b>10.0</b>	<b>9.9</b>	<b>11.4</b>	<b>13.6</b>	<b>16.1</b>	<b>15.9</b>	<b>14.8</b>	<b>14.3</b>	<b>13.8</b>	<b>12.7</b>	<b>11.2</b>
<b>Unemployment: registered vs. LFS</b>																		
<i>Registered/LFS gap in 000</i>								91	103	89	88	60	103	124	74	60	80	92
<i>Registered/LFS un. Rate gap</i>								6.4	7.6	5.8	7.2	6.5	7.2	7.5	4.9	4.2	5.2	5.5

Sources: CBS: Statistical Report 1307, 2007; Labour Force Surveys 1996-2006; EBRD database

Notes: \*all employed except on independent (family) farms and police and army; since 1998 defence and police have been included (up to 2003 by estimation); \*\* includes those with work contract irrespective of ownership, the kind of employment and number of working hours; \*\*\* Until 1991 only employees were included; with 1991 self-employed owners were included too; \*\* \*\*1<sup>st</sup> half/ 2d half averages

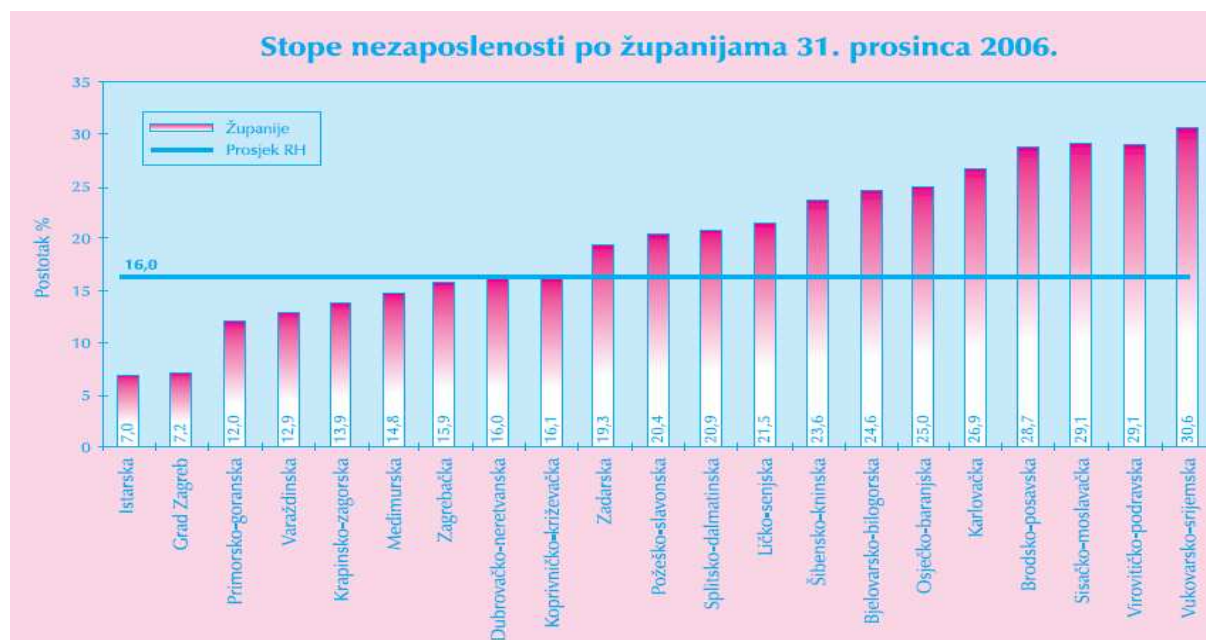
## 2.2.3 Unemployment problem

The 1990s brought dramatic rise in unemployment – output ‘shock’ was strong and durable (see Table 2.5 above): besides war, failures of privatisation and restructuring greatly contributed to that. Many firms failed as non-viable or mismanaged. Numerous were employees’ actions to defend their legitimate stakes (Franičević and Sisek 2001). Unemployment peaked in 2002 when 390 thousands were registered (year average, CES data), with unemployment rates coming to 22-23% in the 2000-2002 period, with LFS rates reaching 17.0% in 2000 and 16.3% in 2001 (CBS LFS, 2d half). From 2001/2002 on, with stronger economic growth, registered and LFS unemployment rates decreased to 17.9% (registered) and 12.3% (LFS 2d) in 2005; 16.6% (registered) and 11.8%/10.5% (1<sup>st</sup>/2<sup>d</sup> half) in 2006 and 10.2% in 2007 (q1 and q2 average). However, unemployment *is still high and it is a major public issue* due to (1.) pronounced regional differences and to (2.) some of its structural characteristics. Croatia shares in typical features of unemployment found in most transition countries: steadily increasing share of long-term unemployment in total unemployment; women being more strongly affected; high youth unemployment; major and persisting regional disparities; very high unemployment levels among ethnic minorities and other socially disadvantaged groups. (Vidovic 2006, 16)

**Regional differences are significant and persisting.** As typical for most postsocialist countries, there has been a differentiation between, typically few, economically dynamic regions with stronger job creation and those falling back and remaining depressed for longer periods of time. (Vidovic 2006, 22) In Croatia this typical pattern was dramatically influenced by the war and human and economic losses and dislocations it brought about, where impact of the war-related shocks was regionally very uneven – in some regions developed has been ‘a path of their own’ leading to ‘persistence of high unemployment’ in them (Botrić 2007, 31) While most of 21 Croatian counties have above the average unemployment rates by the end of 2005 there were 13 – ranging from 18.3 to 32.1%, there are important exceptions to it: City of Zagreb (7.8%), and Istarska county (8.0%). The rest were 6 counties with 13.4 to 16.8% unemployment rates. Particularly high are rates in war-affected areas (CES, AB 2005; on Dec. 31 2005). Figure below shows unchanged general picture one year later, i.e. unemployment rates by counties on December 31 2006.

High regional unemployment is, adds Vidovic, coupled with low activity rates due to a high number of persons exiting from the labour market (Vidovic 2006, 22). Important is to note that county-level data hide true regional dynamics – formed on administrative/political criteria they often hide important intra-county differences (for example, between vibrant areas, or recovering areas on the Adriatic coast and continental areas behind). Designing true territorial unemployment map might be necessary if effective regional policies will be possible.

Figure 2.1: Unemployment rates by counties, registered, on December 31 of 2006



Source: CES Annual Bulletin 2006, p.10.

Even if LFS sample is not designed to produce regional level analyses, very recently Botrić (2007) produced analyses of county-level LM differences using 2000-2005 LFS data. Even if not conclusive, her analysis is illuminating and invites for further research. As might have been expected, some variables were found to play important role in accounting for these differences:

- (i.) differences concerning education of the labour force are pronounced – particularly counties ‘lagging behind in the number of schooling years are those in which agriculture is still relatively important’; on the other hand (typical) increase in service sector employment, at the county level, ‘was generally not sufficient to offset a decrease in employment in industry and agriculture’ – important role in this, besides inadequate demand, is played by skills mismatches (see Obadić 2004 and 2006<sup>9</sup>). Importantly, the two counties with the highest educational attainment ‘have the highest share of employment in services’ (Botrić 2007, 35-36);
- (ii.) differences between counties concerning ratio of the wage unemployed is willing to accept and county level average wage (ranging between about 130% and 87% of the average): point to possible (mis)perceptions on the local LM conditions, but also to the fact that reservation wage might seriously be affected by opportunities and engagement in unofficial economy (the two regions with highest percentage are high unemployment regions with high presence of agriculture); further research in this respect would be very much needed;
- (iii.) generally high, but differing are, shares of those willing to accept jobs only in the county of residence point to very low geographical mobility of the labour force (in one county only it is below 60% and in two counties only it is below 70%, but in four – above 80%). However, the evidence of impact of high share of home-ownership (making mobility costly; additional barrier might be pronounced price differentials in the real-estate markets – v.f.) on this was not found conclusive (Botrić 2007, 39) If to this picture data on greater volatility of females’ activity rates are added (‘in cases when the unemployment rate in the county is high, they tend to withdraw from the labour market’ – *ibid.*, 46) – then important conclusion follows: similarly to other European countries LM adjustments are primarily based on participation rates’ changes. Taking into account, (a.) findings on participation rates being related to educational attainment<sup>10</sup>, and (b.) findings on skills mismatches – an issue of vertical mobility through life long learning, and re-activation/ re-employment through (re)training follows as particularly important. (Botrić 2007)

***Very high is share of long-term unemployed.*** Their share in active population is much higher than in EU (higher is in Slovakia and Poland only): in the 2002-2006 period in Croatia they were: 8.9; 8.4; 7.3; 7.4 and 6.7 (for females: 10.7; 9.5; 8.9; 8.4 and 7.7) (Eurostat LFS; CBS LFS). Based on administrative data, *LTU’s share in total unemployment increased* from 34.3% in 1990 to stay above 50% thereafter: 59.5% in 1992, 51.3% in and 50.4% in 1998, to increase to 59.2% in 2002; in 2004 it was 55.6%, in 2005 - 58.0% , 56.5% by the end of 2006 and 58.6% by the end of 2007 and .(CES, all data end year)

As Table 2.6 illustrates well, *feminisation of unemployment* and particularly of long-term unemployment clearly set in, very much returning respective shares to 1990 levels. *Women’s long-term unemployment* makes 58.2% of total women unemployment by the end of 2006 and 60.1% by the end of 2007; for men it is 53.8% / 56.1%. Women’s share in total long term unemployment was 62.5% in 2006 and 63.2% by the end of 2007 (and in total unemployment 60.8% / 61.6%); respective shares for men were 37.5% / 36.8% and 39.2% / 38.4%. Importantly, however, in 1990 women’s share in total LTU was 61.9% but LTU made 38.8% of total women unemployment (and 28.9% for men).

*Very long unemployment’s share is increasing as well:* in 1990 it was 10.6% to increase to 27.8% in 1994 during the war period, to decrease to 20% by 1998 and increase thereafter: in 2000 20.1% were unemployed 3+ years, in 2004 - 30.5%, and by end of 2006 – 33.5%, and of 2007 -36.4%! Clearly, significant groups of unemployed stand little chances to get any employment at all in spite of economic growth in 2000s! LFS data for 2004 and 2005, while giving slightly lower values, confirm that: in 2d half of 2004 share of unemployed longer than 12 months was 49.8%; in 2005 - 54.6%; in 2006 – 58.3% (1<sup>st</sup>) and 62.4% (2d half) (for longer than two years they were 38.2 in 2004, 39.2% in 2005 and 45.8% in the 1<sup>st</sup> and 46.9% in the 2d half of 2006); at least for some of them, working informally is necessarily a major coping strategy.

*Among the long –term unemployed prevail* unskilled, semi-skilled, those with basic school and three years secondary school: they made 72.4% of the total in 2005 and 71.8% in 2006. (CES AB)

<sup>9</sup> Obadić, using matching function, found in a number of counties an excess supply, an excess demand or both (implying regional mismatch). She found strong impact of war on new employment reduction as well. (Obadić 2004, 549 and 553)

<sup>10</sup> Botrić refers to Babić, Matković and Šošić (2007). In their paper they find the lowest participation rates for those with primary education or less (26.4% in 2005); the highest are for those with tertiary education (71.5%). Unemployment rates are the highest for those with secondary education (15% in 2005), but the lowest for those with tertiary education (6.3%). (according to Botrić 2007, 38)

**Table 2.6: Long term unemployment shares and totals according to unemployment's duration, by gender (on December 31)**

	1990			1992			1994			1996			1998			2000			2002			2004			2006			2007		
	all	m	f	all	m	f	all	m	f	all	m	f	all	m	f	all	m	f	all	m	f	all	m	f	all	m	f			
Less than 12 months	65.7	71.1	61.2	40.5	41.6	39.6	46.2	51.3	41.5	48.7	51.0	46.3	49.6	51.4	48.0	46.5	50.0	45.3	40.9	43.3	38.9	44.5	47.9	42.0	43.5	46.1	41.8	41.4	43.9	39.9
More than 12 months	34.3	28.9	38.8	59.5	58.4	60.4	53.8	48.7	58.5	51.3	49.0	53.7	50.4	48.6	52.0	52.4	50.0	54.7	59.2	56.7	61.1	55.6	52.1	58.0	56.5	53.9	58.2	58.6	56.1	60.1
1 – 2 years	16.6	14.8	18.0	31.0	33.5	28.9	16.2	15.0	17.3	18.3	19.0	17.6	20.0	20.4	19.7	20.2	20.4	20.0	20.7	20.7	20.7	15.4	14.2	16.2	13.8	13.3	14.2	13.8	13.2	14.2
2 – 3	7.2	5.7	8.4	16.9	15.5	18.2	9.8	8.2	11.3	9.7	9.9	9.6	10.4	10.3	10.5	11.1	10.4	11.8	12.0	13.4	12.5	9.7	9.2	10.0	9.2	8.6	9.7	8.4	7.9	8.7
3+	10.6	8.3	12.5	11.5	9.4	13.3	27.8	25.5	29.8	23.3	20.1	26.5	20.0	17.9	21.8	21.1	19.2		26.5	24.7	27.9	30.5	28.7	31.8	33.5	32.0	34.4	36.4	35.0	37.3
	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
<b>LONG TERM UNEMPLOYMENT BY GENDER, share in %</b>																														
	100	38.1	61.9	100	45.1	54.9	100	43.1	56.9	100	47.6	52.4	100	45.8	54.2	100	44.8	55.2	100	41.9	58.1	100	39.2	60.8	100	37.5	62.5	100	36.8	63.2
<b>TOTAL UNEMPLOYMENT BY GENDER, share in %</b>																														
	100	45.1	54.9	100	46.0	54.0	100	47.6	52.4	100	49.8	50.2	100	47.5	52.5	100	47.0	53.0	100	43.7	56.3	100	41.8	58.2	100	39.2	60.8	100	38.4	61.6
<b>TOTAL UNEMPLOYMENT BY GENDER 1992-2007, registered data on Dec. 31, in 000</b>																														
	195	88	107	261	120	141	248	118	130	269	134	135	303	144	159	379	178	201	366	160	206	318	133	185	293	115	178	254	98	157
<b>TOTAL LONG-TERM UNEMPLOYMENT BY GENDER, registered data on Dec. 31, in 000</b>																														
	67	25	42	155	75	85	133	57	76	138	66	72	153	70	83	199	89	110	217	91	126	176	69	107	166	62	104	149	55	94

Source: Croatian Employment Service database (on [www.hzz.hr](http://www.hzz.hr))

*LTU is the most serious problem of labour market development and avenue to unemployability and social exclusion. In the longitudinal survey carried out twice on a sample of unemployed persons (2003 and 2004) – found was significant difference between those who got employment and those who didn't in terms of financial deprivation and social isolation. These findings 'indicate that unemployment in Croatia impoverishes and socially isolates affected people'. Social exclusion risks are highest for those with 'the least prospects for (re)employment', i.e. those 'who were older than 45, less educated, impoverished, long-term unemployed as well as those with impaired physical or mental health. A combination of these characteristics practically precludes finding employment in Croatia and predisposes individuals for the position of socially excluded' (Šverko et al. 2005). UNDP report argues for 'facilitating activation through more flexible forms of employment'. (UNDP 2006b, 71 and 46)*

*Increasing is share of **older workers** caught between low chances of re-employment (when unemployed) and high risks of very low future pensions (when employed). Among registered unemployed those aged 40+ made 24.8% in 1996, 32.7% in 2000, 43.8% in 2004, 46.0% in 2005, 47.1 in 2006 and 50.1% in 2007; and for 50+ increase is from 7.4% in 1996, to 11.4% in 2000, to 20.3 in 2004, to 22.8% in 2005, to 24.8% in 2006, and 28.0% in 2007 (CES database, data on Dec. 31). *If employed*, in firms aiming at job cuts older workers are often first targeted; and agenda of restructuring is still unfinished, including public sectors. If lucky enough to get good severance payment in exchange for earlier retirement, they are still vulnerable to *very low pensions*; many fear poverty and decline such offers by management.<sup>11</sup> Namely, average pension replacement rate has been decreasing and many are exposed to very low pensions (more in Section 4.4) *If unemployed*, older workers stand small chances of getting new job. There is a lot of evidence that employers prefer younger employees (but not very young!), taking those 40+ (for females even less) as 'too old' (*Vjesnik*, 5.11.2005). This was confirmed in (non-representative though) on-line survey by MojPosao (MP 2006) where among 1134 surveyed 56% report that job adds often put age limit; 66% think their age was detrimental to their employment (31% for being too young, 34% for being too old); even 71% of those younger than 25 think that their age was a reason for not being employed but 83% among those 40+; among those 40+ even 44% reported to be told that they are 'too old'; 47% find their current employer as age-discriminator with floor being on 21.8 (21.6 for females) and ceiling on 35.9 (females) and 39.3 (males). Recent representative survey on sample of unemployed women confirms that age-discrimination dominates over the gender one: even 68.7% encountered (once, more than once, very often) employment ads in which age was mentioned as one of conditions to get job. (Galić and Nikodem, 2007) Such perceptions are certainly discouraging older workers in actively looking for jobs and/or engaging (re)training.*

*High are, though decreasing (from the record levels achieved in 2000-2001 - above 40%) unemployment rates of **young** (33.8 in 2004 and 29.0% in 2006, CBS LFS)<sup>12</sup>. (Table 2.6 below) *Long-term unemployment's* share in total young people unemployment in 2005 was 40.9%, much higher than the EU 25 average (29.8%, Eurostat LFS) exposing young to poverty, social exclusion and unofficial activities. (Mudrić 2006) As Vidovic argues, 'the main reason for the high unemployment incidence of young people in most NMS but also in Croatia are lacking work experience and widespread skill mismatches' (Vidovic 2006, 19) This is particularly true for those with lower education and/or educational profiles where surpluses exist: *educational and (re)training systems' reform* is one of prerequisites for improving this group's position, to which I turn in section 3.3.7 and Chapter 6, as is an active policy intervention in order to encourage inexperienced workers' employment.*

*High unemployment of **minorities and/or disadvantaged groups** is often coupled with discriminatory treatment (Roma, Serbs, handicapped persons...). **Women** too are often facing, besides generally unfavourable position on the LM, discrimination as well. To these groups I turn in section 2.2.5 (but also in section 3.2.5, concerning pay, and in section 3.3.8.1, concerning harassment).*

## 2.2.4 Employment problem

Decreasing unemployment during 2000-2006 has not been accompanied with as strong increase in employment. As Table 2.5 shows considerably higher have been yearly rates of unemployment decrease than of employment increase (in the 2002-2006 period, LFS data). Job creation rate is considered as comparatively low. (Rutkowski and Scarpetta 2005) The *World Bank* documents often point to detrimental effects of labour markets' rigidities, particularly concerning temporary employment and collective dismissals (e.g. World Bank 2003). Influential has been Rutkowski's argument that: 'stringent employment protection regulations and high firing

<sup>11</sup> In recent years a number of highly publicised conflicts were registered in firms aiming at restructuring, in spite of the fact that older employees were offered comparatively high severance payments.

<sup>12</sup> Their share in total unemployment is also high, but decreasing too (from 34.1% in 1995 to 27.3 in 2001 and 20.7 in 2004 and 20.2 in 2005 (based on CES registered unemployment data, CBS, 2005; in LFS data their share in total unemployment is higher; in 2004 - 28%, with small increase in 2005: 28.4 (1<sup>st</sup> half) and 30.2 (2d) (LFS data).

costs ....contribute to and account for the observed unfavourable labour market outcomes, such as low job creation and hiring, long duration of unemployment spells, and the concentration of unemployment among disadvantaged worker groups.....strict employment protection legislation in Croatia is a key constraint on job creation and hiring' (Rutkowski 2003, 45 and 56)

Following the WB advice, 2003 changes to the Labour Law reduced EPL index from 3.58 to 2.76 (first proposal was 2.25 but it was rejected due to unions' opposition; Matković and Biondić 2003), close to EU-15 average (2.4 in 2003) but still higher than OECD (2.0); and slightly higher than CSEE average (2.4) (Cazes and Nesporova 2007). Behind this are still some restrictive clauses on temporary employment coupled with liberalisation of temporary agency work (due to this overall index for temporary employment decreased considerably), but quite liberal clauses on collective dismissals – increasing definition for collective dismissal from 5 to 20 (Matkovic and Biondic 2003); thus reducing employers' separation costs (ILO 2006)

However, even in recent years with stronger economic growth and liberalisation of EPL, employment growth has remained very modest and 'job creation has ... not been adequate to cater for the labour supply....new entrants to the register over a three year period (i.e. 2003-2005) substantially outstrip the employed from the register' (Crnković-Pozaić 2006b). Various sources of administrative data on employment (as warns Crnković-Pozaić 2007, 95-97) consistently give lower numbers of employed than LFS data; even when individual farmers are included (e.g. establishment sources underestimate employment but overestimate job losses; insurance based data are nor perfect either). However, as Table 2.5 above shows, both sets of data (administrative and LFS) show *low rates of employment growth* (for LFS even slower in last couple of years), much below GDP growth, but with a hopeful increase in 2006 for establishment data, mostly reflecting strengthening and dynamics of the business sector. This is why decrease in unemployment is less to be attributed to (re)employment but more to exit to inactivity and/or informal economy.<sup>13</sup>Crnković-Pozaić shows that both between 1999 and 2002 and between 2002 and 2005 low is level of flows from unemployment to employment, many employed withdraw from the labour force (into inactivity). (Crnković-Pozaić 2005, 24; and 2006a)

Yet, 2006 brought some good news: while in the 2001-06 period average rate of employment growth was 1.5% - in 2006 (after meagre 1.2% in 2005) it was 3.8%. Major contribution to this was by legal entities (0.9% in 2005 and 4.2% in 2006). However, LFS data even in 2006 give 0.8% only for the total. *On the other hand, skills mismatches* (see Obadić 2004 and 2006; Botrić 2007) and *shortages* are being increasingly felt due to economic growth of recent years, particularly where restructuring and new investments have generated skills demand which is unmatched by the current or middle term supply. (Crnković-Pozaić, 2006a) Many firms complain about chronic lack of skilled workers in a number of occupations, forcing some to import skilled workers from abroad: this certainly points to failures in educational and training systems but probably to changing values too. It seems that many traditional occupations are falling in low esteem even when there is great demand for them (see cases on construction and tourism in Franičević 2007a, and shipyards in Franičević 2007b) Recently, it was reported that even retail sector is increasingly feeling (with strong entry of retail chains) difficulties in finding new employees.

Indicative is recent *increase in numbers of work permits* issued or to be issued *to foreign workers*. By the Government's decision, in 2008 - 8397 work permits will be issued, almost double than in 2007 (4613); most permits go to construction (3630), shipbuilding (1700), tourism (240), transportation (118) and manufacturing (106). Interestingly, new sectors are manufacturing and informatics. While unions didn't support this (at ESC meeting), director of employers' association (CEA) sees this as an urgent provisional measure which does not solve real lack of labour force available to firms (*Vjesnik*, 9.1.2008.; www.index.hr on 31.12.2007) And media recently report on plans by large private firm to build apartments for attracting workers thus decreasing barrier to planned expansion in the Šibenik area (belonging to counties with highest registered unemployment) (*Slobodna Dalmacija*, 30.1.20088)

Šošić, however, questions Rutkowski's findings on Croatia. While widely influential on policy debates, and embraced by employers' representatives, but many liberal economists too, they offer somewhat misleading picture: even before the labour market reforms of 2003, there was a 'fair degree of dynamics in the Croatian labour market' (Šošić 2007, 218) coupled with a 'high degree of segmentation .... While state owned enterprises

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<sup>13</sup> Between 1999 and 2002 low is level of flows from unemployment to employment, many employed withdraw from the labour force (into inactivity). (Crnković-Pozaić 2005, 24) These trends continued in the 2002-2005 period too (Crnković-Pozaić 2006a). Only in summer months, due to seasonal employment growth, number of those entering register as unemployed is below exits from register to employment. (Crnković Pozaić 2007, 97) The 2001 Job Placement and Unemployment Insurance Act also influenced stronger exits from the register, introducing stricter criteria for staying registered with CES, e.g. concerning active job search, above the maximum earnings etc. (Crnković Pozaić 2007, 97)

as well as privatized enterprises, still accounting for a major portion of overall employment, remain stagnant throughout the period (1994 – 2004, v.f.), the new private sector was exceptionally dynamic. Part of the difference (he argues) could probably be attributed to the fact that small enterprises ...were treated favourably by the ...law with less cumbersome legal firing procedures, which facilitated job reallocation into *de novo* enterprises. *De novo* enterprises also did not have to bear disproportionate costs of separation for workers with long tenures that burdened state owned and privatized enterprises'. These findings, 'confirming a considerable degree of overall flexibility as well as exceptional dynamics among some enterprises simultaneous with a high EPL level, are not unique to Croatia' (Šošić 2007, 211). While 'labour market flexibility is confined to employees in new private sector, mostly in small and medium sized enterprises...' the (2003) EPL reform, due to being 'the most pronounced in the area of regulations governing temporary contracts...may stress the duality of labour market even more' (Šošić 2007, 218). Concerns on dualisation/segmentation of Croatian labour market were expressed by others too, e.g. Račić et al. 2005, Crnković-Pozaić 2005 and 2007, Franičević 2007c, Vidović 2006.

Arguably, employment deficit has been influenced by deficits of *entrepreneurship* and barriers it faces – from demographic, social, and cultural to policy and institutional ones. (Franičević 2005) Research by GEM project showed Croatia to be very low in terms of entrepreneurship activity (Singer et al., 2003). While latter research points to significant increase, still greatly dominates 'necessity entrepreneurship' (Singer et al. 2006): self-employment is still major coping strategy. However, LFS data analyses on self-employed business owners raises some suspicions about this (see Section 3.1.4 below). Private sector density and share of SMEs employment are below OECD countries and CEE economies (World Bank, 2003, 131); average annual gross rate of new firm formation remains rather low - 2.1% in the 1999-2004 period (Čučković and Bartlett, 2006).

Job creation by *FDI* in Croatia, argues Vidović, particularly in the manufacturing sector, is less dynamic than in NMS due to low share of greenfield investments. The employment share in manufacturing foreign investment enterprises (FIEs) was only 6% of total manufacturing employment in 1998 ; that share increased to 12% in 2003 and 19% in 2004 still far below the level of front-running NMS. (Vidović 2006, 15-16 and 32)

*Restructuring* has been limited and faced with social and political barriers leading to costly delays (e.g. in shipyards, see Franičević 2007b). Pressures to further restructuring and privatisation (public sector and sectors with state ownership) are strong (EC 2005a; World Bank 2007b) – exposing many employees to risk of job loss. Job creation capacity's enhancement, as well as increasing capacities for workers and job relocation, is certainly asking for more than labour market reforms: sensible structural policies and institutional reforms are required.

Undoubtedly, while favourable economic trends (domestic and international) have been improving many LM indicators, the long-term, i.e. structural problems, as well as institutional deficits, are even more openly coming to the forefront, and their solution will increasingly dominate national policy debate and policy making. To this I return in Ch 6 again. Yet, for some groups, in spite of improvements, vulnerability to inferior LM position has remained high. To them I turn now.

## **2.2.5 Minorities, handicapped and women – particularly vulnerable to LM discrimination**

There are some *minority groups* whose members are exposed to high risks of unemployment, low chance of getting employed and often discouraged. These are Roma and Serb (returnees particularly), but handicapped persons too. Even if with the adoption of the Constitutional Law on National Minorities and related activities, '*the position of minorities has continued to improve ... Serbs and Roma continue to face discrimination and the need to improve their situation especially with respect to job opportunities ... is an urgent priority*'. (EC 2005b, similarly in EC 2005a) Systematic data is lacking but there is plenty of evidence and reports in press. Also international institutions active in Croatia point to Roma's and Serbs' position and their exclusion from socio-economic life. (ILO 2006) These two minority groups share the highest risk of social exclusion (UNDP, 2006a). Further-on, persons with special needs (due to various handicaps) are heavily marginalised, while women tend to be faced with gender-stereotypisation and discriminatory treatment.

### **2.2.5.1 Serbs**

For persons of Serbian nationality, particularly difficult is situation in those war-affected areas which experienced high destruction and major migrations. While little is known about discriminatory treatment of Serbs in general, more is available on areas of special concern (carefully watched not only by NGOs but by IOs too). Returnees to these areas, in some there is major presence of Serbian minority, are facing low chances of getting the job, discrimination, but high dependence on assistance too.

Serbs', in areas of return, reintegration into labour market is hampered by lack of business opportunities, unresolved property issues, discrimination and corruption (OSCE 2004). According to UNDP report, only 60-65% of registered returns may be considered as sustainable (UNDP 2006a). The 2006 Human Rights Watch report on reintegration of Serb returnees' points to their discriminatory treatment in obtaining public sector/firms jobs – e.g. in local administration, judiciary and public services/enterprises.(also ECRI 2005, 19) This is so in spite of the Law on Civil Service, Law on Local and Regional Self-Government and Law on Courts being adopted/amended in lines with the Constitutional Law on National Minorities in order to ensure proportional representation. In areas of return, where employment opportunities are scarce it is a combination of nationalistic resentment (against Serbs) and systemic advantage given to Croat war veterans that makes changes slower, and public sector/services/firms employment very hard to get for Serbs. On the good side, the report points to a number of cases of non-discriminatory behaviour of private Croat entrepreneurs employing Serbs.

Coming to *enforcement of rights to proportional (re)presentation* in areas of special concern, dramatic are differences between eastern Slavonia – 30.8% vs. 26.5% (were due to Erdut agreement of 1995 peaceful reintegration has started early and under monitored conditions) and other four regions (Banija-Kordun 22.2% vs. 2.9%; Lika 22.2% vs. 4.2%; Dalmatia 13.3% vs. 4.3% and western Slavonia – 13.7% vs. 0%) where Serb's share in public employment is dramatically below their share in population (for all five regions it is 22.4% in population vs. 9.2% in public employment) There is, however, some differentiation inside regions (Gjenero 2006, 17) – local situation may be greatly affected by composition of the local government (are Serb parties ruling/participating or not, who is controlling information on vacancies - HRW 2006; also see Erceg 2005)

*Covalidation issue*, more precisely great barriers Serbs experience concerning recognition of their rights based on employment during the war is still the major problem (as stated recently by Serb political leader on www.sdss.hr). The US Department of State reports on human rights in Croatia repeatedly stress that 'the government did not take steps to recognize or "covalidate" legal and administrative documents issued by entities not under Croatian control from the period of the 1991-95 conflict. Without such recognition, citizens (almost exclusively ethnic Serbs) remained unable to resolve a wide range of problems in accessing pensions and disability insurance, establishing work experience, and other areas.' (USDOS 2006, 9; almost the same wording in USDOS 2005, 10)<sup>14</sup>

In Mikić (2005) 93% of working-age surveyed Serbs at four localities (n=123) believe that there is employment discrimination against Serbs. Most among surveyed if employed, including family members, are employed with private employers or NGOs and in agriculture – only 8% work in public sector and even less are self-employed (6%). While 58% believe that self-employment might be a solution, they cite barriers (including return of business space and agricultural land in their property) – importantly there is no specific government's policy focused on assisting returnees' self-employment, and, unfortunately, too little is known on Serb nationals' self-employment and entrepreneurship. In Gjenero (2006) one of main conclusions of the research is that the state should devise and implement a model of minorities' employment that would be focused on employment opportunities out of (already hypertrophied) public sector – in this programs for employment of Croatian war veterans may provide a good example (Gjenero 2006, 23-24)

### **2.2.5.2 Roma**

Roma represent the most marginalised and vulnerable ethnic group – while 2001 census puts Roma population at 9463 estimates from a Council of Europe are much higher: 30000-50000 (UNDP 2006b, 23 and 49). Low educational attainment (due to low enrolment in primary education and/or early dropping-out), and lack of competitive professional skills, 'lead to difficulties in entering the world of labour and in maintaining employment'. (UNDP 2006b, 49) Widespread stereotypes on Roma, coupled with discrimination and segregation – result with very high unemployment, low formal employment but high participation in the informal one. The 2001 survey among a sample of 122 people in Zagreb region showed that only 1 had a full time job, 19% did some work at home, and 16% were occasionally involved in the gathering of secondary raw material (UNDP 2006b, 49) Result is high poverty – most live below poverty line – and dependence on social welfare. Roma make 13.5% of all recipients of the most basic forms of social welfare against their 0.21% official share in population (ibid., 50). Particularly precarious is position of Roma children; it is estimated that out of those who attend the school two thirds leave the school in the third or fourth grade. Children are faced with numerous barriers including open discrimination (widely publicised was the case in the Međimurje region) –

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<sup>14</sup> Erceg (2005, 17) points also to another, still unresolved, issue which concerns rights of 4000 of 'Borovo' firm workers who were dismissed in December 1991 because of their Serbian nationality. In 2001 they filed a case with the Municipal Court in Vukovar asking for severance pay and recognition of their years of service.

UNDP reports points to ‘a failure to implement a series of various compensatory measures aimed at ensuring equal opportunities, such as a preschool education, Roma assistants in primary school classes, an extended school day, work on tackling prejudice, and measures designed to promote integration...’ (ibid., 51) However it seems that such a need has recently been recognised by the Government and some efforts in that direction have been recorded (ULJP 2007)

Kušan and Zoon (2004) report on Roma employment (some 30-40 thousands live in Croatia; 21.4% receive social benefits) offers stark picture of extremely low employment, discrimination and stereotypes. Unemployment among Roma is high as is participation in unofficial activities (quoted was 2002 research which showed that 89% Roma households don’t have a member with permanent income; 57.3% are registered unemployed, and further 18.1% discouraged). The report produced critical reactions from the government as undermining efforts and results achieved through implementation of the 2003 National Program for Roma. Recently, highly publicised were actions in some Croatia’s towns to employ and/or train groups of Roma -194 persons were employed (ULJP 2007). However, it is admitted that this is a short-run but not the long-run solution to employment problems of Roma (ULJP 2007) While such highly publicised cases are important for their symbolic meaning, much more will be needed for substantial improvement; particularly concerning employability of younger through education and training were some efforts are also recently registered.<sup>15</sup> Importantly, it seems that some Roma communities and organisations are becoming more vocal and showing more initiative to ‘develop informal and innovative educational practices’ (UNDP 2006, 52) as well as exert more pressure on the state along the path and impetus given by National Program for Roma (and the Government’s Action Plan) as well as by the international 2005 initiative Decade of Roma Inclusion 2005-2015 in which Croatia participates as well.

In 2007 elections, Roma representative was elected to the Parliament, giving Roma voice for the first time – is it a reason for optimism, as is entering of the Serb political party in the most recent government coalition – remains to be seen.

### **2.2.5.3 Persons with special needs**

UNDP Croatia reports (2006a and b) provide serious discussion on the most vulnerable and hardest to get employed group in the society: these are people with intellectual and physical disabilities. While there is no data on their number, Ministry of Health and Social Welfare (MHSC) data give an indication: On December 31. 2004 – 78681 persons were ‘treated’ by centres for social work.(UNDP 2006a, 60); 5800 people with disability are registered with employment bureau; many retire too young, receive social assistance and remain dependent on the family support (UNDP 2006a, 68) While there are those who are hardly employable, many are – but are not employed and stand little or no chances to ever receive a paid job. In spite of declaration (and government’s programs), for most of them finding a paid job is close to impossible, or very hard indeed. And actually taking a job may be too risky because it involves trading with one’s security in terms of diminished rights to social assistance.

For example, children with special needs, but with enough (established) intellectual capacity are typically provided vocational training, but very often for ‘outdated professions’ with no demand for whatsoever. Often, after years of being registered with employment bureau and receiving a compensation of some 280 HRK<sup>16</sup>, their parents resign and open proceedings for recalling their working ability in order to make sure that they will (as ‘unfit’ to work) inherit their parent’s pension and start receiving disability compensation of 1000 HRK. (UNDP 2006a, 63)This built-in-the-system trade-off between inclusion and security is even leading many parents to pull their children out of the school just before graduation (which is per se a proof of one’s ability). The author of this report may illustrate this by his close relative case who has been registered with employment bureau for more than 14 years without receiving any offer for the job, and whose parents decided to revoke his working and, partially, legal capacity in order to increase his future security. While they see it as their full defeat, they don’t see any alternative.

Many, instead of working, end in day centres for rehabilitation and occupational activities – which are a part of social welfare system and make persons attending them a client instead of an employee. Little or no effort is made to transform these centres into places where sheltered employment will be possible and cooperation with

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<sup>15</sup> There are other disadvantaged groups, which only due to the space limit didn’t receive proper attention: particularly these are handicapped persons and war veterans where, in spite of dedicated policies, numerous problems remain; much less, was done for persons with special needs.

<sup>16</sup> In 2005 average CNB’s medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

businesses established; or innovative solutions like cooperatives for the employment of people with disability (as one was formed in Pula - UNDP 2006a, 68) introduced and encouraged.

Problems with this broad and very differentiated group are of course much deeper and beyond space available in this report, and include educational, health and social services systems and their interaction with families, worlds of work and local and broader communities in which such persons live – fighting discrimination, segregation and exclusion is a major social challenge. Paradoxically, while the war brought thousands of persons with physical and mental difficulties (PTSD) it has had two major additional impacts: (1.) it seriously increased public awareness and influenced institutional capacities to deal with involved issues, on the good side; (2.) it opened avenues towards differential (even – discriminatory) treatment of handicapped people rights *due to the source*, independently of the seriousness of the handicap itself. Finally (3.) increased NGOs activities may open more space for consultation and cooperation between clients and providers of handicapped people needs; in a more decentralised and inclusive policy setting it is more likely that serious improvements will be made possible.

#### 2.2.5.4 Women

Women are not only more vulnerable to long-term unemployment than men as shown above in section 2.2.3, to low pay and wage discrimination (see section 3.2.5.1), to harassment on the job (see section 3.3.8.1) but in their efforts to get (re)employment they are still facing barriers of discrimination, stereotyping and cultural prejudices. Very recently a survey commissioned by the Government's Office for gender equality, highlighted some typical discriminatory behaviours unemployed women are facing in Croatia. The research report (Galić and Nikodem 2007) based on representative sample (n=1017; 44.7% aged 17-35; 48.3% aged 36-54 and 7.0% aged 55-65; 63.2% unemployed more than one year; 38.1% more than five years) of women registered at CES provides some important findings:

- 48.4% encountered (once, more than once, very often) employment ads in which gender was mentioned as one of conditions to get the job. However, age discrimination dominates: even 68.7% encountered (once, more than once, very often) employment ads in which age was mentioned as one of conditions to get the job. In 47.9% of ads it was said that both genders are eligible, in 36.5% it wasn't.
- Once, more than once, almost each time – 62.9% were asked on job interviews about their marital status and number of children (again, contrary to the Labour law). In addition, 37.8% (once, more than once, almost each time) were asked (young and/or with higher education – more often) about their family planning, i.e. plans to give birth to child.
- While 88.5% have never experienced sexual demands, comments/expectations or touching, still 8.9% (once, more than once, almost each time) had. Once, more times or often, during the job interviews: 8.5% experienced derogatory comments about their intelligence; 24.6% flattering comments on their look; 4.2% unwanted body touching; 2.8% sexual blackmail; 12.2% rejection due to their gender; and 3.5% abusing/threatening behaviour (verbal, physical or sexual) Even, the most difficult offence against the law – receiving notice as a pregnant woman, was (once, more times) experienced by 5.6% of surveyed (15.8% from the sample so far haven't held any job; and 10.7% haven't been pregnant).
- In general 65.6% think that women don't enjoy equal status to men in the society; 61.4% think that women don't enjoy equal possibilities to realise their rights; 62.6% that that women don't enjoy equal benefits from their work results; and 65.7% think that women don't enjoy equal possibilities in employment; on the other hand 82.6% agree that nowadays men more easily get employment than women and 64.0% agree that women are most discriminated on the labour market.
- Concerning their *working conditions*, on the previous job, 20.2% declared experience of enjoying annual leave shorter than legal minimum (of 18 days)(18.6% so far haven't held any job); 38.4% previously (once, more times) held jobs conditioned on acceptance to work overtime above 10 hours a week (legal maximum); 47.3% were asked (sometimes, often) to work on Sundays and holidays
- Gender related comments and other behaviours, concerning those previously employed – at their work, were experienced by (however, significant) minority: 13.5% experienced derogatory comments about their intelligence; 26.1% flattering comments on their look; 5.9% unwanted body touching; 4.0% sexual blackmail; 6.6% rejection due to their gender; and 5.4% abusing/threatening behaviour (verbal, physical or sexual)

The authors of the research conclude that both explicit and implicit gender-related discrimination of women exists in Croatia with (encouragingly so) their highly being conscious of that discrimination. Employers' responsibility is stressed (Galić and Nikodem 2007, 81). While Nestić in his research points to 'glass-ceiling effect' and 'occupational segregation in Croatia affecting women (Nestić 2007), the authors

call for further research in the areas of occupational segregation, promotion and pay. (Galić and Nikodem 2007, 81). Not only that data show typical crowding-in of women in certain occupations (e.g. CBS publication 'Men and Women' 2007) but women's serious under-representation in politics and higher management.

On the policy level, two trends coincide: one is re-traditionalisation of family roles and values (particularly influential in population policies) – consolidating unequal sharing of household burdens (see section 3.3.4.2) but, possibly, low activity rates of women too; another is democratisation of gender related policies with strong focus on achieving general and particularly – European, standards of equal opportunities and equal treatment. Not only that it led to establishment of some government institutions, policies and strategic documents (in line with the EU expectations and demands) but this trend is certainly encouraged by emergence of very active NGOs (concerning human rights, women rights and family/children rights – with these groups contributing to both trends). One is for certain, gender dimension is increasingly entering policy discourses and affecting policy making. However, it would be too optimistic to expect that realities burdened by tradition could easily be changed by simply establishing offices and bringing laws and documents.

## Annex: Tables 2.3 and b

**Table 2.3a: Working age population by activity 2000-2006 (1<sup>st</sup> and 2d half of years), in 000**

	W. age population		Labour force		Employed		Unemployed		Inactive population (15+)	
	1 <sup>st</sup>	2d	1 <sup>st</sup>	2d	1 <sup>st</sup>	2d	1 <sup>st</sup>	2d	1 <sup>st</sup>	2d
1996*	3042		1711		1540		170		1331	1331
1997*	3233		1768		1593		175		1464	1464
1998	3257	3312	1732	1753	1538	1549	194	204	1525	1559
1999	3321	3336	1721	1730	1504	1479	217	251	1600	1606
2000	3587	3706	1806	1894	1534	1572	273	322	1781	1812
2001	3518	3510	1724	1767	1460	1478	264	289	1794	1743
2002	3527	3525	1794	1792	1521	1534	273	259	1734	1732
2003	3565	3571	1791	1793	1538	1535	253	259	1774	1778
2004	3595	3584	1836	1789	1583	1542	253	246	1760	1795
2005	3613	3659	1802	1802	1566	1580	236	222	1811	1857
2006	3631	3646	1755	1815	1548	1624	206	191	1876	1831
2007 1 <sup>st</sup> **	3645		1766		1586		180		1879	

\*\*Q1 and Q2 average

**Table 2.3b: Rates 2000-2006 (2nd half years, based on LFS)**

	Activity rate				Employment/ population ratio				Unemploy ment rates LFS	UR males	UR females	UR young (15-24)		
	m	f	15-24		m	f	15-24					m w		
1996*	56.2	64.9	48.6		50.6	58.7	43.5		10.0	9.5	10.5			
1997*	54.7	62.7	47.6		49.3	56.9	42.7		9.9	9.5	10.4			
1998/2	52.9	60.6	46.3		46.8	54.2	40.4		11.6	10.7	12.6			
1999/2	51.9	59.3	45.3		44.3	51.3	38.2		14.5	13.5	15.7			
2000/2	51.1	59.0	44.2	40.1	42.4	49.6	36.1	22.8	17.0	15.9	18.7	43.1	42.1	44.3
2001/2	50.3	58.7	43.0	41.9	42.1	50.3	35.0	24.4	16.3	14.4	18.7	41.7	41.9	41.6
2002/2	50.9	58.5	44.1	39.9	43.5	50.7	37.1	26.1	14.4	13.3	15.8	34.4	35.1	33.6
2003/2	50.2	58.1	43.3	38.4	43.0	50.3	36.5	24.7	14.1	13.3	15.4	35.8	34.3	37.7
2004/2	49.9	57.2	43.4	38.5	43.0	50.4	36.4	25.5	13.8	11.9	16.0	33.8	29.7	39.2
2005/2	49.2	57.2	42.1	38.2	43.2	51.0	36.2	26.0	12.3	11.0	14.0	32.0	30.2	34.4
2006/2	49.8	56.5	43.8	38.0	44.5	51.2	38.6	27.0	10.5	9.3	11.9	29.0	28.2	30.0
2007 <sup>1st</sup> **	48.5	56.4	41.4	34.0	43.5	51.4	36.5	25.8	10.2	8.9	11.8	24.2	21.6	27.8

Source: CBS, *Labour Force Surveys* (2000-2007)

Note: \*\*2007 1<sup>st</sup> - pure averages between quarters values

### 3. TRENDS IN WORKING AND EMPLOYMENT CONDITIONS

#### 3.1 EMPLOYMENT STATUS AND CONTRACTS OF EMPLOYMENT

##### 3.1.1 Permanent contracts dominating, temporary contracts on increase...

Firms' employment policies since 1990s, particularly in the private sector, reflected emerging structure of opportunities and competition, diversification of business strategies and governance structures; new legislation and regulation; and, finally, actors' conflicts, bargaining powers and accommodations. This was taking place in the context characterised by 'tycoonisation', 'cronyism', 'wild capitalism' – with serious degradation of workers' position, numerous abuses of their rights, and low credibility of regulations and protection of rights. Increase in unemployment gave employers advantage, compromised however with spectacular failures (giving rise to massive layoffs), booming illegal economy and corruption, and, importantly, inability to create enough new jobs, in spite of great deal of dynamism in the private sector and/or SME sector (Šošić 2007), to make up for the massive losses in employment. In such a context, unions and opposition parties were increasingly contesting not only the labour market outcomes but the overall political and moral economies of the period, presenting the government with challenges to further privatisation, restructuring and (de)regulation. (Franičević 2002)

In spite of being dramatic, changes in some important ways have been lesser than one might have expected – which strongly reflects the *state's dominant position in development of labour regulation, but also high political risks of alienating organised labour, even if weakened and fragmented*. The consequence was a series of compromises resulting with institutionalised rigidities in formal contracting, however often substituted with the informal one and low enforcement of the formal one (e.g. misuse of fixed contracts). On the other hand, with 2000s much greater care has been given to labour market regulations and policies, including those increasing compromised security of employed<sup>17</sup>. *All this is reflected in a slow flexibilisation of labour markets: coupling of permanent contracts with full-time jobs is still a dominant model of employment relations (see Tables 3.1.1 and 3.1.5. below).*

**Table 3.1.1: Employment contracts by duration, 1997-2006, in %**

	1997	1999	2001	2003	2005	2006
Permanent contracts	90,1	91,4	90,0	88,7	87,6	87,1
<i>Fixed-term contracts</i>	7,3	7,1	8,4	9,9	11,1	11,1
<i>Seasonal contracts</i>	1,2	0,5	0,8	0,8	0,9	1,3
<i>Specific assignment or short term contracts</i>	1,4	1,0	0,8	0,6	0,4	0,5
Temporary contracts	9,9	8,6	10,0	11,3	12,4	12,9

Source: CBS Labour Force Surveys; Note: \*year average, employees only

While temporary work is on increase, for most it is not their first choice: in the 2002-2006 period respective shares of those who couldn't find permanent job were: 55.5%; 51.1%; 53.8%, 56.2% and 51.8%. (Eurostat LFS) As might have been expected, temporary jobs are much more present *among younger*: as Table 3.1.2 below illustrates there is clear divide between those aged 15-24 and those aged 25+ ; share of temporary contracts strongly decreases with age.<sup>18</sup>

<sup>17</sup> Increase in temporary contracts and in shorter fixed-term contract duration, with numerous abuses reported, led in 2001 towards enacting regulations which eased the access to benefits for persons who predominantly work on fixed-term contracts. They need to work for 9 months to claim unemployment benefit. (Previously: 12 months over a period of 24 months). In addition, by 2003 employers have to pay mandatory health and pension insurance for those working on short-term contracts (however, they don't have access to unemployment benefits) (Crnković Pozaić 2005, 9 and 14).

<sup>18</sup> Being employed on fixed contract is major barrier to obtain bank credit, and be allowed to enter into debt on one's banking account etc.

**Table 3.1.2 : Employment contracts by duration and age, 2004 and 2006 in %**

Age group	15-19		20-24		25-50		51+	
	2004	2006	2004	2006	2004	2006	2004	2006
Permanent	42,0	40,8	60,9	62,7	89,5	86,6	95,0	94,4
Fixed-term	42,0	32,4	32,6	30,7	8,9	11,4	3,9	4,2
Seasonal	8,7	15,5	4,7	4,9	0,9	1,4	0,4	0,6
Specific assignment or short term contracts	7,2	11,3	1,9	1,8	0,6	0,5	0,7	0,9
Temporary total	57.9	59.2	39.2	37.4	10.4	13.3	5.0	5.7

Source: CBS LFS, 2d half

Sectorally, differences are important (see Table 3.1.3 below). As chosen sectors show, temporary employment is much more presented in hotels and restaurants, construction, and trade/retail. Manufacturing, transportation and communication sectors are close to national average but in the 2004-2006 period share of fixed contracts has considerably increased in both sectors. It seems that stronger economic growth of last few years has largely been fed by an increase in temporary employment, even in sectors where permanent employment was until recently a norm.

**Table 3.1.3 : Employment contracts by selected sectors, 2004 and 2006 in %**

	<i>Hotels and restaurants</i>		<i>Construction</i>		<i>Wholesale and retail</i>		<i>Manufacturing</i>		<i>Transports, communications</i>	
	<i>2004</i>	<i>2006</i>	<i>2004</i>	<i>2006</i>	<i>2004</i>	<i>2006</i>	<i>2004</i>	<i>2006</i>	<i>2004</i>	<i>2006</i>
Permanent	74,0	73,3	85,0	84,1	81,8	81,8	89,5	85,2	88,9	83,1
<i>Fixed term</i>	15,5	12,2	13,2	14,8	16,2	16,7	9,6	13,1	10,1	15,1
<i>Seasonal</i>	9,5	14,3	0,6	0,5	0,8	1,0	0,7	1,0	0,5	1,3
<i>Specific assignment or short term contracts</i>	1,0	1,2	1,2	0,7	1,2	0,5	0,2	0,7	0,5	0,5
Temporary total	26.0	27.7	15.0	16.0	18.2	18.2	10.5	14.8	11.1	16.9

Source: CBS LFS, 2d half

In legal entities only (based on firms' reporting), i.e. a business sector, by the end of March 2006 – 86.4%, 2005 - 87.2%, 88.7% in 2002 worked on permanent contracts; 12.8% in 2006, 12.1% in 2005 and 10.5% in 2002 were on fixed ones; and 0.8% in 2006, 0.7% in 2005 and 0.8% in 2002 were trainees (CBS, SR 1307, 2006 and SY, 2003; 2007 Yearbook – all data and of March). If in 2002-2005 there was very little of change, however increased economic activity of 2006 led to a considerable increase in fixed contracts (see Table 3.1.3 above). Very importantly, for great majority entry to employment is through **fixed contracts**, and they tend to be of shorter duration:

- (1.) Increased has the *share of fixed-term contracts* (primarily at expense of short-term ones), as Table 3.1.1 illustrates.
- (2.) Increased has the *share of 1-6 months* (from 57.8% in 2001 to 60.3% in 2005 and 63.8% in 2006), leading to increased numbers of those who vacillate between temporary jobs and unemployment (also Crnković-Pozaić 2005, 2007 in spite of some differences in calculation method) (see Table 3.1.4 below);
- (3.) In new job openings *fixed ones strongly dominate*: in 2006 - 149.5 thousands were employed from the register – out of this 85.0% on fixed term (in 2005 - 85.6%, in 2004 - 83.4%, in 2001 – 80.0%, and in 1997 - about 50% (CES ABs); until mid 1990s it was less than 50%. (Crnković-Pozaić 2007)
- (4.) *Young are still (and in spite of improvement between 2004 and 2006) particularly exposed to non-standard employment*. For those 25+ standard form of employment is still the permanent one – 86.6% for those 25-50 (but 89.5% in 2004) and 94.4% for 51+ (95% in 2004). On the other hand, 37.4% of young people, aged 20-24, and 59.2% of those aged 15-19 were on temporary contracts in 2006 (57.9%/39.2% in 2004) while 30.7% (of 20-24) and 32.4 (15-19) on fixed ones in 2006 (less than 32.6/42.0% in 2004) (CBS, LFS 2d half; for more details see Table 3.1.2 above) This is also reflected in *reasons for losing one's job*. Besides personal reasons, for those aged 15-19 and 20-24 major reasons are ending of fixed contract (38.1%/ 29.6%), ending of seasonal job (19.0 /20.0), fired due to technological surplus or labour force reduction (9.5 /10.4; for 25+ it is 6.9). For 25+ however

the two by far the most important reasons are regular retirement (30.7%) and early or disability retirement (39.5%) (CBS LFS 2004/2, from Mudrić 2006);

- (5.) *Finally*, in the firms I visited (Franićević 2007 a,b), in spite of the fact that by the 2004 Labour Law fixed-term contracts (in a compromise solution) were discouraged as something to be used 'exceptionally', almost all recent employment was the fixed one and/or contracted out.<sup>19</sup>

**Table 3.1.4: Duration of fixed-term contracts- 1997-2006**

Contract duration	1997	1999	2001	2003	2005	2006
Less than one month	2.7	2.7	4.0	2.0	1.6	2.3
1-3 months			28.2	29.9	29.3	29.5
4-6 months	24.9*	28.2*	25.6	29.4	29.4	32.0
<b>- 6</b>			<b>57.8</b>	<b>61.3</b>	<b>60.3</b>	<b>63.8</b>
7-12 months	26.8**	30.8**	16.4	18.3	19.9	18.6
<b>Less than 12m</b>	<b>54.3</b>	<b>61.7</b>	<b>74.2</b>	<b>79.6</b>	<b>80.2</b>	<b>82.4</b>
1 year or more	19.4	19.3	9.6	8.6	8.4	9.8
As required	26.2	18.9	16.1	11.8	11.5	7.8

Source: CBS, *Labour Force Surveys* 1997-2006 (calculation by Vedran Šošić);

Note: \*applies to 1-5months; \*\* applies to 6-12m; employees only

However, this increase in fixed-time employment may also be indicative of difficulties employers are facing in selecting employees. Unfortunately, there is not research on this.

### 3.1.2 Full time work is still a norm, many feel secure about holding their jobs

*Full time work strongly dominates:* in legal entities even 98.2% is full time employed; and shares of part time (1.5%) and shortened time (0.3%) are very low. (CBS *SR 1307*, on 31.3. 2005; respective percentages for March 2006 are almost the same: 98.2%/1.6%/0.2% - CBS 2007 Yearbook) As we shall see latter in the section on working time – great majority (around 75%) is usually working 40-42 hours, while share of those working more is greater (around 15%) than of those working less (around 10%). (see Tables 3.3.2. and 3.3.3.) Comparatively low is share of *part time employment*. As defined by LFS, it is ranging mostly between 8% and 10% of total employment. Noticeable are higher rates for women and significant increase in 2005 (to 10% and 13.4 for females, CBS LFS) yet not continued into 2006. *Part time has not yet become widespread option* for employers, but for employees too. (for further discussion see also section 3.3.4.1 on work-family balance) It has not become, for most Croatian firms, integral to their work organisation (exceptions are some foreign retail chains, for example), and some which are considering adopting it find larger social organisation 'not ready' yet (e.g., shift system in schools, as pointed by major retail chain manager in our interview). On the other hand, extensive is use of overtime, reorganisations of working time, subcontracting and other means to increase internal and/or external flexibility. (Franićević 2007a and b)

**Table 3.1.5: Part time employment 2000-2006**

	1997*	2000*	2001*	2002	2003	2004	2005	2006
As % of total employment	10.6 (8.6 / 12.8)	9.4 (7.4/11.8)	8.8 (7.7/ 10.2)	8.0 (6.4/10.0)	8.4 (6.2/ 11.1)	8.7 (6.8/ 11.1)	10.1 (7.3/ 13.4)	9.4 (7.5/ 11.7)

Sources: \*CBS, *Labour Force Surveys*; Eurostat-EU LFS; Note: In brackets males/females

Recent survey (EQLS, n= 8534) showed that, in spite of trends of greater flexibilisation, but very likely due to encouraging LM trends, 77.9% feel secure about holding their job in next six months ('it is very or quite unlikely' thy might lose a job), which is much higher than in NMS (EU 10 – 60.0%) and close to EU-15 average – 79.0%. However, regional discrepancies between 21 counties (including city of Zagreb) are wide: they range from 50.8% to 81.6% reflecting particular conditions of employment and local economic and social trends. (UNDP 2007, 46) Importantly, among those on fixed time and/or without contract – around 50% expect (as very or quite likely) to lose job in next 6 months. Perceptions on job security are higher for men, for those with higher education, for those aged above 35; they are also higher for managers and professionals, other non-manual workers and self-employed; they are lower for manual workers (regardless of their qualification). Shares of those

<sup>19</sup> The EQLS survey also gives interesting insight on the contracts currently employed (3510 and formerly employed in their last status – 3281) held: permanent – 76.4% (80.1% men / 72.5% women); fixed less than 12 months – 11.3% (9.1% / 13.7%); fixed 12+ - 4.7% (4.2% / 5.2%); temporary agency – 0.8% (0.7% / 0.9%); without contract – 3.3% ( 3.4% / 3.2%) (from UNDP 2007 database)

who consider likely and/or very likely to lose their job in next six months for all categories are much lower than in EU-10 countries and quite close to EU-15 levels (the only exception are farmers and fishermen: 3.3% in Croatia vs. 1% both in EU-10 and EU-15. For professionals and managers it is 5.2% vs. 13% in EU-10/ 5% i EU-15; Other non-manual 6.9% vs. 10%/5%; self-employed 6.9% vs. 10%/5%; qualified manual 9.9% vs. 24%/11%; non-qualified manual 8.6% vs. 29%/13%. (UNDP 2007, 47; EU data based on 2003 EQLS)

In fourth EWCS, feeling of job security is comparatively high as well: 19.4% report that they might lose their job in the next 6 months, against 11.3% in EU-% but 25.2% in NMS (EU-10). (EWCS 2007) Yet, it is important to note that subjective perceptions on security may be under the impact of economic boom after 2000 in which employers are increasingly facing shortages on labour markets and unemployment has been reduced significantly.

The above evolution of employment and working-time conditions, seems to be pretty common for countries with relatively stringent rules on regular employment and/or high real protection of the core (unions, high political risk involved) but reduced restrictions on the temporary one - thus leading towards increased flexibilisation at the margin and labour market segmentation (EC 2006, 89-90) and deepening social polarisations in society. While many are aware that emerging combination of high job security (for the 'core') and high employment insecurity (for those out of the core) is hardly sustainable - offered diagnoses and recipes (unions vs. employers in particular) greatly differ to which I turn in Ch. 6.

### 3.1.3 Temporary agencies are picking up

*Temporary agencies' employment is limited but is picking up.* TA was permitted with January 2004 changes to the law - 1.2% of employees were employed by TAs in the 2d half of 2006 (CBS - LFS). Presently some 20 agencies are active including international firms like Dekra, Adecco, SmartFlex and Trenkwalder (an increase from spring 2006 when it was 15 - *Poslovni tjednik* 14.4.2006). The market leader is Dekra (with 11 regional offices and plans for expansion) - its market share is about 30%, Adecco and Agencija za povremeni posao keep around 15% each, Agencija rada 10% and Trenkwalder 9% - altogether five market leaders keep some 78%. Insiders estimated that some 2000 were employed in 2006, but market potential is 15000 (i.e. around 1% of economically active).<sup>20</sup>

However, one of the leading TA firm's manager argues (in our communication) that further employment potential will greatly depend on changes to the Labour law - removing legal barriers in leasing TA workers abroad, but particularly by eliminating unfair competition on temporary employment market from student/employment services, attached to student services institutions at each Croatian university, enjoying much lower taxes on net pay. This taxation amounts to 17.5% only - besides 12% provision, there is 5% for pension and 0.5% for health insurance which is far below contributions to be paid on TAs workers. While TAs are not allowed to employ students, students' contracts are often mis-used for persons not being students and enjoying students' privileges.<sup>21</sup> Often, students (or 'students') are engaged on jobs which belong to main firm's activity (which is against the law). Monitoring capacities are weak and firms are rarely fined, many are turning 'blind eye' on this way of upgrading individual but collective student standard. Without this, students lodging and food would be more expensive acknowledged expert from Ministry of science, education and sport in *Poslovni tjednik*, 6.4.2007.) Numbers on student work are quite impressive: while generally assignment contracts are replaced, due to regulations, with fixed term contracts, each year allegedly 200.000 of such contracts are being signed, and student services pay out around 800 billions HRK (a bit more than 80 million Euro<sup>22</sup>) - the largest Zagreb Student service only on 12% provisions earned 50 million HRK in 2005. (*Poslovni dnevnik*, 6.4.2007.)

In addition, employers are still not aware enough of potential benefits, claimed *Dekra* regional manager in the press (*Karlovački list* 22.3.2006). Firms using TA services are mostly large international companies with experience in using TA in other countries and increasingly national companies recognising possible advantages. (The above communication).

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<sup>20</sup> Written *communication* from the manager of one of the market leading TA firms; data based on Business Croatia dataset; press reports were giving higher numbers - in spring/summer 2006 all TAs were estimated at employing some 4000, and Dekra only - 1000, *Poslovni dnevnik* 3.10.2006.

<sup>21</sup> Due to employers' incentives to rely on 'students', an additional social cost are real students' incentives to trade studying for work - is this also a part of low Croatian graduation rate?

<sup>22</sup> In 2005 average CNB's medium exchange rate was 7.40, and in 2006 - 7.33 HRK for 1 EUR.

Some experts warn about too 'liberal regime and lack of supervision' (Gotovac 2003); union leader complain of numerous abuses and certainly over-dramatised trends on further TA employment (200 thousand in ten years time) (on [www.suvremena.hr](http://www.suvremena.hr)) The manager of one agency, in our phone conversation, confirmed abuses: some agencies are paying employees less than mandated by the law, i.e. less than is user firm's minimum. However, another manager finds some other abuses more pressing: some, mostly small local TAs, don't pay sick-leave benefits, dismiss employees without respecting dismissal period obligation: which leads to unfair competition between TAs themselves – namely international agencies present in Croatia, due to strict corporate rules and importance of keeping reputation, don't engage in such practices. He finds equality of pay rule problematic because it is hard to comply with it – due to (by user) presumed lower productivity of such workers (in written communication).

Additional problem is potential variability of pay that worker, engaged by the agency for a fixed period of time (e.g. six months), might during that period experience in various firms which may include one month without being engaged in leasing firms. One possibility is German solution, where through tariffs' compact all agencies must respect minimum pay for particular occupations, but – how does it affect market development? (written communication). Croatian trade unions would most likely accept such a regulation – which would be very much in line with their initiatives on minimum wage law and demands that TAs sign collective agreement for its workers. (SSSH, on [www.suvremna.hr](http://www.suvremna.hr))

An important issue is temporary employment abroad. It is still CES's monopoly, but there is a lot of private agency in 'grey zone' (for example, by being registered in receiving country or through sub-contracting), with little or no protection of employed rights (e.g. on big cruisers, *Poslovni dnevnik*, 19.7.2006.) In the process of the EU, private agency will be permitted too, hopefully under transparent and supervised conditions.

### 3.1.4 Multiple jobs are quite limited

LFS data point to low numbers and shares of reported multiple job-holding, as well as to decrease in the first part of the period.

**Table 3.1.6: Persons in employment having second job: in 000 and %, 1996-2006**

	1996	%	1998/1	%	2002	%	2003	%	2004	%	2005	%	2006**	%
Total*	84	5.6	69	4.5	49.0	3.2	45.5	3.0	47.0	3.0	53.5	3.4	47.7	3.0
Males*	56	7.0	48	5.8	33.0	3.9	31.0	3.6	31.0	3.6	35.5	4.1	31.0	3.6
Females*	28	4.0	20	2.8	16.0	2.3	15.0	2.2	16.0	2.3	18.0	2.5	16.7	2.3

Source: CBS LFS (from *LFS Results Croatia – Europe*, various years), 2002-2005 based on 1<sup>st</sup>/2d half averages; 2006 \*\*Eurostat LFS

2006 EQLS (Hromatko 2006, UNDP 2007) research, confirms LFS data: Only 7% report having been working in last four weeks an additional job parallel with the main one: close to 2/3 were spending less than 10 hours a week, and only 15% more than 20 hours a week. Share of men is quite higher - 9% vs. 5% for women. Persons with higher education, those in managerial and professional occupations (9%; other non-manual 7%), similarly to other NMS, more often engage in additional jobs than others (self-employed-5%, manual workers – 6%, farmers – 4%) – thus, the report concludes, it seems 'unlikely that this type of work is an important source of income and survival strategy for significant part of those exposed to social exclusion'. (UNDP 2007, 45)

### 3.1.5 Self-employment: an avenue to survival or entrepreneurship?<sup>23</sup>

Employment structure, according to the LFS, was rather stable with employees comprising about three-quarters of total employment, with share self-employment being around 1/5 – considerable is decrease in helping family members' share. Table 3.1.7 illustrates these trends:

**Table 3.1.7: Employment by professional status, 1996-2007**

BY PROFESSIONAL STATUS, 2d half year (%) (1996 – November; 1997 – June)												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/1
<b>Employees</b>	70.8	74.1	75.6	75.1	78.2	76.2	76.9	76.0	77.1	75.6	77.2	78.5
<b>Self-employed</b>	21.1	18.5	18.3	19.2	17.6	19.2	18.6	20.5	20.7	22.3	20.8	19.4
<i>Own account</i>	15.9	13.6	12.8	14.2	12.6	14.4	14.1	15.8	15.2	17.1	15.9	13.6
<i>Employers</i>	5.2	4.9	5.5	5.0	5.0	4.8	4.5	4.7	5.4	5.2	4.9	5.7
<b>Helping family members</b>	8.1	7.5	6.1	5.8	4.2	4.6	4.5	3.5	2.2	2.1	2.1	2.2

Source: CBS LFS; Note: 2007, Q1 and Q2 av.

<sup>23</sup> This section is based on our project progress report, prepared for GDN workshop, Prague 19-20 august 2007 (project: entrepreneurial deficits and modern economic growth in Croatia by Bičanić, I.; Šošić, V. and Franičević, V.); all LFS based calculations and interpretations belong to Vedran Šošić

As noted before, very low is share of those employing workers, particularly in agriculture. Registered business owners (including registered crafts) are much more likely to be employers than those self-employed without registered businesses, as Table 3.1.8 well illustrates:

**Table 3.1.8: Share of employers among self-employed by their status**

	1998	1999	2000	2001	2002	2003	2004	2005
<b>Self-employed business owners</b>	64,6%	61,2%	59,2%	59,6%	60,1%	64,1%	62,1%	63,6%
<b>Self-employed w/o registered business</b>	2,0%	5,7%	35,4%	47,5%	42,2%	26,4%	25,6%	35,3%
<b>Farmer on own farm</b>	0,7%	1,0%	2,0%	1,5%	3,3%	1,0%	4,6%	1,2%
<b>Total</b>	29,5%	28,0%	33,5%	29,3%	30,6%	26,7%	27,4%	24,9%

Source: CBS LFS (Calculations made by Vedran Šošić for an on-going GDN project by Bičanić, I.; Franičević, V. and Šošić, V.)

Concerning job-creation, and capacity for entrepreneurially led growth, certainly the most interesting are self-employed business owners.<sup>24</sup> If only self-employed *with registered businesses* are looked at (with and without employees – last make around 1/3 with yearly oscillations) – than their employment rate (calculated as a share of total employment) fell from over 8% in the 1998-2000 period to 7.5% in 2002 and recovering only slightly since then. Table 3.1.9, below, illustrates 1998-2005 trends in self-employment according to one's employment status.

**Table 3.1.9: Self-employment according to one's employment status 1998-2005**

Status in employment	1998	1999	2000	2001	2002	2003	2004	2005
<b>Self-employed business owners</b>	8,0%	8,1%	8,3%	8,0%	7,7%	7,3%	7,4%	7,5%
<b>Self-employed w/o registered business</b>	2,0%	2,2%	3,3%	2,6%	2,8%	2,6%	2,3%	2,7%
<b>Farmer on own farm</b>	8,5%	8,9%	6,8%	8,9%	8,5%	10,5%	11,2%	12,4%
<b>Unpaid family worker*</b>	6,2%	5,7%	4,6%	4,8%	4,6%	3,8%	2,7%	2,4%
<b>Employees</b>	75,3%	75,2%	77,1%	75,7%	76,4%	75,8%	76,5%	75,1%

Source: CBS LFS (Calculations made by Vedran Šošić for, as above.); Note:\*i.e. helping family members

As Šošić's calculations show, concerning self-employed business owners:

- LFS confirms *aging of the entrepreneurs in Croatia* with self-employment rates shrinking for those aged less than 45 and increasing for those over that age. Median age of the self-employed persons simultaneously increased from 34 in 1998 to 38 in 2005.
- Self-employed are on average *better educated* than the employees in general as they mostly come from the ranks of the persons with at least some secondary and tertiary education.
- Self-employed business owners' shares are much greater in urban/sub-urban zones (around 9-10%) than in rural areas.
- On average they accumulated more years of working experience and actually were *the only group of the employed persons with significantly increasing average experience over the observed period*.
- About three-quarters of the self-employed business owners were *recruited from the ranks of the employees* with about fifth of them starting a business out of unemployment or inactivity. Only about half of the employees had previous job experience with other half coming from unemployment and inactivity.
- Comparison of average tenures confirms increasing stability of the self-employment - *average tenure significantly increased over the observed period*, from 7 to about 10 years, thus preventing the overall average tenure from falling.
- That self-employment is not just a survivalist strategy, is shown by the fact that only a few of the self-employed are looking for a new job and this share has been constantly shrinking over the observed period, falling to about 4% in 2005 (including self-employed business owners looking for an additional job to their

<sup>24</sup> LFS make possible to, as Matković (2004) did, to distinguish four categories of self-employed: (i) small employers (accounting for business owners with at least 1 and not more than 25 employees), (ii) self-employed business owners who do not employ others, (iii) self-employed without a registered business who work by means of authorial or civil contract, or are paid in cash, in kind or upon informal agreement, and (iv) solo self employed in the agricultural sector. While some of these groups well resemble true entrepreneurs, others could more closely resemble a typical employee, working for a single or a few clients and having little control over their business activity.

primary activity). At the same time, as much as tenth of the employees were eager to change their job in 2005, down from about 17% in 1998.

However, if all self-employed would be included, findings would certainly, in many respects, be less optimistic: for example, *farmers on own farm* tend to be aged, with very long tenure but low education, yet rural areas under-perform when it comes to entrepreneurial businesses. Also, category of self-employed includes marginal/informally self-employed, many by sheer necessity. For policy making – it means that linear, ‘blanket’ policies towards self-employment (as an avenue for job-creation) may be misguided and inefficient. Different venues for self-employment ask for differentiated policies as different structures of self-employment regarding its geography ask for regionally and locally tuned policies too.

## 3. 2 WAGES

### 3.2.1. Real wages, productivity developments and wage share

Real wages developments follow typical post-socialist patterns of strong decrease in the first period, catch-up in the second, and slow or moderate growth thereafter. If 1989 is taken as a base year, calculation points that 1993 index of real wages was astoundingly low – 35.3; after which recovery starts: 1994 - 40.4; 1995 – 56.6<sup>25</sup>; Vidovic puts 1993 real wage level at 28% of the 1990 average (Vidovic 2006, 26). EBRD *Transition Reports*, put 2005 real GDP of Croatia at 98% of 1989 level (and 2006 at 105 level)(EBRD, *Transition Report 2006 and 2007*) *inherently imperfect calculation* based on received and published data on real wages growth (CBS, SY various years) points to very similar number for real wages too – at 96% of 1989 level in 2005.

After a collapse of *real wages* in early 1990s, real wage growth was particularly strong in the second half of 1990s. In years of catching-up (eased by populist policies of the period; Franičević 2002) wages were growing faster than *GDP*. With 2001 this was reversed: real wages grew by 1.6% in 2001, 3.1% in 2002, 3.8% in 2003, 3.7% in 2004, 1.5% in 2005 and 1.9% in 2006, while respective rates of GDP growth were higher: 4.4%; 5.6%; 5.3%; 4.3%, 4.3% and 4.8% in 2006 (CBS data; see Table 3.2.1). This data reflect drastic slowing down of wage increase in the public sector – in business sector wage growth has been closer to the productivity growth. Altogether, in the 2001-2006 period productivity growth was 20.9% while net-real wages grew by 16.6%. (HGK 2007)

**Table 3.2.1: Nominal and real net&gross earnings growth 1996 – 2006**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>Nominal net</i>	11.8	16.9	12.8	14.0	8.9	6.5	5.0	5.9	5.9	4.9	5.2
<b>Real net earnings</b>	<b>7.2</b>	<b>12.3</b>	<b>6.0</b>	<b>10.1</b>	<b>3.4</b>	<b>1.6</b>	<b>3.1</b>	<b>3.8</b>	<b>3.7</b>	<b>1.5</b>	<b>1.9</b>
<i>Nominal gross</i>	12.3	13.1	12.6	10.2	7.0	3.9	6.0	4.8	6.4	4.4	6.2
<b>Real gross earnings</b>		<b>8.6</b>	<b>5.8</b>	<b>6.5</b>	<b>1.6</b>	<b>-0.8</b>	<b>4.1</b>	<b>2.6</b>	<b>4.2</b>	<b>1.1</b>	<b>2.9</b>
GDP yearly growth	5.9	6.8	2.5	-0.9	2.9	4.4	5.6	5.3	4.3	4.3	4.8

Sources: CBS, *Statistical Yearbooks*, various years; *Statistical Information* 2005, 2006 and 2

Vidovic provides additional insights on wages&productivity nexus. *Firstly*, she shows that, after huge drop of real wages in early 1990s, catch-up (faster growth of wages than productivity) lasted until 1999 for gross and until 2000 for net wages: ‘in the subsequent years real wage developments were almost in line with productivity increases’. Vidovic’s Figures 3.2, first two panels below, illustrate major trends. *Secondly*, much stronger was growth in real net wage than in real gross wage (average net real wage more than doubled since 1994; gross grew by 96% over the 1994-2004 period) – this indicates the reduction of employees’ compulsory contributions from 42% of the gross wages to around 30% over the period. *Thirdly*, different have been sectoral trends as last three panels (below) illustrate (Vidovic 2006, 26).<sup>26</sup>

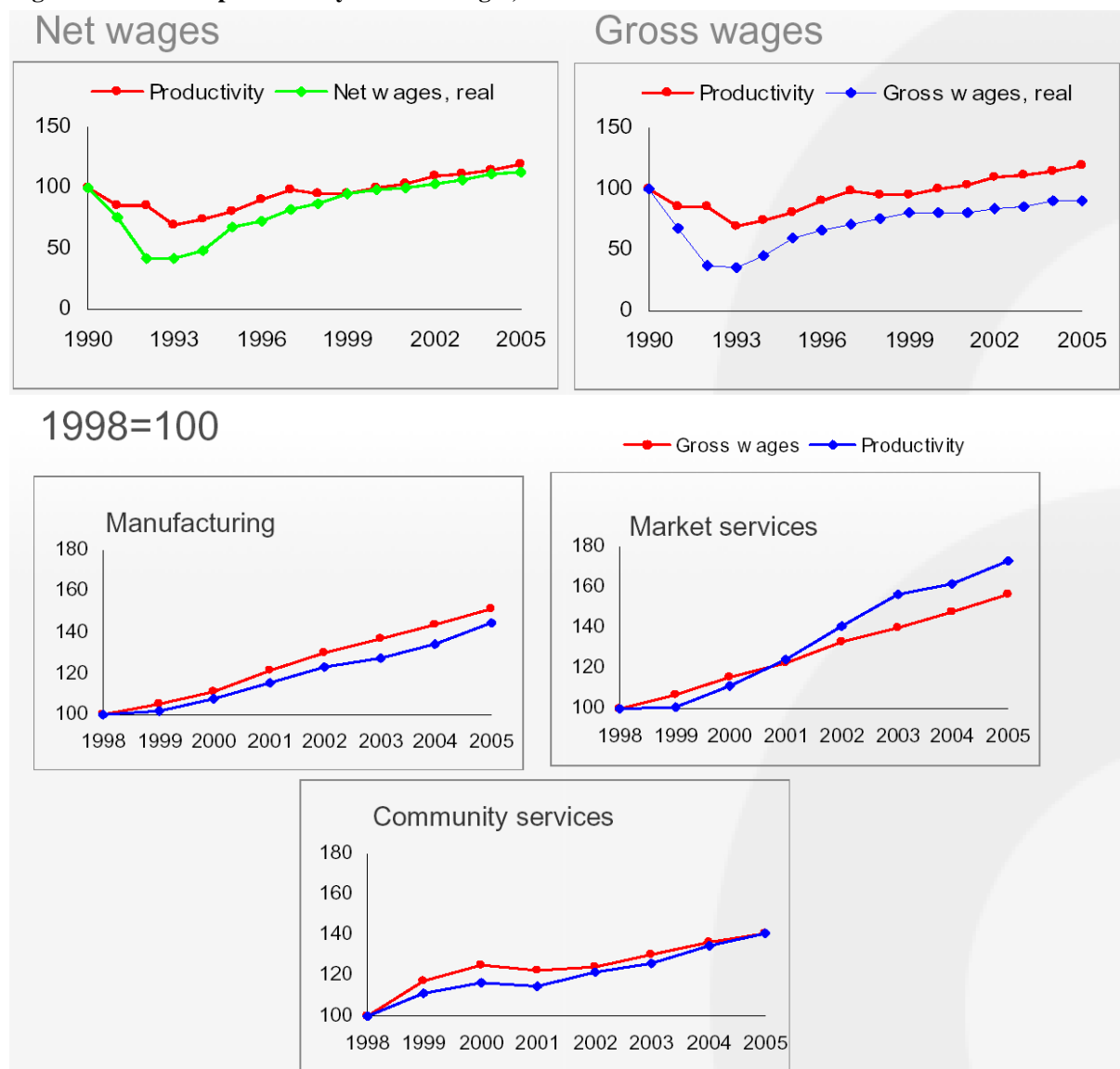
If productivity growth has been exceeding wage growth in the economy, it hasn't been the case in manufacturing and community services. Funda et al., researching Balassa-Samuelson effect in Croatia, show that in 1998-2006 period productivity growth was much stronger in ‘tradables’ sectors (where, they point, in

<sup>25</sup> Calculation, thanks to Ms. Brkić Jadranka, received from CBS; however, it should be noted that this is a period of hyperinflation, monetary denomination and changes of monetary unit;

<sup>26</sup>

manufacturing strong decrease in employment was recorded but unit labour costs are relatively high) than in the 'non-tradables' ones.<sup>27</sup> However, in tradables real wages growth lagged behind considerably, while in non-tradables it surpassed productivity growth. (Funda et al. 2007, 14-16) It could be plausibly argued that above trends in 2000s indicate overall restructuring of Croatian economy, increased flexibility of labour markets, relative decrease of bargaining powers of work overall, but with major sectoral differences which are certainly asking for much careful research (in terms of LM and working conditions, unions density and collective agreements coverage for example in the above sectors).

**Figure 3.2: Labour productivity and real wages, 1990 = 100**



Source: Vidovic 2006 and Vidovic presentation for Vidovic 2006

Because the tax wedge at the average income in Croatia is by no means excessive – in comparative terms too (Vidovic 2006, 26), it seems that other factors, and not labour taxation, play prominent roles in explaining low employment rates but low work force competitiveness too. Comparatively high wages in Croatia ('Croatia exhibits the highest wage level as compared to the NMS', she points) are not justified by proportionally higher productivity; and, importantly, unit labour costs in industry are about 70% of the Austrian average in 2005, with respective values for the NMS being between 22% in Bulgaria and 40% in Czech Republic. Her table (3.2.2) is illuminating:

<sup>27</sup> The greatest increase they found in industry; than in transport and communications, followed by hotels and restaurants and trade (the last one they find one-off increase due to entry of foreign retail chains). There was no significant change, on the other hand, in financial intermediation and real estate, in public administration, defence, health care, education etc. (Funda et al. 2007, 14)

**Table 3.2.2: Croatia - Wages and ULC in comparison, 2005 (Austria = 100)**

	Output per employee (PPP)	Unit Labour Costs in industry	Wages in industry
Czech Republic	59	39.8	20.8
Hungary	79	29.5	20.7
Poland	52	43.3	19.9
Slovakia	53	36.2	16.9
Slovenia	41	97.0	34.8
Bulgaria	29	21.5	5.6
Romania	28	35.0	8.7
Croatia	43	69.7	26.3

Source : WIW database incorporating national statistics (from Vidovic 2006, 27 and her presentation on Vidovic 2006)

Taking into account existing pressures on business sector's international competitiveness (particularly in setting of cost pressures) and public sector's efficiency – it is to be expected that wage levels and growth will increasingly become a terrain of contest. Even 'unthinkable' might become part of bargaining agenda – negotiating a decrease in wages in exchange for job security. Recent inflationary pressures brought unions to argue, in unison, for an increase of wages (i.e. indexation) and employers arguing that there is no space for any increase at all.

Wage share developments are estimated in Table 3.2.3 below:

**Table3. 2.3: Wage/GDP ratio 1997-2006**

Years	GDP (at market prices)	Wages (compensation of employees)	Shares (market prices)	GDP (at basic prices)	Shares (at basic prices)
1997	123.810.736	62.662.929	50,61	100.919.000	62,09
1998	137.603.721	71.440.601	51,92	111.061.000	64,33
1999	141.579.100	76.422.000	53,98	115.008.000	66,45
2000	152.518.800	80.637.400	52,87	123.669.118	65,20
2001	165.635.791	82.592.056	49,86	134.281.112	61,51
2002	181.230.888	92.517.407	51,05	147.774.198	62,61
2003	198.417.623	102.822.554	51,82	162.865.619	63,13
2004	214.983.101	109.177.108	50,78	178.815.395	61,06
2005*	231.349.000	118.031.484	51,02	192.718.000	61,77
2006*	250.590.000	127.517.733	50,89	209.653.000	61,43

Source: Wage share estimate based on CBS data on GDP accounting and wages/compensation data (Eurostat)

Note: \*wage bill estimate based on extrapolation of trend

It is important to note that in this one decade long period, in spite of yearly oscillations, both shares show a decreasing trend /stronger at basic prices). It is complementary to data showing that, after 2000, in each year real (net and gross) earnings growth was lagging behind GDP growth. While this may be indicative of decreasing power of labour in Croatia, more precise analyses of relative wages should also take into account that after 2000 employment was increasing, even if very slowly.

### 3.2.2 Wage structure

Data and research on the firms' wage policies is lacking, particularly concerning *trends*. Fourth EWC Survey gives some comparative insight: similarly to EU-27 (EWCS 2007, 86-87), 94.5% employees receive basic fixed salary/wage; however only 9% report being paid by piece rate/productivity<sup>28</sup> (EU-27 – 12%). Concerning *variable components*, survey confirms that overtime pay is very common – 24.3%; other forms of extra pay follow by 12.1%; extra pay for Sundays - 10.6%; other (spontaneous response) – 4.9%; extra pay for bad working conditions – 4.8%; advantages of other sort (i.e. medical services, access to shops etc.) – 4.6%. Importantly, in spite of the model of privatisation of early 1990s which led to participation of hundreds thousands of employees in buying (under discount) firms' shares – only 1.2% report receiving income from shares in the firm they are working for. In addition, payments based on the firm's performance (e.g. profit

<sup>28</sup> However, it is impossible to judge how (somewhat confusing) translation of the question influenced responses

sharing) or on the group's performance are quite uncommon: 4.0% and 2.1%. (Calculation based on the 4<sup>th</sup> EWCS dataset)

Some insight on developments between 2001 and 2005, concerning *large firms' practices*, is provided by Pološki Vokić and Vidović (2007 a, b). In their research on HRM in Croatian larger firms (2005 survey includes firms with 200 or more employees, but singles out data for 500+, comparable to 2001 survey). Share of surveyed firms which *appraise employees' performance* is 71.9% for 500+ (61.5% for 200+) vs. 51.2 in 2001 (for 500+); share of employees which are *appraised for their performance* is – 41.9% (36.5% for 200+) vs. 40.3% in 2001. Concerning pay: quite high is share of firms in which *employees receive a variable part of their wage/salary* – 65.7% (68.8%) vs. 33.3% in 2001 and indicating increase in performance related pay systems. However, share of *employees that receive a variable part of their pay* is not that high: 35% (37.2%) vs. 14.2% but the coverage seem to be increasing too. While quite high is share of firms *awarding innovativeness* – 63.6% (54.5%) vs. 26.2%; much lower is share, however increasing, of firms that have *stock-sharing* (23.5%/17.5% vs. 7.3% in 2001), *profit-sharing* (35.5%/34.7% vs. 23.8%) or *engaging all employees in profits-sharing* (70.0%/52.0% vs. 14.3%). In spite of problems with comparing 2001 and 2005 samples (therefore results) – the research certainly indicates that pay systems – at least in larger firms (which tend to have developed HRM departments - 75.3% of the sample) – is evolving towards more performance based and more inclusive systems. However, is this general trend in the economy, or a trend consolidation and reflecting dualisation of LM in Croatia is impossible to tell without much broader and deeper research.

*ESOP programs* are slowly finding their place in spite of lack of policy support: some hundred programs were implemented by 2004 – firms most likely to implement them are large firms with significant small shareholders' share. (Tipurić 2004) (More in section 5.2)

On the other hand, *reforms of the public sector' and state administrations'* pay systems have been advised by foreign consultants and experts (particularly from the World Bank) but delayed for years.<sup>29</sup> Yet, reform seem to be imminent, including reductions in employment in some sectors of the state administration (considered – overgrown) and might be expected in a year or two (the new law on public servants and employees requires that pay be regulated by separate laws for public services and state servants and employees). The present system is largely seen as not-motivating for not differentiating a good from bad work, for not differentiating between the state administration and public services, and for not being attractive for most talented people (does not allow for competitive pay offered by private sector).

Due to widespread practices of using various supplements to wages (for working conditions, for tenure, for academic degree, for responsibility etc.) as well as material rights (compensations for costs, solidarity help, severance pay, tenure rewards, e.g. for 5, 10 and so on years...) and making them matter of collective negotiations between unions and the government, has led to quite liberal introduction of supplements in order to reach compromises. As a consequence, pay systems in reality became too complex, non-transparent and leading to differences in pay and material rights, hard to account for – raising equity issues, between individuals, sectors and institutions under the state budget financing.<sup>30</sup> Not rarely, hidden pay (membership on controlling board of the state-owned firm, or using contract on authorship for paying regular work) adds to differences – particularly so in institutions with part of income earned on the market and having separate accounts (as university members – i.e. faculties presently have). While, on the paper, there is unified system of pay in the state and public sectors – the system in reality has been derogated through a web of collective agreements between different sectors' unions and the government, as well as separate agreements on wages for different public sectors/ state services, as well as through particular practices of the employers. (More in Zuber 2007)

Expected reform should bring back, concerning state servants and employees, unified system of pay (based on 'equal pay for equal work' principle – in private communication from the state expert involved in the process); replacing seniority system (based on years of service) with 'pay classes' (Zuber 2007, 112) but with upgrade depending on merit – performance based assessment. Concerning public sectors (health, social services, education, culture and other), reform should bring more of unification (based on common standards in workplace definitions, assessments and pay coefficients), reduction in all kinds of benefits/supplements but increasing role of one's performance and efficiency. However, it is more complex – and it is hard to predict the real course to be taken by the established work-group formed by Economic and Social Council: barriers may not be only in resistance by employees but by semi-autonomous institutions who enjoy better position on markets (as normally faculties of economy do!) which might put to test internal unity of unions as well.

<sup>29</sup> World Bank and IFC assistance strategy has been asking for 'reduction in public wage bill's share from 11% to 9.5% percent of GDP by 2008' through 'Enactment of Civil Service Law and implementation of merit-based hiring and pay system'. (World Bank 2007b, annex b9).

<sup>30</sup> But often agreed upon rights had not been honoured, leading to explosive growth of cases brought by employees/unions to courts.

### 3.2.3 Overtime, hidden wages and cash payments

In the firms I visited (Francicevic 2007 a, b) noticed were some important phenomena. First is *extensive use of overtime* as a pay policy; both sides accept it as a way to increase otherwise low wages, and some consider it as a bonus for good workers – lack of more motivating pay systems and strong legacy of ‘uravnilovka (levelling)’ are still typical of many firms. Second is *extensive use of ‘hidden wages’* through material costs attached to work. Third, *cash payments* are often present, particularly in small firms (as one of cases in Francicevic 2007a illustrates too). Recent (non-representative) on-line survey is indicative: employers (n = 291) and employees (n = 525) think that about one third of workers pay is ‘on black’. Widespread are: non-registered overtime work, registered minimum wage coupled with cash payments, and moon-lighting. Among surveyed, 59% employees and 43% employers confirmed own experience of such practices. (Selectio 2006) Many employees in interviews reported their own participation (some – dependence on) in such activities.

### 3.2.4 Wage payment security

**Wage payment security has increased:** late pay or no pay is still common but much less pronounced than in the late 1990s when it was major public issue. Number of employed at insolvent legal entities compared to 1990s is much smaller (by ends of Decembers, in 1998 it was 182 thousands, in 2002 – 48, in 2005 – 36 thousands and in 2006 – close to 30 thousands). By June 2006, 32357 were employed at 21291 non solvent legal entities, mostly in trade sector (also 17361 employed at 36749 physical persons, i.e. crafts) (FINA and HGK data). At greater risk are employed in small firms.

One important element of that security, as well as of wage formation and difference are collective agreements, covering close to 50% of employed. While this is leaving out many employed in the private sector and particularly in SMEs – practice of administratively extending CAs on the whole industry influences also wages. However, monitoring and enforcing of CAs is weak (see also section 3.2.6.3 on minimum wage; on collective bargaining in general, see more in section 5.3)

However, for many this *increased security*, has not brought much in terms of improvement of their living standards and needs’ satisfaction: *share of low wage is high*.

### 3.2.5 Income and wage inequalities

Overall income inequalities, comparatively, are not as dramatic as often perceived by the public. As Table 3.2.4 suggests in the 2001-2006 period they are quite stable. Yet, they are considerable.

**Table 3.2.4: Income inequalities 2001-2006**

	2001	2002	2003	2004	2005	2006
S80 / S20	4.3 / 5.5	4.5 / 5.4	4.4 / 5.0	4.5 / 5.2	4.5 / 5.1	4.2 / 4.8
Gini coefficients	0.28/ 0.31	0.29 / 0.31	0.29 / 0.30	0.29/ 0.31	0.29 / 0.31	0.28 / 0.29

Source: CBS, 2006, ‘Pokazatelji siromaštva od 2001-2003and 2004-2006 (Poverty indicators 2001-2003 and 2004-2006; Note: with/without natural income; income data based on Household Budget Surveys)

While data published by CBS point to comparatively moderate and stable level of income inequality, experts point that reliability of used data may be questionable – particularly at both ends of income distribution (due to hidden payments and firms not-reporting managerial salaries. Comparatively Croatian Gini is not standing out among European transition countries; however it is placing Croatia in the group of higher inequality than EU-10, EU-15 or EU-25 averages are (0.28 for all three groups vs. 0.31 for Croatia in 2001 – UNDP 2006b, 17). In comparison with the region countries Croatian Gini seem to be on the lower end (WB 2007a, 13 - based on per capita Gini) The World Bank study (WB 2007a), confirms income inequality stability in the 2002-2004 period – both deciles ratios (9/1) which changed from 0.270 to 0.275, and Gini coefficients (from 0.270 to 0.275) attest to that (calculation based on Household Budget Surveys).

Subjective perceptions of Croatia as high inequalities country have a lot to do with privatisation failures, corruption; and very likely wealth distribution would show greater inequalities and widened gap between rich and poor (no data on wealth distribution exists). This is why subjective poverty levels are much higher than absolute or relative data indicate (see Bicanic and Francicevic 2005).

### 3.2.5.1 Gender differences

Women are not only disadvantaged at the labour market (concerning employment and unemployment), they are clearly at disadvantage concerning relative earnings: as earlier noted women have a lower participation rate, a lower employment rate, a higher unemployment rate – the average net earnings are also lower than men's: in legal entities in 2004 it was 3885 HRK vs. 4341 HRK (total 4143 HRK) and in 2005 it was 4087 HRK vs. 4558 HRK (total 4352 HRK)<sup>31</sup> – i.e. they make about 89.5% of males, with considerable variations between industries (77.6% in manufacturing; 78.4% in health and social work, and 78.9% in financial intermediation...but 98.5% in mining and 103.4% in construction) (CBS 2007 'Women and men in Croatia')

Nestić finds, using 2003 data, that '....at the 0.1 quintile of the conditional wage distribution, employed women earn about 10% less than men, but at the 0.9 quintile the difference is higher and their wage is 20% lower. In other words, in high-paid jobs women are relatively more disadvantaged than in low-paid jobs. On average, women earn some 15% less than men with the same observed characteristics.... Gender wage gap in Croatia is substantial, but comparable to many other countries'. (Nestić 2005, 15) Using 1998 and 2005 LFS data, he finds again that 'there is a larger relative discrepancy between male and female wages among higher-paid than lower-paid workers... more pronounced effect is found in 2005' (Nestić 2007, 16). Importantly, 'women face strikingly lower returns to education at all levels of education and at all points of wage distribution' – e.g. at the 90<sup>th</sup> quintile males with university degree earn some 22% more than females with the same degree, while for median this difference is smaller – about 10% (Nestić 2007, 23). Marginal returns to experience are found to be also higher for men 'and the difference grows at upper parts of the wage distribution: however, this advantage is lost at around 30 years of experience when men experience negative returns, while female wage/experience profile is much flatter' (ibid., 23) Decomposition analysis for the same observed labour characteristics showed 'that the gap is around 20% on average due to differing returns by gender' (ibid., 35) The author also notes that his findings point to 'glass-ceiling effect' and 'occupational segregation in Croatia.

*Perceptions* on these differences differ, but not dramatically, between males and females. Most are aware of gender differences. In recent representative survey 'mostly agree/fully agree' 30.8%/30.7% males and 36.4% /39.8% females with the statement that 'for the same job, women are, in principle, worse paid than men'. Further on, 42.5%/31.0% of males and 38.4%/43.9% of females 'mostly agree/fully agree' with the statement that 'women get employed more often than men in worse paid occupations' (Čulig et al. 2007). Encouragingly, equal pay norm receives great support from both males (80.0%) and females (80.8%). (ibid., 205)

### 3.2.5.2 Mothers with children

Croatia may be considered as a country with quite generous benefits for childbirth and childbearing leaves, particularly in terms of their length, yet less in terms of compensation. However, child-caring system is deficient both in terms of coverage (40% of 0-6, and 14% of 0-2 years age groups) and organisation (short opening hours); situation is also deficient in schools where children are facing lack of child-caring arrangements, and interchanging shifts (see Matković 2007) which make a considerable barrier to wider use of part-time arrangements too. (More in section 4.6)

Nestić looked into wage gap for women with children. He found that raw gender gap for women in private sector was in 2005 higher for mothers with children than for non-mothers (23% vs. 17%) – considerably widening at the upper tail of wage distribution. Altogether, 'private sector employers provide lower wages to mothers with young children than to other women with the same observed labour characteristics. The difference is significant at the top of the wage distribution, but not elsewhere.' (Nestić 2007, 35) Different is picture in the public sector where the raw gender gap is substantially smaller with 'virtually no difference in the gap for these two groups of women.' (Nestić 2007, 29) The author attributes that to more transparent wage setting which doesn't allow for a priori discrimination (ibid., 29).

### 3.2.5.3 Regional and sectoral differences in earnings

In spite of being small country, Croatia exhibits *strong regional differences* along almost all economic and social indicators. This pertains to earnings too, including strong variations in poverty incidence (WB 2007, 21). However, a multivariate analysis based on data from labour force surveys shows that only about one-third of the total variation in earnings across Croatia's regions can be explained by differences in human capital and other such individual characteristics of workers' (WB 2007, xvi), while '65-72% of the observed wage

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<sup>31</sup> In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

differentials across regions are explained by “other regional factors” (ibid., 29) , including geographical ones - this residual is much lower in most EU countries (ibid., xvi) (For more detailed analyses see Luo 2007)

*Sectoral differences in wage growth and average levels are considerable.* Most important factor behind them are *educational differences of employed*: in 1996 rate of return on additional year of education was 7.6%, in 2001 it was 10.5%. *Premium* on education of highly educated in relation to those with middle education stabilised after 2002 at around 60% of the middle education wage (Šošić 2004 and Babić et al. 2007, 32) Education is the key factor in explaining wage variations in Croatia (Nestić 2005, p. 27).

### 3.2.6 Low wages, working poor and minimum wage issue

#### 3.2.6.1 Low wages

Tables 3.2.5 a, b (below) give some indication on the low wage shares in legal entities. Taking into account that 1996 average wage was 2033 HRK (and 60% of it was 1258); and in 1997 average net wage was 2377 HRK (60% was 1426 HRK)<sup>32</sup>, from the table it can be approximated that in 1996 close to 65% were receiving less than average, and some 21.5% - 60% of the average or below. In 1997 relevant shares were about 66% and 21.5%. Data for 2004-2006 (below) don't show any major change – except indicating increased share of those paid low. More than 60% were receiving below the average wage, and some 24% below 60% of the average wage. However due to hidden and cash payments, above distribution (based on the firms' reporting), even if very indicative, is not fully accurate.<sup>33</sup>

**Table 3.2.5a: Shares of employed according to received net wages, March 1996 - March 1997, full time employees at legal entities**

	Up to 900	901-1100	1101-1300	<i>Up to 1300</i>	1301-1500	<i>Up to 1500</i>	1501-1700	1701-1900	1901-2100	Up to 2100	2101-2300	<i>Up to 2300</i>	2301-2500	2501-3000	3001-3500	3501-4500	4501+
March 1996	6.0	7.5	10.6	<b>24.1</b>	11.1	xxx	11.3	12.0	10.8	<b>69.3</b>	<b>8.5</b>	xxx	6.0	7.5	6.1*	2.6**	
March 1997	2.8	5.0	8.0	xxx	9.2	<b>25.0</b>	9.3	9.6	9.7	xxx	<b>10.1</b>	<b>63.7</b>	8.2	12.1	6.7	5.8	3.5

Source CBS: 1998, Priopćenje 9.2.5., 1997 Priopćenje 15.8; Notes: \* 3001-4000; \*\*4000+

**Table 3.2.5b: Shares of employed according to received net wages, March 2004 - March 2006**

	Up to 1900	1901-2200	2201-2500	<i>Up to 2500</i>	2501-2800	2801-3100	3101-3700	3701-4000	<i>Up to 4000</i>	4001-4500	4501-5000	5001-6000	6001-8000	8001+
March 2004	8.6	6.9	8.8	<b>24.3</b>	7.5	7.7	14.3	6.6	<b>60.4</b>	10.9	8.7	9.6	6.2	4.2
March 2005	7.4	6.2	7.8	<b>21.4</b>	7.4	7.5	13.6	6.3	<b>56.2</b>	10.3	9.1	11.4	7.8	5.2
March 2006	6.0	5.6	7.3	<b>18.9</b>	7.6	7.2	13.3	6.2	<b>53.2</b>	10.0	9.4	12.6	8.6	6.2

Source CBS 2005, 2006 (for full time employed at legal entities only); Note: March 2004 average net wage was 4153 (60% - 2492), March 2005 it was 4390 HRK (60% - 2634) and March 2006 it was 4602 HRK (60% - 2761) (CBS data); In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

REGOS – a national central registry of socially insured persons (established as a result of pension reform) provides interesting data on evolution of wage shares between 2003 and 2007. Tables below illustrate: (a.) relatively stable percentage of those receiving below and/or average gross wages – i.e. around 65%; (b.) on the bottom of distribution there is a trend of decreasing share of workers receiving the minimum and/or below the minimum wage, while (c.) on the top of distribution, it seems that share of employees receiving very high wages might be growing, while share of workers receiving above the average wages is quite stable.

<sup>32</sup> In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

<sup>33</sup> Nestić's calculation based on 2005 LFS data gives somewhat different numbers: 60% are below the average, and 18% below 60% of the average; this may indicate difference between reported and real payments.

**Table 3.2.6: Shares of wages using January data on social insurance registration, in %**

	2003	2004	2005	2006	2007
A. Below minimum	2.10	1.95	2.09 (1.70)	1.93 (1.64)	1.95
B. Minimum	3.82	3.05	3.37 (2.89)	1.85 (1.84)	1.59
A+B	<b>5.92</b>	<b>5.00</b>	<b>5.46 (4.59)</b>	<b>3.78 (3.48)</b>	<b>3.54</b>
C. Below average, above min	58.02	59.70	62.22 (60.71)	61.53 (60.56)	61.11
D. Average	0.14	0.11	0.15 (0.15)	0.15 (0.14)	0.12
A+B+C+D	<b>64.08</b>	<b>64.81</b>	<b>67.83 (65.45)</b>	<b>65.46 (64.18)</b>	<b>64.77</b>
Above average	35.93	35.19	32.17 (34.55)	34.55 (35.81)	35.24
Total	100.01	100.00	100.00 (100)	100.01 (99.99)	100.01

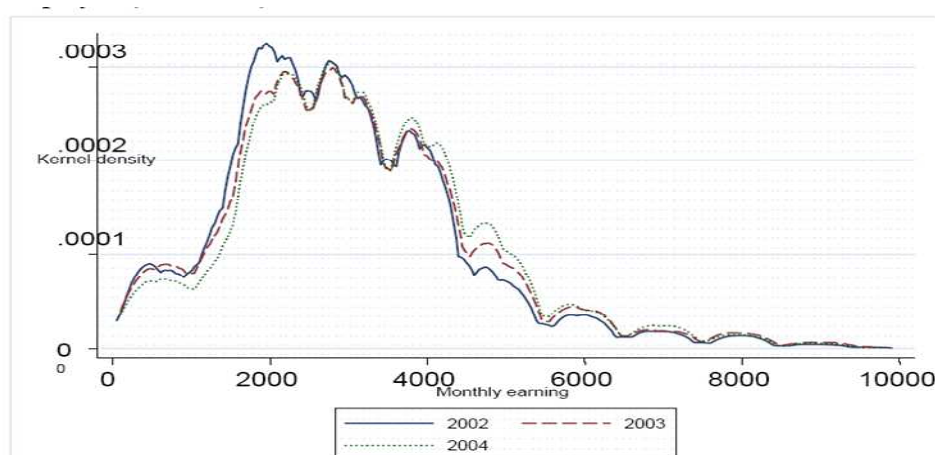
Source: REGOS; Note: Average wage of previous year is used; minimum wage is determined each year by the Ministry of Finance decision as 0.35 times average wage in the previous year's Jan-Aug period; in brackets are given whole year average shares

**Table 3.2.7: Very high wages 2003-2007, January**

	2003	2004	2005	2006	2007
Threshold in HRK	31860.00	33450.00	35670.00	37194.00	39390.00
Number of persons	2330	2534	2797	3067	3416
% of the total registered	<b>0.21</b>	<b>0.23</b>	<b>0.25 (0.27)</b>	<b>0.28 (0.30)</b>	<b>0.30</b>

Source: REGOS; Note: The above threshold is determined each year by the Ministry of Finance as the highest base for contributions' calculations as average wage in previous year's Jan-Aug period times 6; in brackets are given whole year average shares; In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

Luo (2007) for the World Bank (2007a) study provides illuminating figures on earnings' distribution in Croatia, based on 2002-2004 LFS data, and adds that 'the relatively high density of the distribution at the lower end may partly be resulted from the high incidence of the low-paid jobs. (Luo 2007, 154)

**Figure 3.3: Distribution of Employed Nominal Monthly Earnings, 2002-2004**

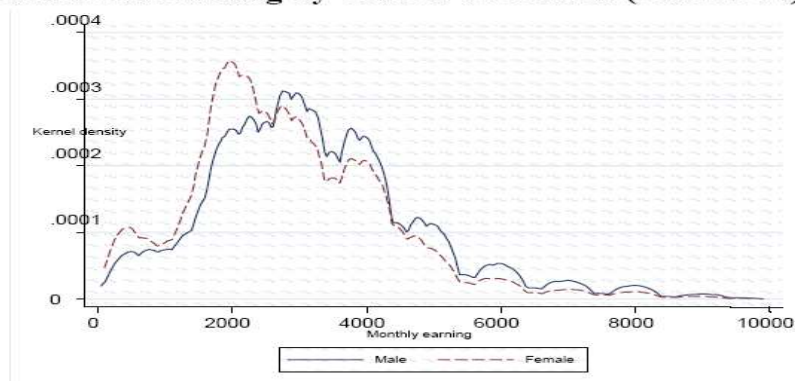
Source: Luo 2007, 154; based on LFS data

Low pay is particularly typical of agriculture, fishing, retail, hotels and restaurants, construction, some services and some manufacturing sectors (textiles, leather, lumber, furniture, metal, and paper). In 2006, 70% of those receiving below 2500 were employed in retail, construction and manufacturing (HGK 2007) (In unions' recent document it is 78% - Nactr 2007). On the other hand, very common (e.g. in construction or retail) is registering workers on the lowest wage but adding to this 'in cash' payments or 'hidden' payments (e.g. Franičević 2007a – construction case) – leading towards important distortions concerning future pensions due to lowered contributions, on one hand, and receiving non-deserved subsidies (e.g. child allowance) on the other. This is one of major rationales for unions' demands that Law on minimum wages be enacted (where minimum will be defined for different categories of job complexity/educational achievement) (SSSH&HSU 2007; more below)

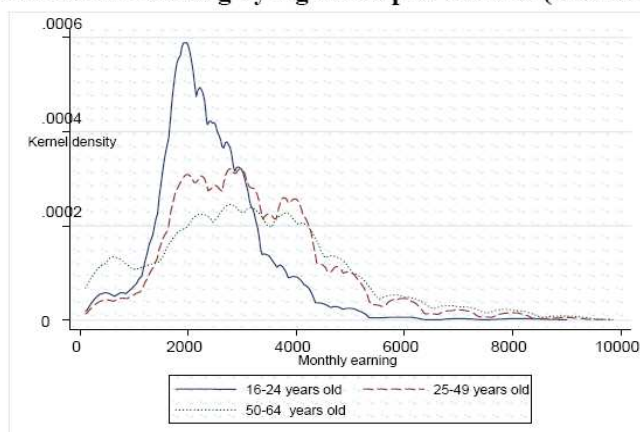
Luo (2007) also shows that women (panel 2) and youth (panel 1) earn less, and that greater share of them (against males/those 25+) is vulnerable to low pay. Also his figures show clearly that vulnerability to low pay is highly related to education (panel 3), as is pronounced regional dimension to it (panel 4). Figures 3.4 below, panels 1-4, illustrate these differences:

**Figure 3.4 (i-iv): Monthly earnings by age, gender, education and region, 2002-2004**

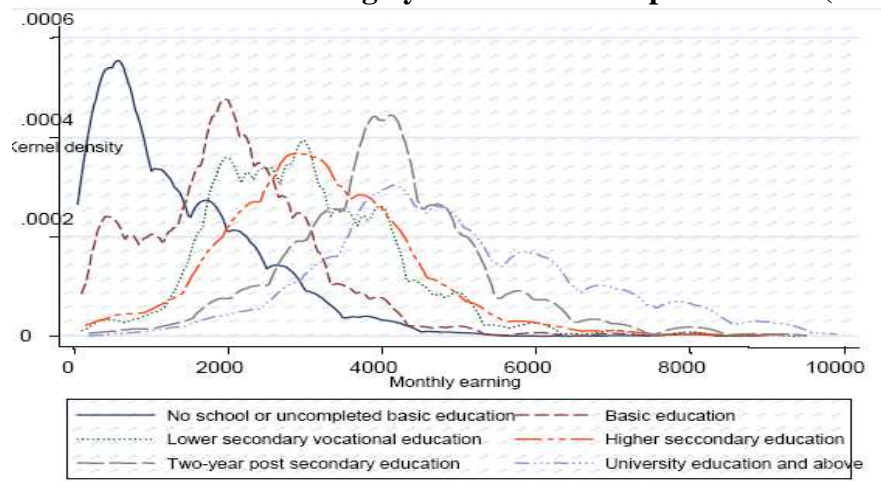
**Distribution of Earning by Gender in Croatia (2002-2004)**



**Figure 5.6: Distribution of Earning by Age Group in Croatia (2002-2004)**

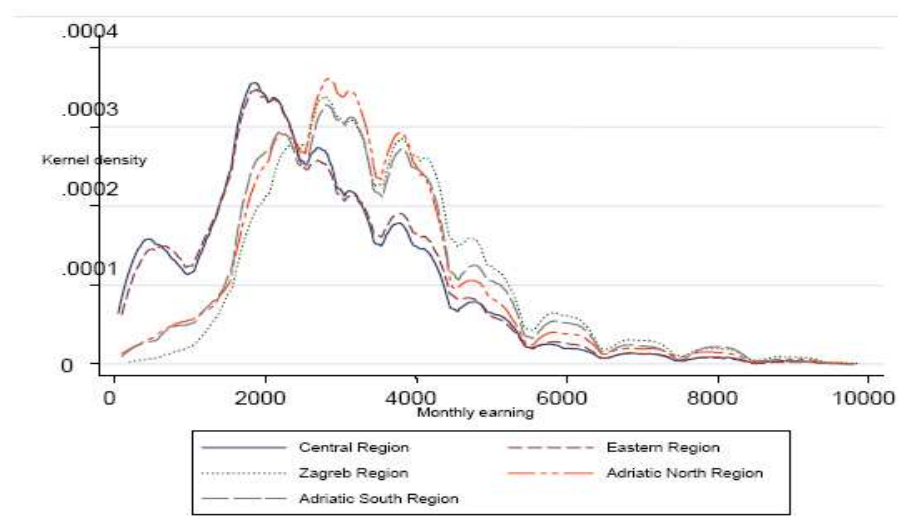


**iii. Distribution of Earning by Education Group in Croatia (2002-2004)**



Source: Luo 2007, background paper for World Bank 2007a, estimates based on 2002-2004 pooled LFS data

#### iv. Distribution of Earning by Region in Croatia (2002-2004)



##### 3.2.6.2 Falling into poverty risks and working poor

While Croatia may be considered as a country with comparatively low absolute poverty level (WB 2000 based on 1998 data and WB 2007, based on 2004 household budget survey data) – only 4% were below 4.30 \$PPP/day), and in spite of important living conditions improvements, *many can hardly cope with*. ‘Financial situation in households’ was judged as ‘mostly bad’ or ‘bad’ by 62.4% in 2002; by 61.4% (1<sup>st</sup> half)/60.3% (2<sup>d</sup> half) in 2003; by 60.3% /59.9% in 2004; by 59.3%/57.7% in 2005 and 56.9/55.2% in 2006 (with ‘bads’ being between 34.7% in 2002 and 31.2% in the 2<sup>d</sup> half of 2005, and 29.2% in the 2<sup>d</sup> half of 2006)(CBS LFS). On the other hand, share of ‘very goods’ and ‘goods’ has risen from 39.5% in 2003 (2<sup>d</sup> half) to 44.3% in the 2<sup>d</sup> half of 2006. In addition, 2002 and 2004 Household Budget Surveys indicate improvement in living conditions too: share of households which live, with its disposable income, with great difficulty or with difficulty has fallen from 13.4%/25.6% to 10.0%/22.7% while strong increase was in the ‘well’ group: from 8.0% to 19.1% and in the ‘very well’ one - from 1.7% to 2.1%. (World Bank 2007, 12) Interestingly, ‘fairly well’ group’s share decreased from 21.8% to 17.5% - is it indication of polarisation? It may be premature to say but is certainly worth of researching. However, in spite of improvement during the period, economic conditions for most households are hard and slowly improving.<sup>34</sup> This also explains why there is still a major demand for longer hours and participation in unofficial and/or unregistered work; very often confirmed in my interviews (see Franicevic 2007a and b).

***Being employed is major insurance against poverty***, even with a very modest pay! Greatest *risks of falling into poverty* face old, unemployed and retired. (Šućur 2004) There are particular groups which face higher poverty risk – while relative poverty rate (60% of the median) is higher than EU-15 or EU-25, it is in line or close to southern European countries and Ireland (UNDP 2006b, 16). The World Bank estimated an absolute poverty line for Croatia (cost-of-basic-needs poverty line) and found that ‘some 11% of the population are poor and another 11% are vulnerable to falling into poverty’ (World Bank 2007a, 9% – 11.1% based on expenditures and 10.4% based on income) with some 1% facing ‘severe deprivation’. The poverty gap is found to be only 2.6% – which makes depth of poverty ‘quite shallow’ (ibid., 9-10) The 2002-2004 trend is ‘ambiguous’ – if based on consumption poverty it stagnated, if on income (per adult-equivalent) it declined (11.2%/11.1% vs. 13.0%/10.4%) (ibid. 11). The World Bank study confirms close relation of poverty and activity/employment status – ‘the poor in Croatia get more than half of their income from transfers and relatively little from productive activities...households headed by a “retired”, “unemployed”, or “other inactive” person show the highest rates of poverty incidence, and represent 62% of the total poor’ (World Bank 2007, ix and 23)

Poverty indicators (based on relative poverty risk line as 60% of median, thus more pointing to income distribution inequality than directly to poverty) published by CBS (see Table 3.2.8 below) for the 2001-2006

<sup>34</sup> The most recent Gfk market research centre representative households’ survey on subjective perceptions on covering households expenses with disposable income shows that some 72% households need greater income to cover basic family needs; 7% have more than needed (6% in 2006); and 13% have just as needed ([www.gfk.hr](http://www.gfk.hr) on February 4, 2008)

period show that *for employed: rate of poverty risk is much smaller from the total* (in 2006 19.3% without and 16.3% with incomes in kind<sup>35</sup>); *from other groups' rates; and has been decreasing* from 5.6% in 2003 to 4.3% in 2005 and 4.2% in 2006. It also decreased for self-employed (from 20.1%/38.0% in 2001 to 18.5%/25.1% in 2006), but *remained high for unemployed* (34.1% in 2003, 37.3% in 2005 and 34.3% in 2006), and *for pensioners* (22.4% in 2003, 22.5% in 2005 and 25.4% in 2006). (CBS 2006) Importantly, however, both *social transfers and pensions* (to be dealt with in Ch. 4 below) significantly (more pensions than transfers) contribute to poverty risk reduction: without them poverty risk would be as high as 41.8% in 2006, and without social transfers (but pensions included) – 24.1%.

Being *permanently employed* enables one to base family expenses on permanent stream of income, including taking loans and other means of delayed payment as some of my low paid interviewees stressed too.<sup>36</sup> *Data on high unemployed poverty risk* is consistent with data on low *unemployment benefits' coverage*: 'since the duration of unemployment is larger than the duration of benefit, so that most unemployed lose their benefit and remain unemployed' (Crnković-Pozaić 2005) In addition, benefits account for only about ¼ of the average wage, they don't suffice to cover one's basic needs.<sup>37</sup> In spite of increase in coverage - from 20.6% in 2003 to 22.6% in 2007 (CES data, more in section 4.3) - pressures to engage in informal work are still strong. UNDP 2006 EQLS shows that share of persons (of 18-64 age) living in households *without employed persons* is comparatively high – 21% (vs. 17% – EU-10; 19% – EU-15; EU-25 – 18%); however very strong are regional differences (from 12% to 33%) and in four counties it is even 30% or more (up to 33% in Vukovarsko-srijemska county).

**Table 3.2.8: Poverty indicators 2001-2006**

	2001	2002	2003	2004	2005	2006
	With n.i.* /without	With n.i. /without	With n.i. /without	With n.i. /without	With n.i. /without	With n.i.* /without
Rate of poverty risk, %**	17.2 / 20.5	18.2 / 21.9	16.9 / 18.9	16.7 / 18.8	17.5 / 19.9	16.3 / 19.3
men	15.4 / 19.1	17.7 / 21.6	15.8 / 17.7	15.1 / 17.0	15.9 / 18.1	15.1 / 18.1
women	18.7 / 21.8	18.6 / 22.2	17.9 / 20.1	18.1 / 20.5	18.9 / 21.5	17.4 / 20.4
Employed	5.2 / 5.5	5.8 / 6.5	5.2 / 5.6	4.4 / 4.6	3.9 / 4.3	2.8 / 4.2
Self-employed	20.1 / 38.0	19.0 / 37.6	18.4 / 25.5	22.6 / 28.2	19.7 / 25.4	18.5 / 25.1
Unemployed	32.2 / 32.6	35.0 / 38.1	32.4 / 34.1	32.0 / 33.2	33.4 / 37.3	31.2 / 33.4
Pensioners	21.3 / 19.8	23.2 / 24.0	20.7 / 22.4	20.5 / 23.5	19.3 / 22.5	22.7 / 25.4
Relative risk of poverty gap, %***	22.7 / 32.7	23.2 / 28.7	21.1 / 24.2	22.4 / 25.7	22.9 / 24.8	22.5 / 26.4
70% threshold	24.1 / 27.5	26.0 / 29.7	24.6 / 25.7	24.3 / 26.1	25.5 / 27.4	24.2 / 27.2
<i>Before social transfers poverty risk</i>						
<i>Transfers**** excluded, pensions included</i>				24.0 / 25.9	25.8 / 27.9	24.1 / 27.2
Pensions and transfers excluded from income				41.4 / 43.3	43.2 / 44.3	41.8 / 44.4

Source: CBS, 2006, 'Pokazatelji siromaštva od 2001-2003 and 2004-2006 (Poverty indicators 2001-2003 and 2004-2006 – based on annual household budget surveys)'; Notes: \*n.i. = natural income; \*\*percentage of persons whose equivalent net income is below risk of poverty threshold /i.e..60% of median equivalent households income); \*\*\*difference of poverty threshold income and median equivalent income of those below the threshold; \*\*\*\* Transfers include, among other, unemployment benefits, child allowances, maternity leaves, sickness leaves above 42 days, social support, invalidity pensions, housing allowances

It is interesting to note that while females poverty risk has been higher in total through the 2001-2006 period (see above), for employed women it is lower than for employed men but much higher for economically inactive women than men, and it is about the same for pensioners of both genders. In the light of lower participation rate of women, policies leading to its increase seem to be important anti-poverty tool.

Regional dimension is important too. Nestić and Vecchi show that regional variations in poverty are substantial too – 'the risk of poverty in rural areas is almost three times higher than in urban areas'. Geography is shown to be 'one of the key factors driving poverty in Croatia' - 'differences in education, labour market and

<sup>35</sup> Many are close to 60% threshold; in 2005 8% were between 70 and 60% thresholds.

<sup>36</sup> Living standards improvements are very much due to strong increase in households' indebtedness, comparatively among the highest level in CEE.

<sup>37</sup> Of course, unemployed persons are entitled to apply for welfare: '...there were about 60 thousands unemployed welfare recipients and 318 thousand unemployed in Dec 2003, a ratio of about 23%.' (Crnković-Pozaić, 2005, 42)

other demographic factors cannot account for the observed regional variations' they conclude – pointing to regional development policies as one of key issues for the future. (Nestić and Vecchi 2007, 65)

### 3.2.6.3 The minimum wage debate

A *minimum wage* for full time work is not prescribed by the law but it is determined by collective agreement as the lowest wage (according to a Collective agreement on the lowest wage – *Official Gazette* 37/98 signed in 1998 between the government, one employers association (of crafts and small entrepreneurs) and the two unions federations) which 'amount cannot be lower than the lowest basis for calculation and payment of pension and disability insurance. Each year the Ministry of Finance issues an order on the amounts of the basis for calculation of obligatory insurance contributions, by which it determines the minimum pay.' (Miskulin 2007, 70) It is determined as average wage (Jan-Aug) multiplied by 0.35, and corrected each year.<sup>38</sup> Legitimacy of this CA is undermined by the fact that it has never been signed by other unions (four representative federations) and by CEA – the most important employers association.

On the sectoral level, however, collective agreements stipulate the lowest basic wage for jobs of the lowest complexity (which is then multiplied by established coefficients for jobs of higher complexity – on which other determinants are then applied, i.e. tenure, working conditions). In the number of sectors this lowest base wage is determined below the above one, which often confuses relationships between jobs of different complexity (e.g. in retail three classes are defined below the national lowest wage thus all are receiving the same lowest wage) (Nacrt 2007) On the other hand, by the relevant ministers decisions in seven sectors (including retail, construction, hospitality, lumber and paper, crafts...) these CAs were extended to the whole sector.

The national lowest wage share in the average wage in the 1998-2006 period (except in 2000 when it was 34.9%) has oscillated between 32.9% (1999) and 33.6% (2001, 2004) - in 2006 it was 32.7% (SSSH&HSU, 2007; Nacrt 2007)), i.e. it is comparatively on the very low European end, and it is certainly below the high poverty risk threshold (with 2169 HRK in 2006 it is considerably below 60% of the average wage which in March 2006 was 2761 HRK; In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR). For workers receiving such a wage, old-age poverty risks are strongly associated with low contributions towards future pensions (Nacrt 2007)

In addition, minimum wage instrument is not perfect 'floor' for paid wages – there are workers registered on lower pay than this one (17991 in June 2006, i.e. 1.5% of the total; on minimum wage 21.878. i.e. 1.9%, REGOS data). ([www.regos.hr](http://www.regos.hr))

Recently, minimum wage has become an area of contestation between unions and employers, but between unions too. After failing to achieve consensus on its proposal with other unions and being criticised by them (*Vjesnik* 10.1.2007), the largest union (SSSH/UATEC), supported by some political parties, prepared, jointly with HSU, a proposal on the minimum wage law. By HSU-Croatian party of pensioners it was then introduced to the parliamentary proceedings. Remaining five unions federations prepared their own Draft of the law (Nacrt 2007), not yet submitted to the Parliament. Both proposals aim to achieve 50% of the average wage as a target, but with different dynamics: SSSH/HSU proposal is a two-steps one: from January 2008 minimum wage for simplest jobs should be 2700 HRK (gross) and from January 2009 50% of the previous year (Jan-Aug) average wage. Five unions draft has three: minimum wage for all jobs in 2008 should be 2815 HRK, i.e. 41% of 2007 (Jan-April) average wage. In 2009 – 44%, in 2010 – 47%, and in 2011 - 50% target should be reached. While the first proposal also stipulates coefficients for jobs of higher complexity in accordance with workers educational attainment, thus introducing the scale of minimum wages, in the second one – it is left to collective agreements, thus introducing greater flexibility above the absolute minimum wage floor. Most recently, media reported that all unions, faced with a threat that the government might impose its own solution, have reached compromise on the minimum wage law they are going to argue for.

Employers, i.e. CEA, strongly oppose that law, claiming that many among their members would be drastically hit. CEA's survey of 104 industrial firms (Šarlija and Kovačević 2007) points to high short-term and long-term costs of accepting the law proposal – in terms of induced bankruptcies (each seventh firm might face it), in terms of total or partial emigration to other countries (each sixth firm would consider it) and almost one half would reduce workforce. Some 80% of surveyed managers think that this would lead to decrease in firms' competitiveness, disinvestment in new technologies and reduction in new employment. Particularly strongly hit

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<sup>38</sup> For 2007 it was 2298.00 HRK.

with the law would be firms from metal, textile, food-processing and lumber/furniture industries. Instead, on national level, CEA prefers tripartite negotiations leading to *social pact* through which national policy of wages and employment would be defined (they claim to be inspired by the Irish model). On the sectoral level, system of collective bargaining leading to collective agreements on minimum wage is strongly preferred - it, employers argue, would be degraded by administrative determination of wages (according to SSSH periodical *Sindikalna akcija*, 369/2007 and CEA web page) In addition, employers argue, minimum wage as is presently determined is already in accordance with ILO conventions (e-mail communication from the CEA expert).

For the government, in the wake of elections, lack of unions' unity, produced quite a comfortable positions – allowing it to wait (without committing itself but being 'sympathetic' to the initiative) for unions to settle their differences – unlikely before elections and the new government taking over. CEA also complains of the lack of unity on the unions' scene. While this certainly indicates major difficulties on the union scene, it also makes negotiations more difficult only. It seems that a search for a compromise solution might be focused on sectoral approach – union leaders recognise the problem for some industries but they argue in favour of tax deduction for them (through some period of transition) (Ana Knežević, SSSH president in *Sindikalna akcija*, 369/2007). However, the government's political considerations might finally prevail – there are signs that, if unions and employers don't reach a compromise, the government itself will send to the Parliament own proposal on the minimum wage law. (www.business.hr, on 4.2.2008).

### 3.3 WORKING CONDITIONS: WORKING TIME AND ORGANISATION OF WORK

Working conditions, for most people, have changed and certainly diversified. Privatisation and the entry of new firms brought a multiplicity of business strategies and organisational behaviours, and different responses to competitive pressures. Workers have been exposed to different governance models and practices, job situations and work experiences. However, these processes have been constrained by the state regulations, including the harmonisation effects of the EU association process. The legal framework (based on the 2004 Labour law) is consolidating this diversity by lowering the requirements and constraints on small firms where an increasing proportion of workers are employed, with no or a very low trade union presence. Workers' individual experiences differ greatly: in my interviews many experienced work in very different environments, including unofficial employment situations. (Franicevic 2007 a and b)

Data on working conditions in Croatia is to a significant extent lacking. Only recently, Croatia was included in surveys run by European Foundation for the Improvement of Living and Working Conditions. Results from 2005 4<sup>th</sup> EWCS are highly indicative for comparative purposes regarding working conditions in Europe, but, due to sampling, they are not providing enough information for 'in depth' study of working conditions (for Croatia n=1011, with response rate of 0.45 and refusal rate of 0.29 – pp. 94-98). (EWCS 2007) In addition, in 2006, UNDP Croatia made a research on larger sample (n=8534) which provides rich information on important *regional differences* concerning numerous aspects of quality of life thus providing rationale for focusing policy priorities on regional policies. (Hromatko 2006 and UNDP 2007) Unfortunately, some fields of research – for example, sociology and organisation of work – have almost disappeared. The trade unions are not producing systematic data and analyses on what is going on in the workplace. Still, some data is available due to regular follow ups by the relevant public institutions and/or bodies (ministries, public health authorities, CBS).

#### 3.3.1 Working Time: Longer Hours Are Common

*The Labour Law* determines working hours at 40 hours per week (up to 2001 it was 42), and allows for overtime of no more than 10 hours a week; the Law also allows for 'reorganisation of working time', a device used quite extensively in many firms (for example, retail and tourism), but misused too, as the labour inspectorate and the trade unions report. In the 1996–2002 period, *reported* (by firms) *working hours of employees at enterprises* were remarkably stable: about 2100 hours per person annually. Out of the 2100 about 1720 hours were actually worked, and 275 were not worked but paid. On the other hand, *overtime working hours* were very stable in 1996–1999 (at 23 hours), but after falling to 21 hours in 2000 they rose again to 24 hours in 2001 and 28 hours in 2002. In the 2004–2005 period total number of hours per person was 2096/2080; hours actually worked – 1727/ 1712; 269/262 not actually worked but paid in the firm; overtime hours remained at 29/29 (CBS data).

However, the Labour Force Surveys 1998–2006 data show a *decrease in average usual working hours for most categories*: (i) for all *employed*, from more than 41.5 in 1998/99 to 40.4 hours in 2005; (ii) for full-time employed, from 44.3/43.8 in 1998/99 to 42.4 hours in 2005 (2nd half); (iii) for *full-time employees*, from 42.6/42.2 in 1998/99 to 41.3 hours in 2005; (iv) for *full-time self-employed*, from 51.5/51.2 in 1998/99 to

46.5/46.2 hours in 2005 (1st/2nd half); (v) for *both men and women* in full-time employment and self-employment; while (vi) only for *the part-time employed* there has been a slight increase: from between 21 and 22 hours to more than 22 hours in last three halves (CBS LFS; more detail in Table 3.3.1 below). These trends reflect the legal reduction of the working week from 42 to 40 hours (very little change for full-time employees since 2001), but also decreased average hours for the self-employed. Despite that, the *self-employed are still working much longer hours* than employees.

Fourth EWCS gives average *working hours* at 43.1 (slightly above NMS average – 42.8), and 17.0% working *long hours*, i.e. 48 hours a week or more (less than NMS – 20.3% but more than EU-15 – 15.1%). Recent Quality of Life Survey (UNDP 2007; and database provided by Target – EQLS questionnaire was used) offers additional view on working time distribution. Out of 6791 surveyed in Spring 2006 (3510 currently employed and 3281 formerly employed) 6442 gave an answer on their *usual working time* at main job: long hours (i.e. 48+) were reported by 33.6% (39.2% males / 27.5 % females; 35-47 hours – 61.2% (56.9% / 65.8%); 21-34hours – 1.8% (1.1% / 2.6%); 20 hours or less – 3.4% (2.7% / 4.1%). Out of those currently employed, in last four weeks 7.2% had additional paid job (8.5% / 5.3%); with 66.6% less than 10 hours per week (60.9% / 78.6%); 19% between 11 and 20 hours (21.1% / 16.6%), and 14.4% - 21+ (18.1% / 6.8%). If both main and additional job are taken into account *long hours, that is 48 hours weekly or more*, were experienced by 38.0% of males and 27% of females, with total – 35.2%. While this is similar to NMS-10 averages – 42%/25%; it is much higher than the EU-15 averages are, particularly for females – 29%/12% (data given in 2003 European QLS). Not surprisingly, among employed – 27% report ‘several times a week’ difficulties in balancing work and family life – 27% - for being too tired; 17% - due to time spent at their job. (UNDP 2007, 72-73)

LFS data, however, give lower proportion of those *usually working long hours* at the main job, with clearly decreasing trend over the 2000-2006 period, which well corresponds to data on average working hours. It seems that majority of those on long-hours is among self-employed. LFS 2006 data show that among those working 48+, 44% belong to self-employed, helping family members and those on non-standard employment statuses; 56% are employees in either private or state sector. Table 3.3.3 below clearly shows that long-hours are most often found among those self-employed: they work longer on average, and in most categories (including informal one) more or around 20% of them is working long hours; on the other hand employees in the state and private sectors work on average shorter time and among them around 3.5% are working long hours in the state sector employment and 12% in the private sector employment. However, due to their higher share in overall employment, private sector employees make 43.3% of those working 48+. But there is no doubt that self-employed share in overall long-hours work is much above their share in employment – 41.8%, while those working as unpaid workers, or sporadically – on contracts, or paid in cash or in kind make further 5.8%; those working in the state sector make 8.9% , much below their share in employment.

**Concerning gender differences**, both males and females tend to work 40-42 hours (more than ¾); however males’ share in long hours group is higher than females’ one (but with decreasing share in the 2000-2006 period from 20.1%/9.8% in 2000 to 14.2%/6.7% in 2006!), while females’ share in shorter-hours’ groups is higher than males’ (see Tables 3.3.2 and 3.3.3 below). Academic research carried out in 2002 also shows that ‘*long hours are a common experience*’. Focusing on an intermediate and higher educated urban population sample it found that the mean number of self-reported working hours per week was 45.5 (75% work in excess of 40, 22% more than 50, and about 6% more than 60 hours per week). The authors find that ‘hours spent on the job are particularly high for people holding high-level jobs and those running their own businesses’ (Šverko et al. 2002, 293 and 298) - it was also supported in my interviews. (Franicevic 2007a) How long hours affect work and life balance will be discussed latter in Section 3.5.3.

**Table 3.3.2: Usual working time at the main job, 2000-2006, %**

Working hours	2000			2002			2004			2006		
	all	m	f	all	m	f	all	m	f	all	m	f
0-9	0,5	0,4	0,6	0,4	0,1	0,6	0,3	0,2	0,4	0,5	0,4	0,7
10-19	2,4	1,8	3,2	2,1	1,5	2,7	1,9	1,4	2,4	1,8	1,1	2,7
20-29	3,9	2,9	5,2	4,0	3,2	4,9	3,4	2,1	5,1	5,4	4,0	7,1
30-39	2,7	2,2	3,4	4,3	3,6	5,2	4,7	3,8	5,9	3,9	3,5	4,3
40-42	74,2	71,9	77,0	75,8	74,4	77,4	75,8	75,1	76,6	76,7	75,8	77,8
43-47	0,8	0,7	0,8	0,7	0,7	0,7	1,0	1,0	1,0	0,9	1,0	0,7
48+	15,6	20,1	9,8	12,8	16,3	8,5	12,9	16,4	8,5	10,8	14,2	6,7

Source: CBS LFS, 2d half (calculation made by Ms. Sanja Mudrić); \*for 2005 48+ - 12.2% (see Table 3.3.3 below)

**Table 3.3.3: Working time at main job by status in employment – usual and real (last week) in 2005**

Hours	0-9		10-19		20-29		30-39		40-42		43-47		48+		Average usual And share in 48+	
	Usual	Last week	Usual	Last week	Usual	Last week	Usual	Last week	Usual	Last week	Usual	Last week	Usual	Last week	Average usual	Share in 48+
1 - Work/entrepreneur in own enterprise	0,0%	5,8%	0,3%	0,3%	0,6%	0,6%	2,2%	2,0%	66,7%	63,6%	2,2%	2,9%	28,0%	24,8%	44,4	5,0%
2 - Work/entrepreneur in own craft	0,1%	5,4%	1,3%	1,6%	1,0%	1,9%	2,1%	3,1%	66,0%	60,1%	1,7%	1,6%	27,9%	26,4%	44,3	12,1%
3 - Farmer on own farm	0,2%	2,9%	6,8%	14,1%	20,1%	21,9%	20,4%	20,5%	26,6%	22,5%	2,1%	1,1%	23,8%	17,0%	37,3	24,2%
4 - Work/entrepreneur in free-lance activity	0,0%	6,2%	3,4%	3,4%	8,6%	6,0%	23,9%	22,2%	46,8%	45,0%	0,0%	0,0%	17,2%	17,2%	37,9	0,5%
5 - Employee in the state firm, institution, organisation	0,1%	7,3%	0,2%	0,2%	0,9%	1,0%	1,6%	1,7%	93,3%	85,7%	0,3%	0,4%	3,5%	3,7%	40,4	8,9%
6 - Employee in the private sector	0,1%	7,1%	0,3%	0,4%	0,9%	1,0%	1,0%	1,1%	84,6%	77,3%	1,0%	1,0%	12,1%	12,0%	41,9	43,3%
7 - Employee in a firm in the process of privatisation	0,0%	9,2%	0,0%	0,0%	0,0%	0,0%	4,6%	4,4%	86,8%	78,8%	2,2%	2,2%	6,4%	5,4%	41,3	0,4%
8 - Unpaid family worker on a farm, family business or craft	2,8%	3,4%	17,8%	29,2%	32,3%	31,3%	25,4%	21,8%	13,0%	8,0%	0,3%	0,0%	8,5%	6,4%	27,2	1,7%
9 - Work on authorial contract	14,0%	27,0%	0,0%	0,0%	12,8%	12,8%	24,5%	11,6%	37,4%	37,4%	0,0%	0,0%	11,3%	11,3%	32,8	0,1%
10 - Work on contract	24,7%	27,4%	11,1%	9,4%	15,3%	12,3%	11,9%	11,0%	21,8%	21,8%	1,5%	1,5%	13,8%	16,5%	26,7	0,5%
11 - Carry out work paid in cash, in kind or as agreed	7,1%	16,7%	13,6%	17,0%	24,5%	17,6%	16,3%	15,3%	15,8%	13,5%	0,0%	0,0%	22,7%	20,0%	31,5	3,3%
<b>Total</b>	<b>0,4%</b>	<b>6,7%</b>	<b>1,8%</b>	<b>3,1%</b>	<b>4,6%</b>	<b>4,7%</b>	<b>4,7%</b>	<b>4,7%</b>	<b>75,4%</b>	<b>68,7%</b>	<b>1,0%</b>	<b>0,9%</b>	<b>12,2%</b>	<b>11,1%</b>	<b>40,4</b>	<b>100,0%</b>
<i>Males</i>	<i>0.3</i>		<i>1.3</i>		<i>3.5</i>		<i>3.5</i>		<i>74.7</i>		<i>1.1</i>		<i>15.6</i>			
<i>Females</i>	<i>0.5</i>		<i>2.5</i>		<i>5.9</i>		<i>6.1</i>		<i>76.2</i>		<i>0.7</i>		<i>8.0</i>			

Source: CBS LFS (calculation made by Vedran Šošić, year averages)

In addition, as 4<sup>th</sup> EWCS show, while 59.0% reported *usually working five days a week* (less than EU-15 – 66.5% but NMS too – 63.6%), share of those *working same number of days each week* is higher – 81.3% than in EU-15 – 75.1% and NMS-10 – 68.9%. That *internal flexibility* is quite low and patterns of work-time organisation still quite stable is seen also from higher share of those *working fixed starting and finishing times* (75.8% vs. 60.8 in EU-15 and 63.6 in NMS-10); and *working same number of hours each week* (70.9% vs. 58.6% EU-15 and 57.9% NMS-10). However, the above shown differences, according to LFS results, between usual and (last week) real working time may point to working time flexibility (for all categories of employed, including full time employees in both the state and private sectors), but also to pressures for over-time work, but also to differences in perceptions between ‘actual’ and ‘usual’ (for all longer working time categories usual is longer than actual, but particularly for those on full-time where differences seem to be the greatest; different is for short/shorter working time classes where actual tends to be longer than usual (very strongly in the shortest categories). This certainly asks for further research.

While *shift work*, according to 4<sup>th</sup> EWCS, is more common in Croatia (33.5%) than in EU-15 (16%) and NMS-10 (23%), comparatively greater is proportion of those employed *without autonomy* over their working time schedule, i.e. *working with less flexible schedules*, are 77.9% vs. 64.1%/71.2% in EU-15/ NMS. (EWCS 2007). Only 6.3% have possibility to choose between several fixed working schedules; 8.9% have possibility to adapt working hours within certain limits; and 6.0% entirely determine their working hours (calculated from 4<sup>th</sup> EWCS data-set). To this I turn again in Section 3.3.4.1.

It seems that for employers *external flexibility* (through reliance on temporary contracts) is the main avenue used for managing workforce flexibility, as is use of overtime and working-time reorganisations (both highly present in cases described in Franicevic 2007 a,b). This may also be a sign of delayed restructuring and relatively high impact of unions in the economy and (largely un-reformed) public sectors. But also it may be a sign of deficits in managerial resources too: Pološki Vokić and Vidović (2007b) in their research on HRM in larger Croatian firms based on 2005 survey of firms employing 200+ report that 27.2% of surveyed firms have *flexible working time arrangements*.

The trade unions often complain that unreported and/or unpaid *overtime* is very common (for example, in retail). However, while competition and business strategies, seasonality (for example, in tourism) or organisational and managerial failures in firms serve to ‘supply’ overtime, there is also ‘demand’ for it on the part of the workers. Managers sometimes rely on overtime as an ‘incentive’ offered to workers (for example, shipyard and construction firm – Franicevic 2007 a, b). Many workers are forced but others are willing, in order to cope or reach their targets, or just to keep their job, to work overtime on a more or less permanent basis, particularly among the self-employed. This also emerged in my interviews in construction firm and shipyard. (Franicevic 2007 a, b) However, more precise data is lacking.

### 3.3.2 Many are exposed to unsocial hours

Many are exposed to *unsocial hours*. As Table 3.3.5 (below) shows:

1. The shares of those *usually working shifts* are comparatively high, but slightly decreasing (from above 20% in 1999–2003 to 18.5/19.1% in 2006 (1st and 2nd half); yet *women's shares* were higher throughout the period (for example, in 2006, 2nd half – 19.2% vs. 18.4% for men).
2. The share of those *usually working nights* is between 2.0% and 2.5% (for men in 2006, 2nd half, it was 2.6% and for women 1.1%). The share of those *usually working evenings* decreased in 2003 to below 6% (5.2% in 2006, 2nd half), but less for women so that women's share became higher than men's (4.8% vs. 4.5% in the 1st and 5.7% vs. 5.6% in the 2nd half of 2005; but it changed in 2006 – 5.0% vs. 5.3%).
3. Many *usually work on Saturdays*: between 25% and 26%, but with a decrease in 2006 – to 24.4%/21.8% in 1<sup>st</sup>/2d half. Women shares are significantly higher – in 2006/2 the figure was 20.5% for men but 23.4% for women.
4. *And many usually work on Sundays*: more than 13% recently, but with considerable decrease in 2006 – to 12%. While since 2000 there has been an increase of Sunday work, particularly for women, reaching a very high 17.5% in the 1st and 17.1% in the 2nd half of 2005 (most likely associated with retail sector reorganisation, that is, the entry of international and the development of domestic chains, the construction of large shopping malls at the edge of towns) this shares decreased in 2006 – to 13.5%.
5. In addition, in 2005, 27.7% men and 20.2% women were *occasionally working Sundays*; 52.9% men and 37.4% women *Saturdays*; 20.6% men and 9.2% women *nights*; and 8.5% men and 5.7 women *shifts* (CBS LFS 2005, 2nd half). In 2006, however, 28.5% men and 21.8% women were *occasionally*

working *Sundays*; 57.1% men and 41.7% women *Saturdays*; 21.2% men and 9.2% women *nights*; and 9.0% men and 5.8 women *shifts*.

It is interesting to note that decrease in Saturdays/Sundays *usual* work in 2006 was accompanied by an increase in shares of those who 'sometimes' work on Saturdays/Sundays. For males, on yearly basis it is a change from 52.3% in 2005 to 54.9% in 2006 (Saturdays), and 27.6% to 28.5% (Sundays). For females it is an increase from 37.0% to 39.6% (Saturdays) and 19.6% to 20.8% (Sundays). Of course, it is premature to jump to any conclusions (it is too short a period; deeper research is lacking), but it seems legitimate to ask (and in 2006 further expansion of shopping malls and retail chains was present) do these data indicate that employers are becoming more responsive to public criticism, and unions' pressures, thus adapting their workforce organisation to less frequent individuals' work on these days? Or: is workers' position in retail sector slowly improving due to LM trends as well, with large employers starting experiencing difficulties in finding willing employees? (*Jutarnji list*, 15. 10. 2007; on [www.sth-hr](http://www.sth-hr)).

*Females' exposure to unsocial hours is high.* Taking into account their typically higher commitments at home with housework and family, maintaining a work-family life balance must be quite daunting for many. It is interesting to note, due to pronounced gender differences in current regulations, that Croatia in its processes of EU integration, should harmonise its gender related working time and maternity protection related legal provisions with the EU ones, in accordance with equal opportunities principles. This particularly concerns legal adjustments in connection with the *removal of overprotection of women* as regards night work, physically heavy work, underground work and work in a hypobaric atmosphere. EC's *Progress Report* also notes that shortcomings with respect to parental leave, maternity benefits and excessive compulsory maternity leave as well as wider difficulties faced by pregnant women and mothers with small children in the field of employment also need to be addressed. Further adaptations appear necessary with respect to different retirement ages for men and women in the police, military and the civil service. (EC 2005a) May 2007 survey on a representative sample (n=1005) shows significant surveyed citizens' opposition to potential changes (due to EU integration). The absolute majority is:

- against introducing right for females to work in difficult conditions (underground, underwater, heavy physical tasks) – 65.6% (17.3% in favour);
- against shortening of maternity (parental) leaves – 66.3% (16.4% in favour);
- in favour of limiting overtime work both for mothers and fathers with children up to 3 years of age – 64.5% (15.3% against);
- against equalising age for retirement – 65.6% (25.3% in favour).

And relative majority is:

- against allowing night work to women (47.4% vs. 32.2% in favour).

On the other hand, general principles of equality of employment opportunities and equality of earnings received great support: 80.4% / 81.1% (4.7%/4.4% against). Concerning gender differences in responses, higher is share of women against night work, difficult conditions and retirement conditions potential changes, while higher is share of men against parental leaves potential changes – yet differences are not dramatic. Typically, weaker is acceptance of changes which diminish existing rights or at greater extent intervene in the stereotyped gender roles, conclude the authors. (Čulig et al. 2007, 122-125 and 205) Interestingly, shares of those expecting that such changes will really come true range between 64.4% and 42.5% (absolute majority concerns provisions on night work, retirement age, equal earnings, and parental/maternity leave). (ibid. 125-126)

**Table 3.3.1: Average usual weekly hours of work in main job for all in employment**

	1998/I	1999/I	2000/I	2000/II	2001/I	2001/II	2002/I	2002/II	2003/I	2003/II	2004/I	2004/II	2005/I	2005/II	2006/I	2006/II
All employed	41.7	41.6	41.3	41.2	41.6	41.2	41.1	40.9	41.1	41.0	40.9	40.8	<b>40.4</b>	40.4	40.1	40.1
Full time employed	44.3	43.8	43.4	43.2	43.4	43.1	42.8	42.8	42.9	42.7	42.7	42.5	<b>42.5</b>	42.4	42.0	42.1
Full-time employees	42.6	42.2	42.1	42.2	42.0	41.8	41.6	41.9	41.8	41.7	41.7	41.7	<b>41.2</b>	41.3	41.2	41.5
<i>males</i>	43.2	42.8	42.7	42.8	42.5	42.4	42.1	42.4	42.4	42.2	42.2	42.2	<b>42.0</b>	41.9	41.8	41.9
<i>females</i>	42.0	41.6	41.4	41.5	41.4	41.0	41.0	41.2	41.1	41.1	41.0	41.1	<b>40.9</b>	41.0	40.9	41.3
Full-time self-employed	51.5	50.2	48.7	49.2	49.2	49.0	48.1	47.4	47.8	47.5	47.3	46.4	<b>46.5</b>	46.2	45.1	45.3
<i>males</i>	52.1	51.2	49.6	50.0	49.1	49.6	48.4	48.0	48.5	48.6	48.0	47.0	<b>47.0</b>	46.6	46.0	46.2
<i>females</i>	50.1	48.2	46.7	46.8	49.4	47.5	47.3	46.1	46.3	45.2	46.0	45.2	<b>45.4</b>	45.6	43.2	43.5
Part time employed	20.1	21.6	21.5	21.7	23.2	21.4	21.5	21.4	21.2	23.2	21.9	22.3	<b>22.2</b>	22.5	21.5	21.9

Source: CBS, Labour Force Surveys Results Croatia – Europe, various years

**Table 3.3.4: Unsocial Hours – Share of Total Employment, 1998–2005, Croatia**

	1998/I	1999/I	2000/I	2000/II	2001/I	2001/II	2002/I	2002/II	2003/I	2003/II	2004/I	2004/II	2005/I	2005/II	2006/I	2006/II
<b>Shifts</b>	–	<b>20.7</b>	<b>20.1</b>	<b>22.1</b>	<b>21.4</b>	<b>22.1</b>	<b>20.9</b>	<b>20.9</b>	<b>20.3</b>	<b>19.8</b>	<b>19.9</b>	<b>19.5</b>	<b>19.1</b>	<b>18.8</b>	<b>18.5</b>	<b>19.1</b>
<i>Males</i>	–	18.6	19.2	21.3	20.1	19.4	19.1	19.8	18.2	17.7	19.2	17.8	18.1	17.7	17.7	18.4
<i>Females</i>	–	23.2	21.1	23.1	23.1	25.3	23.3	22.3	22.9	22.4	20.7	21.3	20.3	20.2	19.5	19.8
<b>Evenings</b>	–	<b>6.2</b>	<b>5.7</b>	<b>5.0</b>	<b>6.0</b>	<b>5.8</b>	<b>5.5</b>	<b>5.3</b>	<b>5.6</b>	<b>4.7</b>	<b>5.4</b>	<b>5.1</b>	<b>4.6</b>	<b>5.7</b>	<b>5.0</b>	<b>5.2</b>
<i>Males</i>	–	6.5	6.7	5.7	6.9	6.3	6.0	6.0	5.8	4.9	5.7	5.0	4.5	5.6	5.1	5.3
<i>Females</i>	–	5.8	4.6	4.2	4.9	5.3	4.7	4.6	5.3	4.5	5.1	5.1	4.8	5.7	4.9	5.0
<b>Nights</b>	–	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>2.5</b>	<b>2.3</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>	<b>2.0</b>	<b>2.4</b>	<b>2.1</b>	<b>1.7</b>	<b>2.2</b>	<b>1.9</b>	<b>1.9</b>
<i>Males</i>	–	3.1	3.3	(3.0)	3.4	3.4	3.4	3.5	3.0	2.7	3.3	2.7	(2.1)	2.8	2.7	2.6
<i>Females</i>	–	(1.5)	((1.0))	((1.1))	((1.3))	((0.9))	(1.3)	((1.0))	((1.2))	((1.0))	((1.3))	((1.5))	(1.1)	(1.3)	1.2	1.1
<b>Saturdays</b>	<b>26.7</b>	<b>24.5</b>	<b>23.5</b>	<b>21.1</b>	<b>24.8</b>	<b>25.6</b>	<b>23.9</b>	<b>24.9</b>	<b>26.1</b>	<b>26.1</b>	<b>26.5</b>	<b>25.2</b>	<b>26.0</b>	<b>25.9</b>	<b>24.4</b>	<b>21.8</b>
<i>Males</i>	25.5	23.2	23.2	21.0	24.2	24.5	23.5	24.3	24.1	24.8	25.1	23.2	24.0	23.9	22.6	20.5
<i>Females</i>	28.1	25.7	23.9	21.3	25.5	26.7	24.3	25.6	28.4	27.6	28.1	27.6	28.4	28.4	26.6	23.4
<b>Sundays</b>	<b>12.5</b>	<b>11.8</b>	<b>11.0</b>	<b>10.1</b>	<b>12.5</b>	<b>11.8</b>	<b>12.0</b>	<b>13.2</b>	<b>14.2</b>	<b>14.5</b>	<b>13.3</b>	<b>13.1</b>	<b>14.5</b>	<b>14.2</b>	<b>12.0</b>	<b>12.1</b>
<i>Males</i>	12.2	11.1	10.5	9.8	15.3	11.8	11.3	12.8	12.7	13.0	12.2	11.5	12.0	12.0	10.8	10.9
<i>Females</i>	13.2	12.7	11.8	10.5	13.0	11.9	12.9	14.0	16.2	16.3	14.8	15.1	17.5	17.1	13.4	13.5

Source: CBS, For 1998-2005: 'Labour Force Surveys Results Croatia – Europe', various years; for 2006 CBS LFS; Note: Shares apply to those who 'usually work...'

### 3.3.2.1 Working Sunday or who is to control the language of social

With the retail-chains and shopping-malls explosion, involving growing consumerism, *working Sundays has become a major labour issue*. The Union of Commerce of Croatia argued that, of about 65000 salespersons, some 40000 work every or almost every Sunday – many without their rights to compensation and/or free days being respected. The preferred trade union solution is a radical restriction of Sunday work, and ‘capitalism with a human face’ (SSSH, mimeo, 2005). In this respect, it is receiving the full support of the Catholic Church which organised a campaign on the basis of a ‘culture of free Sundays’ and arguments centred on dignity and ‘family protection’ (Prenda et al 2004, Baloban and Črpić 2005). In this connection no compromise is acceptable to the church, as restated by Cardinal Bozanić (*Jutarnji list*, 10.9.2006).

The first attempt by the trade unions and a group of (conservative) political parties was successful: by January 2004 all shops, after amendments to the Law on Commerce, were forbidden to open on Sundays, except some small ones. However, six months later Croats were able to return to their favourite Sunday pastime when the Law was successfully contested at the Constitutional Court by (i.) one local community – the site of some major retailers – which claimed a loss of tax revenues; (ii.) a group of big retail chains – claiming denial of their constitutional right to fair competition; and (iii.) two citizens claiming discriminatory treatment of citizens/employees of other religions. However, the Court’s decision opened the way for legitimate contestation of working Sundays, thus opening up a new round of action and debates.

That actors in this debate are fully aware that what is at stake is not only, or even primarily, working Sunday but rather who is going to dominate the discourse of social has been clearly shown by somewhat surprising (in 2004 unions supported non-working Sunday) move by leaders of four union federations (including SSSH, of which the Union of Commerce is the member). The arguments (according to online HINA report on 23.11.2005.) for this opposition to the Catholic Church and Union of Commerce demand are instructive: (1.) instead of forbidding Sunday work, the provisions of the Labour law should be fully enforced, concerning additional payment and free day a week, the government should use its monitoring and enforcement instruments strictly; (2.) it is counterproductive to forbid working Sundays in a country with high unemployment when there are certainly those who would be happy to work Sundays and holidays; (3.) it brings discrimination between workers in commerce and other industries and services; (4.) work on Sundays is not a matter for the Catholic Church, but for social partners; instrumentalisation of the government and unions by the church should be resisted (Boris Kunst, one of unions' leaders).([www.hina.hr](http://www.hina.hr) and *Večernji list*, 24.11.05). However, some unions (from the strongest federation – SSSH; and HUS) were strongly against. The conflict resulted with a resignation of the president of the strongest federation (SSSH), after being heavily criticised from some member unions (on January 18, 2006.), and latter-on with the election of the president of the Union of Commerce for the SSSH president.

Last argument, concerning separation of the state from the church (constitutional principle) has been voiced in a number of comments in (particularly – liberal) press (e.g. 'In modern states churches don't intervene in governance, neither government intervene in religion', *Jutarnji list*, 22. 11. 2005). Writes Davor Butković, influential pro-liberal journalist: ‘there is no government that should forbid work on Sundays: it is about breaking elementary liberal principles, about exceptionally visible incest between state and Church, about symbolic return to communism’ (*Jutarnji list*, 16.11.2005.). Of course, the political right is not impressed, indeed it is persisting. Not surprisingly, employers are mostly opposed, claiming: loss of jobs, loss of profits and trade diversion. (*Večernji list*, 26. 11. 2005) In addition, the Association of employers in commerce is asking for an ‘equal treatment’( [www.biznis.hr](http://www.biznis.hr), 2.11.2005.). While public polls show the citizens to be divided (e.g. a December 2005 online poll by Moj Posao showed 44% against and 43% in favour of shops opening on Sundays).

The anti-Sunday rhetoric was again present in 2007 too election campaign. In negotiations leading to the new coalition government a new compromise solution for retail sector aiming at satisfying the Catholic Church at least formally (in principle – Sunday is not working day) but not closing fully such an option - e.g. through collective agreements signed with unions – was announced in Coalition agreement (January 8, 2008). However, most recently media report on a compromise, yet more restrictive, solution (as advocated by CDU even before) to be sent to the Parliament – with exceptions being summer (tourist season) and December (five months altogether); an exemption could be small shops (*Jutarnji list*, 5.2.2008.) The solution may be of paradigmatic importance for labour and employment policy, but for future ‘discourse of rights’ in Croatia too. Also, it is very likely to be contested on the constitutional grounds again: firstly, for differentiating between entrepreneurs according their size/ownership (family shops vs. retail chains); secondly, for being restricted to retail industry only and thus not equitably treating all Sunday work (e.g. in hospitality; some suggests that more general law on Sunday work should be enacted); also un-principled solution with five months – yes, and seven months – no,

might be contested. Besides potential difficulties in reaching a compromise with social partners, more important might be effects on the retail-sectors' work-force (in terms of contracting and working-time reorganisation due to introduced seasonality; some also fear major reductions).

### 3.3.3 Child labour, forced labour

In general, child and/or forced labour are not perceived as socially widespread problems asking for strong policy intervention. On one hand, the socialist period was characterised with very high protection of children, including almost total coverage with primary schooling, quite developed child care systems and children-oriented health services. In spite of huge problems brought about by transition, basically this didn't change too much. Moreover, growing interest for children, including their rights, inspired both by increased sensitivity to unfavourable demographic trends and by democratisation leading to outgrowth of children-related NGOs, but by demands of EU accession too – all this has contributed to important institutional developments, including new laws (Family Law in particular) and institutions (parliamentary committees dealing with human rights, with gender equality and with family and young; the Government's office for human rights and for gender equality; Ministry of family, war defenders and intergenerational solidarity (MFDIG); and Ombudsman for children rights are in the centre of numerous activities concerned with children; in this they are complemented by a number of NGOs). The government's March 2006 *National action plan for children rights and interests from 2006-2012* is one among many strategic documents concerned with children protection and welfare.

With all this normative and institutional changes, increased has sensitivity to different sorts of children abuse, particularly the sexual one. Important in that has been the role of media too. On the other hand, children work *per se* hasn't become an important part of public agenda and discourses.

The most important reason for this is that, besides free but compulsory primary school education (most children complete it by age 15), *most remain in school until aged 18* (in 2002/2003, 2003/2004 and 2004/2005 95.0%/95.5%/96.2% of those aged 7-14 were enrolled in primary schools; and 83.3%/84.5%/84.8% of those aged 15-18 were enrolled in secondary schools – UNDP 2006). On the other hand, the Labour law prohibits employment but not paid engagement of those younger than 15 but only under special conditions (e.g. in case of artistic or entertainment events) and with the labour inspection's permission. Those aged 15-18 may work with written permission from their parents or other legal guardian only. In addition, the law prohibits work under dangerous conditions, night and/or overtime work etc. As Miskulin concludes 'Council Directive 94/33/EC of June 22, 1994, on the protection of young people at work has been implemented in the Labour Law'. (Miskulin 2007, 67) Children rights and welfare is also protected through provisions of the Family law, and Croatia has ratified a number of relevant international conventions.

While statistics on the number of working children does not exist, and such practices don't seem to be alarmingly widespread, some reasons for concern still exist.

*Firstly*, in connection with particular groups in society characterised by low share of children in primary education and high share of early drop-outs, but extensive use of their labour – not only illegal because of their age but also because of activity (forced begging, prostitution, pick-pocketing etc.). This particularly concerns Roma ethnic group. This is precisely why increasing Roma's children enrolment rates and decreasing high drop-outs rates, and increasing capacities to absorb the school programme successfully through pre-school activities is one of the central challenges and goals (as expressed through National Programme for Roma adopted in 2003). And this is certainly one of the main avenues to fight this group's deep social exclusion.

*Secondly*, human trafficking in South East Europe (with cessation of wars) has become a worrisome problem. It involves children too, exposed to most serious abuses and forced labour. While Croatia is primarily a transit country, reports show that it is also a country of origin and/or destination country – involving forced prostitution, including the children one. (World Learning 2006)

*Thirdly*, media report instances of abuses of children (mostly above 15) work during their compulsory practice at firms as a part of their vocational education. In current school year (2007/2008) it is 42262 students in vocational schools attending practical education, out of which 29211 in crafts occupations (data from MSES). Labour inspectors from the State inspectorate confirm such practices and report to MSES on discovered cases. Importantly, it seems that in some cases one can talk about 'arrangements' between school managers and firms in question. However, data on such practices is not available.

On the positive side, starting from 2005, the State Inspectorate (labour and safety inspection branches) has started to give more attention in monitoring and discovering cases of children work. In the SI report to MFDIG, and in connection with the UN's 2002 'A World Fit for Children Action Plan', it was stated that tragic death of children in Međimurje (august 2005) prompted labour inspection to start looking more closely and systematically into issues. In previous irregular reports found were:

- Between 1.1.2002. and 30.4.2003 found were 117 misdemeanours (involving 99 minors) related to specific regulations concerning minors' work (8 were employed below 15, 22 without written permission from their legal guardian, 27 were found to work overtime illegally, and 59 were working by night). In the same period 5 were found to work in conditions against legal provisions on safety.
- In 2004, 67 misdemeanours involving 52 minors were discovered (11 below 15 were engaged in movies and similar productions without labour inspector's permission; 14 without written permission from their legal guardian; 12 were working overtime and 29 by night). Concerning safety regulations, in six monitorings, when accidents involving six minor students were reported, reports to the courts were sent.
- In 2005, with closer monitoring after August event in Međimurje, 271 misdemeanours were discovered, involving 188 minors (e.g. 24 below 15 were engaged in artistic or entertainment production without inspection's permission, 59 were working without permission of their legal guardians; 67 were working overtime and 107 by night). From August on, 42 cases of employers not issuing written document on the contract, 37 cases of not registering with health and social insurance were discovered. Also, 3 breaches of safety rules were discovered.
- Finally, in 2006 - 130 misdemeanours were discovered concerning wide spectrum of breaching labour regulations on employment and working conditions. Among 1071 heavily injured at work 4 were minors/students at practical education; and two were reported with smaller injuries.

Minors are typically reported as working in tourism, hospitality, retail, crafts, services, agriculture, manufacturing but TV/radio too. According to data on received requests by legal guardians to receive labour inspector's permission for minor's engagement in artistic and/or entertainment production – it seems that greater focus on minors' work is bringing some results – increasing parents' and employers' awareness: while in 2002-March 2003 and in 2004 no request for such permission was received by inspectors, in 2005 - 30 requests were received (19 were affirmed), and in 2006 - 225 (217 were affirmed). However, taking into account that less than 3% of registered employers is controlled (in one year) by inspectors, offences related to children work (both through employment contract and through compulsory practical education) are certainly not negligible. *In addition*, very little is known about minors' work on family farms and/or businesses, including the informal ones. Unfortunately LFS age class 15-24 is too wide to give any indication, and there is no research on the extent and/or nature of such a work. There is also lack of information on children forced abusively to participate in different contests (beauty, modelling etc.) or in sport-training with a parents' view of future high professional earnings (which in some sports come quite early).

Concerning *trafficking*, according to the Ministry of Interiors (MI) data, reported were (by the police) two cases of (discovered) trafficking and/or slavery in 1998, three in 2000, two in 2001, one in 2002, two in 2003 but five in 2004, as well as in 2005 and in 2006. In 2004-2006 related to children were: one case in 2004, two cases in 2005, and three cases in 2006. Involved number of persons is of course greater:

- (1.) according to MI data (on [www.mup.hr/31.aspx](http://www.mup.hr/31.aspx)) there were 8 victims in 2002; 8 in 2003; 19 in 2004; 6 in 2005; and 13 in 2006. But this numbers might be greater. Namely,
- (2.) according to UNICEF report on SEE between November 2002 and the end of 2003 eighteen victims were identified (for four of them Croatia was a country of destination; one was under 18); during 2004 there were 17 victims (UNICEF 2005, 108)

Most victims are in transit, through 'Balkans route' from Eastern Europe (Ukraine, Romania, Serbia, and Bosnia and Herzegovina) but at lesser extent they are Croatian citizens too. A 2005 press release by National Committee for the Suppression of Trafficking in Persons points to Croatia increasingly becoming destination country too – on [www.vlada.hr/hr/naslovnica/priopcenja\\_zajavnost/2005/travanj](http://www.vlada.hr/hr/naslovnica/priopcenja_zajavnost/2005/travanj)).

There were some cases of *slavery* reported in media. However it is often associated with human trafficking which, after cessation of war significantly increased. Croatia has, in recent years, built legal and institutional framework to deal with human trafficking and assisting its victims. In 2004 in the Criminal Code was introduced an article dealing with human trafficking, in 2006 it was amended. With changes to the Criminal Proceedings Act and Juvenile Courts Act, protection of victims and witnesses is assured. Police capacities to deal with trafficking have increased, including capacities to co-operate with other countries (strongly encouraged by Interpol/Europol and IOs). On the institutional side, important is role of the state: a National Committee for

the Suppression of Trafficking in Persons – NCSTP- was formed in 2002 whose members include representatives of all relevant ministries and agencies, NGOs and media; in the same year first National Plan for STP adopted by the Government. Particularly important has also become the role Governmental Office for Human Rights which is major coordinating body for the National Program for Suppression on Trafficking in Persons 2005-2008 (and closely related to NCSTP activity). Central in the office's activities is developing partnership with a number of NGO's from different parts of Croatia – e.g. PETRA network of women NGOs that promote women rights, the Centre for Women Rosa, Women's Room et al. (see World Learning 2006) – and co-ordinating all involved actors/institutions (including giving protection and assistance to victims by social workers). Altogether, public awareness of trafficking and involved issues has certainly increased and important improvements have been achieved – yet there are still many remaining issues, including very small number of identified victims, which (according to US State Department categorisation puts Croatia into 'group 2' i.e. recognised are considerable efforts to achieve minimal standards in order to prevent trafficking but they are not achieved yet (Dobrotić 2007, 267).

### 3.3.4 WORK AND FAMILY BALANCE

In my interviews for recent ILO project on working conditions (Francicevic 2007a) three groups emerged as having particular difficulties in keeping a good work–life balance: married women with children working Sundays, holidays and shifts; those usually working on remote sites (for example, construction workers); and the self-employed, who put in very long hours with very little free time and almost no holidays. Some managers complained of the same problem. It also emerged that *low pay* may be disruptive for a balance in two ways: first, by forcing people into long hours and/or additional jobs; second, due to the frustrations inherent in being unable to reach important family and/or family members' goals.

*Women with small/young children are particularly vulnerable.* Among major reconciling strategies are: those concerning working time; concerning household duties; and concerning child-caring. In addition, major issue for employed women concerns maternity leaves/benefits and children support to which I turn at the section's end.

#### 3.3.4.1 Part time and flexible time are limited and faced with barriers

Concerning working time arrangements: *part-time* and *flexible* time employment is often taken as important strategies to follow and encourage, particularly for mothers with children trying to reconcile work and family. However, in Croatia, both are quite limited, comparatively their share is below the EU levels, and facing barriers – legal, institutional, managerial and cultural. Shares of those on part-time, as Table 3.3.5, below, illustrates are comparatively low, with no definite trend of increase.

Not only that shares of part-time employment for men are lower than for women but share of involuntary part time is much higher for men; on the other hand - share of women taking part-time due to caring for family members is much higher which indicates that increasing supply of part-time jobs might better suit females.

Concerning *flexibility options*, as noted above, they still seem to be in low supply: 4<sup>th</sup> EWC Survey clearly show that percentage of employees working with fixed starting and finishing time is high, as is high percentage of those working 'with less flexible schedules – 76.7% vs. 64.1% in EU-15 and 71.2% in NMS-10. Only 6.3% have possibility to choose between several fixed working schedules; 8.9% have possibility to adapt working hours within certain limits; and 6.0% entirely determine their working hours (calculated from 4<sup>th</sup> EWCS data-set).<sup>39</sup>

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<sup>39</sup> It might also be true that many women are even not aware of their rights provided by employers or that, paradoxically, flexibility is more available to men, or that their view of true inequalities is partial. CESI, a Zagreb based NGO, in its research (albeit, on a quite small sample, though indicative) on equal opportunities on the labour market found out that, interestingly, only 20.4% of surveyed women think that flexible working time possibilities are provided by their employer to women with children, while share of men thinking so is much higher – 54.5% (CESI 2007).

**Table 3.3.5: Part-time employment, 1997-2006, %**

	1997	2000*	2001*	2002	2003	2004	2005	2006
As % of total employment	10.6 (8.6 / 12.8)	9.4 (7.4/11.8)**	8.8 (7.7/10.2)	8.0 (6.4/10.0)	8.4 (6.2/11.1)	8.7 (6.8/11.1)	10.1 (7.3/13.4)	9.4 (7.5/11.7)
Involuntary – couldn't find full time job	12.5 (17.9 / 8.2)	23.8 (34.8/15.4)	23.7 (28.4/19.3)	22.2 (33.2/13.3)	19.7 (29.3/12.8)	13.2 (17.5/10.0)	16.8 (24.6/11.6)	18.1 (25.6/12.2)
Did not want full time job	10.3 (10.8 / 9.8)	6.4 (8.5 / 4.9)	4.5 (3.3 / 5.6)	***	***	***	***	***
Illness, or disability	33.4 (29.3/36.8)	22.9 (17.7 / 26.9)	23.6 (23.4/23.7)	24.1 (24.3/ 24.0)	24.1 (22.9/25.9)	27.0 (23.0/30.0)	24.5 (25.5/23.9)	23.4 (22.6/24.0)
Looking after children or incapacitated adults	n.a	n.a	n.a	12.3 (6.7 /16.8)	10.1 ( u /15.6)	9.8 (u /14.4)	11.2 (4.6/ 15.6)	4.9 (u /7.4)
Other family or personal responsibilities	n.a	n.a	n.a	u	u	u	u	7.6
In education or training	6.3 (8.4 / 4.7)	u	3.0 (2.8/u)	2.4 u	2.6	2.8 (4.5/u)	2.2 u	3.3 (u /3.1)
Other reasons	37.3 (33.6/40.1)	44.7 (37.2/50.6)	45.2 (42.1/48.2)	39.0 (32.6/44.2)	43.5 (42.7/44.1)	47.2 (51.2/44.1)	45.2 (42.5/47.1)	42.7 (41.9/43.3)

Sources: Eurostat-LFS for 2002-2006, rest CBS LFS (Croatia – Europe, various years); Note:\* 2d half only (CBS) \*\*In brackets are males/females; \*\* *Italics and u*: uncertain/unreliable data, \*\*\* CBS shares from 2002-2006 are: 4.2 /4.9 (2002) 4.7 / 3.8 (2003); 6.0/4.3 (2004)4.6/3.4 (2005); 4.5/5.3 (2006)

### 3.3.4.2 Housekeeping and child caring mostly born by females

UNDP 2007 study gives data showing typical gender differences concerning both housework and childcare:

- Share of men everyday doing *housework* is 33% vs. 81% for women (EU-10 – 46%/86%; EU-15 – 39%/79% and EU-25 – 40%/80%). Among those everyday doing housework men report 3 and women 4 hours per day (vs. 3/3 – EU-10 and 2/3 – EU-15).
- Share of men every day *taking care and educating their children* is higher and it is 70% vs. 96% for females (EU-10 – 73%/88%; EU-15 75%/92% and EU-25 75%/92%). Women spend two hours per day more time with children below 16 than men. Being employed however does not affect mothers in caring/educating their children – employed and not-employed spend most often around 5 hours per day with children below 16. (UNDP 2007, 62).

Perceptions on these differences differ between males and females. In recent representative survey 'mostly agree/fully agree' 36.7%/45.4% males and 28.6% / 64.0% females with the statement that 'women are under heavier burden due to household work, besides their jobs' (Čulig et al. 2007, 206)

### 3.3.4.3 Work and family balance may be difficult to sustain

Research on work and family balance is very rare. *In one of rare academic papers*, Šverko, Arambašić and Galešić (2002) focused on middle and higher educated urban population sample of 25-65 age and married (with two merged samples of 188 on-line and 319 conventional survey persons) 'to determine whether an imbalance due to excessive hours exists among employees in Croatia' – *ibid.*, 285, my italics). While number of self-reported working hours per week was 45.5 (75% work in excess of 40, 22% more than 50, and about 6% more than 60 hours per week), research subjects also reported a substantial home-time commitment: on average, they spend 25.2 hours per week on home-related activities – 30.4 for females but 19.5 for males. Yet, while 'it is generally believed that working long hours has a negative impact on an individual's health and well being' (*ibid.*, 285) it was found that 'long hours spent at work are not necessarily detrimental to person's well-being; *work-home interference*, in particular the work-to-home conflict, is a major aspect of the work-life balance that strongly influences well-being' (Šverko et al. 2002, 293 and 298) Being 'at variance with the commonsense assumption that more hours mean worse well-being' the research results show 'that work-home interference variables make the major contribution to explaining variance in subjective well-being...' *ibid.*, 297) Namely, 'long hours can affect stress levels and well-being in...rather indirect way – through generating inter-role interference or conflict'. (*ibid.*, 286) While authors are careful to note the limitations of the study (sampling; correlations don't establish causality – *ibid.*, 297), their research is highly indicative of the conditions Croatian workers enjoy: experiencing same kind of problems that are giving rise to policy debates on work-life balance in developed EU countries. However, they note: 'in the distinctive circumstances of a transition economy... it is likely to be some time before work-life balance becomes a national policy priority' (*ibid.*, 299). While 'it appears (they add) that national legislation in Croatia supports work-life balance...in reality much depends on the local context and in particular on the prevailing organizational culture and related practices' (*ibid.*, 284). Programmes

or policies in firms ‘specifically related to the notion of work-life balance’ were not found in any of examined firms. (ibid., 285) There is no indication that this has significantly improved in recent years (v.f.)

A 2006 research made for UNDP (Hromatko 2006; UNDP 2007) and based on European Quality of Life Survey (EQLS) questionnaire well illustrates some of the above findings. It allows for international comparison with data on EU-25, including NMS (EU-10) and OMS (EU-15) in 2003 *Quality of Life Survey in Europe*:

- Share of those *having difficulties reconciling family life and work several times a week* is 17%, which is a bit higher than EU-10 – 15%, but considerably higher than EU-15 – 9% and EU-25 – 10%.
- Share of those coming home ‘*too tired to do household jobs*’ is 27%, close to EU-10 – 29%, higher than EU-15 – 22% and EU-25 – 23%.
- Share of those *having difficulties with fulfilling family responsibilities* ‘several times a week’ is 15% for full time employed, i.e. 35-47 hours per week (10% for males, 16% for females; EU-10 11%, EU-15 7%, EU-25 8%), and much higher among those working very *long hours*, i.e. 48+ (27%: 24% - males, 31%- females; EU-10 22%; EU-15 17%; EU-25 18%).
- *Females more often than males* report that their jobs are causing difficulties in fulfilling family responsibilities several times a week: 20% for females and 15% for males; both levels and differences between genders are higher than the EU ones (EU-10: 14% vs. 15%; EU-15 10% vs. 9% and EU-25 10% vs. 10%).
- Survey data confirm Šverko et al. (2002) findings that *work-to-home conflict is stronger than home-to-work one*. High is - 56.7%- share of those who report that work at least several times a month prevent them in doing household jobs, and 39.3% have difficulty at least several times a month to fulfil family responsibilities, while 13.8% report both difficulties due to the job. Relevant shares for ‘several times a week’ are 27.0%; 17.1% and 5.7% - close to NMS levels (i.e. EU-10: 29%; 15%; 4%), but on all dimensions higher from EU-15 (22%; 9%; 3%) and EU-25 (23%, 10%, 3%). On the other hand, only 18.3 % report difficulties in concentrating at work due to family responsibilities at least several times a month. (Hromatko 2006)
- *Single parents families, surprisingly, report less difficulties fulfilling family responsibilities several times a week than couples with children*: similarly to EU-15 (where it is 13%; EU-10 is 26%) it is 14% of single parents with children below age 16 with such difficulties and it is lower than for couples with children below 16 (16%); couples with children above 16 (15%), couples (16%), and equal to singles (14%). Altogether these shares are higher than EU-15 shares (13%, 11%, 12%, 6%, 7%) but, except for the single parents families, comparable to EU-10 ones (26%, 15%, 13%, 18%, 13%) In totals it is 17% for Croatia; in EU-10 15%, EU-15 10% and EU-25 10%). *Interestingly surveyed with children less than four years old don’t significantly differentiate from the total* (ratio is 1.1 while for EU-10 it is 1.3, EU-15 1.4 and EU-25 1.4). Could it be attributed to lower employment rates for mothers with young children, national regulation and/or strong family ties with grandparents taking over? However, differences between counties are very significant (from 0.5 to 2.1) – pointing to differences in availability of child care services, employment patterns (share of families with both parents employed – normally on full time) but family patterns too. (UNDP 2007, 74)

Fourth EWCS (2007) provides additional light: 74.9% report that *working hours fit family/social commitments well or very well* which is close to NMS (i.e. EU-10) level (73.4%) but below the EU-15 level (80.9%). On the other hand, small is share of those being contacted about work outside normal working hours – 13.3% vs. 22.2% in EU-15 and 23.9% in NMS.

*Both high levels of indicators and pronounced gender dimension point towards importance of work-life balance policies to be developed on national, local and firm levels*. It certainly includes higher scope for part-time employment (including institutional infrastructure to make it more feasible option for both employees and employers; e.g. schools without interchanging shifts) and flexible working time arrangements, including work at home. Yet, it seems that it is still not high on the agenda of social actors and social partners in particular. Unions don’t focus on that issue (even if in anti-Sunday campaign arguments concerning better work-life balance have been often invoked both by involved unions and catholic Church), and if they do – it is quite sporadic, not systematic and, importantly, it is not in the focus of collective bargaining and collective agreements. On the other hand, policies (mostly inspired by demographic/population concerns) for maternity and children protection have been receiving much greater care and have had much greater political appeal for politicians – to them I turn in section 4.6 of Ch. 4 (including discussion on elderly and war veterans’ protection).

### 3.3.5 Working rhythms and stress at work

There is no research or data base that offers good view into *trends* of work intensity and real conditions at the working place. However, recent 4<sup>th</sup> European working conditions survey (EWCS 2007) and 2006 EQLS survey by UNDP Croatia offer good comparative insights on many aspects of work. In addition, there is a lot of indirect and anecdotal evidence that in many occupations intensity and stress have grown.

According to 4<sup>th</sup> EWCS, it seems that Croatian workers are exposed to comparatively *lower intensity but lower autonomy too* - on five autonomy indicators values are lower for four of them in comparison with EU-15 and NMS (EU-10). Namely, 55.9% can choose/change order of tasks (vs. 64.0%/61.1%); 60.7% can choose/change methods of work (vs. 68.2%/62.8%); 63.0% can choose/change speed of work (vs. 68.9%/69.8%); 39.8% can take break when wishes (vs. 44.7%/43.2%), but (the only exception) 26.7% has influence over working partners (vs. 23.5%/24.6%). Altogether, it puts Croatia on the lower end of EU-27 countries' ranking on the 'composite indicator' of workers' autonomy - putting her in the group where southern and eastern European countries dominate (EWCS 2007, 51-52)

Similarly, EQL survey reports that 41% have a *great deal of influence in deciding how to do their work*, lower than NMS (EU-10 - 49%) and EU-15 (65%)(UNDP 2007)

Concerning *functional flexibility (task rotation)* and *teamwork*, Croatian workers report higher shares than NMS (54.5%/62.9% vs. 43.2%/57.0%) and EU-15 (43.3%/54.6%). While similarly to EU-15 and NMS, *pace of work* tends to be more often determined by *market constraints* (demands from customers...)(Croatia: 66.5% vs. EU-15 - 71.0% and NMS - 57.2%) than by *industrial constraints* (automatic speed of machine)(Croatia 22.6% vs. EU-15 18.9% and NMS 19.4%) *intensity indicators* are significantly lower than in EU-15 and in NMS (EU-10). While in EU-15 61.1% and in NMS 51.5% are working *at very high speed*, in Croatia it is 23.2% only; 62.4% in EU-15 and 59.1% in NMS are working *to tight deadlines* - in Croatia it is 43.6% (this gives a composite index of 33.4% - putting Croatia again on the lower end of surveyed countries). On the other hand, while in Croatia 79.9% report having *enough time to get job done* in EU-15 it is 68.7% and in NMS - 72.3%. EQLS survey report that share of those *constantly working at tight deadliness* - 39% - lower than both EU-10 (46%) and EU-15 46%. (UNDP 2007, 48)

Altogether, following Karasek-based model of work organisation, Croatia certainly belongs to a group of countries (with Bulgaria, Poland, Portugal and Slovakia) which 'approach most closely the *passive work organisation* category. (EWCS 2007, 59-60) If this points to the performance problem, it also points to managerial and organisational failures, but also to so far unused potential (on the side of employers) to increase intensity and/or autonomy and to experiment with different organisational models of work. Saying this, and taking into account low competitiveness indicators of Croatian economy (stagnating exports, comparatively high labour costs) - it is plausible to expect that pressures on Croatian workers will be increasing, what might bring unions' capacities to true test.

On the other hand, the 2000s brought more of offensive restructuring and faster growth of productivity not accompanied with such a growth in employment. If such *trends may be indicative of growing intensity of work* much more evidence would be needed (including case studies, industry studies) to get solid conclusions. Such studies could put more light on effects of technological change on intensity of work in particular occupations; from my interviews in hypermarkets, on construction sites, in hotels emerging is picture of very uneven changes of intensity across occupations.(Franicevic 2007a)

Many believe that *working place has become more stressful and/or psychologically demanding*. Recent on-line survey (n=474) showed that even 34% would, without reflection, accept lower paid job with less stress (some report family priorities, some are on the 'edge of their nerves'); additional 35% would accept less paid job under condition that reduction is between 10-25% of current pay, while 29% would not accept such an offer ('money pay bills', but also 'there is nothing like low stress job'). In spite of its non-representativeness, this survey indicates that stress is not only quite common but also perceived as harmful for employees. (MP 2005b) In my interviews two major sources of stress emerged as those attributable to managerial pressures of those higher positioned on the job ladder, and those caused by *attainment deficit*. As the shipyard union representative put it: 'workers don't complain about stress, it is rather presented as inability to attain one's goals'.

Fourth EWCS supports the above intuition: On most psychological health factors Croatia ranks high compared to EU-27 countries; shares of those reporting *stress, sleeping problems, anxiety and/or irritability* are comparatively high: respective shares are 35.2%, 10.4%, 10.8% and 19.8%; while for EU-15 they are 20.2%, 7.6%, 7.9% and 10.3%,; and for NMS (EU-10) they are 30.4%, 11.9%, 7.2% and 11.5%. In addition, stomach

pain is found to be strongly correlated with stress (EWCS 2007, 63): here Croatia – with 6.4% is between EU-15 (4.9%) and NMS (8.6%).

In addition, in 2006 EQLS 51% find their job *too demanding and stressful*, somewhat higher than EU-10 (48%) and EU-15 (47%) averages. However low is share of those reporting their jobs to be *dull and boring* – 12% (vs. 18% in NMS and 10% in EU-15), which is consistent with relatively high job satisfaction to which I turn in section 3.3.8 below.

### 3.3.6 Safety and health: deficits of regulation and enforcement

***Rights to health-protection and safe work are fundamental for workers well-being.*** Yet, some major deficits are present both concerning regulations and their enforcement, making many workers vulnerable to risks of health degradation, injuries and decreased work capacity. Important are institutional failures and gaps as well, both concerning actors' incentives and the health system's efficiency.

Data from the 2005 4<sup>th</sup> *European Working Conditions Survey* indicate that *exposure to health, safety and stress related risks in Croatia is high, quite above the averages for EU-15, and in a number of indicators higher than NMS-10 averages or close to them.* Croatian workers report, similarly to most transition countries, high exposure to health and safety risks due to their work: 38.9% vs. 25.2% in EU-15 but 40.2% in NMS (EU-10).<sup>40</sup> Their awareness of such risks is also high: 87.9% report that they are *well-informed about health and safety risks* (higher than EU-15 – 82.4%, close to NMS level – 88.3%) and 46.7% are *wearing personal protective clothing or equipment* (vs. 32.0% in EU-15 and 42.8% in NMS).

High 51.8% declare that *work affects health* (somewhat below NMS – 55.8%) but much higher than EU-15 – 30.6%. Particularly high are physical symptoms of *backache, headache and muscular pain* (41.5%/ 28.6% and 37.6% respectively (in EU-15 21.1%/13.1%/19.4% and in NMS 38.9%/24.2%/36.2%) which may be attributed to work itself but also to stress associated with work. Croatian workers report comparatively high shares of those being exposed to *vibrations* (29.1% vs. 23.1%/30.1% in EU-15/NMS) and *noise* (33.9% vs. 28.7%/38.8%); *high temperatures* (29.9% vs. 23.4%/26.4%) and *low temperatures* (26.3% vs. 20.4%/25.5%); and/or *breathing in smoke, fumes, powder or dust* (29.6% vs. 17.6%/24.6%) In addition, exposure to *tobacco smoke from other people* is very high indeed: 35.9% vs. 19.7%/20.9%). That vulnerability to physical work factors is high, and attention being given to healthy work/working place insufficient is also shown by high shares of those working in *tiring or painful positions* (58.8% vs. 44.4% /46.4% for EU-15/ NMS); *carrying or moving heavy loads* (37.4% vs. 33.9%/38.0%), *standing or walking* (77.2% vs. 72.9%/71.0%); exposed to *repetitive hand or arm movements* (69.9% vs. 61.5%/61.5%). (EWCS 2007)

#### 3.3.6.1 Sick leaves and workers' health protection

Interestingly, while 4th EWCS puts share of those 'absent for health problems in previous year' in Croatia (19.4%) somewhat lower than in EU-27 (22.9%), EU-25 (23.4%), EU-15 (23.5%) and NMS-10 (22.8%), reported 'average days of health-related absence in previous year' put Croatia (with 9.4) *on the very top* (4.6%; 4.7%; 4.5% and 5.4%). (EWCS 2007) This might also indicate high level of stress, but serious studies of absenteeism are unfortunately lacking. It may also indicate institutional deficits in health protection, widely discussed but very hesitantly approached by policy-makers and concerned stakeholders.

Data in Table 3.3.6 provides some illustration of 1996-2006 trends concerning sick leaves. They don't point to any significant trend in average values (particularly not in the 2003-2006 period), which reflects lack of any significant changes in relevant regulations. However, they certainly point to gravity of economic and social costs due to high absenteeism/sick leave rates and low efficiency - indicated by duration of sick leaves. That problems are not related to working place/conditions only but to institutional deficits and incentives' structure may also be seen from major regional differences: 20 regional offices (counties and city of Zagreb) report sick leave rates between the lowest 2.98 to highest 4.30 in 2006. (CHII data)

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<sup>40</sup> In UNDP Croatia report based on EQL survey, 23% report working in *dangerous or unhealthy conditions*, higher than EU-15 – 14% but lower than EU-10 – 30% (UNDP 2007, 48)

**Table 3.3.6: Temporary work disability and sick leave, 1996-2006, Croatia**

1		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
2	Number of active insured persons, '000	1434	1444	1313	1301	1297	1306	1328	1389	1413	1450	1506
3	Sick leave days – total in 000*	16048	15129	16461	14793	15057	13582	16604	15930	15662	16878	17423
3a	Due to work accidents- in 000***	431	444	505	554	533	468	1518	1655	1692	1890	1980
4	Sick leave rate**	3.57	3.35	4.01	3.63	3.71	4.05	3.99	3.66	3.53	3.72	3.71
5	Average duration of absent employee sick leave, days					29.99	21.50	21.29	19.08	18.70	18.54	19.84
6	Average number of absent employees per day	51108	48336	52592	47261	48106	52936	53047	50894	49878	53921	55842
7	Due to work accidents***	1372	1420	1613	1770	1703	1567	4850	5288	5387	6039	6216
8	Average number of sick leave days per employed* (rows 2/3)	11.19	10.48	12.54	11.37	11.61	10.40	12.50	11.47	11.08	11.64	11.57

Source: CHII; Croatian Health Insurance Institute (CHII, yearly reports) & CBS /Statistical Yearbooks, various years)

Note: \* Includes illness, pregnancy complications, work accidents, professional illness, family member caring and escorting, consequences of participation in the War, isolation;\*\*based on number of active insured persons (row 6/2 in %). \*\*\*Since 2002- based on monthly reports of primary health care doctors (earlier administrative numbers are seriously underestimated due to previous regulations)

If sick-leave days due to mandatory pregnancy/maternity and optional maternity leaves (and shorter working time until the end of first child's year) are added than total sick leave rate amounts to 6.15% in 2006 as it was in 2005. Interesting is to note that, concerning bearing *the costs of sick leaves* (employers bear costs of sick leave up to 42 days) – out of 55842 daily average, daily by employers was born 24959 (25233 in 2005), and by CHII 30883 (28688 in 2005). Costs of sick leaves are split between Croatian Health Insurance Institute (55.3% in 2006) and employers (44.7%): typically employers complain of these costs being too high. Concerning sick leaves and those due to work accidents and occupational illness, Tables below show data on leaves by causes (table 3.3.7) and by costs' bearing - are they born by CHII (i.e. above 42 days)(A.) or by employers, i.e. less than 42 days (B.) (Table 3.3.8).

**Table 3.3.7: Sick leaves according to causes 2004-2006**

**A. Costs born by CHII (42+ days)**

	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
	Average duration days			Sick leave rate			Daily sick, average			Daily sick, %		
Illness	93.84	94.61	103.72	1.15	1.19	1.30	16180	17333	19510	60.2	60.4	63.2
Pregnancy complication	72.41	77.22	78.79	0.52	0.53	0.51	7362	7699	7665	27.4	26.8	24.8
Work injury	79.40	88.31	95.16	0.12	0.14	0.15	1718	2024	2189	6.4	7.1	7.1
Professional illness	168.32	209.76	193.72				22	27	22	0.08	0.09	0.007
Total*	45.55	47.47	53.16	1.90	1.98	2.05	26896	28689	30883	100	100	100

Note:\*included are some other categories (as caring for family members...)

**B. Costs born by employers**

	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
	Average duration days			Sick leave rate			Daily sick, average			Daily sick, %		
Illness		9.27	9.38		1.47	1.38		21245	20825		84.2	83.4
Work injury		18.42	18.39		0.27	0.27		3881	4027		15.4	16.1
Professional illness		15.74	17.88		0.007	0.007		105	106		0.4	0.4
Total	10.12	10.05	10.21	1.63	1.74	1.66	22982	25233	24959		100	100

Source: CHII

**Table 3.3.8: Sick-leaves 2000-2005 according to costs' bearing, 2000-2006**

	2000.	2001.	2002.	2003.	2004.	2005.	2006.
<b>Sick leave rate %</b>							
Total	3,71	4,05	3,99	3,66	3,53	3,72	3,71
Born by employer	1,13	1,75	1,67	1,65	1,63	1,74	1,66
Born by CHII	2,58	2,30	2,32	2,01	1,90	1,98	2,05
<b>Average sick leave duration, days</b>							
Total	29,99	21,50	21,29	19,08	18,70	18,54	19,84
Born by employer	12,23	10,96	10,93	10,17	10,12	10,05	10,21
Born by CHII	41,57	41,01	42,84	46,32	45,55	47,47	53,16
<b>Employees on sick leave(daily averages)</b>							
Total	48.106	52.936	53.047	50.894	49.878	53.922	55842
Born by employer	14.686	22.856	22.261	22.942	22.982	25.233	24959
Born by CHII	33.420	30.080	30.786	27.952	26.896	28.689	30883

Source: CHII

In the light of high shares of those who find themselves being exposed to health and safety risks due to their work (38.9% in EWCS 2007), working in dangerous and unhealthy conditions (23% in UNDP 2007), and their health being affected by their work (51.8% in EWCS 2007) – challenges facing Croatia seem to be of greatest importance, both concerning workers vulnerability to health and safety risks, but concerning sustainability of present trends (in terms of fiscal pressures and economic costs of the health system). Croatian Institute for Occupational Medicine recently produced a map (based on large and small firms' surveys) of health hazards, risks and strains in different sectors. As might have been expected the greatest number of hazards is present in mining and extraction (7.8 per worker), construction (5.7) and the processing industry (4.6). To psycho-physiological strains exposed are 78% workers; to statodynamic strain – 75%; to mechanical hazards – 68%; to falls and collapses – 53%; to adverse climatic and microclimatic conditions – 34%; to harmful chemicals – 22%; to electric power risks – 20% and to noise – 19%. (Bogadi-Šare and Zavalic 2007; based on questionnaires received from 624 businesses employing more than 50). In her conference presentation Bogadi-Šare produced comparative risk assessment for large (n=637) vs. small firms (n=163) (with less than 50 employees), and found in a number of sectors significantly higher number of hazards per worker in small firms (particularly in agriculture, fishing, transportation, real estate and business activities, health and social work, other community services) than in large firms (they bring more hazards per worker particularly in mining, manufacturing, construction, trade and financial intermediation)(Bogadi-Šare 2007). These findings indicate two policy priorities: *one is dealing with small firms* which tend to neglect and/or underestimate risks and associated costs; *another is industry/sector specific* policy dimension – again highly neglected in current OSH systems and organisation (including lack of sectoral social dialogue level – see more in section 5.3).

*In addition, major regional differences* in the average number of sick leave days per employee (i.e. based on number of active insured persons) – ranging in 2005 between 13.5 and 8.9, and in 2006 between 13.4 and 9.3 (4.30 – 2.98 for sick leave rates) for 20 counties and the city of Zagreb (CHII data) – *point to the importance of regional/local contexts and differences in industrial structure and governance, organisation and efficiency of health services, but also to specific traditions.*<sup>41</sup>

It may be hard to ensure both: higher and better protection and security from above risks and more efficient, and costs saving system of that protection/security. (See section 4.5 on the health system) Hopefully, adoption (in July 2006) of the *Law on health insurance of protection of health at work* (Official Gazette, 85/2006), together with establishing a separate, from the present one (i.e. CHII), Croatian Health Insurance Institute for Protection of Health at Work (functional with the start of 2008) which will run dedicated insurance fund might bring serious improvement.

In 2002 the tripartite *National Council for Work Protection* was formed (its members are government, employers, and trade unions representatives, and some eminent experts). It has not had much of an impact so far, but its 2005 outline of the 'National Programme for the Protection of Health and Safety at Work' (July 2005) is a sobering document on issues which are still receiving *low priority* from policy-makers and enterprises, but unions too. This document, while receiving government's coordination body principled backing, is still not adopted (as stressed in Croatia OSH profile, Marović 2007) – it is expected not sooner than early 2008 that

<sup>41</sup> A physician from the best performing county attributed its success to the functioning of the system, but also to good industrial relations: 'employees here don't need to use sick leave to resolve conflicts with employers'. A physician from a weakly performing county, on the other hand, stressed difficult working conditions and long hours and pointed to a recent increase in the incidence of sickness. Yet a colleague also pointed to the influence of drinking habits in the area (*Jutarnji list*, 28.8.2006).

Croatia will have its National OSH Program adopted (Marović in written communication). The document, but experts' published papers too, reveal numerous *failures and weaknesses in workers' health protection*:

- *There hasn't been systematic follow-up of workers' health conditions exposed to specific risks.* In spite of legal requirements, only 10% were regularly monitored while 'specific health protection is practically unavailable to workers' (NCWR 2005, 9). *Preventive check ups* are available to workers working on jobs with special working conditions only; primarily in connection with one's ability to work on specific job, and not in order to prevent professional and/or work-related illness. (Bogadić-Šare and Zavalić 2006, 137) With adoption of a number of EU directives and other international regulations, preventive controls for practically all workers are made possible; yet, the system is still too complex, many gaps (including financing) remain, and inefficient – universal regulations are suggested (in a recent not-published document's draft).
- *Coordination has been lacking* between institutions involved in protecting workers' health; prevention and monitoring are seriously compromised by the current status of *occupational medicine* which was 'excluded from the ... system of primary health insurance' (NCWR 2005, 16).
- *Social security regulations haven't stimulated employers to take greater care:* the costs of work injuries and occupational diseases are born by contributors to the system (that is, the employed and self-employed) 'rather than employers, where employees got injured or sick' (NCWR 2005, 16).
- *The law does not recognise work-related diseases,* and the capacity for their early recognition or prevention is low. *Among the reasons for sick leaves, various diagnoses strongly dominate* – about 92% of the total in 2003 were caused by them (and generating 89.3% of total costs); along with 8% by work accidents and 0.3% by occupational diseases. However, *only for occupational diseases and work injuries is systematic data produced. This considerably distorts perceptions of the situation:*

There is no data on workplace influence on health degradation, except when the primary causes are occupational disease or accidents at work. When workplace hazards are a cause of invalidity<sup>42</sup> (but not the basic one) the harmful influence is not registered at all. It is not known ... how much is being spent on consequences of injuries and diseases as a consequence of working place harmful conditions. (NCWR 2005, 11, 12 and 14)

The last point is particularly important, knowing that great is share of too early retired (as stressed in the Outline for the Law on health insurance of protection of health at work, drafted by the MHSC, March 2006). In addition, the document stresses that 'there is nothing which forces employer to eliminate health damaging working conditions, which only causes further health degradation'. Underreporting of work injuries and professional diseases was leading to serious moral hazard: costs associated with these risks are falling on the basic health insurance fund (workers being treated for simply being ill, but not because of work), instead on the special one (associated with contributions for injuries and occupational diseases) which registers low costs for occupational diseases, for example, leading even to return of funds to employers receiving bonuses – 'at present the *bonus-malus* system does not work' concludes Marović in the Croatia OSH profile. (Marović 2007)

The 2006 *Law on health insurance of protection of health at work* (Official gazette, July 2007) is probably the most important innovation in this area. Together with establishment of the Institute for health insurance of protection of health at work (operational by January 2008) and consolidation of the Institute for Occupational Medicine might bring important improvement, though work-related diseases are not recognised as relevant category – work injuries and occupational diseases are dealt with only. The Law:

- Clearly *separated* insurance and protection of health due to work accidents and occupational diseases from general health insurance system; it defined rights to *specific health protection* (including assessing one's capacity for work, following-up workers' health conditions as well as preventive check-ups);
- Clearly defined *rights to health protection and monetary compensations* in case of work injury and/or occupational disease, which include primary health protection, secondary and tertiary one as well as rights to pharmaceuticals, orthopaedic products etc.;
- It put *occupational medicine* in the centre (both state institutions and private contracted providers);
- Importantly, it made possible introduction of (*dis*)incentives for employers to take more care in prevention and protection of workers through introduction of bonus-malus provisions. Based on real expenses per insured vis-à-vis benchmark values determined for each industry (branch of activity), contributions' rate may be decreased or increased.

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<sup>42</sup> In 2005, 23% retired were receiving invalidity pensions (out of which 75% for 'general incapacity for work') (HZMO data). This is certainly a 'grey zone' in another respect too – low transparency and potential corruption involved.

While this reform are expected to bring significant improvements, *transitional period may be demanding and even lead to decrease of workers' access to services*: very recently one union (HUS) asked for prolongation of the laws' becoming operational from January 1<sup>st</sup> to July 1<sup>st</sup> 2008. Main reason for this demand is deficit of specialists in occupational medicine; in some regions/localities in particular workers are facing difficulties concerning their right. There is also a concern that OM specialists may become overburdened with everyday duties concerning health protection and administering sick-leaves with very little time remaining for preventive activities. Problems may arise too until full operability of the Institute for protection of health at work is reached. On the other hand, the Institute's director asks for patience; lack of occupational medicine teams (some 20-30) will be dealt with opening new applications for specialisation in the field; she also pointed that employers employing some 1250 thousands of employees have selected occupational medicine specialists for their employees, but those employing 300 thousands still have not. ([www.net.hr](http://www.net.hr) on February 10, 2008)

### 3.3.6.2 Occupational diseases and work injuries

Low are numbers on *occupational diseases* (Table 3.3.9, below; note considerable decrease of reported cases in 2006 – by 15.5%) – manufacturing, agriculture and forestry, health services and construction make some 86% of all cases. *These low numbers are misleading*. As Bogadi-Šare and Zavalic point, the registered rate is much below one that should be expected (600-1200 cases yearly, instead of around 100. Very rarely analysed are causes of worker's illness (Bogadi-Šare and Zavalic 2007, 85) *There is weak enforcement of regulations and employers have low incentives to engage in prevention*. There is typically a major increase in the number of occupationally ill when a firm goes bankrupt: workers (suspecting being professional ill but faced with greatest uncertainty) claim occupational disease in order to realise their rights. The case of asbestosis in Plobest from Ploče is paradigmatic in that respect (NCWR 2005, 12). Occupational diseases are most often diagnosed in workers exposed to harmful influence for more than 21 years (46.6% in 2005/50% in 2006); next come those with 16–20 years of exposure (at 17.2%/17.3%); those with less than 6 years (11.2%/6.1%) (Dečković-Vukres et al 2006, and Dečković-Vukres and Hemen 2007) This indicates weak monitoring and prevention.

According to Croatia OSH profile, *occupational medicine* is under the MHSC. Croatian Occupational Medicine Institute is responsible for monitoring OM service and teams – it is still seriously 'understaffed', presenting a nucleus which in 2009 should develop into a much stronger Institute of Health Protection and Safety at Work (Marović 2007), with some 50 experts employed ([www.vlada.hr](http://www.vlada.hr)). Presently there are some 158 such teams/offices (be they private or state owned) – only 4 employ psychologist and none employs OSH engineers (only informal co-operation exists) (Marović 2007) In Bogadi-Šare and Zavalic paper (early 2007), a number of primary level teams is 161 in full, and 4 in half-time; additional 14 work occasionally – on assignment contracts. (Bogadi-Šare and Zavalic 2007, 88) Most recently, in connection with application of the *Law on health insurance of protection of health at work*, number of teams which have a contract with the IHPSW was given at 150. However, while specialisation in OM is fully harmonised with the EU recommendations (Marović 2007), some additional weaknesses exist. *Firstly*, number of employed per one occupational medicine is 9800 which is below European standards (Bogadi-Šare and Zavalic 2007, 88); very importantly, regional (county) distribution is very uneven. *Secondly*, there are no institutions in OM specialised for particular sectors of economic activity; there are no OM services organised by employers; multidisciplinary, highly needed in this area, is not assured (it mostly happens in preventive check-ups and in evaluations on work-place risks/dangers) (Bogadi-Šare and Zavalic 2006, 131-132).

The well publicised case of 'Salonit' from Vranjic, where for decades asbestos was produced, with serious consequences for both workers and locality, illustrates the recently heightened involvement of various *stakeholders*. However, it also shows up the low administrative and political capacities – not to mention credibility – when dealing with cases where health is at serious risk, but interests may conflict. However, new recent regulations (2007) dealing with asbestos point to important regulatory improvement<sup>43</sup>

As Table 3.3.9, below, shows in 1985–1994, the number and *rate of accidents at work* fell considerably – mostly due to dramatic decrease in economic activity and radical de-industrialisation. From 1996 to 2000, with economic recovery, it increased and varied between 1700 and 1753. Finally, in 2001–2006 it varied between 1554 (2004) and 1659 (in 2003). In the same period the number of accidents *ranged* between 21184 (2002) and 24843 (2006), with a 3.6% increase in 2005 and further 9.3% in 2006. Table 3.3.6 reflects that – with an increase in sick leave days and average number of absences per day due to work accidents. It is hard to tell from the

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<sup>43</sup> Civil society groups (ecological groups from the area and association of persons affected by asbestosis) voiced deep concern and distrust into government's further moves, disappointed by government allowing further continuance of production; allegedly until the end of 2006. (*Slobodna Dalmacija*, 13.11.2005 and *Radio 101*, February 22, 2006). Presently, the firm is under bankruptcy proceedings and alternative investors are sought for, but again with many suspicions around.

available information whether this is an effect of greater safety at work (there has been a reduction in the rate of accidents in the workplace in the 2000s: in 2005 it fell from 1250 to 1233 but increased to 1295 in 2006), and/or the effect of a shift of the labour force towards 'less accident-prone' occupations. The largest *number of accidents in the workplace* in 2005 was found in manufacturing (35.1% in 2005 and 37% in 2006) and construction (13.5% / 14.4%) The *accident rates* in 2005/2006 were the highest in agriculture and forestry (2874/2712), construction (2798 / 3005) and manufacturing (2465 /2714) (similarly to 2003 and 2004).

In 2005 there was an increase in *fatal accidents* and again and considerably in 2006. Construction , manufacturing, agriculture and forestry, and trading sector dominate: their share in total was 76% in 2005 and 75% in 2006; the death rates (2006 data) are the highest in construction (29.9 per 100.000 employed), agriculture and forestry (20.8), mining (19.2) while in manufacturing it is below the average (4.12) - that is 3.8. Particularly strong increase has been recorded in booming construction – from 20 in 2005 to 29 (28 at working place) in 2006. (Dečković-Vukres 2005, 2006 and 2007; also see construction case in Franicevic 2007a and shipyard case in 2007b). Serious studies are still lacking.

**Table 3.3.9: Accidents at work and occupational diseases, 1985-2006**

	Total number	Per 100.000 of employed ***	Accidents at work with fatal outcome	Occupational diseases	OD per 100.000
1985	70574*	4330*	119	n.a.	
1990	39907*	2610*	67	129	7.49
1991	32988*	2032*	196	108	6.65
1992	23051*	1507*	190	232	15.16
1993	21664*	1558*	73	192	13.81
1994	19846*	1431*	55	154	11.10
1995	22376*	1440*	60	372	26.22
1996	24526*	1710*	50	144	10.04
1997	24681*	1839*	57	205	14.20
1998	22 965*/19549**	1749*/1489**	49	152	11.58
1999	22 814*/18846**	1754*/ 1449**	32	80	4.54
2000	22 054*/18661**	1762*/1439**	40	81	6.25
2001	21744*/18469**	1665*/1415**	42	91	6.97
2002	21184*/17677**	1595*/1331**	44	106	7.98
2003	23042*/18125**	1659*/1305**	50	122	8.78
2004	21 950*/17655**	1554*/1250**	42	103	7.23
2005	22738*/17885**	1568*/1233	62 / 55**	116	8.00
2006	24843 / 19503	1650 /1295	76 / 62**	98	

Sources: Dečković-Vukres et al. (2005, 2006 and 2007); HZJZ, Individual reports on work injuries; Notes:

\* Total: includes travel to/from job (commuting accidents); \*\*at working place only; \*\*\* (insured active persons- CHII)

*Limited is employers' willingness to observe safety regulations, poor is enforcement capacity.* Workers' safety is regulated by the 1996 Law on Protection at Work, and related acts and norms. The development of regulations in this area is influenced by the Croatia's EU association process and legal harmonisation (Analiza 2004, Marović 2007). As pointed in Croatia OSH profile, degree of compliance with ILO OSH conventions is not full yet but it should be expected by 2008; so far harmonisation has been completed with 11 Directives and by the end of 2007 it should have been completed with 5 more Rules of Procedure, and the remaining one should be adopted in 2008 – 'when Croatia expects to complete harmonisation process of its laws and regulations with the relevant EU directives'. (Marović 2007; in recent communication this leading expert confirmed that the process has been under the way as planned). Parallel to this should be an increase in OSH inspection's capacities, regarding significant increase in numbers of inspectors (Government's Action plan envisages their doubling in 2007/2008; and funds for that purpose should be secured through the 2008 budget). However, dealing with courts' inefficiency, low incentives (due to low salaries and discouraging promotion system) to take state inspection job and remain with it, and with necessary equipment (which is far below needs) are taken as urgent matters in the OSH profile. (Marović 2007)

For many businesses, which give these issues a low priority, it may produce additional pressures – they can hardly expect to compete in the EU by cutting corners on safety and health protection. Even when regulations are EU harmonised, *some firms simply do not observe them* (for example, in the case of machinery and other equipment) (Analiza 2004, 11). For example, little attention has been paid to the health implications of prolonged work with PCs and monitors; yet, muscular/skeletal diseases make up 30% of the total (Analiza 2004, 13) and result in a high rate of work absences and health costs.

*The employer is responsible for organising and enforcing protection at work* and the burden of proof is on him (objective responsibility), regardless of the number of employees. However, inspectors find *employers*

'uninterested in assuring a satisfactory level of safety for their employees ... Those working in special conditions ... are not sent for preliminary and periodical health examinations ... while dangerous equipment is not regularly checked ... Employers and their agents are still not aware that ... they are responsible for the safety and health protection of employees'. *Employees' work and technical discipline is lacking*, and employers do not enforce it in accordance with the law (SI, 2005 and 2006). *These findings were fully confirmed in the firms I visited.* (Including cases reported in Franicevic 2007 a, b). Persons directly responsible (for example, foremen on the shop floor), even when trained in safe working practices and formally appointed the owners' safety representatives, often do not insist on safe work and 'turn a blind eye' (I witnessed that too), sometimes even pushing workers into unsafe practices. This creates incentives for *underreporting*. In most firms safe work is not a priority even for the trade unions which focus more on wages and other rights.

Fears have recently been expressed (by employers) of a regulatory overload, particularly in the case of SMEs who lack resources and the capacity to comply with the numerous regulations on safety. In addition, the Labour Inspectorate (branch of the State Inspectorate) is seen as more repressive than preventive (Kulušić 2005). Yet, in my interviews those responsible for safety at enterprises found, despite many criticisms, that the Labour Inspectorate was helpful when faced with management indifference or negligence.

***Implementation deficits are more pressing than the regulatory gaps.*** The number of occupational safety inspectors is insufficient and monitoring and enforcement capacities are low. According to the law there should be 170 inspectors; in fact, there are only 89 (SI 2006). For that reason the proportion of planned inspections, with a stronger focus on prevention, is decreasing, but there has been an increase in mandatory inspections due to the rise in reported fatal, heavy and collective accidents at work (692 inspections in 2002, 881 in 2003, 1026 in 2004, 1124 in 2005 and 1094 in 2006) and decrease in inspections for less serious accidents resulting in more than three days' work absence (896 in 2004, 759 in 2005 and 460 in 2006). These checks revealed 46 fatalities in 2006 (45 in 2005, 37 in 2004 and 47 in 2003), and 1071 heavily injured (1101 in 2005, 1031 in 2004, 853 in 2003 and 684 in 2002). This *increase* in recent years was attributed in the State Inspectorate annual reports to an increase in economic activity, often without insufficient safety measures; the absence of efficient prevention systems, including insurance systems (nowadays most costs are socialised; hopefully this will change with recent reforms); and a lack of education (SI 2005 and 2006). Safety managers at some firms (e.g. shipyard, construction) pointed to increased risks due to growing reliance on cooperation and subcontracting with firms whose employees are not sufficiently trained for carrying out (safely) work they are asked to perform and/or increasing reliance on temporary/seasonally employed (e.g. hotels, as reported in Franicevic 2007 a).

***The credibility of the courts is low:*** in 2004/2005 inspectors submitted 1894/1750 misdemeanour applications for 3628/3483 misdemeanours; in the same years the courts issued 1000/1267 fines; in 2006 - 1680 applications on 3427 misdemeanours while courts issued 898 fines (SI 2005 and 2006). Courts, being overburdened, often don't decide the cases brought to them by the SI before the relevant deadline had expired: in 2005 out of 1099 decisions received by the SI from the courts even 41% concerned such cases; and in 2006 out of 1048 decisions – 607 or 58%! While 98 applications for penal proceedings against 136 persons were made by inspectors in 2006, only one decision on penal fine was received. In addition, penal proceedings typically last for a couple of years, often resulting in conditional discharge even when consequences for workers are very grave (*ibid*). In 2006 annual report it is rightly stressed that such a situation 'at great extent devalues inspectors' work' and certainly affects perception of benefits and costs of not abiding by the law. Not surprisingly, and not only in this respect, judicial system deficits are considered as one of the more problematic in all reports on Croatia' (again in 2007 *Croatia Progress Report*).

Increasing scope and quality of social dialogue on OSH seems to be critical, as is critical to improve coordination and cooperation among numerous actors in the OSH system - particular role in that should be played by the National Council for Safety and Health at Work. However, due to the fact that 2005 draft National OSH programme still was not adopted, in NC communication to all social partners (in January 2007), and signed by the former president of NC, strong warning was issued about serious institutional shortcomings and low priority OSH was receiving from the relevant government bodies. In March 2007 new members to NC were elected, after the previous ones' mandate had elapsed – hopefully with greater impact!

While, very slowly, new institutional framework for dealing with OSH is emerging on the national level, giving reason for some optimism regarding future performance and financing of the OSH system, it is important to note that on the industry and firm levels changes are quite uneven. On one hand, it is argued that employers are becoming increasingly aware of their responsibilities (particularly those associated with CEA); on the other hand, 'within the present OSH system the employers are not financially motivated enough to promote safety and health at work' (Marović 2007). For trade unions OSH 'is not the first but is, undoubtedly, one of the

top priorities' (ibid.). Yet, while both employers and unions are present on the NC, 'cooperation on the bipartite level' leaves much to be desired; as 'in collective negotiations very little attention is devoted to questions connected with safety and health protection.....collective agreements only call for respect of the OSH law and quote some of its regulations'. (Marovic 2007) Only two CAs on this issues have been signed so far.

Recently adopted major institutional reforms make possible important and real improvement. But credibility and enforcement will remain as critical as it was in 2005 when a large group of leading Croatian experts agreed that 'regulations on occupational medicine issues, that is on health protection at work, **are not enforced in a satisfactory way**. With formally complying with regulations on work-places dangers, but with substantially insufficient health monitoring efforts protection of workers' health may not be achieved'. (Žuškin et al. 2006) The same may be said on safety protection as well. Major policy challenge is to link-in positive incentives to enforce regulations, and credibility of sanctions for not doing that. Of course, to achieve that, it takes much more than nominal harmonisation with EU / ILO standards, directives and advice.

### 3.3.7 ACCESS TO TRAINING

Better educated tend to have higher wages, greater and longer LM participation, higher employability and face smaller risk of unemployment – as it is true for other countries, it is true for Croatia (Babić et al. 2007, 32-35). However, Croatian educational system is considered as not well adapted to the needs of the 'knowledge-based economy' (Lowther 2004). Enrolment rates are lower than in EU-15 (Šošić 2004). The average years of education Croatia five years old are expected to receive is four years below the average OECD counterpart (Babić 2005).

*Vocational education* is 'the most problematic because enrolment policy and the occupational catalogue are insufficiently harmonised with the needs of the labour market' (Babić 2005, 101). European Training Foundation report recommends building new governance framework for VET (with increasing capacities at the local level) and curriculum reform: 'most of these occupations are too narrow, the training for them is too specialised, and they hardly reflect the skill needs of employers and the requirements of a modern VET in a lifelong learning perspective' (ETF 2003, 20). Recently the government's expert group proposed, as part of VET reform, reducing number of occupations from 350 to 199. (*Vjesnik*, 29.8.2006) Importance of these changes is particularly big when taking into account, analysed earlier in this report, major structural problems of labour markets: high youth unemployment associated with skills mismatches.

In *higher education*, structure of enrolment is considered sub-optimal and efficiency is extremely low: 'only 1/3 of graduates get a degree' (Šošić 2004). Those with university degrees, in spite of generally better position on the LM, often face difficulties in getting employment – less than 50% (among registered) find employment in one year time or less. (Babić et al. 2007, 36) This indicates that structure of enrolment is not well adapted to LM developments and demand – causing costs both for individuals (including employment not related to one's received education) and for society at large. (ibid.) With the 2005 introduction of Bologna process fundamental reform has started; its impact is too early to assess.<sup>44</sup>

*Life-long learning is extremely low*: while in EU 15/25 in 2004 10.3/11.1 of those older than 25 were taking part in some form of education and training, in Croatia it was only 2% - in 2002-2004 there was no appreciable change (CBS LFS). In 2005 – 2.4% and in 2006 – 2.2% report taking part in some form of education/training (LFS, 2d halves). Too little of incentives or funds have been provided by the government (exception are some specific government's programs, local levels' and CES programs, Outline, 2006; HGK 2005); but, hopefully, there are signs that this is changing.

*Croatian Employment Service* is responsible for providing training for the unemployed. However, funds to realise CES plans are insufficient. Numbers are not spectacular but hopefully improving: In 2005 training for employment was organised for 495 unemployed - 27% for unknown employer, 66% for unknown employer in the local partnership system, and 7% only with simultaneous employment (when employer funds 20% of training costs)(CES, 2005 AB) – mostly it was related to hospitality (152), construction (100), shipbuilding and similar occupations (60), in addition basic PC skills – 100. In 2006, 1819 persons were involved in educational/ (re)training programs – out of this 675 (37%) for unknown employer, 985 (54%) for unknown employer in the local partnership system. Out of this 1819 persons – 878 underwent programs in basic PC using skills and 355 in

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<sup>44</sup> First two years of the process were compromised by giving enrolment advantages to children of war veterans with an effect of serious increase (above planned and above Bologna benchmarks for study groups) of enrolled students at many faculties. However, more important, in long-term, is changing incentives in quasi-markets where, due to lower costs per student, supply of (out of quota) places (with students' participation) is much greater in social sciences and humanities (Babić et al. 2007)

basic foreign language skills, much less took programs in occupations (hospitality – 214; construction – 121, textile – 88...)(CES, 2006 AB).

In the context of active LM policies, and in connection with National *employment action plan 2005-2008*, additional training activities have been occurring since 2005: in 2006 CES co-financed training for 375 persons (for known employer) and 873 persons (for unknown employer) – much below planned numbers (1126 and 2700 respectively; real payments were also much below planned ones). In 2007 – 792 persons for known employer (out of this – 85 new employment, the rest keeping the existing one) and 2960 for unknown one were included in training/education co-financed or financed by CES. Finally, under the National Program for Roma, 14 persons were included in training – both in 2006 and in 2007.

While these changes are most welcome, including developing partnerships with local governments, Croatian expert and former director of CES finds expenditure on ALMP low, beyond 1% of GDP, *with too little focus on training and skills development*, and more on job subsidies; altogether there is very little evidence of integrated policy approach. (Crnković Pozaić 2006b) Another expert (in our communication) points to lack of systematic methodology in following deficits on the labour markets; still improvisation prevails. This is why in the recent government's pre-accession document is stressed, as strategic priority – 'strengthening and modernising the Croatian Employment Service...CES must strengthen its support service and delivery to job seekers as well as to unemployed and disadvantaged'. (HRD 2007) However, developing 'culture of evaluation' (JSIM 2007) seems essential – if increasing numbers will not be primarily bureaucratic self-serving instrument.

Research shows that in most *enterprises* unsatisfactory is human resources function concerning training and skills upgrading. In 2003 surveyed were 334 firms: found was that 'Croatian companies mostly invest in additional training for and the development of employees with university degrees': 46.6% did not invest in additional education of their employees; 83.3% didn't invest at all in those with the basic education, and 48.4% in those with secondary qualifications and college degrees (Pološki Vokić and Frajlić 2005, 71). Croatian firms, in general, 'do not invest in the enhancement of the competitiveness of their employees ... less than 15% of the employees ... underwent additional education.' (*ibid.* 71)

Recent research on HRM (Pološki Vokić and Vidović 2007a), confirms the above picture. While research (based on a 2005 survey of the sample of firms employing more than 200, with those above 500 being singled out for a comparison with results of 2001 survey) points to general improvement in a number of indicators on HRM function in Croatian firms, yet it is 'still not developed enough' (in relation to best world practice, but to best national benchmarks too) to be 'a solid ground for achieving competitive advantage through people' (Pološki Vokić and Vidović 2007b, 13). *There was no progress in relation to employees' training and development*. In 2005- 34.3% in 500+ (27.5% in 200+) employed received additional training vs. 36% in 2001 (500+). Share of firms which increased in last two years their training/education budget in relation to operational costs was 46.9% (36.2% for 200+) vs. 71.8% in 2001. Hours of additional education/training/development per employed decreased too – from 19.7 in 2001 to 14.7 in 2005 (12.7 for 200+); hours of additional education/development per additionally educated decreased too: from 53.4 in 2001 to 30.2 in 2005 (33.2 in 200+). Share of employees included in the career management system increased from 5.1% to 7.8% in 2005 (5% in 200+) but share of firms in which all employees are included in the career management system decreased from 4.8% to 2.9% in 2005 (2.5% in 200+). The authors find these data significantly below levels found in old and new EU member states (they quote research by Svetlik and Atlas, based on Cranet\_E surveys which follows HRM in EU – in 2001 share of additionally educated employees was 46.6% in old and 69.7% in new member states - and conclude that 'situation is worrisome.' (Pološki and Vidović 2007a, 411)

In the fourth EWCS, 22.8% reported that they *have undergone paid-for training in previous 12 months* which is lower than EU-15 average – 27.3% and EU-10 (NMS) average – 25.6%, but much higher than a group of southern and eastern European countries (with shares below 20% or even below 10% - Bulgaria and Turkey). While inadequacy of job-skill match – i.e. *need more training* - was reported by 13.3% only (similarly to EU-15 - 13% and EU-10 - 14.9%) lower is share of those who find their job/skills match as corresponding well: 43.4% vs. 52.2% in EU-15 and 54.3% in EU-10. (EWCS 2007)

*In the firms I visited* (Francicevic 2007a, b) was only one with a systematic training (with good opportunities for managerial staff only), along with HRM function developed; some offer their own training (or in co-operation with CES) for occupations in low supply (e.g. shipyard and construction firm) but not systematically. In all firms shared were complaints on lack of important occupations and skills; but worries on their future availability too. Particular stress in that was on vocational schools.

*The importance of education and training reforms by 2000s has been recognised.* Adults' education, life long learning and on the job training entered 'rhetoric' of policy makers (Žiljak 2005, 89). However, major institutional and governance deficits still exist. An important effort in addressing them is 2004 government's Strategy for adults' education, and February 2007 adoption of the Law on Adults Education, establishing foundations for new system for adults' education based on lifelong learning concept (Outline 2006). Agency (operational, established in 2006) and Council (including social partners and constituted in January 2008) for adults education should be in the centre of policy making. In secondary education, 'State Matura' is being introduced as well as reform of VET. Eventually, whole educational system will be reformed following the 2005-2010 Plan. However, success will very much depend on actors' incentives and capacities.

Skills mismatches (but long-term unemployment resulting too often with de-activation) seem to be among the most important problems of LM developments: they make both workers (including those still at schools) and firms vulnerable: first to low employability and/or inferior one, second to potential loss of competitiveness. In increasingly dynamic global settings employers' pressures to increase labour force flexibility should be matched with possibilities for and capacities for (re) training and LLL – to this major challenge I shall return in Ch. 6.

A welcome step to encourage employers to invest in their employees education and/or training is October 2007 Law on the state supports for education and training (*Official Gazette*, 109/07). Both expenditures in general education and for the job-place specific one have become tax deductible – this applies to crafts and business firms (small and large firms are differentiated). Applicable tax deductions could be increased in two cases: if beneficiary is eligible for *regional state supports*; and if education/training is intended for particularly *vulnerable groups* – e.g. those below 25 without regular job, those with invalidity, long-term unemployed, aged (45+) without secondary (or vocational) education, and those employed after three years of break (e.g. those who were using 3 years parental leave). The Law became operational since November 2007 – already in 2008 entrepreneurs will be able to realise supports for expenses in 2007. Of course, the most important is that both sides – employers and employees recognise the importance of additional education and training for their mutual benefit, that is 'pull' may not be enough without strong 'push' factors.

### **3.3.8 Perceptions: permanent attainment deficit but relatively high job satisfaction**

Workers' situation has changed subjectively too. Research on *job-related attitudes* showed marked increase in utilitarian values, particularly concerning the importance of good earnings and employment security (Maslić Seršić et al. 2005). *In the 1993-1997 period all nine aspects of job* (interesting job, advancement possibilities, pleasant and supportive co-workers, fair pay, adequate pay for a decent life, good management, good working conditions, participation opportunities, job security) received high values (more than 4.2 on the 1 – 5 point scale), with adequate pay, able management and fair pay receiving highest values. However, 'the perceived attainability of most job factors was extremely low, *indicating a profound deficit in the need-satisfaction*' (my italics) (most important aspects were below 2.8). This discrepancy was 'particularly great for the pay'. (Maslić Seršić and Šverko 2000)

During *the 2000-2004 period*, each year between 147 and 238 persons, almost from all counties, were interviewed. All nine aspects are found very important; but, again, their *attainability was rated much lower*; but there was an increase in their values (from 0.01 to 0.35) compared to earlier period (with good pay receiving just 2.84 and participation opportunities 2.82). The most significant increase is in importance of employment security, but in intrinsic values too (participation, pleasantness and support of co-workers). *Pronounced attainment deficit* points to the precarious position of the worker. This is particularly reflected in greater importance being given to employment security in the second period. On the other hand, increase in intrinsic values may be indicative of generally better conditions of the early 2000s. (Maslić Seršić et al. 2005)

*There is discrepancy between low attainment and job satisfaction in both periods. In both periods job-satisfaction was judged in positive terms* (very satisfied or satisfied) and neutral (neither/nor) with very small proportions of those who are (very) dissatisfied. Between the periods, there is also an increase in satisfaction, reflecting better economic conditions and higher attainment of job related factors. It was suggested that relatively high job satisfaction could be explained by the 'facet satisfaction' – 'the referent others are very much in the same situation' while the second period's increase subjectively reflects improvement of economic conditions (Maslić Seršić and Šverko 2000, and Maslić Seršić et al. 2005). It may be added that, in the context of great unemployment, particularly for some groups, costs of losing one's job are high – people often say that 'one must be happy to have a job at all' (*per se* a source of satisfaction). Survey of 334 companies in 2003 showed 4.8 absenteeism rate 'which is deemed low', but 'fear of dismissal' may be present (Pološki Vokić and Frajlić 2005, 68 and 74). Differences in exit options (highest for educated) may be reflected subjectively too.

Namely, not representative on-line survey from June 2005 offers bleaker picture (n =1577; probably over-represented were younger, educated and urban respondents): very satisfied or satisfied were 35.6% (against 60.8% in above, 2004), dissatisfied 25.0% or very dissatisfied 37.4% (against 11.7%)! (See Table 3.3.11) However, confirmed is (in terms of various factors' relative importance) the highest ranking being given to wages (rank 1) and employment security (3), but also to some intrinsic values like potentials for personal development (2), feeling that own potential are realised (4), relations with colleagues (5). In addition, only 33% find themselves adequately paid for job done; only 34% find their actual position adequate to their potentials; and 38% feel to be realising their potentials. (MP 2005a) Again, indicated is high attainment deficit, but interestingly here reported surveys indicate higher attainment in private sector. Certainly, larger research with representative sample is very much needed (Maslić Seršić et al. 2005).

**Table 3.3.10: Job satisfaction – surveys compared**

	very satisfied	satisfied	Neither satisfied nor dissatisfied	dissatisfied	Very dissatisfied
1993-97*	10.3	43.3	29.6	13.1	3.0
2000-04*	12.4	48.4	26.5	9.5	3.2
2005**	7.2	28.4	27.1	25.0	12.4

Sources: \*Šverko et al (2000 and 2005); \*\*Moj posao (2005a); Note: samples are very different, just for illustrative purposes

Fourth EWCS finds that, in general, 71.9% are satisfied or very satisfied with working conditions; lower than EU-15 – 84.8% and NMS – 77.2%. However, on some important dimensions Croatian workers show greater satisfaction than NMS average is but lower than the EU-15 one. For example, 39.6% report *to be well paid* for the work they do against 47.0% in EU-15 but 29.0% in NMS. *Prospects for career advancement at their jobs* find good 26.3% - it is below EU-15 – 33.0% but above NMS – 23.9%. Feeling of job security is comparatively high as well: 19.4% report that they might lose their job in the next 6 months, against 11.3% in EU-15 but 25.2% in NMS. (EWCS 2007)

UNDP Croatia 2006 quality of life survey (based on EQLS) confirms the above and provides additional insights: *prospects for career advancement at their job* find as good 25%; this is close to EU-10 - 26% but lower than EU-15 - 36% (however regional differences are important – from 12% to 34%). Further on, 33% feel to be *paid well* (regional 13% vs. 43%); this is between EU-10 - 21% and EU-15 - 43%.

Importantly, regarding perceptions on all dimensions of quality of job wide are regional differences (between 21 counties and City of Zagreb) - typically the maximum share on some dimension is twice of the minimum one): this strongly points to the need of research that will integrate industrial dimension with territorial one – in order to get both more precise picture and more relevant and contextualised policies.

*Perceptions widely differentiate* along occupations/positions, gender, age, education, and firm size....Typically *positive attributes* are more often given: *regarding career advancement* by highly educated, professionals and managers, and self-employed; *regarding pay* – by highly educated, self-employed and those working in SMEs; *regarding work autonomy* – by those on permanent contracts, living in smaller towns, aged above 50, highly educated, working in small firms, and particularly by self employed and farmers. On the other hand, *negative attributes* are more often given: *regarding demands and stress* by permanently employed, highly educated and self-employed; *regarding working at tight deadlines* by non-manual workers; and *regarding unhealthy and unsafe conditions* by those with primary education, working at large firms, manual workers and farmers (UNDP 2007, 49)

### 3.3.8.1 Bullying on the way to be recognised as a work related problem

For most of Croatian workers, level of job satisfaction seems to be quite high. Yet, work and working place may easily become a locus of conflicts, physical abuses and harassment. It seems that *Croatian workers' exposure to such behaviours is above European averages* – and this is increasingly causing concern but some action too. Fourth EWCS is indicative: shares of those reporting being exposed to physical violence and harassment are on all dimensions, but age discrimination, higher than both for EU-15 and NMS (EU-10) averages: 6.5% reported being in last 12 months subjected to *threats of physical violence* (vs. 6.3%/5.2% for EU-15/NMS); 2.5% to *physical violence from colleagues* (vs. 2.1%/0.8%); 5.1% to *physical violence from other people* (vs. 4.6%/3.5%); 8.2% to *bullying/harassment* (vs. 5.4%/3.8%); 2.8% to *unwanted sexual attention* (vs. 1.7%/ 2.2%) and 2.9% to *age discrimination* (vs. 2.6%/3.2%). (EWCS 2007)

As the CHII data show, after musculoskeletal disorders, mental disorders are (together with work accidents) the most common causes for *sick leaves*. A notable psychiatrist confirmed that *stress-related symptoms are increasingly bringing the employed into clinics*. (*Slobodna Dalmacija*, 28.8.2006). Many believe that the *workplace has become more stressful*. And data from a number of countries points to clear relationship between stress, absenteeism and work disability. (EWCS 2007, 20) An online survey (n=474) showed that 34% of people would willingly accept a lower paid job with less stress (some report family priorities, some are 'at their wits end'); an additional 35% would accept a lower paid job on condition that the reduction did not exceed 10–25% of current pay, while 29% would not accept such an offer at all ('there is nothing like low stress job', but 'money pays the bills'). In spite of its unrepresentativeness this survey indicates that stress is not only quite common but is also perceived as harmful for employees (MP 2005). In my interviews in selected firms, two major sources of stress emerged: (i.) attributable to pressures exerted by those positioned higher up the job ladder, and (ii.) caused by 'attainment deficit'. (Franicevic 2007a,b)

*Exposure to bullying (or mobbing) is strongly associated with stress*. (Hamandia 2006, 287) This has also been recognised in Croatian debates on 'workplace bullying'. Its victims often suffer from various psychic, emotional, physical and behavioural conditions: PTSD is often diagnosed. (Jokić-Begić et al. 2003 – being psychiatrists they report 'growing numbers of clients looking for help due to bullying at work'). An association helping the victims of bullying was formed in 2004 ([www.mobbing.hr](http://www.mobbing.hr)), raising public awareness of the issues involved. Some women's groups regularly point to sexual harassment at the workplace too. The government Offices for Gender Equality, and Human Rights and the parliamentary Gender Equality Committee have become interested, as have a number of public health institutions. (Also see section 2.3.2.4 on gender-related discrimination)

The evidence is indicative. The new association has been approached by many victims from across the board: from cleaners to university teachers (*Vjesnik*, 25.10.2005). The 2002 field research found that between 15.4% and 53.4% of the sample (n=700) had experienced some sort of bullying. Men are more exposed to threats or physical assaults, women to sexual harassment. Psychiatric problems associated with work were reported by 37.7% to 54.8% of workers; it is unclear what proportion can be attributed to bullying (Koić et al. 2003, 16). Online research showed that among 812 persons who decided to participate, 84% had been exposed to psychological abuse at work (Posao.hr, 2005). Questionnaire on bullying in the association for bullying prevention was filled by 1152 persons in April to December 2005 period – 70% were women, those with higher education report more often (48%); about 50% were with the same employer for more than ten years (Outline 2007) Very recently, at conference on bullying, president of bullying victims' association (an NGO) said that each day 4-10 calls are being received by the work-place harassment victims (particularly vulnerable are single parents) ([www.javno.com/hr](http://www.javno.com/hr) on Dec 12, 2007)

This indicates that the extent of bullying may be quite large; however, *legal protection and public policies to deal with it are considered inadequate* (even if the Labour Act forbids discrimination and psychological molestation), and new regulations are asked for. Ms. Sobol, president of the Gender Equality Committee, points to the importance of raising public awareness, but also of legal action which would produce 'new legislation, because we believe that what is laid down in the existing laws is not recognised as bullying' (*Glas Istre*, 18.3.2005). The lack of credibility of law enforcement makes victims even more hesitant to speak out and seek protection – this is one of the reasons why the establishment of a Court of Labour Disputes should be seriously considered too (Bodiroga Vukobrat 2005).

Recognising bullying as a 'work related problem' (*ibid.*) and developing a network of supporting public institutions where victims will be able to find help has also been suggested. Particularly important, experts believe, is to sensitise employers to the issues involved, such as the potentially detrimental effects of bullying for productivity and efficiency. Importantly, through discussions on and activities related to this issue, civil society groups are becoming relevant actors on the labour politics scene too. In cooperation with members of government and parliament bodies, an Outline of the Law on Prevention of Harassment at Work (March 2007) was submitted to the Parliament – it will probably be discussed in 2008 making Croatia among rare countries adopting a special law on bullying. Presently, the Labour law provides, however – imperfect<sup>45</sup>, legal protection – more than 100 cases have been filled with courts from 2003 but none has received final court decision (according to Ms. Apostolovski statement at recent conference on bullying, on [www.javno.com/hr](http://www.javno.com/hr) on Dec 12 2007; also in Outline...) The Outline's intention is to provide protection for all employees by following categorisation and definitions from 2004 European Framework agreement on work-related stress signed between

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<sup>45</sup> In Outline (2007), it is claimed that the Labour law does not encompass all sources/causes of workplace bullying (it is more oriented towards preventing discrimination); makes potential victims' use of law too costly, and gives too much protection to employer)

European unions and employers confederations/associations (on [http:// ec.europa.eu/ employment\\_social/news/ 2004/ oct/ stress\\_agreement\\_en.pdf](http://ec.europa.eu/employment_social/news/2004/oct/stress_agreement_en.pdf))

This increasing involvement of civil society (cum NGOs) is certainly redefining the politics of work in Croatia and broadening (but questioning too) traditional tripartite approaches to it. If the Sunday issue (as discussed in section 3.3.2.1) is about extent of the market, bullying is about the interpretation of responsibilities of the sides in the contract during its execution. If the Sunday issue reflects challenges of tradition to postsocialist ‘modernity’, here it is modernity (discourse of human rights entering the work place) which challenges tradition of submission, compliance and silence; but of high paternalistic expectations too: there is a lot of unused scope for civil society involvement, as was clearly shown in the asbestos case (Salonit from Vranjic) too.

## 4. SOCIAL PROTECTION SYSTEMS AND COVERAGE

### 4.1 Some general trends

*Croatian social protection systems* still bear the legacies of the Bismarckian social insurance and health care systems developing from late 19<sup>th</sup> and early 20<sup>th</sup> century and of changes brought about by the socialist system (universal health care coverage, universal public education, professionalisation of social work and assistance through network of Centres for Social Work (CSW), with some scope for non-governmental charity allowed) (EIZ 2006, x). Due to such legacies, ‘Croatia social protection scheme is largely insurance-based, *with rights related to contributions made during employment*, supplemented by certain direct central budget funding.’ (EIZ 2006, 78)

In the post-socialist period evolution was under (i) immediate crisis management impact (war, refugees) dominating 1990-95; (ii) typical transition-related reforms impact (very much under the influence of the World Bank thinking and advice) dominating 1995-2000; and (iii) europeisation impact, increasingly becoming influential in 2000s, and particularly after Croatia became a candidate country. In 1999, Croatia signed European Social Charter in Strasbourg, in 2002 Croatian parliament accepted a Law on confirmation of European Social Charter with additional protocols (*Official gazette*, International contracts 15/02.); it committed itself to be bound by obligations from articles 1, 2, 5-9, 11, 13, 14, 16 and 17 of the part 2 of the Charter, and by articles 1-3 of the part II of additional protocol; by March 2003 it came into force. First Joint Social Inclusion Memorandum (JSIM) between EU and Croatia was signed in 2007.

Early 1990s brought major *pressures due to the war and social emergencies it created* (refugees, displaced, disabled etc., leading to emergency social programme. Social cards were introduced: 5.4% of population had such cards in 1993 (EIZ 2006, 23-24). Simultaneity of war with *and transition reforms* deeply affected Croatia’s transition path (Franičević 2002; Franicevic and Bicanic 2004), leading to dramatic increase in unemployment, dramatic increase in unofficial economy, black-work, non-paid work, or work without social contributions being paid timely or not at all.

**Table 4.1: Employed receiving all three benefits: wages, old-age and health insurance (%)**

	1998/2	2002/2	2004/2	2006/2
Total	78.7	82.0	83.9	85.0
Public sector employees*	96.0	95.9	99.1	99.1
Private sector employees	93.3	96.2	97.0	97.8
Self-employed	44.5	52.0	48.9	53.9
Helping family members, short term contracts and own account workers	4.2	5.3	4.1	5.9

*Source:* CBS-LFS; *Notes:*\*includes sector in transformation;

Table 4.1, above, based on LFS, illustrates improvements (most notably in the private sector) concerning security of workers (in terms of receiving wages *and* full insurance; including pension, health and unemployment insurance), but also the fact that some groups of employed are, due to lack of insurance, vulnerable to risks of poverty and no/poor health protection. Enjoyment of full benefits is the smallest for self-employed, and particularly for helping family members and/or those on short term contracts/own account.

Not surprisingly, with the above legacies and pressures, Croatia still has comparatively *high share of social (protection) expenditures in GDP*, and particularly high share of non-health social security programmes in total social expenditures (64%, EIZ 2006). Social and health insurance absorb more than 80% of the total social

protection expenses (JSIM 2007). In an ILO comparative study on South East European countries' social protection spending, *given is structure for 2003*. It is highly indicative: 51.2% for mandatory pension insurance; 29.4% for basic health insurance; 1.7% for unemployment insurance; 5.7% for protection of war veterans and their families, 0.3% for rights of displaced persons, refugees and returnees, 2.9% for rights on the areas of special concern; 3.3% on child benefits, 2.7% for social assistance in competence of central government, 2.7% for social assistance in competence of local authorities (data on maternity benefits for unemployed mothers were not available; nor for social assistance on the county levels) (ILO 2005, 77-78). In 2006 central government budget, in total social benefits expenditures – 64.7 % went to pensions; and 19.1% to health expenditures – altogether more than 84%. (MFIN, Annual report 2006, 54)

Tables 4.2 and 4.3 below show that Croatia is high social-expenditures country, yet with tendency of slowly decreasing social expenditures' share in GDP. As Table 4.2 below shows, social protection's share in total budgetary central government expenses (according to GFS 2001 functional classification) is high – at around 40%, though slowly decreasing, while shares of health and education expenses remained stable – at around 14.5% and 8.5% respectively. Shares in GDP, however, slightly decreased in the 2002-2006 period (characterised with strong GDP growth): from 17.8% in 2002 to 15.2% in 2006 - social protection; from 5.9% to 5.6% - health, and from 3.5% to 3.3% - education. Table 4.3 shows that central government expenses clearly dominate over total social expenditures, with tendency of decreasing their share in GDP. While local governments' expenses' share in GDP increased considerably (from 0.19% in 1999 to 0.41% in 2006), it has not been enough to prevent falling, but it did slow-down, overall social spending's share in GDP. Behind such trends concerning expenditures, but composition and efficiency too, have been, besides strong fiscal pressures, international organizations' pressures too. By the end of 1990s social spending has been coming under the scrutiny of IFOs (IMF, World Bank), IOs (EU, ILO, UNDP) – pressures for further reforms are strong, but resistance to them too.

**Table 4.2: Share of social protection, health and education expenses in total central government expenses, and in GDP – by functional classification, 2002 – 2006, in %**

	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
	<i>CG budgetary expenses – total, shares</i>					<i>Share in GDP</i>				
TOTAL EXPENSE/GDP in 000 HRK;	74171	79 130	84 795	89 686	97 858	181231	198422	214983	231349	250590
Social protection	43.4	42.2	41.1	40.9	38.8	17.8	16.8	16.2	15.9	15.2
Health	14.4	14.7	15.0	14.4	14.4	5.9	5.9	5.9	5.6	5.6
<b>Soc. Protection and health</b>	<b>57.8</b>	<b>56.9</b>	<b>56.1</b>	<b>55.3</b>	<b>53.2</b>	<b>23.7</b>	<b>22.7</b>	<b>22.1</b>	<b>21.5</b>	<b>20.8</b>
Education	8.5	8.6	8.5	8.5	8.4	3.5	3.4	3.4	3.3	3.3

Source: MFIN, Annual Bulletins 2005 and 2006 (Table 7, annex); GDP at current prices; In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

**Table 4.3: Share of social protection and health expenses in GDP – by functional classification, consolidated central government and non-consolidated local governments\*, 1999 – 2004, in %**

	1999	2000	2001	2002	2003	2004
Health	7.2	7.5	7.2	6.7	6.4	6.6
Social insurance	16.3	16.5	16.9	16.0	13.9	13.6
Social welfare	2.1	2.1	2.0	1.8	2.7	2.6
Other costs of social ins. and soc. welfare	0.5	0.5	0.4	0.5	0.6	0.6
<b>Total social insurance and care</b>	<b>18.9</b>	<b>19.1</b>	<b>19.3</b>	<b>18.3</b>	<b>17.2</b>	<b>16.8</b>
<b>Total</b>	<b>26.2</b>	<b>26.7</b>	<b>26.5</b>	<b>25.0</b>	<b>23.7</b>	<b>23.4</b>
<i>Local governments only*</i>	<b>0.26</b>	<b>0.22</b>	<b>0.25</b>	<b>0.53</b>	<b>0.54</b>	<b>0.53</b>

Source: MFIN, JSIM 2007; Note: GFS 1986 methodology; GDP at current prices; \* our estimate; with 2002 based on 53 greatest units of local/regional government included (making 70-80% of total local gvt' expenses)

In social protection expenditures greatly dominate social security ones, yet with decreasing share in GDP, similarly to health expenditures, while increased has, even if slightly, share of welfare affairs and services. Important is to note an increasing share of local governments expenses (continued in 2005 and 2006; it also concerns social protection only; particularly affected by their increased involvement in welfare services<sup>46</sup> and children/family protection to which I turn latter)<sup>47</sup>. Unfortunately, while these data is clearly imperfect for more detailed analyses, Croatia, even if committed to, still hasn't adopted and realised an ESPROSS classification.

<sup>46</sup> Various welfare expenses by 53 largest local gvt. units almost doubled between 2002 and 2006 (from 283 million HRK to 617 million HRK – Mfin, Annual reprot 2006, Table 19 (annex)(based on 53)

<sup>47</sup> According to table 4.2 approach, they have risen to 0.64 in 2005 and 0.67% of GDP in 2006 (estimate, not fully reliable).

## 4.2 Social welfare

*Social welfare system* is characterised with high level of formal social rights<sup>48</sup> and well-developed system of Centres for Social Welfare (there are 80 centres, with 24 affiliations) as well as with high level of professional training of social workers. (EIZ 2006, 90) Its evolution strongly reflects path dependencies related to socialist system, war-related path dependencies and efforts at reforming, under the impact of international institutions (World Bank assistance for example<sup>49</sup>; CARDS project<sup>50</sup>; see also World Bank 2007b). Another important influence is de-etatisation of social welfare services, introducing on an increasing scale, as providers, private entrepreneurs and non-for-profit organizations. In the 2000-2004 period, for example, 73 new non-state nursing homes, out of which 47 were for elderly and infirm persons were established -37 out of that were established by private persons. (Jurčević 2005)

By the end of 2004 – 257335 persons or 5.8% of the population received some social welfare assistance from the state (Jurčević 2005). In 2004, 1.03% of GDP was spent on social welfare through MHSC; in 2005 - 1.00% and in 2006 – 0.96%. Most was spent on income supports and compensations: 0.59% of GDP in 2000; 0.70% in 2003; and 0.64% in 2006. Table 4.4, below, provides available data on *social welfare* expenses administered by Ministry of Health and Social care (MHSC). Growth in numbers of recipients (2002-2004) reflects changes in eligibility rules, widening number of those eligible to receive the support: base rate was raised from 350 to 400 HRK<sup>51</sup> and children allowances were exempted from the applicant's income calculation (however, by the end more stringent regulation in that respect was in some cases applied, hurting families with more children; Jurčević 2005, 352). Most among recipients of permanent support, the most important social welfare program, don't have any other income at all – in 2004 such were 92.4% individuals and 95.7% of families).(ibid.) Also, with 1999 some rights attached to pension insurance system were, for 'new' pensioners transferred to social welfare system. However, with 2004 decreasing is a number of income support recipients reflecting improved economic conditions but also keeping the income base of 400 HRK unchanged. According to the new Government Coalition Agreement (January 2008), this base should be increased to 500 HRK. With growing inflation pressures, Babić's proposal for inflation-adjustment regulations becomes even more important. (Babić 2007, 83)

**Table 4.4: Social welfare in Croatia 1998 – 2006: users and expenditures on permanent supports**

	1998	2000	2001	2002	2003	2004	2005	2006
Number of recipients-persons*		179.990	221.646	235.250	244.245	257.335		
Base Indexes		100,0	123,1	130,7	135,7	143,0		
Chain indexes		100,0	123,1	106,1	103,8	105,4		
Share in population		4.1	5.0	5.3	5.5	5.8		
Share of state expenditures in GDP		1.29 (1.29)**	1.30 (1.32)	1.03 (1.17)	1.09 (1.22)	1.03 (1.19)	1.00	0.96
Share of income and other supports in GDP		0.59	0.65	0.69	0.70	0.69	0.67	0.64
Permanent income maintenance allowance recipients***	72160	93472	112034	121778	121515	120916	119470	112508
Number of households		44413	50406	53119	52656	52513		
Share of unemployed					45.8	45.3	46.1	45.7
Expenditures for permanent support in 000000HRK	203			481	501	500	498	480
Yearly/monthly average HRK	2816.9/ 235.7			3950.8/ 329.2		4138.6/ 344.9		426455/ 355.4

Sources: Jurčević 2005 and MHSC (2004 and 2006 annual statistical reports); Notes : \* Calculation includes multiple rights recipients only once \*\*\*end year; \*\* (in brackets if costs of decentralised welfare functions; mainly old age homes) are included; In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

<sup>48</sup> State social protection system includes an array of 17 rights/benefits (15 are material: 6 in cash, 4 in kind and 5 in services; 2 are non-material: different counselling services). (Jurčević 2005, 351)

<sup>49</sup> Stubbs and Zrinščak 2006 analyse social policy reform processes and show that, while the World Bank priority was reducing total spending on social benefits (from 4.1 to 3.5% of GDP) whilst increasing the share of best-targeted and means-tested social support allowance, effects of external actors when there are no particular internal drivers of change – are limited (pension reform in that respect was very different). Yet both reforms show strikingly 'low importance and influence of the European Union'. (Stubbs and Zrinščak 2007, 17)

<sup>50</sup> These processes were also under the impact of EU regional policies looking for co-ordination of social security systems' in Western Balkans region (under the CARDS Regional Programme)(Baloković, 2007).

<sup>51</sup> According to applicants characteristics a scale of rates is being applied on the 400HRK base (In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR).

Importantly, concerning permanent income support, i.e. maintenance allowance, in 2004 - 45.3% were unemployed but capable of work; and in 2006 – 45.7%.<sup>52</sup> For many unemployed, due to low coverage and duration of unemployment benefits (see below) this is critical source for reducing poverty risk.

Regional aspect is again important: in 11 counties (out of 20 and city of Zagreb) shares of those receiving income supports are considerably higher than their share in population – following developmental differences, but war-related ones.

While the EIZ (2006) study points to numerous weaknesses (complicated benefit system; category-based not needs based; hard to get out of poverty; bureaucratised; low levels of funding of social benefits; poor targeting of benefits; welfare parallelism – government and local authorities; no quality standards; poor monitoring and evaluation), the social welfare system, such as it is, significantly contributes to *poverty-risk reduction*. Based on 2004 data, average amount of permanent welfare support (344 HRK in 2004) is 38% of poverty risk line (if monetary and natural income is included); however, there are recipients receiving other incomes and/or social supports too. (Jurčević 2005) Still, it may not suffice to ensure a minimum for decent life, even if its contribution to poverty alleviation is very important - as Table 3.2.8 (section 3.2.7.2) clearly shows.

Babić's calculation shows that 10% poorest households derive about 36% (in 2002-2005) from social transfers (old age pensions not included) – social transfers contribute to alleviation of poverty and economic inequalities he concludes. Yet, there is a lot of scope for increasing efficiency of the system and improving overall social transfers policies (Babić 2007, 74). As the World Bank study suggests, due to shallowness of poverty profile of Croatia, with even modest increase/relocation of resources, but intelligent policies and proper targeting (to most vulnerable) significant reduction in poverty could be made (World Bank, 2007a). More precisely, in the case of perfect targeting, lifting 'all poor out of poverty...would cost only about 0.7% of GDP'. This amount could be achieved by 'restructuring of the overall social benefit envelope, to which Croatia devotes 3.9% of GDP but out of which only a small fraction (0.26% of GDP) is spent on poverty benefits'. (World Bank 2007b, 5)

The World Bank May 2007 *Progress Report* clearly states that main goals should be 'rationalised cash social benefits' through 'consolidation of cash social benefits programs and reduction in share of GDP.' 'Improved targeting through means-testing for increased share of social benefits' is considered as essential. (World Bank 2007b, Annex b9) Croatia's National Population Policy, adopted in September 2006, is criticised as being inconsistent with agreed upon (in connection with a country assistance program) reform strategy; it is projected to increase social benefit spending by net 0.2 percent of GDP in 2007'. (WB 2007b, Annex B9).

While *various social benefits programs* (some 40 programs administered through a number of ministries – including war veterans and their pensions, social welfare programs, population policies, unemployment benefits and programs, professional rehabilitation etc.) in the 2004-2007 period (calculated from MFIN budgetary data and following the World Bank classification) were on the level of 3.84% (2004), 3.90%(2005), 3.73%(2006) and 3.83%(2007, based on central government's budget rebalancing) of GDP for respective years, important is to note is that only 9.3% (2004), 9.6% (2005); 9.7% (2006) and 8.1% (2007) of these social benefits expenses were *means-tested* (i.e. 0.36% of GDP in 2004; 0.37% - 2005; 0.363% - 2006 and 0.309% - 2007).<sup>53</sup> Two out of four means-tested programs are taking the lion's share in 2006: 52.9% went to permanent social support allowances and further 35.3% to additional allowances for help and care (both administered through the social care branch of MHSC; Table 4.4 above); 4.6% is going to one-off rights defined by the Law on war veterans' rights. This situation has very recently been criticised by the World Bank representatives – asking again for reduction in overall share of benefits in GDP but an increase in share of means-tested and better targeted programs with greatest poverty reduction potential. (WB 2007b, Andras Horvai in *Jutarnji list*, January 25, 2008).

Arguably, in the absence of a strong 'driver for change' (Stubbs and Zrinščak 2006) and still great political profit to be earned (in the course of political cycle) from paternalistic and populist social policies (often benefiting those not in any need, but belonging to certain categories) the likelihood of substantial change in the short- or medium-term is limited. Crucially, debates on decentralisation have been stalled and there is more welfare parallelism (Stubbs and Zrinščak 2006) than partnerships both in terms of the role of different (branches and) levels of government and in terms of the involvement of NGOs as alternative service providers. (Stubbs and

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<sup>52</sup> The three new coalition government parties also agreed on creating conditions to introduce State support for those aged above 65 and without earnings and with 40 years of permanent living in Croatia (or 50 with interruptions) and on the level of permanent social support (Agreement 2008)

<sup>53</sup> 2007 is based on rebalanced budget data.

Bošnjak 2006, 156). Whether recent formation of new coalition government by might bring new push to serious reforms of the sector, or block such changes (due to in-fighting) is yet to be seen.

### 4.3 Unemployment benefits

*Poverty risk has remained very high for unemployed.* As data (see Table 3.2.8, section 3.2.7.2) show, risk of poverty for unemployed is much higher than for employed (32.2% in 2001 and 31.2% in 2006).

*Data on the unemployed high poverty risk is consistent with data on low unemployment benefit coverage:* ‘since the duration of unemployment is greater than the duration of benefit, most unemployed lose their benefit but remain unemployed’ (Crnković-Pozaić 2005). Rights to unemployment benefits are restricted to those who (in the moment of becoming unemployed) have accumulated at least 9 months of work in last 24 months; with some exceptions maximum time allowance is 15 months. For that reason, in the context of high youth and long-term unemployment, coverage is low, but low is replacement rate too. *Benefits* are only about a quarter of the average wage, and do not suffice to cover one’s basic needs.<sup>54</sup> Despite recent increase in *coverage* – from below 20% in the 1997-2001 period to 22.3% in 2004 and 22.8% in 2006 (CES data) – too many are left out.

Moreover, among those who receive unemployment benefits, as recent survey shows, mostly are ‘short-term unemployed with previous work experience. Accordingly, 34.9% of the short-term unemployed in the UNDP *Quality of Life Survey* had received benefit in the past month, whereas only 12.8% of the long-term unemployed had’ (UNDP 2006a, 79). According to administrative data, see Table 4.5 below, increased has share of women receiving unemployment benefits: from 33.6% in 1997, to 48.0% in 1998, 55.3% in 2000 to around 60% in the 2003-2006 period, with highest 61.6% in 2006. Around 70% of those receiving benefits are those with three years vocational school or less (basic or no school).

**Table 4.5: Unemployment benefit recipients (yearly average)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total no of recipients	55171	44779	54257	63396	70369	80795	67977	70467	72802	66407	59603
Share of women %	33.6	48.0	53.3	55.3	57.7	54.4	59.1	60.2	59.1	61.6	63.6
Those without and with finished basic school/ 3y vocational school								26.8/45.5	25.4/45.1	27.4/42.2	28.4/41.0
Average registered unemployment	278	288	322	358	380	390	330	310	309	291	264
Share of recipients %	19.8	15.6	16.8	17.6	18.4	20.8	20.6	22.3	23.6	22.8	22.6

Source: CBS, CES database

Due to *low coverage and low replacement rate*, pressures to engage in informal work are still strong, as capacities for private solutions to financing (re)training are for many – low. ILO study on social security spending in Southeast Europe found Croatian unemployment benefits system to be the most restrictive one. (ILO 2005) True challenge, however, is not only to increase coverage or replacement or both – but to integrate protection of unemployed in re-employment policies including re-training and other re-activation policies. In all these respects Croatia is seriously lagging behind. For all those arguing for benefits of ‘flexicurity’ policies this is one of major issues to deal with (see in Chapter 6).

### 4.4 The pension system

Croatian pension system reflects legacies of the socialist-period’s pay-as-you-go system of intergenerational solidarity and reforms of the late 1990s. Even if the system’s *coverage* is not full, it is broad and applies to all employees, self-employed and farmers, as well as to some other groups (more in EIZ 2006). It was estimated that out of total (estimated) population aged 65+ (746500), and using HZMO data for the end of 2005 (643821 were receiving pensions) – some 103321, or 13.8% of the total, were not receiving pensions; further some 89000 aged 65+ are not receiving neither pensions nor social assistance (EIZ 2006, 116).

The system was ‘designed with a strong bias toward the full-time job relationship, with all other forms of part-time work recalculated to the full-time equivalents’ and ‘against atypical forms of work’ making it close

<sup>54</sup> Of course, unemployed persons are entitled to apply for welfare: ‘...there were about 60 thousands unemployed welfare recipients and 318 thousand unemployed in Dec 2003, a ratio of about 23%.’ (Crnković-Pozaić 2005, 42) See Table 4.6 too.

to impossible reaching minimum years of service to get an old-age pension. In 2003 this 'systemic rigidity...has been rectified in line with more flexible legislation on mandatory contributions for work that is not full time and permanent' (Crnković-Pozaić 2007, 100-101). Law on Pension Insurance gives right on the pension to those aged 65 (males) and 60 (females) with simply 15 years minimum of work, regardless of the hours of work, with a special algorithm to be used to calculate the pension's amount (ibid., 112)

Croatian *pension reform*, initiated in 1995 and completed in 2001, has been by many considered among the greatest reform successes of Croatia. It was very much under the influence of the World Bank. Implementation started in 1997; a *three pillar system* was introduced. The *urgency of reform* was punctuated by long-term demographic changes (ageing) and war/transition related shocks (including dramatic growth in disability and/or early retirement) which rapidly were changing insured/pensioners ratio – from 3.68 in 1985 to 3.00 in 1990 and 1.81 in 1995, to reach the lowest 1.36 in 2000).

*Sustainability of the system and associated rights was clearly coming into question*, resulting in strong fiscal pressures. Pensions' expenditures reached the highest 13.9% of GDP in 2001 (after firstly falling from 11.27% in 1990 to 7.71% of GDP in 1992)<sup>55</sup>. After period of decrease (1968 thousands in 1990; 1568 in 1995; and 1381 in 2000), number of *active insured persons* has started to increase (to 1422 in 2002; 1460 in 2004 and 1538 in 2006 – all end year) and *insured/pensioners ratio* stabilised and slightly improved to 1.37 in 2004, and 1.40 in 2006. (HZMO data on Dec 31)

The reform was based on reducing public pillar in combination with introduction of private pillars (thus closest to the Argentinean model)(Stubbs and Zrinščak 2006); it also included gradually increasing retirement age: from 55/60 for women/men to 60/65 (to be fully applied by the end of 2007); and gradual lengthening of the period for calculating the amount of pension from the first pillar (from ten 'best' years to entire working period), and redefined some rights (discouraged was early retirement for example), disability definitions; greater transparency was introduced as well as decreased were incentives for unofficial work and contributions' evasion. etc. (more details in EIZ 2006). Introduced was 'the Swiss formula for adjustment based on equal split between wage and price increases.' (Stubbs and Zrinščak 2006)<sup>56</sup>

The *first pillar* is mandatory – it covers all employees and all other beneficiaries of the pension system). Importantly, 'basic retirement allowance, based on average wage, is introduced as well as indexation of retirement allowances. (EIZ 2006, 105)

The *second pillar*, starting with January 2002 created three groups: (1.) those above 50 had no option – they were eligible for the first pillar only; (2.) those aged 40-50 could choose to remain in the first pillar only, or to channel part of their contributions to competing pension investment funds, (3) finally those under 40 had no option but to participate in both pillars. Importantly, second pillar led to an increase in the total number of insured – due to contributions being paid to it by all those receiving 'other income'. Four mandatory funds' membership has risen from 938 thousands in 2002 to 1071 in 2003, 1170 in 2004, 1249 in 2005, 1322 in 2006, and 1355 in 2007 (REGOS data, on December 31; for 2007 on July 31).

*Third pillar*, is a voluntary savings system encouraged by state subsidies to those participating and run by pension investment funds, but trade unions and employers may create such funds as well (as some other large firms did). Recent public survey (commissioned by one investment fund) showed that while 90% surveyed are planning for the future, their plans are more oriented towards children education, job promotion, and buying cars and/or apartments; only 20% surveyed are currently saving for their future pensions, even 33% are not saving at all nor are planning to save in next ten years. Only 6% are saving in voluntary funds (3d pillar), but even 60% are planning to do that in next ten years. Most are postponing their saving for retirement which can hardly guarantee major income. (*Poslovni dnevnik*, 23.5.2007 and *Newsletter AZ*, November 2007) REGOS data show that presently (11/2007) there are 6 open-ended voluntary pension funds and 12 closed-end ones. Their membership has increased from 1345 in 2002 to 51121 in 2005 and 99842 in 11/2007 in open-ended and from 1112 in 2004 to 5336 in 2005 and 11826 in 11/2007 in closed-end ones (REGOS data, end year). However, in spite of high growth rates, the coverage still remains low as is capacity and/or preference of many employed to engage in voluntary savings for future pensions.

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<sup>55</sup> In addition, in the 1993-1998 period considerable debt towards pensioners (recognised in 1998 by the Constitutional court) was created, creating enormous political and fiscal pressures on governments in 2000s; finally this debt was accepted by 2004 law and resulted in the scheme of debt's payment modalities (still in the process).

<sup>56</sup> Stubbs and Zrinščak point to absence of alternative pension reform's proposals and discourses (ILO and EU were not present as sources of alternative proposals) and lack of any serious opposition to the reform, except from some experts and some unions (2006)

The pension reform, in spite of its achievements, has created a number of issues and public controversies regarding pensions' levels and differentiation, thus creating new pressures in years to come, but moral hazard as well – creating major pressures on the state and its finances.

Concerning pensions' level, they are certainly very low. Namely, **average pension is decreasing**. This is shown in decreasing *replacement ratio (relative pension level)*: it was 42.13% of the average net wage at Decembers of 2004 and 40.28% by the end of 2006 (1907 HRK vs. 4603 HRK)<sup>57</sup> with tendency to fall below 40% (EIZ 2006, 114; yet in 1990 was as high as 75.92% - Stubbs and Zrinščak 2006). Recently this came true: average pension received by the end of January 2008 fell to 39.00% of the average net wage. (*Jutarnji list*, 29.1.2008) The Croatian pensioners party leader attributes that to the Government's 'insensitivity', i.e. adoption of the 'Swiss formula'. It is, important to note that this average reflects not only high share of those too early retired<sup>58</sup> but all pensions (without army and veterans – see Table 4.7 below). Included are those penions which are considerably smaller than old-age ones yet whose share is very high: 45% beneficiaries receive family or disability pensions which are about 21% lower than the old-age ones<sup>59</sup> (for farmers, making 7.6% beneficiaries, average pension is around 55% lower; for 8% on whom international treaties are applied averages are 67% below - HZMO 2006 data). However, if calculated on the full working period bases only – i.e. 40 years for men and 35 for women – in relation to the period's average wage than replacement rate is much higher: 63% for men and 53% for women – 58% for all (HZMO end of 2006 data; also see Puljiz 2007)

**Table 4.6: Structure of pensioners, on December 31**

YEAR	Number of insured in 000	Number of pensioners	Insured/pensioners	Pensioners' shares % Employ/crafts/farmers	Pensioners' shares* Old/disability/family
1996	1479	889	1.66	91.6 / 2.0 / 6.4	
2000	1381	1019	1.36	90.1 / 2.0 / 7.9	
2006	1538	1100	1.40	90.3 / 2.1 / 7.6	54.9 / 22.7 / 22.4

Sources: HZMO; Note\* Croatian army and war veterans not included

Moreover, **differences were created** between those retired before 31. Dec 1998, and those retired under the reforms' provisions. For those retired before 1.1.1999 pensions were calculated on the basis of 'ten best consecutive years', while for 'new' pensioners the calculation period is being extended from year to year: by 2009 it should reach whole insurance period. The result is major differentiation illustrated with the Table 4.7:

**Table 4.7: Old and new pensioners 2004-2007<sup>60</sup>**

	2004	2005	2006	2007 (1-6)
Old – total on Dec 31	742236	709549	678405	661358
New – total on Dec 31	280046	319936	364711	386223
Average pension old (HRK)	1918.61	2001.58	2092.71	2117.88
Share of average wage*	46	46	44	44
Average pension new (HRK)	1488.38	1506.64	1552.94	1570.01
Share of average wage**	36	32	33	32
Yearly cohort new	40513	47050	51156	26835
Average cohort's pension (HRK)	1347	1250	1308	1417
Share of average wage %**	32	28.6	28.4	29.7

Source: HZMO, CBS; Note: \*December average wage; \*\*period's average wage; In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

By June 2007 'old' pensions were (on average) higher than the 'new' ones by 35%. While in March 2007, 12.5% of 'old' pensioners were receiving below 1000 HRK, and 51.3% below 2000 HRK, there were 26.0% 'new' ones receiving below 1000 HRK and 76.4% below 2000 HRK (HZMO data). Significant are numbers of those receiving (in accordance to specific law) minimum pensions: 83899 old-age, 44330 disability, and 15108

<sup>57</sup> In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

<sup>58</sup>

<sup>59</sup> In spite of this, family pension is an important instrument of family support given to insured persons' survivors under certain conditions defined by the 1998 Pension Insurance Law (if at the moment of the spouse's death they have 50 years or more, if they are younger than 50 but incapable of work; or if one or more children with survivor's pension rights are present...etc.). In March 2007 there were 234448 beneficiaries with an average pension of 1667,77HRK (old age – 2110,44HRK; total – 1919,44HRK)(HZMO data). Additional 237376 were receiving invalidity pensions (of 1704,42 HRK on average). These pensions' are often found controversial and connected with cases of corruption – because they may offer an avenue to early retirement for those who can 'arrange' favourable medical commission's finding on inability.

<sup>60</sup>

family; altogether 143337 or 13.6% of the total. (March 2007 data) In addition, various supplements (belonging to social policies realm) are being received by 97285 persons.

As these trends were creating an avenue towards poverty for too many, but social and political controversies too, the Government introduced (in June 2007) changes in order to increase the minimum pension and improvement for 'new pensioners' (adding allowance as % of the pension depending of the year of retirement – resulting with an increase of 4% for those retired in 1999; 23.8% in 2006 and 27% for those to be retired in 2010). Calculation shows that effects of these changes are important in reducing old/new gap and decreasing extreme vulnerability to poverty of new pensioners: (1.) with October 31, 2007 average new pensions' should approximately increase from 1570 to 1710 HRK, reducing the old/new gap from 35% to 24%; with January 2008 an increase in minimum/early/disability pensions coming into force could further reduce the gap – to some 18%.<sup>61</sup> However, in recent (Nov 2007) elections some parties and unions were asking for full 'equalisation' and an increase in minimum pension: yet with high dependency rate major further improvements don't seem credible.<sup>62</sup>

In addition, differences have been caused by 'the wide spectrum of different categories of pensioners that have inherited a lot of special rights under special legislation' and financed from the state budget – *privileged (beneficial) pensions* account for 15% of total pension expenditures or 2% of GDP (EIZ 2006, 121) – in March 2007 there were 173 thousands beneficiaries (the two largest groups are World war II veterans with average pension of 2402 HRK and Croatian defenders with average pension of 5425 HRK). At least some of these privileged pensions are often found as problematic in public debates.

There is also an increasing consensus (including political parties, unions, public, but pension funds managers too) that many among *those to be retired under the new 'three pillars' system will be facing very low pensions too*: contributions to the second pillar are considered too low and should be increased from present 5% to, some argue, even 10% - this is particularly so when too small share of employed are voluntarily saving to the third pillar. This situation (of strong moral hazard risk) creates double pressures for the government and employers: to increase contributions to the second pillar, i.e. leading to additional fiscal pressures or hard redistributions, and/or to extend working age, but also to encourage voluntary savings for older age through set of incentives for employers and employees. Still, 'liberal tenet on individuals' responsibility does not mean that the state can be absolved from guaranteeing basic citizens' social security' argues a prominent Croatian expert, and adds: 'Croatian pension reform is un-finished and facing new challenges in the coming period' (Puljiz 2007, 187)

Major *long-term challenges* are facing Croatia if acceptable level of security and equity will be ensured in a sustainable way and the system greatly based on intergenerational solidarity will remain fiscally viable: they concern economic aspects (growth, productivity, employment growth and increase in activity rate) and demographic aspects (low fertility, emigration of young educated and productive ones; immigration policies). Whatever the system is, it is highly dependent on demographic changes, but growth in productivity and GDP too.

*More immediate challenges* concern unviable position of too many pensioners treated differentially and many with high poverty risk; on the other hand many are receiving 'privileged' (more beneficial) pensions' (army, war veterans, ex political prisoners but special groups too – members of Parliament and/or Academy of Sciences) thus creating serious equity concerns. In addition, due to unofficial economy practices – many work without their contributions to pension (and health) insurance funds being paid at all (non-registered work) or fully paid (when part of wage is paid in cash or as a material costs and workers' contributions are paid on the minimum base which will hurt greatly their future pensions; see cases in Franicevic 2007a) All this makes workings of the pension system and its further reforms a primary target for social dialogue. Not surprisingly unions have put pensions in the centre of their interest and activity in recent years (many of their members are to retire soon as well).

But, short-term considerations may be influential too. Namely, very recently head of the World Bank Croatia office, expressed concerns on the future viability of the pension system, in relation to July 2007 changes which decreased costs of early retirement – reducing 'penalty' from 20% to 9% only (for five years – i.e. taking

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<sup>61</sup> Received from Mr. Željko Šemper whom I thank for helping me with data. In addition, 'penalty rate' was reduced from 0.34% for each month of early retirement (up to five years) to 0.18%; more beneficial formula for calculating minimum pension is adopted (51HRK for each year of the working period; to be adjusted yearly); invalidity pension (due to partial work incapacity) is increased from 33% (of those for full incapacity) to 50% (applies to some 3000 previously employed persons).

<sup>62</sup> Recent coalition agreement between the three parties – states as one of its targets reaching 50% average pension/average net wage ratio. (Agreement 2008) .

retirement at 60 instead of 65 for men). He finds it 'a good solution for those who can't find a job (i.e. long-term unemployed, v.f.), but from economic prospective it is much more expensive solution and raises a question of the system's future sustainability, particularly in the context of population ageing.' (Andras Horvai in *Jutarnji list*, 25.1.2008) For the government it can certainly make easier to push through some reforms as is rationalisation of public sector employment and unfinished restructuring/privatisation agenda in state-owned firms. However, after cold reactions from IOs, and with dismal result of pensioners party at recent parliamentary elections, this may easily change again.

#### 4.5 The health care system

The health system underwent a series of changes since the early 1990s, 'transforming once highly decentralised system into more centralised and etatised system of mixed public and private health care delivery' (Mihaljek 2007, 1), yet with strong path dependent attributes concerning universal, continuing, available and all-encompassing (from primary to tertiary) health protection (Zrinščak 2007, 200). Again, immediate impact of transition coupled with war was strong as was strong impact of international financial organizations (World Bank and IMF), interested primarily in market incentives and public costs containment (Zrinščak 2007). Privatisation of health care has created a two-tier system, with more than 30% of providers in the private sector (EIZ 2006, 141)<sup>63</sup> but led to a number of misuses (of public facilities for private practice, 'signalling' patients to take private option, etc.) and certainly to an increase in 'social inequalities in health and use of health services' (ibid. 153): 'in the growing private sector wealthy people can buy easy access to high quality services, whereas in the public healthcare system patients have to wait even for the basic services'. (EIZ 2006, 151)

While compulsory health insurance is provided solely by the Croatian Institute for Health Insurance (guaranteeing rights to full or partial costs coverage), some 20 private health insurance providers emerged offering supplementary insurance (offering to those who can afford it higher quality services and faster access) but not the compulsory one (the 2002 law prohibited opting-out of statutory health insurance), thus consolidating dualisation of the system. Yet, its role in funding health care is still marginal – in 2002 private health insurers' revenues were around 6% of total health care costs. (EIZ 2006, 141-143). Funding of the Social Health Insurance system is based on the two main sources: contributions for compulsory health insurance (more than 80% of the total funds the state allocates through the budget) and general taxation. (EIZ 2006, 144)

Croatia has *universal health insurance coverage*, guaranteed by Constitution, thus not depending on employment relationship. In reality some 97% are covered (mostly due to not-registering for). (JSIM 2007) Major lack of coverage concerns Roma population and those who didn't regulate (obtain) Croatian citizenship (Crnković-Pozaić, 2005). Before 1997 those who lost their job and/or persons older than 18 and not in the regular schooling (until that age all were insured through their parents) had to register with Croatian employment service in order to get coverage; after 1997 it is enough for these groups to register with Croatian Health Insurance Institute.<sup>64</sup> Yet, incentives to register as unemployed remained concerning a number of smaller benefits to be obtained. (Crnković Pozaić 2005, 51) In EIZ (2006) study it is claimed that rather short deadlines for application, 30-60 days, also contribute to not-registering after one's loosing employment, or graduating from the school or university.

The *reforms in the 2000s* mostly dealt with financing issues; e.g. in 2002-02 reduced was the payroll contribution rate, limited were benefits and increased share of private costs. However, introduced was voluntary *complementary health insurance* – 'it restores full rights to free health care at the point of use for CHII contracted providers' (EIZ 2006, 145)<sup>65</sup> - and *additional* one (providing for greater protection standards and wider protection in comparison with rights given by basic insurance. (Zrinščak 2007, 209) The 2006 round of reform tried to contain spending on specialised care and pharmaceuticals – restricted was the list without co-payment, generic drugs were included in larger numbers (Mihaljek 2007); special monthly based administrative tax was introduced (very much contested in public and very likely to be revoked soon, Agreement 2008). Due to coupling of cost containment efforts and GDP growth, share of total expenditure on health in GDP has fallen

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<sup>63</sup> In 2002 there were 6461 private doctor's and other private practice offices (includes privately owned office space and/or rented one in public health buildings, and providing services to insured), and in 2006 – 6572 with 11581 in 2002 and 12154 health workers working in them (owners and employees), i.e. 24% of the total number of health workers (Croatian Institute for Public Health data).

<sup>64</sup> Due to informational gaps particularly 18 years old (but not being in the school) often don't realise that they actually lost their insurance (until they really need it).

<sup>65</sup> The premium is higher for employed than for retired; it can be paid by employees or employers; in 2003 it was bought by 730 thousand citizens, some 16% of the population (EIZ 2006, 145). Exempted from co-payments are some vulnerable groups: children/minors, handicapped persons, and low-income persons (with per-capita family income below a defined threshold – see Zrinščak 2007, 208. he notes that effects of these 2006 measures are to be carefully monitored)

from 10.2% in 2000 to 9.5% in 2002; 9.1% in 2002; 8.9% in 2003; but 9.7% in 2004 and 8.7% in 2005 (EIZ 2006, based on Ministry for health and social care data). In that private expenditures were estimated by WHO at 18.6% of total expenditures on health in 2002. According to Ministry data private consumption in health care has remained at 2% of GDP until 2005 (EIZ 2006, 145) – it concerns payments to private providers and co-payments to CHII contracted providers for services not fully covered by compulsory health insurance. However household consumption surveys (see Table 4.8 below) give smaller share (at 1.1% of GDP). Perceptions on informal payments are very high too – *corruption in the system is an indication of its failures*. Transparency International report for 2005 shows that 32% think that corruption in the health sector is ‘widespread’ and further 48% - ‘very widespread’ (from Mihaljek 2007).

**Table 4.8: Health system expenditures as % of GDP (from Zrinščak 2007, 210)**

	1998	1999	2000	2001	2002	2003	2004	2005
Total health costs*	9.4	10.0	11.2	9.6	8.6	8.2	8.3	7.9
CHII costs	8.4	9.0	9.8	8.4	7.4	7.2	7.2	6.8
<i>Without sick and maternity leaves</i>	6.6	7.2	7.6	6.8	5.7	6.0	6.1	5.9
Private costs**	1.0	1.0	1.3	1.1	1.2	1.1	1.2	1.1
Share of private in total	13.2	13.1	14.7	14.4	17.6	15.0	16.0	15.6

Source: CBS, from Zrinščak 2007, 210; Notes: \*without local regional gvt costs (estimated at only 0.1% of GDP), \*\* based on Household Consumption Survey data

In spite of some achievements (Mihaljek argues that the system has become better funded and more efficient) there is a number of problems.

There is a number of *very unfavourable health indicators*<sup>66</sup>. Croatia has a higher age-standardised mortality rate than the EU-15 for virtually all major non-communicable diseases, which is probably closely related to major spread of obesity, lack of physical activity, tobacco use (to be forbidden in public closed spaces in 2008, according to Agreement 2008)<sup>67</sup> and alcohol consumption (Mihaljek 2007) This points to *serious gaps* in the health system, including prevention activities.

Three *serious challenges* are to be dealt with: (1.) *increasingly - lack of health care workers* (including specialists, but nurses too) could undermine the present efficiency of the sector (Croatia has significantly fewer physicians, nurses etc. per 1000 inhabitants than EU-15/EU-10 on average – Mihaljek 2007); (2.) *population ageing is hardly confronted*: while the ‘ratio of population not paying health insurance contributions to employed persons is already extremely unfavourable, about 2:1’, projections point to its worsening (total dependency ratio, i.e. elderly plus children, as a percentage of the working-age population (15-64) is expected to increase from 49% in 2001 to 69% in 2050. *Sustainability of the health-insurance system may be problematic* (Mihaljek, 2007); (3.) There is a *major lack-of-trust problem* too, due to perceptions of widespread corruption (shown in Transparency International surveys – in last survey justice with 4.3 index and health with 4.2 came on the top); coupled with general public dis-satisfaction with the system (Zrinščak 2007, 205); (4.) Finally Zrinščak points to territorial unevenness of the secondary-level health protection and over-concentration of specialist services in tertiary system in Zagreb. (Zrinščak 2007, 205)

All this points to further reforms concerning dealing with *distorted micro-incentives* (primary-care physicians acting as ‘gatekeepers’ paid on flat fees per patient, leading to over-signing patients, and an increase in spending on specialised care and pharmaceuticals – 67%/57% increase between 2002 and 2005, Mihaljek 2007, EIZ 2006, 147) and *with financing the system* – over-reliance on contributions, putting an increasingly heavy burden on the employees and the economy, and insufficient reliance on general tax revenue (Mihaljek 2007).

Mihaljek offers few recommendations:

(1.) *Increasing the share of general tax revenues in the financing* which he finds beneficial from both equity and efficiency standpoints.

<sup>66</sup> On the other hand, life expectancy and infants' mortality indicators are relatively favourable and point to overall efficiency of the system (Zrinščak 2007; Mihaljek 2007)

<sup>67</sup> ‘A cavalier attitude vis-à-vis smoking’, as Mihaljek put it, is reflected in EWCS 4th survey – Croats were among the countries with highest exposure to other people smoking (see Chapter 3, section 3.8).

(2.) *Changing incentives to check escalating costs*, for example with introducing fee-for-service system based on points in the primary sector<sup>68</sup>.

(3.) *Dealing with serious managerial and monitoring deficits* in the system.

(4.) *More efficient public system* as a goal might ask for more competition between public providers and/or giving wider scope to private providers.

(5.) Finally, *co-payment system* should be redesigned: while (16%) private sources share in healthcare spending is lower than 26% EU average (2006 National strategy of health development 2006-2011 also stresses too low level of private expenditures, see Zrinščak 2007, 205)<sup>69</sup>, *out-of-pocket expenditures* (to privately owned providers and to those under the health insurance if they do not have complementary health insurance, but informal payments too) are close to the EU average but costs covered by private health insurance are much below the EU average. (Mihaljek 2007) This situation 'adversely affects equity in the system as it necessarily puts a heavier strain on households budgets of lower income individuals and families' (EIZ 2006, 156) and limits access to good quality, and/or timely, health care for those with lower incomes but creates incentives for bribing (which may be cheaper than buying the much-needed service). Zrinščak finds health system related inequalities 'the most worrisome' (2007, 215). They are very much reflected in quality of life study on Croatia (UNDP 2007).

The surveys' (EQLS questionnaire was used) scores point to:

(1.) Concerning *subjective perception of one's health*, that 15% find their health as 'bad' (vs. 6% in EU-15, but very similar to NMS-10 countries – 16%), and that it is highly correlated (similarly to Bulgaria and Romania) with one's income: in lowest quartile of income distribution it is 26% vs. 5% in the upper quartile (12% in the two middle quartiles) (in EU-15 it is 9% vs. 3% and in EU-10 it is 19% vs. 10%).<sup>70</sup>

(2.) Concerning *access to medical care* 12% report 'very difficult' distance to doctor's office/hospital, 22% *delay in getting appointment*; 17% *waiting* and 19% *costs of seeing doctor* (similarly to NMS – 6%/14%/15%/15% and some Mediterranean countries); again differences between the lowest and highest income quartiles in all four dimensions are very high: Croatia – 21/14/7/27 vs. NMS – 5/4/5/12 and EU 15 – 3/4/3/6.

(3.) Concerning *quality of health services*, it was judged as average, i.e. 5.2 on the 1-10 scale, below EU-15 (6.2), but in line with NMS-10 (5).

(4.) Concerning *trust in the health system* – 45% place 'no' or 'very little' trust in it, with significant regional differences (from 25% to 61% in twenty counties) but with no clear pattern (more research would certainly be needed).

All above findings and recommendations, even if not accepted and/or followed by actors, very well point to main issues and areas in which social dialogue, including all stakeholders, will be needed if deterioration of universal health services will be avoided, with particularly serious equity consequences and impact on those most vulnerable families/persons and/or regions/localities. Finding a proper balance between universal right to decent and equitable basic health protection and sustainability of that protection through greater reliance on built-in incentives to control costs and ensure systems' good management and better services – is a major challenge to be addressed. However, without strong and sustainable long-term productivity increase (with a view on processes of ageing) this can hardly be achieved (to this I turn in Ch. 6 again)

## 4.6 Maternity and children protection

Family policies' particularly reflect unfavourable demographic trends and declining/ageing population becoming major aspects of the public discourses; in typical populist discourses of the post-socialist politics maternity support has been presented as one of top priorities.

This is reflected in broadening rights concerning children allowances and maternity leaves which may be considered quite generous. Recent survey by B.a.b.e NGO shows, that majority of surveyed (representative

<sup>68</sup> However some changes in financing based on services (in primary sector for preventive check-ups and for a restricted number of services for which GPs are allowed to charge) and therapeutic proceedings in hospitals (diagnostic related groups) were being introduced by 2002. The World Bank (see 2007b) reform assistance strategy when questioning sustainability of health sector expenditures, is also asking for 'steady reduction in prescription drugs' share of CHII's total expenditure, from 21 percent in 2003 to 17 percent in 2008'. However, it may be difficult to achieve: progress report points to 'Stagnation in prescription drugs' share of CHII's total expenditure, at 21 percent in 2003 to 2006' (World Bank 2007b, Annex B9)

<sup>69</sup> Zrinščak argues that EU averages hide major countries' differences and that Croatia in relation to a number of countries is not such an outlier (in comparison to Germany, France and Italy where public expenditures make 75-79% and Czech Republic and Slovakia have even 89.8/88.3% (OECD data, Zrinščak 2007, 211)

<sup>70</sup> Data on EU is taken from the 2003 EQLS.

sample; n= 1005) does not support some demands associated with the EU integration as are: shortening of maternity leave (66.3%). On the other hand 64.5% support restrictions on overtime for parents of children before 3 years of age; and, 54.5% mandatory parental leave for fathers (Čulig et al., 2007)

Table 4.9 provides a list of most important rights presently enjoyed by mothers/parents during pregnancy and children childhood:

**Table 4.9: Parents and children rights**

Type of right	Eligibility	Duration	Amount	Means-tested
<b>Maternity benefits</b>				
Mandatory maternity leave	<ul style="list-style-type: none"> <li>Employed and self-employed mothers</li> <li>Unemployed mothers</li> <li>Mothers regularly attending school/university</li> <li>Mother may go back to work not earlier than 42 days after birth – father may step in (if he stays longer than 3m, whole leave will be extended for additional 2m)</li> </ul>	<ul style="list-style-type: none"> <li>Option starts 45 days before expected birth day</li> <li>Mandatory – starts 28 days before.</li> <li>End: with 6 months of child age</li> <li>Exceptionally: employed/self-employed m. may end it earlier but not earlier than 42 days after giving birth</li> </ul>	<ul style="list-style-type: none"> <li>Employed – not less than 1633 HRK (delimited since Jan 2008, before – up to 4257 HRK)</li> <li>Unemployed – 1663 HRK</li> <li>At school – 1663 HRK</li> </ul>	No
Additional maternity leave	Mother / father	7-12 (14) months of child age	<ul style="list-style-type: none"> <li>1663 HRK- 2500 HRK under full w. time condition</li> </ul>	No
Three year maternity leave	Mother/father/ of twins and for third and every following child	After 1 year up to child's three year of age	1663 HRK under full w. time condition	No
Unpaid maternity leave	Parents not eligible for paid three year leave (mother or father)	After 1 year up to child's three year of age	Rights and obligations from work contract rest for the period; fully restorable after (parent taking it may get health insurance through his/her spouse); social insurance can be paid by himself/herself	No
Breast-feeding break	Employed mother if returned to work before child's 1 year of age	Until child's 1 year of age	Twice a day – 1 hour each, compensated (against 1663 HRK level)	No
Labour with shorter working hours	Employed mother/ father	Up to 3 years of child's age - for children who need intensified parental car	base rate for benefit calculation is 1.663,00 HRK	No
Labour with shorter working hours or leave	Employed mother/ father	Up to 7 years of child's age - for children with severe and most severe developmental difficulties	base rate for benefit calculation is 2.000,00 HRK	No
Unpaid leave	Employed mother/ father	Up to 3 years of child's age	Labour rights rest, No benefits	No
Right to recognition of working period	Unemployed parent	Until child's 1 year of age		No
<b>Children-related benefits</b>				
Tax benefits	May be shared between parents, or one parent only	There is no specific age limit – being supported is enough (in principle until first employment when registered as unemployed); if child earns yearly more than 9600 HRK of taxable income she or he is not considered as supported (social benefits are exempted)	Deduction for each child, with increasing coefficient for deduction (0.5 for first; 0.7 for 2d; 1.0 for third....	No
Children allowances	If per capita household	Up to 15 years of child's	Three classes of pc	There is income census –

	income is below 50% of pre-determined level – presently of 3326 HRK (i.e. if it is 1663 HRK or less)	age, i.e. 19 years in case the child is engaged in regular education; up to 21 years of child's age for children with developmental difficulties in case they are engaged in education; up to 27 years of child's age for children (persons) with severe and most severe health difficulties	income levels: - up to 543 HRK: 299 HRK per child - 543-1120 HRK: 249 HRK - 1120-1663 HRK: 200 HRK No income limit for children (persons) with severe and most severe health difficulties - 831,50 HRK	of 1633HRK per household's member: Three income classes applied
Population allowance	Mothers/fathers for 3d and 4 <sup>th</sup> child (by Jan 2008)		500 HRK	No
Allowance for newly born child equipment	All mothers/fathers holding health insurance	Once-off	2328 HRK	No
<b>Local government benefits</b>				
Benefits by local** governments, Different mixes	Determined locally	Determined locally	Great variations (see section 4.9.1)	Yes/No

Source: MFDIG; MFIN; CHII; HZMO; www.roda.hr (web site); Note: In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

#### 4.6.1 Maternity leaves and benefits

Presently, in Croatia 'the employee is *entitled* to start the maternity leave forty-five days before the expected date of childbirth and be on leave until the child turns one year of age. For twins, the third and any further child, the employee is *entitled* to take maternity leave until the child turns three years of age. The employee is *obliged* to take continuous maternity leave in the period of twenty-eight days before the expected date of childbirth and until the child turns six months of age, where the employee is entitled (exceptionally) to request the return to work before the child turns six months of age, however not before the expiry of forty-two days after childbirth' (Miskulin 2007, 73)

Croatia didn't separate maternity leave from the parental one *de iure* but, allowing for fathers taking over the leave from mother (see Table 4.10 above) *de facto* reduced fathers' discrimination. Yet, very small share of fathers is taking it<sup>71</sup>: less than 1% of total leaves is taken by men: there were 402 in 2002/2003 (0.58% of the total); 444 in 2004/2005 (0.63%), and 438 (0.66%) in 2005/2006 (UNDP 2006c). In my discussion with the Ministry expert, I was informed that changes should be expected and differentiation between maternity and parental leaves fully introduced in the law.

In January 1996 the right to the maternity leave lasting up to the child's *three years* of age was granted to employed and self-employed mothers who gave birth to twins, third child or subsequent child, and since April 1996 the same right has been granted also to unemployed mothers, but starting with the day of child's birth. With the 2000 elections bringing SDP-led coalition to power, restrictions (together with attempts at many other reforms in labour and social policies relams) in 2002 were introduced: three year leave was cancelled; women were granted a paid maternity leave up to the child's two years of age if they gave birth to twins, triplets, quadruplets or more children of the same age; unemployed and students leave was shortened to six months of child's age. Since July 2004, after HDZ/CDU led government again took the office, the rights to use maternity leave up to 3 years of a child's age in case of the birth of twins, third and subsequent child have been re-established for all beneficiaries, irrespective of whether it refers to a mother in employment, unemployed mother or self-employed mother (*Official gazette*, 30/04 and 31/04). Unemployed mothers have a right to compensation up to one year of a child's age. Also, the right to a shortened working time has been re-established (half-time work) up to three years for persons in employment, excluding unemployed and self-employed mothers.

Wage based allowance for the first six months, until Jan 2008, was limited between 1600 HRK and 4250 HRK (on the bases of last six months average wage) – with 2007 changes, from Jan 2008 the allowance in first 6 months will be equal to earnings from one's work (based on last six months average wage as well). Next six months (6-12 months of the child's age) is limited (1663-2500 HRK) and for extended leave (from 1 to 3 years of age) to 1663 HRK. For unemployed mothers since 2004 allowance was increased from 900 HRK to

<sup>71</sup> In addition to still strong cultural/traditional barriers, men, on average, are likely to incur greater losses because of upper limit put on the parental leave in the optional period (6-12 months) – 1600-2500HRK: they have higher average wages and smaller share in unemployment.

presently 1663 HRK (Note: In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR).

All above changes were hotly debated and contested, clearly showing deep social/political division concerning proper ways of addressing the maternity&work nexus, as well as maternity&population nexus. For example, in the 2004 Parliamentary debate, when 3 years leave was re-established, opposition (mostly from SDP) argued against such a move on the basis of (i.) partiality (much more is needed in terms of complementarity); (ii) lack of proven impact, but (iii) expressed fears that such leaves can create even greater distance of women from work encouraging traditional family model instead of making better conditions for making good work&family balance through delimiting allowances and increasing child-caring capacities - central is increasing social capacities for greater women employment; (iv) employers may even be more discouraged to employ women which might be absent for three years . (Based on opposition members discussions in *Izvjješća Hrvatskog sabora*, No. 384, March 2004) On the other hand, putting family/demographic policies in the forefront, ruling HDZ/CDU (supported in that by some centrist and conservative parties, but by public survey - 86% were allegedly in favour of the measure - and some notable demographers) argued for even further benefits, particularly in favour of delimiting allowances in the 2d six months period (which should encourage well paid mothers in giving birth and staying home longer, but fathers to take on the leave too).<sup>72</sup> As Table 4.10 below illustrates, the right's re-establishment has led to significant increase, or better to return to earlier levels – yet, it is hard, and probably pre-mature, to tell how it will influence fertility rates but women work outcomes as well. One is for certain – complexity of the population trends issue can only be matched by synergies created by the web of highly complementary policies.<sup>73</sup>

**Table 4.10: Maternity leave benefits 1997 – 2006**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of cases – pregnancy and maternity leave	38412	32648	32681	32615	30562	29370	31697	32807	33297	31550
Maternity leave up to child's 3years of age*	8331	6659	6285	6029	4434	386	353	4968	4989	5728
Up to three years of age – unemployed mothers*	10651	6004	5312	4770	3745	3862	3305	9066	5436	5790

Source: CBS, CHII data

When Mihaljek, very much in line with international experts, claims that maternity leaves in Croatia are too generous, and asks for *re-examining costs and benefits of the present system of maternity leave allowances* and suggests reducing the length of maternity leave and investing saved funds in subsidised childcare facilities and enabling wider/easier part-time employment for mothers – he is actually pointing to most pressing deficits of the present system which force women to make choice between employment (education) and child caring. (JSIM 2007, 30) Additional inequality is a consequence of *regional differences*, because financing of childcare facilities (and parents' subsidies) depends on the local governments' decisions. While politics of maternity leaves and benefits has been primarily led by demographic concerns, and will very likely continue in that direction, it will certainly have to find balance with other concerns too. This is particularly related to females' position on the labour market and on the job-position (e.g. concerning pay and promotion, see sections 2.2.5.4 and 3.2.5).

#### 4.6.2 Children allowances and child-caring facilities

The 1999 Law on *children allowances* (applied from 2000) made much wider eligibility for allowance in spite of employment status of the parents but attached to family income; financing was changed too – instead through contributions it is now based on taxes and budget. (JSIM 2007) While the 2001 brought dramatic increase under the new rules, thereafter census was increased resulting with return to levels similar to those of the late 1990s, but with a trend of decrease in numbers of beneficiaries/children.(see Table 4.11 below) In December 2006 some 45% of children were receiving allowance (EIZ 2006, 77)

<sup>72</sup> Additional arguments for re-establishing 3 year leave were lessening pressures on child-caring facilities, decreasing sick-leaves due to children illness, and increasing opportunities for temporary (replacement) employment (Ms. Kosor, the vice-president of the Government and Minister, *Izvjješća Hrvatskog sabora*, No. 384, March 2004).

<sup>73</sup> In their study on social sterility in Croatia, as one of contributing factors to low fertility, Akrap and Čipin argue that major factors behind it are: in rural areas disequilibrium between men and women in the age appropriate for marriage. However, in larger cities is the greatest concentration of unmarried: during the 1990s war and unemployment played their role, but the study also points to inadequacy of housing policies, inadequacy of support to young, lack of conditions for balancing work and family as discouraging factors to get married at all. Noticed is a trend of extending living with parents too (Akrap and Čipin 2006)

With December 2006 changes (and applied for 2007) income census was increased from 1330 HRK to 1663 HRK per month (per member of the household): instead of two, three income groups were introduced with decreasing amount of allowance for higher income groups (see Table 4.9 above); in addition, children of war veterans and their families receive higher allowance as do children with impaired and heavily impaired health; children with no or only one parent. Finally, pro-nativity bonus was introduced for 3d and 4<sup>th</sup> child (for all who qualify for children allowance). (HZMO; from www.mirovinsko.hr)

**Table 4.11 : Child allowance beneficiaries, 1997 – 2006, on Dec 31**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of beneficiaries in 000	202	204	208	245	333	272	260	247	237	221
Number of children in 000	378	385	392	466	629	513	491	467	446	416
Average allowance HRK	214	220	237	262	369	285	265	267	271	275

Source: CBS, HZMO data; Note: In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

There is a deficit in *child-caring facilities*, as is inadequate their working time: there were 1089 kindergartens in 2004/2005 (936 in 1989/1990 – Matković 2007, 128). Besides public institutions, increasing is here of church-led and privately established nurseries /kindergartens – in 2005/2006 around 3% of total population was in the first and 8% in the second group (Matković 2007, 130)

Share of children in nurseries and kindergartens (1-6 years of age) in 2002/3 was 31.1%; in 2003/2004 – 32.2%; and in 2004/2005 – 33.7%. While total pre-school population has been falling in the 1989-2005 period (by 25%), the coverage rate has increased, in spite of very slight increase in the system capacities – from 23.7% to 37.1% (Matković 2007, 125) In spite of this, each year 5-7000 thousand were not admitted due to lack of capacity. (ibid., 125) In this the fastest growing group is pre-school 5-6 (due to pre-school programs). (see Table 4.12 below)

Very small number is at nurseries, i.e. those of 0-1 age, because this is the age for which mothers receive maternity leave compensation (about 1/8 of the contingent) and this increases to 1/5 in 1-2 age group. Most public nurseries don't accept children below 1 – for example, in Zagreb there is only one which does (6-12 months, i.e. after mandatory maternity leave ends).<sup>74</sup>

**Table 4.12: Children in nurseries and kindergartens, coverage by age group**

Age group/year	1989/90	1994/95	1999/2000	2004/2005
0-2	11.3	10.3	11.3	13.5
3-4	35.9	33.6	38.2	45.9
5-6	29.1	28.8	36.4	41.9
5-6 (with pre-school)	41.2	38.7	50.4	57.9
Stay more than 8 hours	80.5	72.0	76.3	74.4

Source: Matković 2007, 128

*Concerning working time*, allegedly demand for longer hours is not enough to form the minimum-sized afternoon groups of 25-30 (Vjesnik, 2.2.2006 quotes city of Zagreb person in charge<sup>75</sup>). In Zagreb there is only one kindergarten with shift work (alternate shifts – 7-17 one week and 11-21 next week...) adapted to parents working such alternate shifts as well (e.g. in schools, retail, services). While most kindergartens regular working time is 7am – 5pm with possibility for caring child before (5.30 - 6 am and after 5 – 6 or 7 pm), the standing-out exception, fully adapted to two shifts' parents work is city of Bjelovar. In Bjelovar, the public kindergarten's working time 3 years ago (after numerous demands from parents – e.g. those working in local industry and retail chains with shifts, or very long hours) was prolonged from 7am to 10 pm with flexibility allowed for bringing child in and taking it out, as parents' shifts do change. Interestingly, some 50 children, i.e. some 10% of the total, are in this system – however, daily number of children changes a great deal: normally between 10 and 25, and most children leave between 6.30 and 9 pm. This example provoked a number of inquiries from other

<sup>74</sup> Comparatively, this places Croatia (concerning 0-2 group) among lower medium coverage – much lower than Scandinavian or most Continental Europe countries (except Germany), but quite higher than Italy or Greece, Hungary, Poland or Czech Republic( OECD data in Matkovic 2007, 131) Concerning 3 years old, Croatia is not on the lowest end but quite below EU-25 including most of transition countries (Matkovic 2007, 132, based on Eurostat) This lag behind EU-25 increases for 4 and 5 years old.

<sup>75</sup> On the other hand, reported is in the same article a case of parents whose main problem, whatever kindergarten's working time, uncertainty about start and end of their work – forcing them to engage paid help for bringing kids in and out)

cities/towns, but major progress seems still to be far away.<sup>76</sup> To make things worse, very rare are cases of providing on-the-firm' site child caring: as is the case of VIPnet, a mobile communications provider (out of about 1000 employees – close to 50% are women), which in his new office building in Zagreb set-up, with other well-being provisions, a kindergarten ([www.vipnet.hr](http://www.vipnet.hr) on 30.6.2006)

#### 4.7 Taking care of elderly

Due to population ageing - share of those aged 65+ increased to 16.3% in 2001 from 12.4% in 1991, and further increase is expected (to 26% in 2050, see Gelo et al. 2005 and UNDP 2007, 115) - but also due to legacies of war and transition – aged population is facing higher poverty risks; it is vulnerable to social exclusion, deprivation and poverty (UNDP 2006 a,b; UNDP 2007). Low pensions, on one side, and lack of opportunities for (re)integration in the labour markets makes it difficult for many aged to sustain decent living conditions, making them dependent on relatives (children particularly) and/or the state. There is also a strong regional dimension. The three counties' shares of 65+ are 19.9%; 19.5% and 22.7%. All three suffered directly from the war and war-related demographic changes. There is also a strong regional dimension to income differences in aged population (UNDP 2007, 116 and 120). Aged people poverty and poverty risk is particularly high in some rural areas. Generally, in 2006 for example, rate of poverty risk for those 65+ was 29.5 (with) or 33.7 (without natural income) (for males: 26.9/30.3; for females 31.3/35.9) (CBS data); for single person (aged 65+) household (females greatly prevail): 43.8/ 48.7. – this is much above the 2006 national rate (16.3/19.3) (CBS data).

UNDP report (based on EQLS, n=1611 for 65+; EU data are from 2003 survey) indicates significant share of aged (23.3%) not having a person to borrow money from; 43.5% of 65+ households have difficulties in meeting their needs. (UNDP 2007, 126 and 140-141). While in 65+ population share of pensioners is 83.3% it is typically (due to higher non-activity of females) that males share is 95.9% but for females it is 77.3%. (UNDP 2007, 145) Old age households' incomes come from different sources: 94.3% receive some pension (lower than EU-15/EU-10); about 6% receive social support in money (7% among single person households)<sup>77</sup>; yet, comparatively very low is share of households (some 6%) receiving incomes from the real-estate, savings, stocks (EU-15 – 24%) but high is share receiving income form informal work (26.6% vs. 12% in EU-15, and 21% in EU-10). (ibid., 127) About 47% households produce food for own needs (on own or rented land) with 14% thus satisfying 50% or more of their needs. (ibid., 122)

When looking into the aged people households – around 29% live with their children/grand-children, which is comparatively high. Typically, their networks of support include, besides family, friends and neighbours. Still, many are and increasingly are looking for more protected living arrangements (in old-age homes), as are their children (for all possible reasons).

Altogether, a number of *social care homes for adults* (all kinds) has risen from 51 in 1986 to 60 in 1990, to 66 in 1996, to 82 in 2000, 97 in 2002, 135 in 2004 and 192 in 2006 (out of which 153 for adult and elderly with 13903 users) (CBS, *Statistical Yearbook 2007*). Number of users has risen too: respective numbers are: 9323 in 1986, 11066 in 1990, 13088 in 1996, 13845 in 2000, 14406 in 2002, 16273 in 2004 and 18609 in 2006. According to the MHSC data, by the end of December 2006 there were 206 state and non-state homes for social care with 24281 users. Out of that there were:

- 46 state (county) old age homes with 10205 residents (9473 aged 65+, 5685 moved in due to age and incapacity, 1475 cite loneliness; 5878 are (co)owners of an apartment/house; 1656 lived at children's place).(Stubbs and Bošnjak give same number of homes for 2004 – i.e. 46 with 10168 residents by the year end; 2007, 154)
- 66 non-state (privately owned, church owned; for profit and not-for-profit ones) with 3058 residents (1475 in intensive care units; 2145 are there due to illness and/or incapacity; 2028 own or co-own an apartment or house, 628 lived with children at their place; 2713 are 65+)
- Altogether this makes 112 old age homes with 13083 users.

Old age homes provide some services to non-residents too (greatest share belong to 65+) – 2612 participated in food programme (eating at the restaurant, taking-out or receiving food delivery); 48 used laundry services and 357 used day programme; there are 40 clubs for aged at homes' premises – used daily by 1380. (all

<sup>76</sup> In recent interview Ms. Ana Knežević, president of SSSH union, when talking about Sunday work in retail – stressed that there is no kindergarten in Croatia working on Sundays, but 15000 among concerned employees are mothers with pre-school children (*Ekonomist*, 5.2.2008.)

<sup>77</sup> 11.4% receive some social benefit of any kind (e.g. social supports, unemployment benefits, other social benefits etc, ibid., 127)

data from MHSC statistics); numbers for non-state homes in this respect are much smaller (food 93, day-stay 5, 25 clubs with 172 (day average) users). In addition, the law allows for foster families which take care of aged/elderly/incapable – by summer 2006 there were 905 such families (with licence) with capacity for 3236 persons.

In spite of strong entry of non-state providers (private homes, religious organisations...), waiting lists for the public homes are, *at some locations*, very long. New private homes for many are not affordable; often are voiced allegations of corruption and cronyism to cut the cue for the public one. For example, in Zagreb a number of aged increased but number of public homes remained un-changed in last 20 years (11 homes with 3500 capacity) (*Poslovni dnevnik*, 3.12.2007.): this led to long waiting lists (even up to 10 years for one person rooms, and up to six years for two persons rooms (*Vjesnik*, 10.5.2006); for less popular/comfortable homes or different kinds of services it may be less but still more than 18000 is waiting; out of this 3500 are ready to move in right away (*Poslovni dnevnik*, 3.12.2007.). In spite of the fact that many sign themselves on the lists (often – more than one) much earlier than their real preference to move-in is (as a rational reaction to lack of capacity), major is need to increase capacities where they are insufficient. Recently city of Zagreb announced program of 10 new old age homes in which private partners will be sought for (*ibid.*). However, situation, concerning capacities is very uneven and not everywhere unsatisfactory. (*Vjesnik*, 27.2. 2007)<sup>78</sup>

Also, living conditions in them are quite uneven – many need renovation (in 2004 – 70% failed to meet public health standards, EIZ 2006, 87). If we look at the coverage rate of those 65+ (in both type of homes), than in overall population of 65+ (estimated at 755.9 thousand – CBS *Statistical Yearbook 2007*) it is quite low and below needs: at 1.6%. Yet, as for example UNDP 2007 stresses, institutionalisation should be only one among more options, and policy analysts strongly argue for *de-institutionalisation policies* (importantly, not only concerning elderly, but handicapped, mentally ill etc. – see also Stubbs and Bošnjak 2007): particular policy stress should be on developing services for elderly in their homes and communities.

Encouragingly, Ministry for family, defenders and intergenerational solidarity, since 2004 has started with developing two pilot programs for most vulnerable among those aged 65+; particularly for those living in single person households and exposed to isolation and poverty. One is ‘Help at home for elderly persons’ (presently 28 programs), another ‘Day-stay and help at home for elderly persons’ (presently 13 programs). They now exist in all 20 counties (except in Zagreb) – up to May 2007, 7642 persons were included (5232 in the first and 2550 persons in the second program) and employed were 508 persons. Teams of five persons are in charge (usually employed are hard to employ persons, Škrbić 2007), and volunteers are welcome. The Government’s document (Program of developing services for elderly persons from 2008-2001, July 2007), which was a source of above data, provides also favourable data on clients’ evaluation. A survey made with 5284 clients gives highly positive response: 97% find them as an improvement in their quality of life; highly esteemed are effects on social inclusion and real help in performing everyday tasks. However, financial as well as personnel limits in the programme’s extension and fuller coverage are present. Government document envisages, in the second stage, increase both in number (to 64 by the end of 2011) and in coverage (by 12% yearly) – raising a number of beneficiaries to some 11800 persons<sup>79</sup>. In the long-term, programs’ expansion throughout Croatia with further legal regulation of services for elderly in their homes/communities is envisaged.<sup>80</sup>

Finding a proper balance between ‘residential and community-based approaches’ (EIZ 2006) is still a major task for Croatia in all areas of social policies, as is finding a balance between public and private provision, between for-profit one and not-for-profit one.

#### 4.8 War veterans

The war has had, besides its most immediate consequences, important influences and legacies on social policy making. It not only caused major human losses and handicaps of all sorts, as well as devastations – it also faced the state and society with broad constituency of war veterans, their families and survivors. The state has committed itself to high protection and support for them and accordingly it developed a number of programs, including very different rights for them, for their families and/or survivors. According to EIZ study (2006), the World Bank data put war veterans’ costs at 1.36% of GDP in 2003 and estimated it at 1.63 in 2004; and 1.66%

<sup>78</sup> In Split too (2d largest city of Croatia) there is lack of capacity and need for an increase; only two state homes are available, more than 1000 is on the list but due to early signing in reality some 600-700 really wait (*Slobodna Dalmacija*, 13.12.2007)

<sup>79</sup> Yearly budget for 2008 should be 31 million HRK, and for 2011 on 40 million HRK. (Government’s ‘Program for developing services for old-aged persons in the system of intergenerational solidarity’, July 30, 2007)

<sup>80</sup> In the same direction other vulnerable groups services should be developing too is often argued by policy analysts, foreign advisors and government documents (e.g. services for handicapped persons of all ages).

of GDP in 2005. At around 1.5% these costs in 2000s are given by Bejaković et al. too (2006). However, the inflow of beneficiaries is still on the rise (with not enough transparency, but a lot of public criticism<sup>81</sup>, including those coming from some veterans' associations, but strong incentives for obtaining right to 'rights' through corruption<sup>82</sup>), meaning that this share of expenses will probably either stay at present level or increase.

Due to high political sensitivity, but strong clients' organisations too with good connections with politics (particularly with Ministry of family, defenders and intergenerational solidarity and HDZ/CDU), it is hard to expect that present level of rights will decrease either. Just the opposite! War veterans' invalidity illustrates that well. By the end of 2003 there were 33172 war veterans with recognised invalidity status. Due to 2004 changes in the law (proposed by the CDU-led government) extended was a deadline for submitting applications (until end 2005, but again extended to end of 2006). This resulted with some 33000 new applications – in August 2007 there were 43492 in the status; it is expected (due to high approval rate – about 80%) that finally it may be between 55 and 65 thousands (according to media reports – *Jutarnji list*, 27.4.2006 and *Nacional* 4.10.2007) – many claim PTSD. Accordingly, numbers of those receiving veterans' invalidity pension more than doubled from December 2001, when it was 17534 (in Dec. 2003 it was 19991), to May 2007 when it came to 38786. Among them dominate age groups between 35 and 50. (*Jutarnji list*, 8.6.2007) Due to high pensions (see below) their incentives to re-employ (their average working experience is somewhat below 19 years) is very low; and if unemployed they face better income if retired in this status than if (re)employed.

Major groups of beneficiaries (according to Bejakovic et al. 2006) are (i.) war veterans; (ii) disabled war veterans and (iii) family members of killed, missing and deceased veterans – with a set of rights for each group. The system of protection of war veterans 'is very complex and consists of many rights and benefits (more than 30 rights)' (ibid. 56). Rights to disability and survivor's pension represent more than 70% of total benefit expenses for war veterans and families; while personal and survivors' disability allowances represent about 15% of total.; 'except housing accommodation and tax and customs allowances – all other rights represent less than 1% of the total expenses for war veterans'. (Bejakovic et al. 2006, 56)

Average levels of security given by these pensions is quite decent one (see also Table 4.13 below) and far above ordinary disability and survivors' pensions. In 2004 respective rates were: 3.1:1 (disability) and 3.9:1 (survivors) (Bejakovic et al. 2006). These rates even increased for survivors': in December 2006 they were 2.91:1 for disability but 4.22:1 for the survivors' ones, and 3.0:1/4.31:1 for September 2007 (HZMO Statistical information 4/2006 and 3/2007). However, replacement rates, due to not-being indexed, have decreased (except for survivors' in 2005). This picture may be misleading in sense that pensions for those with lower level of disability are not so high, and also, those not being retired, receive allowances for their disability which is not high either.

Importantly, *social integration as well as labour market integration* of thousands war veterans is still an open issue, as is finding a proper balance between providing high level of security and incentives for (self)employment. For many among those diagnosed with PTSD – invalidity pension (even if comparatively high) does not help their re-integration (suicide rates in this population are still very high) but rather alienate them from social life. Also, due to discontinuity of job and/or education, or due to disability – many are with low employability. By the end of 2000 - 34292 were registered as unemployed (but unofficial estimates went as high as 50000 – *Vjesnik*, 30.11.2000); but by the end of 2006 – 23963. However, only 0.2% receive unemployment benefit. (CES Annual Bulletin 2006) While numbers have decreased (see Table 4.14 below), they are still high.

**Table 4.13: Average war veteran pension benefit as % of average net wage**

	2001	2002	2003	2004	2005	2006*	2007**
Disability	135.6	124.8	118.3	117.7	114.5	103.7	107.3
Survivors	159.9	145.2	141.7	139.4	151.2	147.6	151.1

Source: HZMO, from Bejakovic et al, 2006, 56; Note:\*based on December 2006 data (Average wage = 4735 HRK);

\*\*based on September 2007 (and 4869HRK average wage for August) – HZMO *Statistical informations* 4/2006 and 3/2007

<sup>81</sup> One major issue is making public war veterans' register – while Ministry for family, war defenders and intergenerational solidarity was refusing it (at least, until very recently), many openly claim that both total number (around 494 thousands) and numbers of those with benefits is far above the true number.

<sup>82</sup> In February 2008 two groups from Osijek and Split, report media, involving more than 20 persons including psychiatrists from Split and Osijek, were arrested facing accusations of corruption and other illegal behaviour in administrative processes of deciding on applicants' eligibility for war veterans' invalidity pensions and on other benefits. Numbers of 'beneficiaries' are unknown, but both cases confirm widespread public doubts on 'false veterans' and 'false invalids'. (*Jutarnji list* on February 12 and 13, 2008; *Slobodna Dalmacija* on same dates). However, even true invalids report in media being 'offered' shorter proceedings and thus cutting on long waiting (it may take year); and some were blackmailed.

**Table 4.14: Unemployed war veterans, registered, yearly averages, 1996-2007**

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
28666	45225	36051	35067	34605	32896	37767	28207	26260	26769	24721	22484

Source: CES database

*On the policy level* this has been recognised: Croatian Employment Office runs programs of re-training and re-employment. Ministry for family, defenders and intergenerational solidarity also introduced programs to support their self-employment, including encouragement of veterans' co-operatives (in the public statement by Ms. Kosor – the minister). According to her information, in 2006 for veterans' employment spent was 35 million HRK, and in 2007 it was expected – 40 million HRK<sup>83</sup>. One of the most successful programs, she claims, are veterans' co-operatives: 61 received financial support (50 are profitable, and only two are not active, and further 40 should receive it through 2007 (The Government statement, on April 16, 2007 – on [www.vlada.hr](http://www.vlada.hr)) Still, serious policies' evaluation is lacking.

#### 4.9 Major social protection issues: Targeting, coverage, adequacy and parallelism

Croatia has comparatively high social spending, but 'only a small share goes towards means-tested programs', and 'a very small fraction (0.7% of GDP) is used for poverty related social assistance programs' (World Bank 2007, 48). The World Bank study (based on 2002 and 2004 data) and Babić (2007, based on 2001-2005 data) analyse efficiency of the social protection system: their findings are very similar. Both studies clearly show, concerning *poverty reduction*, that targeting is the most efficient in cases of social (income support) allowances and family (survivors') pensions (only Babić analyses them).

In the World Bank study (it compares income support allowances, child allowances, other family allowances and unemployment benefits) *income support allowance* was found as the best targeted program in Croatia (more than 2/3 of the program's total spending accrues to the poorest 1/5<sup>th</sup>. (World Bank 2007, 48-49; in Babić 2007 it is 34.3%, but still the highest share). The study finds *unemployment benefits* the next best with about 40% reaching the lowest 1/5 (there was an improvement between 2002 and 2004 in this respect. *Child allowances* and *other family allowances* are found to be poorly targeted (the poorest 1/5 receive 34%/29% respectively). Babić's dissertation includes family pensions (i.e. survivors) and finds them the second best targeted program (with 34.3% reaching lowest 1/5). On the other hand, he finds invalidity pensions (9.2% to 1/5) and family related receipts (3.3% to 1/5) as the least efficient.

*Coverage* is problematic. The World Bank study finds 35% of population covered by transfer programs (60% among 1/5 the poorest); yet, following demographic policies, the coverage is the greatest when it comes to *child allowances* (26% of population/ 35% of 1/5); *other family allowances* reach 10% of population but 12% of 1/5; *social assistance* reaches 5% of population but only 13% among the poorest 1/5 are reached by the income support programme; unemployment benefits reach 6% of population but 10% of 1/5. (World Bank 2007, 49)

The study (but World Bank experts on many occasions too; see section 4.2 above) recommends:

- (i) rationalising spending and improving targeting (including relocating 0.7% of GDP to income support allowance from other programs – i.e. to the best targeted program, however with too low coverage, and
- (ii) strengthening the system administration (certainly not controversial) it also opens a dilemma created by trade-off between expanding social assistance and present (low) activity rate (World Bank 2007, 50).

Babić also argues for raising income support expenses in order to insure a minimum of decent living standards. Both studies agree that (due to shallowness of the poverty profile in Croatia), even modest increase in spending would do a lot to decrease poverty considerably. Joint Social Inclusion Memorandum stresses importance of adequate levels of 'minimum receipts' in various sorts of programs – in order to assure decent living conditions. (JSIM 2007, 21) However, in order to avoid parallelism, for most vulnerable introduction (in the long-term) of the state pension might be a preferred solution (JSIM 2007, 21). Memorandum also stresses complementarities between regional policies and social policies (JSIM 2007, 22) – to this I return in Ch. 6.

<sup>83</sup> In 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR.

When it comes to *adequacy of unemployment benefits*, it must be analysed not only from the income support side, but also from the re-employment one too. In both respects, in spite of slight improvements, there is not much positive to say: firstly, their contribution to poverty alleviation of unemployed is low; secondly, they provide very little in terms of re-activation and re-employment of (particularly – long-term) unemployed. This is why it is considered as particularly important to follow and sustain: (1.) policies to help social welfare beneficiaries back to work; (2.) integration of social welfare and employment programs; (3.) introducing cost-effective ALMPs; and, finally, (4.) tackling social exclusion through jobs. (World Bank 2007, 51)

Altogether, particularly in less favourable economic conditions than the present ones – social preferences for supporting population growth and rejuvenation, on one hand, and for fighting poverty and social exclusion might produce serious trade-offs and force choices to be made. At present, the World Bank's experts' demands for relocation of social expenses (strongly in favour of decreasing and eliminating poverty) are not receiving too much of support from those worrying about demography. Of course, this trade-off might be the false one – as many avenues to reduce too large state expenses remain. However, this asks for serious analyses, but commitments too. And if such trade-offs do exist, their real impact on society and its members' well-being will be far less acute if Croatia embarks on sustained productivity-increase-based growth.

#### **4.9.1 Emerging 'local welfare states' – decentralisation with increasing differentiation in rights**

One of major tendencies is increasing involvement of local governments in social policies and spending, including maternity/children and poverty related ones. Sporadic evidence, based on the media reports, points to some important characteristics of this involvement: there is great variation in benefits' mix between local governments (but in local taxes as well), and even greater differentiation on amounts being given in similar programs, as well as in eligibility criteria (universal or means-tested).

For example, city of prosperous Zagreb, but charging the highest local tax, gives to each mother giving birth to first child one-off allowance in amount of 3000 HRK, for the second one – 6000 HRK, and for the third child and each consecutive child 9000 HRK yearly allowance per child (until child's 7 years of age). While 3d newly born child in Zagreb will bring to its parents 11330 HRK (together with national allowance of 2328 HRK and 500 HRK population allowance), in Rijeka it will be 2830 HRK (included is population allowance but there is no local allowance) and in Pula or Osijek 3300 HRK, i.e. just 500 HRK one-off allowance for each child; Split – 1200 HRK, Varaždin – 600 HRK, Rovinj – 100 HRK) (*Jutarnji list*, 18.9.2006) or Velika Gorica – 1500, but Karlovac – 500 HRK ([www.roda.hr](http://www.roda.hr) – web portal for parents). Interestingly, some very small municipalities are very generous: Dugopolje, a booming (until recently- underdeveloped rural) municipality nearby Split, gives for the first child 3000 HRK, 2d – 5000, 3d – 8000, 4<sup>th</sup> – 12000, 5<sup>th</sup> – 18000. Very generous are also some municipalities on islands – in all these cases pro-natality is primary concern: Blato from Korčula is a frontrunner: 10000 HRK for 1<sup>st</sup>, 10000 HRK for 2<sup>nd</sup>, 60000 HRK for 3<sup>rd</sup> and 72000 HRK for 4<sup>th</sup> and each consecutive. (*Slobodna Dalmacija*, 9.1.2008.) (Note that in 2005 average CNB's medium exchange rate was 7.40, and in 2006 – 7.33 HRK for 1 EUR)

Zagreb is also able to offer free school-books to children attending grammar schools, and free public transportation to secondary schools and university students (with some eligibility restrictions concerning parents' living registration), some are subsidising books, food in schools and transportation (with fixed amount vouchers, or subsidising it between 50-100%, as means-tested). (*Jutarnji list*, 18.9.2006) Some local governments give for free to young families plots of lands to build their houses and/or subsidise their costs of utilities (communication from the Ministry expert).

There are also major differences concerning local benefits for using child-caring public facilities and concerning various supports to poor and elderly. An expert from City of Zagreb, which guarantees to its citizens a wide set of social rights/benefits and recently introduced electronic social card (since October 2007 – two benefits out of 14 are encompassed – food/meals in public kitchens, and in kind assistance to families with 3 or more minors) believes that further decentralisation (with CSWs coming under local authority) will, together with advantages of informatisation, lead towards considerable reduction in administration and its complexities, better monitoring and faster adaptation to changes in beneficiaries' status.

Above trends, if unchecked, are leading to considerable (but not well researched) differentiation in received rights/benefits but also to parallelism (state system run through CSWs and local systems run through local administration) with increased costs, reduced monitoring, and increased complexity and costs for beneficiaries too. This is becoming more important as the share of local social expenses (see Tables 4.3 and 4.5 above) in GDP is increasing: from 0.17% of GDP in 2000 to 0.27% -2002; 0.30 in 2004 and 0.41 in 2006

(MFIN, data based on 53 greatest units of local/regional government included, making 70-80% of total local governments' expenses).

This evolution, clearly, is two-sided: on one hand greater decentralisation and increased local initiative is necessary and may only be welcomed; on the other hand – due to very differing local economic, fiscal and administrative capacities but due to local politics too – it may lead to too great differences in rights and levels of social protection throughout the country. Whole process is non-transparent and systematic data on local programs and differences don't exist. Finding proper balance between de-centralisation and local initiatives, on one hand, and country-wide standards of equal rights and decent living conditions for everyone is major challenge to be faced, including solidarity (equalisation) funds options to be considered (e.g. by taxing over-generous programs) but reductions in numbers of local units of government in order to insure their greater viability and policy capacities. This becomes even more evident taking into account that 556 units of local self-government exist (429 municipalities and 127 towns); 20 counties (21 including city of Zagreb).

## 5. SOCIAL DIALOGUE AND WORKERS' PARTICIPATION

Increased flexibility of labour markets, diversification of employment/work statuses/practices and growth of private sector are reducing proportion of well protected workers. Full understanding of such processes for those not presented by unions and covered by collective agreements is lacking. There are two major channels of employees' representation: *unions* and *employees councils*.

### 5.1. Trade unions: fragmented, with limited impact

Early in the 1990s freedom to organise unions was established with a very low threshold to register. Reliable data on unions and their activities don't exist (OSP 2006). The government expert informed me in spring 2006 that 254 unions were registered on the national level (on 30 no information on activity was available); and some 350 (with about 50000 members) were registered locally. In 2000, five nationally representative confederations had 440.1 and in 2004 – 436.7 thousands members. Together with sixth confederation which in 2004 fulfilled representativity criteria too – it makes 456.8; total unions' membership may be estimated at 500 thousands. However, in recent years, pronounced has been change in membership and members' relocations between national confederations; new confederation (Glas.hr) was formed in 2006 but does not seem to be operational yet (and it is unclear whether will it ever be), and some are increasing their membership (most of changes are due to relocations, much less is due to organic growth argues the expert). The expert I talked too again (January 2008) believes that overall membership of national federations is presently below 400 thousands and that the public sector's employees' share in total membership is on increase. Autonomous unions' membership, is altogether estimated 25-30 thousands in 257 national unions, with largest one – union of journalists having 3 thousands members. Additional 50 thousand members is in 350 local unions. If the expert's estimates are correct, overall membership should be decreased to less than 500 thousands but precise data don't exist yet.<sup>84</sup>

*Unions' density is decreasing too*, but much more slowly than in the 1990s: it is close to 40% but precise data don't exist (new representativeness counting in 2008 may give more accurate data on overall membership and changing shares) – it may also be the case that processes of unions' concentration are taking place. Decrease is explained with growth of self-employment; with employment in private firms; with younger employees being less interested. Many younger employees are on fixed contracts and fear unionisation or don't see any benefit of it, as union representatives in the firms claimed, but the president of SSSH, the largest union, in recent interview too (she even mentions 'secret' members being that out of fear)(*Eukonomist*, 5.2.2008.) In many firms unionisation is discouraged, while unions haven't been successful or active enough in extending their membership base into SMEs and new firms generally.

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<sup>84</sup> Based on 2004 data, Union of Autonomous Trade Unions of Croatia (SSSH/UATUC) had 211 thousands members; Croatian Association of Trade Unions (HUS) - 36; the Association of Croatian Public Sector Unions (MHSJS) - 50; Independent Trade Unions of Croatia (NHS/ITUC) - 87; Workers' Trade Union Association of Croatia (URSH/WTUAC) - 52, and UNI-CRO (Trade Union of Services) – 20 thousands members (in 2003 Representativity calculation). One media report expect: stagnation or even diminishing of SSSH membership; increase in NHS membership to some 100; new federation Glas.hr is expected to hold some 100 thousand too (while URSH/WTUAC joining Glas.hr should cease to exist); MHSJS increased to 84 thousand, and HUS to 50 thousands. UNI-CRO's membership decreased to below 10 thousands and expected is its disappearance (*Poslovni tjednik*, 26.7.2007) Experts I talked to also expect SSSH to stagnate or even to go below 200 thousands; NHS to increase to 100 or more; MHSJS to 80-85, HUS to 45-50, URSH to less than 40 or even 30 (some member unions moved out), and Glas.hr is expected to be between 40 and 50; UI-CRO is likely to lose representativeness (around 15).

After a lot of politicisation in early 1990s, nowadays union scene is characterised with both cooperation (on numerous issues and levels), but rivalry (voiced are complaints on ‘dumping’, from SSSH/UATUC) and conflicts between major players too (e.g. over Sunday or minimum wage law, or representativeness criteria). Determining number and composition of negotiations bodies is often problematic in firms with more unions – then ESC opinion is asked for. In 2007 round table on collective bargaining it was particularly stressed that criteria for representativeness, used by Economic Social Council - ESC (in forming negotiation boards), are not precise enough and may be misused (Ivan Rebac, an expert from the Ministry of economy) against smaller unions. Establishing clear criteria for representativeness by the law, which is not currently the case, may be particularly critical due to processes of membership re-location. This will not only influence ESC composition; but representativeness criteria and outcomes will be used as a basis for distributing socialist unions’ property (now held by the state). Stronger unions (as SSSH is) were arguing for raising minimum membership number to achieve representativeness (firstly on 100000, latter on 50000)(www.nhs.hr on January 5, 2007) – which would have encouraged consolidation of the union scene. However, due to inability to reach consensus between unions, new membership calculation (due to start by the end of February 2008) will be based on the same criteria as applied in 2003 (with 20000 minimum membership for establishing union’s representativity).

Croatian trade union movement is considered as ‘weak and fragmented’. (Bocksteins and Vermuijten 2005), and not stabilised yet; most likely it will remain like that in coming years too. Coordination problems and open antagonism are becoming pronounced again. In October 2007, SSSH stepped out of the unions’ coordination body. Behind are conflicting agendas, uncertainty about membership; unsolved issue of distribution of unions’ assets, but also asymmetry in unions’ real capacities which leads to the ‘free riding’ problem (as stated in the recent interview by SSSH president – *Ekonomist*, 5.2.2008). However, co-operation on some issues still exists (ibid.) and SSSH invited others to join already announced open-space protests to be held in April.<sup>85</sup> If it is true that SSSH, the largest union, might be decreasing its share in overall membership (due to internal evolution but to moving out of its member unions to other federations) than it is certainly creating great pressures, particularly taking into account that (i.) it has the greatest number of full-time employed (115 presently; all others – around 50), and (ii.) that representativity establishment process might change unions’ relative strength considerably, as well as influence distribution of assets. In the expert’s opinion, there has been a decrease in consensus. Leaders’ animosities, coupled with ideological differences (created through early 1990s evolution) and different political parties’ affinities are still present and make an important barrier to greater unions bargaining and action capacity. Another co-ordination problem, he stressed, concerns internal composition of some federations – where hard to reconcile interests (of different industries and/or occupations) are present.

*Reach of unions is limited.* Being more focused on protecting rights of permanently employed workers in large unionised firms/sectors, they hardly reach many vulnerable groups (e.g. young on fixed term) or minorities...or unemployed. On one hand, future evolution will greatly depend on changes in employment structure, and more immediately on further restructuring and privatisation in unionised industries and large firms, as well as on reforms in public sector where unions’ presence is strong; but, on the other hand, on abilities and capacities of unions to cope with these changes. Due to fragmentation and narrow focus (SSSH in this respect may be the only exception) this may be questionable. Public surveys confirm this – unions are not held in high esteem. *Trust in institutions survey*, run by Gfk (a market research agency) yearly on a representative sample (n = 1000), shows for unions for each year in the 2005-2007 period same level – 3.3 on the scale of 1- 7 (full trust). While this shows that citizens are quite cautious concerning unions, marks received by political parties, government, judiciary, state administration are quite lower – below 3 (only exception being the state administration in 2007 – 3.1)(www.gfk.hr)<sup>86</sup>

Unions’ capacity for collective action seems to be quite limited; and certainly smaller than their leaders’ agility to participate in ‘high-level’ talks (on ESC for example) or in media talk-shows, often causing cynical statements by the public and workers especially. In my visits to firms – some interviewees, members or not, were indifferent or even negative about unions and their leaders.

Another important problem is *low unions’ capacity* to deliver expert advice and assistance to its members as well as to produce systematic body of information, systematised data, expertise and knowledge, independently of other partners (particularly of the government which certainly dominates over the social

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<sup>85</sup> The protests’ agenda includes demands for increasing wages (in line with inflation and productivity), restrictions to fixed time contracts in the Labour law, continuance of the pension reform and better working and living conditions (Ana Knežević, SSSH president, in *Ekonomist*, 5. 2. 2008.)

<sup>86</sup> Institutions which receive above four are church (4.2 in all years) and ‘people we socialise with’(4.4-4.8) (in some years: president and army too)

dialogue agenda). Increasing that capacity would be necessary in order to strengthen both their internal activities' foundations, and to enhance their capacities and impact in social dialogue processes. The only real exception is SSSH, which employs 115 (*Ekonomist*, 5.2.2008.) and regularly follows some indicators (like costs of living basket) and occasionally makes some surveys; however even SSSH is quite below of what might be possible and desirable and is mostly acting on publicly produced data by CBS, IOs and so on. All other unions are considerably falling back in that respect, and often taking 'free ride'. The SSSH leader complains about it and mentions unions without any employee, thus being unable to seriously participate in discussions on laws or draft their own proposals but ready to participate in merits of 'cooperation' (ibid.), which certainly strains unions' relationships.

Such a situation undermines the labour side argumentation, even credibility, particularly taking into account that independent/academic research on working conditions and relations in Croatia is scant and non-systematic as well, and very much pulled by the IOs needs (ILO, UNDP; World Bank). While SSSH might even face a situation of degrading its current capacities due to decreasing membership, it is unlikely that other unions, at least in mid-term, will be able to do much and increase their membership enough to sustainably undertake such activities. One possible solution would be a co-ordinated process of establishing an institution which would be able to serve all unions – acting as a sort of labour 'think-tank' with a task of carefully monitoring LM and work processes; but also as a source of systematic research of working conditions and labour market trends (in general, and on particular industries' and/or occupations' levels); finally as a source of policy advice serving unions in social dialogue. With networking all interested and dedicated experts in its activities it could be also an active agent of establishing well-founded but very much missing decent-work discourse in the society.

However, in spite of above weaknesses, one is for certain: unions' contribution to bettering of workers' situation has been (even if often limited) important –generally concerning employment and working conditions, but also in many particular situations/sectors, including the very critical ones (e.g. privatisations, wages non-payment etc.). Evolution of Croatian labour markets and working conditions from early 1990s on, including policy choices (e.g. in the Labour law) couldn't be properly understood without the role unions have been playing. They contributed, with their presence, to general and particular employees' benefit; but, with their absence, to increasing differentiation and segmentation of Croatian work-force as well. This apparently contradictory statement, only reflects unions' limited reach and capacities. But this is also why for Croatian unions – increasing capacity of reaching-out to all employees, to other stakeholders (NGOs in particular, e.g. women groups, environmental groups, pensioners' associations, professional associations etc.) in improving worker's position and security might be critical in the future. Some signs of this are already present (e.g. in activities concerning pensions, discrimination).

## 5.2 Employees participation and employees councils: mostly form

Until 1990, Croatia shared in the generalised but very unique system of self-management, as it was developed in former SFR Yugoslavia. Yet, very little of that legacy remained! Workers in firms employing at least 20 have a right to elect members of the **Employees Council** (EC). EC should protect workers' interests through counselling, co-decision making and bargaining. Employer is obliged to: *inform*, to *counsel* and *co-determine* with EC. In commercial societies employing 200+, and in all public institutions, one member of controlling board must be workers' representative – nominated by EC.

There is little evidence on ECs' and even less on workers representation on firms' controlling boards. Recent non-representative and unpublished survey by Office for Social Partnership indicates - if compared with 1997 survey made by Centre for Industrial Democracy - some improvement but not substantial. Survey shows that ECs rights are realised - *partially*. When it comes to *information*, 'sometimes' and 'rarely' combined share on five issues ranged between 40 and 70% in ten branch unions replies, with 'always' mostly between 10 and 20%. Better are scores on issues where *consulting* is required (e.g. dismissals), 'always' receiving 50 - 80% on five issues; however on *decisions affecting workers' position* it is only 30%. *Twelve unions in firms with the state ownership* ( this is where unions are strong), gave somewhat better scores on most issues: e.g., on *information* 'always' received between 33 and 64%; while *consulting on decisions affecting workers position* 'always' received 50%, and 'sometimes' 42%. *Participating employers' branch associations* (17) and particularly *managements from state owned firms* (14) gave much higher numbers when it comes to fulfilment of their legal obligations towards ECs: on all issues 'always' is above 80% for the state owned firms, and for the private sector firms between 30 and 100% (information), 76-94% (consulting) and 100% (decisions affecting workers position).

Above *perception differences* point to differing expectations – for many employers it is *formal requirement* to comply with, for unions it is about *substantial impact* not realised yet. Late J. Županov's dictum that ECs in Croatia do participate but don't co-determine (in Miličević-Pezelj 1998) is still actual. The best results are in the firms where good is cooperation between unions and EC: EC can benefit from union's infrastructure, help and training. (Miličević Pezelj 2001)<sup>87</sup> However, in presence of weak unions, possible are management's strategies, as one of my (not-published, major retail chain) cases (Francicevic 2007a) shows, of playing EC against the union.

Even if workers participation is mostly reduced to formal requirements, with hundreds of thousands of workers employed in smaller firms left out, *there is more potential for its development*. Two surveys point to that. *Firstly*, 2004 survey<sup>88</sup> on a representative sample (n = 1400) shows that more than 70% 'agree' or 'very much agree' that some form of workers participation would be welcome in Croatia. Political orientation doesn't change the picture: difference between voters of the two strongest parties (associated with 'left' and 'right') is not significant. (Sekulić 2006) *Secondly*, ESOP programs are finding their place in spite of lack of policy support: some hundred programs were implemented by 2004 – firms most likely to implement them are large firms with significant small shareholders' share. Among ESOP firms' managers, 56% is 'satisfied' and 19% 'very satisfied' with the programs' effects: 48% associate it with an increase of participation in the firms. (Tipurić 2004) For future politics of work, this is certainly important sign of potential for furthering participation at the work-place, yet major barriers remain, including the ideological ones. From 2000 on, privatisation policies based on more systematic adoption of ESOP (in what remained to be privatised) have been announced by consecutive governments. Drafts of the new privatisation law were discussed (for example, in February 2007 unions received a draft from the government on the ESOP schemes). In spite of the unions' support, it hasn't been realised. Unions still demand it: however, a number of firms in which the state has major shareholdings is quiet limited. According to February 2007 media report – in some 71 firms the state had majority holdings, and out of them only 22 were profitable in 2005 (*Poslovni dnevnik*, 2..2. 2007). Future of ESOP, including their influence on workers' participation but on the pay systems too, will certainly mostly depend on managerial and very little on the state (privatisation-related) strategies.

### 5.3 Social dialogue and collective bargaining

In Croatia too, as common to the region's countries, '*the tripartite dialogue ... is still the main form of social dialogue*' (Bocksteins and Vermuijten 2005). The state is dominant, particularly taking into account unions' fragmentation and employers' (until very recently) uncertain representativity. Asymmetry in capacities is important too – the government is better organised, better informed and dominates over the agenda building. However, the expert I talked too, warned of decreased administrative and policy capacities (including reduced staff too in some sub-departments) of the labour branch of the Ministry of economy, labour and entrepreneurship; according to him (and unions certainly agree) this capacity was much higher before, when Ministry of labour existed as the separate one.

Main tripartite institution is the Economic and Social Council - ESC. In spite of the progress in its work in 2000s, reasons for dissatisfaction still exist – on national level, and much more on county/local levels (with very differing activity level and impact). ESC is a 'consultative' body, but particularly unions expect that what was agreed on ESC upon will be realised. However, presence of government's representative, and even her or his agreement, does not commit the government itself. (Cimeša and Marinković Drača 2002) All three partners in 2002 research were critical of the others. *Government representative* pointed that other social partners are not ready to face reality, and their bad relations are the problem. *Employers saw* as a problem fragmentation and incompetence of unions. *Unions were the least satisfied*. Too little they are included in key phases of decisions' preparations, but often they find themselves in the take-it-or-leave-it situation (*ibid.*, 32) Even nowadays, unions complain of being by-passed, or given too little time to prepare for discussions (union leader in the interview). Key criticism is about *formalism*, and it is still the valid one.

It seems that too often, unions and employers prefer the government as a partner than talking to each other. This may be attributed, besides mutual distrust, to high politicisation of Croatian economy and to culture of paternalism. For many employers, lobbying with the government is still more important than developing dialogue with unions and employees. On the other hand, unions' strongholds are often firms with a high state ownership share and the public sector. But this, hopefully, might be changing – after Croatian Employers Association fwas first to stress the importance of social partners discusssoing and agreeing on some sort of

<sup>87</sup> SSSH/UATUC's Center for Industrial Democracy is offering education to members of ECs independently of their union affiliation.

<sup>88</sup> As a part of 2004 South East European Social Survey, however not published.

'social compact', concerning all major but controversial issues, including the long-term ones, SSSH (after firstly not being responsive to that) agreed and is now promoting the idea too. (*Ekonomist*, 5.2.2008) One important benefit of opening such a process would be increasing mutual trust, nowadays very much lacking.

*Firm-based dialogue and collective bargaining dominate.* Presently, 100 collective agreements (CAs) are 'in force'; out of this 17 are sectoral ones but only 7 in the competitive sector while 10 are in the public sector. Some 90% of all registered CAs are the firms' ones. (OSP 2006) Registered number of CAs was increasing: in 2000 – 30, 2002 – 46, 2004 – 44, in 2005 – 57, and in 2006 - 50. (OSP 2006; the expert's data for 2006) With such encouraging trends, *CAs coverage is still modest* – at somewhat less than 50%. In the private sector only it is even less – at 35-40% (the expert's estimate)<sup>89</sup>; bearing in mind that out of seven existing sectoral CAs in private sector, even six were extended to the whole sector by the relevant ministry's decision (e.g. construction, commerce, hotels and restaurants....).

Problem is 'inequilibrium between tariff legitimacy and tariff capacity' of unions, due to liberal treatment given by the law even to small unions and their associations (10 members are enough to get national registration and tariff legitimacy). (Rebac 2006) This is a problem when more than one union exist in the area of CA: all have to be represented in negotiations. Very common are conflicts over negotiation team, but also obstruction by smaller unions or misuse of dominant position by larger ones. (OSP 2006) In addition, even if one union only signs the CA it is legitimate. However, in such a case, non-signing unions are free to engage in collective action, thus creating uncertainty for employers. This is why OSP report asked for urgent regulation of *unions' representativity in collective bargaining*. (OSP 2006)

*Representativity and legitimacy is major problem for employer's associations* too. CEA's claim that it represents 5000 firms employing some 400 thousands has not been considered credible by unions. Other two employers associations are much smaller: reach of associations in the population of Croatian firms seems lower than the unions' one (again precise data don't exist!). This is why employers associations prefer firm-based bargaining. (SSSH 2002, 53) This decreases unions' motivation for bargaining with CEA too; once agreement is reached it covers small share of employers and many non-members don't want to apply it. (Rebac 2006) Defining representativity criteria for employers' associations in line with the ILO standards was considered urgent by the OSP report too. (OSP 2006) By September 2007, CEA emerged (in ESC public announcement) as the only representative association entitled to seat on ESC and fulfilling ILO-based criteria. Still some point that its real legitimacy (in terms firms' coverage, including their employment) may be problematic, while its monopoly (of representation) for those not presented by it (particularly small firms and crafts) may be controversial. The union expert (in a written communication) complained of low transparency of the process by which representativity was established (not regulated by the law and not officially announced criteria).

An important asymmetry is emerging: on one hand are employers and employees well presented and participating in the social dialogue processes, on the other are tens thousands of firms/crafts and hundreds thousands of their employees without any real access to social partnership building. This certainly encourages dualisation of Croatian labour markets, but undermines the reach and impact of social partnership too.

Additional problem, and following from above, is *practice of CAs' extension to non-covered firms/employees*: while unions are prone to 'make out of exception a rule', it actually weakens the bipartite dialogue. (Rebac 2006) It may also act as a good excuse for not entering into collective bargaining either. Extensions are criticised by CEA as contrary to freedom to enterprise and voluntary nature of bargaining, introducing legal uncertainty (Rebac 2006) One of my cases (in Franicevic 2007a) shows that such an extension may be welcomed by large firms in order to 'protect' themselves against smaller firms' (as they say - 'unfair') competition. Conflicts may also arise about employers' obligation to negotiate on the firm level once he is applying extended CA (as non-published case of retail firm shows). Important would be carefully analysing impact of such extensions on SMEs (before decision on extension), as well as establishing clear criteria for proving that public interest for such an extension exists at all. (OSP 2006)

*Bipartite social dialogue is under-developed on the sectoral (i.e. industry) level*: its effects are marginal and mostly deals with partial rights or repeats rights given by the Law, and very little with major issues of the sector (Rebac 2006; ILO 2006) Lacking are supporting institutions as well. (Rebac 2006) However, unions are becoming more interested in sectoral social dialogue; opened were sectoral negotiations in a couple of sectors (e.g. metal and electro, textile and leather industry ...). (OSP 2006)

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<sup>89</sup> URSH's president, arguing for re-introduction of national collective agreement, claimed that some 772 thousand workers were not covered by CAs (*Novi List*, 12.10.2005)

Most CAs don't show any effort to deal with particular issues – their content is mostly restricted to repeating rights given by the Labour law; only two CAs are signed on work safety; work and life balancing is, in the expert's knowledge, dealt with in only one; there are no CAs dealing with education/training; in textile and lumber industry, however, signed was CA on discrimination. While this may show employers' low interest in such issues, it also shows low unions' capacities to raise specific issues and bargain on them with competence.

*Problematic is CAs enforcement too:* 'implementation ... is rather weak, with surveillance and enforcement mechanisms underdeveloped'. (ILO 2006) This was recently echoed in Ms. Ana Knežević's interview – she complained about CAs not being respected, lack of inspection, inefficient monitoring and inefficient courts (*Eukonomist*, 5.2.2008) Mechanisms for dispute resolution are underdeveloped too, but first important steps were made by OSP. Since 2003 increasing is the number of conflicts over CAs followed by peaceful resolutions proceedings: 31 in 2003; 106 in 2004; and 105 in 2005 (60 successfully). (OSP 2006)

*Effective social dialogue is still underdeveloped and quite formal – on this agree both unions and employers representatives* (Ms. Knežević in the above interview, as Mr. Popijač, managing director of CEA, in *Eukonomist*, 7.1.2008) It is the strongest when the state, as majority owner, is forced to pursue restructuring and privatisation in firms with strong unions, and when unions' cooperation is necessary if radicalisation and heavy conflict will be avoided in advance. (e.g. shipyards or Croatian Railways). Concerning the state, Mr. Popijač particularly stressed barriers to efficient social dialogue as existing on the lower administration's levels, as well as on the local levels. (*Eukonomist*, 7.1.2008) In addition, even if social dialogue between the three partners has improved in 2000s, 'involvement of other groups of civic society in social dialogue is rather small, and insufficiently developed.' (Bocksteins and Vermuijten 2005, 69) It may become important as civil society groups with legitimate stakes and claims are becoming more active and vocal (e.g. in case of asbestos production in Vranjic, or in the case of work-place 'bullying' – see section 3.3.8.1). Tripartite framework may not be enough to deal with new participants in Croatian politics of work.

## **6. SOME MAJOR CHALLENGES, DILEMMAS AND POLICY ISSUES**

### **6.1 Challenges of competitiveness and productivity: flexibility vs. security**

In previous chapters analysed were numerous aspects of employment, working and living conditions of Croatian employees. In this chapter some major issues and policy dilemmas emerging from them will be discussed. Certainly, the most worrisome aspects of Croatian LM concern low activity and employment rates as discussed in section 2.2. Coupled with unfavourable demographic trends, pronounced ageing, leading to further increase in dependency rates, this produces short-term/medium-term and long-term pressures and challenges whose resolution might deeply affect overall working and social conditions of workers but of population at large.

In the *long-term*, major challenge is increasing *productivity of employed*, but *activity of not-employed* too, thus assuring higher growth path but smaller pressures on social protections systems and institutions whose viability might become questionable (as discussed in Chapter 4). Issues of (*i*)*migration policies*, Croatian society might be quite uncomfortable with (due to pronounced traditionalism), will have to be addressed too –in relation to demographic trends, to increasing structural imbalances on labour markets; but in relation to increased labour force mobility coming with the EU integration (including issues of 'brain-drain' which might negatively affect productivity growth).

While, in institutional and policy terms, the EU accession is major part of the response – it still leaves many options and potentials for diversity along various models (of capitalism, see Amable 2003); and does not prevent from failures. Yet, these will be responses to more immediate challenges and pressures (their adequacy and coherence, as their credibility) that will decisively affect the long-term path Croatian economy and society will be taking. To them I turn now, more precisely to those specific for employment and working conditions. Two (related) challenges seem to be the most critical ones: those concerning workings of the labour markets and those concerning productivity of workers (but of the economy at large).

#### **6.1.1 Flexicurity challenge**

Finding balance between the economy's accumulation needs (through investment but greater cost efficiency too) and needs for greater security, particularly of those most vulnerable ones will very much depend on sustenance of positive trends of 2000s. Increasingly liberalised setting, with strong competitiveness pressures on Croatian firms and employees, is opening some most important issues concerning both flexibility of

employment and security of employed. *Increasing both employers' and employees' capacities for competition and adaptation is necessary: but is 'flexicurity' a viable solution for achieving that?*

Data, showing increase in share of new openings on fixed term, shortening of their duration, and increase in part-time employment, point towards, however constrained, increase in non-standard types of work. Unemployment risks, as shown before, are unevenly divided across various segments of labour force as are prospect of (re)entering employment, as are prospects of insuring against risks of social exclusion and poverty.

Such trends may consolidate *dualisation of the work force*: with the 'core', particularly in larger firms and public sector, enjoying longer tenure under the permanent contracts and approach to other benefits under collective agreements' shelters (due to higher unions' presence and coverage), participation rights etc.; with burden of business changes and seasonality falling on those with fixed contracts, on subcontractors, on SMEs.<sup>90</sup> Importantly, unevenness of flexibilisation, even if it leads towards segmentation of the labour market (Crnković-Pozaić 2007; Račić et al. 2005; Šošić 2007), seems to be bridging formal/informal divide and reaching deeper in the very organisation of the work in the formal segment of increasingly privatised economy, but reaching in the public sector too – through increase in temporary employment, through extensive use of fixed contracts, and increasingly through temporary agency, through increasing reliance on sub-contracting with smaller firms taking onto themselves the burden of business cycle. -\*

Croatia, as discussed in sections 2.2 and 3.1 has comparatively low activity rates, low employment rates, low job creation rates; it has also low part-time employment, and lower than EU-15 and EU-25 are temporary employment rates. In sections 3.2.2 on wage structures, and 3.3.1 on working time found were strong indications that internal flexibility is low too. As we saw in section 2.2.3 geographical mobility was found to be very low as well. (Botrić 2007) Arguably, *there is a deficit of flexibility*, particularly in some sectors of economy. This is hurting new job creation; (re)employment chances of those unemployed; but firms' performance as well. This is, finally, leading towards dualisation/segmentation and 'flexibility on the margin'. Such a view, on flexibility deficit, is supported by employers, but by some IOs and IFOs too, with important impact on LM policies and regulations.

Another side of the picture is persuasive too. In spite of nominal normalisation of numerous aspects of labour markets and work, many are faced with high insecurity and high vulnerability to unemployment, low wage, unfavourable employment and working conditions, inadequate social and health protection in case of risk-event (unemployment, injury/disease, poverty, ageing etc.) (as discussed in sections 2.2.3, 2.2.5, 3.2.6 and 3.3). *Arguably, there is deficit of security too*: hurting restructuring of many firms due to strong resistance and associated political risks; hurting faster relocation of firms and jobs; and, finally, hurting (re)employability chances of individuals through (re)training and education. Such a view is supported by unions in particular – they attribute it to flexibility increasing reforms of 2003/2004 and demand their revisions.

*Employers demand further flexibilisation of employment contracting and working time organisation.* Croatian Employers Association (CEA), finding labour markets still too rigid and fragmented, is asking for further deregulation (Kulušić 2006; also *Slobodna Dalmacija*, 13.11.2006, *Vjesnik*, 23.10.2006 and *Večernji list*, 5.3.2006.); present regulations in the Labour Law are taken as 'restrictive': 'they are a barrier to more intensive employment' (Bakić 2006).<sup>91</sup> CEA, in order to enhance both external and internal flexibility, demanded: (re)definition of small firm to 50 employees, thus reducing numbers of better protected workers but decreasing regulatory burdens for many firms; easing dismissals conditions but reducing their costs; deregulating temporary agency employment; reducing obligatory presence of workers on the firms' controlling boards only to those with 1000+ employees – while the member has to be the firm's employee; enabling horizontal migration of workers between employers; making illegal strikes caused by non-payment of wages; longer working time (lunch breaks should cease to be part of the working time) and more flexible organisation of it; social protection issues should be regulated not by the Labour Law but by special laws. 'Balancing flexibility and security' is among CEA's 'basic principles of action' (as posted on its web site), including 'advocacy of the reform in the secondary and university education system' and 'promotion of concepts of vocational training and life long learning' (www.hup.hr). CEA is certainly aware of the need for 'strengthening social partnership' and achieving a 'consensus' on changes (Kulušić 2006). Yet, it seems that its true focus and real priority is removing barriers to

<sup>90</sup> This does not mean that fixed time is the rule in all small firms: particularly those which employ skilled and highly educated work force and/or have to invest in their training are happy to offer permanent contract (as explained to me also by a friend who owns successful software firm employing about 15 engineers)

<sup>91</sup> In cooperation with CEA, MojPosao on-line surveyed 94 employers on restrictiveness of labour legislation: greatest barriers to employment are clauses on dismissals, on burden of proof (falling on employer) in case of conflict, on temporary employment and on working time restrictions: all received more than 60% 'fully or partially agree'. (Bakić 2006)

easier hiring and firing, i.e. flexibilisation, while having very little to say on policies and mechanisms to enhance security too. This has been perceived as one-sidedness by unions which received the above demands with lot of criticism and some harsh words too.<sup>92</sup>

*Unions'* position, in spite of nominally accepting 'flexicurity' discourse, has been strongly on the *security side* – in their view the 2003/2004 reform, resulting with the Labour law, failed in many respects but increased many workers' exposure to insecurity and vulnerability to inferior work arrangements. The largest union's demands basically mean return to more restrictive LM regulations. In 2004 this union produced 'directions' on flexicurity, which, while accepting 'globalisation and flexibilisation' as processes 'independent of our wishes', stressed the security of workers, but paternalistic expectations too: the state is the one who has to guarantee security to those who are losing job protection by the law as well as to those who are engaged in untypical forms of work or are unemployed. Unions' demands concerning the Labour Law changes are clearly confronted to employers' demands. Particularly they demand (*Vjesnik*, 23.10.2006; SSSH document on the Labour Law changes – on [www.sssh.hr](http://www.sssh.hr); but some demands very recently repeated in an interview by the union's president, *Ekonomist*, 5.2.2008): increasing limits on fixed-time employment (from current 3 to one year, as it was before current regulation) and preventing employers to use practice of 're-naming' the job for which temporary contract was signed (after maximum period for renewals expired); regulating temporary agency or making mandatory signing national collective agreement; putting a ceiling of 3% on the number of employees in firms employed through TAs; making regular dismissals more difficult by introducing written explanation of reasons for dismissal mandatory; making mandatory running evidence on working time as well as written order for overtime; reducing small employers definition from current 20 to 10 – thus extending number of firms obliged to introduce workers representation through workers councils; removing 30 days waiting period to make strikes in case of wages' non-payment legal.

*The government* is under pressure to harmonise LM and work regulations with the EU, including development of LM policies and capacities for them. It is also under internal pressures to deal with serious economic and social problems associated with workings of labour markets (employment deficit, youth and long-term unemployment, structural unemployment). It is caught between demands for increased accumulation (arguably coming from greater flexibility) and demands for increased legitimacy (arguably given by greater security). Yet, it is not likely that the government will embark on moves that would dramatically risk loss of support from well protected layers of work-force; and risk open confrontation with unions. Delays of LM reforms indicate their high risks, and difficulties of design and implementation, as well as uncertain calculus of individuals/groups/territorial distribution of benefits and losses.

Finding a balance between flexibility and security may be particularly difficult in a setting where social partners' capacities for constructive social dialogue (as pointed in Ch. 5) are low, while their reach is limited and representativity uncertain, but lack of mutual trust – high. Recent acceptance by SSSH of CEA's initiative on reaching social compact between social partners might be an encouraging sign of both sides realising that confrontations on basic issues should be just a starting point for productive negotiations on longer-term issues thus providing greater stability to social dialogue terrain. On the other hand, fragmentation of unions and questionable representativity (real, not formal) of both CEA and unions may undermine the value of such compact even if reached.

*Further flexibilisation might be constrained for the time being, yet it can hardly be stalled.* It is certainly asking for compromises through which present articulation of flexibility&security nexus, being increasingly contested both from efficiency and justice points of view, will be re-interpreted and re-arranged. The question is could a 'trade-off' trap (of more flexibility for less security) be avoided<sup>93</sup> and virtuous complementarities between the two – established, i.e. receiving both greater flexibility and greater security. The answer very much 'depends on circumstances: especially on people's position in the course of their life, but also on policies and on labour market regulations shaping this nexus'. (Leschke et al 2006, 4) While 'flexicurity' proposals in Croatia too are greatly inspired by a possibility of generating 'mutually supportive or complementary relationship', inspired by some successful stories, a Danish one in particular, it is important to note that major institutional deficits and weaknesses of actors in Croatia call for caution. Additional barrier may also be costs associated with ALMP; PLMP and educational policies reforms needed to achieve virtuous complementarities typical of the 'golden triangle' of Danish flexicurity system. (EC 2006; Madsen 2005) In this respect particular challenge is not primarily increasing spending for ALMP and PLMP, on one side, and increasing (or relocating) spending for fighting poverty and social exclusion, on the other, but it is *establishing effective link between two policy realms*

<sup>92</sup> President of HUS the above CEA's demands compared with introduction of 'slavery' ([www.bank.hr](http://www.bank.hr) on 8.3.2006.)

<sup>93</sup> As Leschke et al. point: 'the nexus, however, can also be deadly vicious, for instance when hire and fire policies lead to an overall insecurity, thereby lowering not only effective demand but also fertility' (Leschke et al 2006, 3)

(presently missing, as stressed in the social protection chapter). Increasing policy capacities as well as quality and intensity of social dialogue is a prerequisite of that.<sup>94</sup>

Recently 83% of those surveyed agreed with the statement that ‘work contracts should become more flexible to encourage job creation’, quite above the EU-25 average (72%). (Eurobarometer 2006) Therefore, many tend to believe that LM institutions are not conducive to faster job growth and easier hiring of those unemployed. That security may be uncertain, due to too high a dependency rate, is shown when 71% agree with a statement that ‘in (our country) many people retire too early’, while in EU-25 it was 45%. These answers indicate both need and potential for LM reforms. Due to current processes of harmonisation of Croatian legal system with *acquis communautaire*, it is certain that LM reforms will be very much conditioned and constrained by accession processes. (EC 2005a; ILO 2006) A part of this is – wide acceptance of the European discourse on LM reforms in which a concept of ‘flexicurity’ is certainly ‘gaining momentum’ (as Madsen 2006 put it). The European Employment Strategy ‘calls for labour market institutions to adopt “flexicurity” principles’; similarly the ‘Lisbon strategy’ (*Employment in Europe* 2006, 75-76). In the context of necessary changes of regulations, unions and employers are defining their basic demands and positions. While both sides are arguing for adoption of ‘flexicurity’ principles, behind are hard to reconcile differences. Are actors going to resolve their differences through negotiations leading to beneficial (for all) compromises or through conflicts inviting for strong government’s intervention, thus consolidating paternalistic governance of labour markets, is yet to be seen. Responses to these most immediate pressures will decisively influence the long-term developments as well.

### 6.1.2 Productivity challenge

Croatian social partners are strongly confronted on further flexibilisation issues, quite unclear on income security issues (expecting it simply to come from the state). However, there are areas of principled agreement: increasing productivity, establishing long-term sustainability of that increase (and potentials to base that increase through labour-shedding, as typical of the 1990s are quite exhausted, except in public sector) is the most important goal to be achieved if difficult trade-offs (intergenerational, regional, between social groups etc.) will be avoided. An increase in total employment and productivity is necessary if faster convergence to EU levels will be possible, income gap with Europe reduced (if not closed), and high level of social spending, sustained. (World Bank 2007, 14-16)

Croatian enterprises are, with few exceptions, not productive enough – their competitiveness is comparatively low, as is low total factors productivity. Dismal export results attest to that. Potentials for lowering labour costs are limited and invite for confrontations. As illustrated before, competitiveness and (re)employability of Croatian labour force is greatly compromised by weaknesses and failures of education and VET systems; very low participation in life-long learning.<sup>8</sup>as pointed in section 3.3.7) But they are compromised by managerial failures too – to develop governance structures conducive to skills and knowledge upgrade as well as to more inclusive and performance based pay systems.

Technological and managerial upgrades, on one hand; increases in human capital investments and adapting such investments to LM needs seem essential. Yet, on the societal level, productivity increases ask for compromises concerning allocation between present and future consumption, between wages and profits, between private and public sectors. Increasing capacities for social dialogue (which includes adequate expertise too, lacking at great extent, too often making actors dependent on foreign consultancy advice), achieving solid trust between actors, on one hand (presently, as we saw, lacking) may make reaching such a consensus – easier. Increasing efficiency of social spending and of public sectors in general, as pointed in section 4.9) can make such a consensus – less costly and painful. However, weaknesses in public governance, weaknesses in social partnership and participation (including civil society interests as well), but preferences for clientelistic policy making and high corruption – may be the most formidable barriers to overcome. There is no guarantee that Croatian economy and society will find virtuous growth path based on sustainable productivity increases. However, alternative avenues to firms’ competitiveness (based on costs’ cutting) even if available cannot assure (for many) viability of present rights to consumption and social protection, decent working conditions, not to talk about their increase/improvement. In unions’ and employers’ discourses, this long-term aspect is absent.

As stressed by the World Bank study: ‘With high and rising dependency ratios, the main challenge for the education sector is to produce a more competitive labour force that can earn the income levels needed to maintain and improve social well-being for the population as a whole, without incurring excessive fiscal costs’. (2007b, 6) Thus the key question is how the education system can improve the skills base of the labour force so

<sup>94</sup> Encouraging sign is, concerning ALMP, that there has been some progress but both quantitatively (expenditures and beneficiaries) and qualitatively (institutional development and capacity) it is far below what is needed, and certainly far below the EU levels.

that it can significantly increase productivity and compete in both the European and global economies. This will require a better match between skills produced by the education system and those demanded by the market. Enrolment rates, especially at the tertiary level, as well as completion rates need to be increased, and repetition rates at the tertiary level need to be reduced'. However, more than this is needed: coherence between incentives for knowledge acquisition and more productive work, on one hand, for more entrepreneurial initiative and behaviour, on the other, must be established on all levels. This concerns all major actors – employees, employers/firms and all levels governments. As long as wide scope for 'non-productive entrepreneurship' (Baumol 1989; Franicevic 2005) remain – there are other ways out for entrepreneurial individuals, with costs imposed on society. Appropriately dealing with numerous institutional deficits (including important barriers to entrepreneurship too; discussed in Franičević 2005) of Croatian society and politics may not be enough, but it is certainly *condicio sine qua non*. Linking entrepreneurial growth demand with demands for decent work is tremendous challenge to be faced and resolved.

## 6.2 Vulnerability challenges: vulnerable groups, vulnerable sectors, and vulnerable regions

The report identified *multiple sources of vulnerabilities* affecting some typical groups and/or individuals – many sharing in multiple vulnerabilities too. In addition, *geography of vulnerabilities* points to strong regional differentiation when it comes to poverty, unemployment, activity, productivity, wages, human capital etc. For economic and social policies this creates particular challenges – economic and moral ones. Finally, impact of war and transition reforms has been strong but *sectorally uneven* – restructuring and relocations of resources and activities are an on-going process. In a number of ways it affects individuals, social groups and localities, presenting them with new opportunities but risks and vulnerabilities as well. What underlies these processes is their embeddedness in overall globalisation and, more particularly, europeisation trends.

### 6.2.1 Vulnerable groups

Arguably, the most vulnerable groups, as structural issues of LM are coming to the forefront, are:

- young, with wrong/inadequate/low in demand – skills,
- long-term unemployed, increasingly unemployable,
- older employed but low paid / and pensioners.

Vulnerability of Croatian workers to unfavourable (but un-decent too) employment and working conditions is not only due to above discussed institutional factors and deficiencies. It can be argued, in post-socialist transformational perspective especially, that transition reforms *per se* have dramatically increased and generalised labour market related risks and vulnerability of workers across the board. This is due to increased rivalry and contestability of markets, both product and factor ones, but also due to particular political and moral economies of the period (more Franicevic 2002). In this sense, it may be argued that risks are positively related to the levels of liberalisation, entry and exit conditions, globalisation etc. However, there are great differences across sectors and industries (both structural and regulatory). On the other hand very differentiated are capacities and abilities of different groups of workers to 'insure' themselves against such risks, either through erecting barriers to them (collective action, contracts) or through ensuring effective compensation in case of risk event. This leads towards important policy issues, both concerning *ex ante* and *ex post* aspects of the risk. (Dercon, 2005)

*Unemployed are certainly the most vulnerable group* – many have high poverty risk too (as discussed in section 3.2.6.2). In spite of encouraging trends (decreasing unemployment), prospects of getting a decent job are particularly dim for older and/or long-term unemployed (see section 2.2.3). *Among the long –term unemployed prevail*, semi-skilled, those with basic school and three years secondary school: they made 72.4% of the total in 2005. Many among them are facing social exclusion (Šverko, 2005; UNDP, 2006a and b). *Data on the unemployed high poverty risk* are consistent with data on *low unemployment benefit coverage* (as shown in section 4.3) Even with substantial increase in spending for UB and social supports, on one hand, without these measures' proper integration with dedicated and well focused ALMPs (on all levels, and in developed partnership with employers and local communities) chances for their (re)employment are very small, but their (de)activation (i.e. exit from the labour force) – much higher. Even, with substantial improvement in ALMPs – concerning services, focusing and (particularly vulnerable groups') coverage – pressures on social protection systems will very likely continue. Only sustained growth and productivity increase, as discussed above, can provide credibility that these groups' (together with armies of existing pensioners) position will not deteriorate, but rather will – improve.

Many share *multiple vulnerabilities*. *Young with substandard education risk high unemployment, substandard employment and low pay too*. On the other hand, shown was that education brings premium (not only in terms of earnings, but employability too). Without adequate education reform (it is too early to assess the impact of reforms made so far – including introduction of Bologna system at universities) and (re)qualification and additional training of those out of schools – risks of creating part of the work force permanently being on the margin (temporary employment, low pay, substandard working conditions, low ability to resolve basic housing conditions leading to family-creating) are high. Loss of potential economic benefits is part of that risk too (in terms of increasing society's potential output). Arguably, educational reforms (including all aspects and levels), their complementarity with economic system is probably the most important reform for Croatian economy and society in years to come – both in terms of satisfying un-met needs of existing firms, and making possible entrepreneurial generation of new firms with new products, technologies and abilities.

As we saw in section 3.2.6 many workers receive low pay; it creates immediate and long-term challenges and pressures concerning their future. For aged-ones, perspective of low pensions which cannot assure decent post-retirement living conditions, is particularly acute (as pointed in section 4.4.). Linking productivity increases with greater social spending efficiency may not be enough – solidarity (and/or intergenerational) challenge is acute, particularly taking into account that, with present trends, even many younger workers' future (concerning their retirement, their health, their education) does not look bright, due to low capacity for saving and for assuring private solutions. *Finding complementary solutions to productivity and solidarity puzzles* (also concerning access to decent health protection, also concerning unviable position of some minority groups, as discussed in section 2.2.5) is major test for social partners and society at large. For paternalistic society, as Croatian one used to be, it is even greater test in face of decreased credibility of paternalistic solutions to economic and social problems in the future. This is why an issue of reaching-out from traditional 'triangle' (of unions, employers and the state) to wider society and its organised interests (including NGOs) was raised.

## 6.2.2 Vulnerable sectors

*Under pressures of competition* numerous firms are looking for viability and competitiveness. Many currently employed may find themselves at risk of losing job or preferred form of contract, while many unemployed ones will be only offered sub-standard 'flexible' jobs. Position of the 'core' (those employed in large firms and/or public sector, enjoying better working conditions and stronger unions' presence) may easily become precarious too. *Firstly*, there is unfinished agenda of *privatisation*, where the state is still in control of some firms whose future perspective is highly uncertain. Typical examples are shipyards, some firms in agricultural sector, manufacturing. *Secondly*, there is a hardly started agenda of streamlining *the public sector*, including public utilities and state administration. *Thirdly*, there is still high level of *subsidies* to some sectors/firms – they may be fiscally unsustainable but there is also commitment to their substantial reduction related to EU accession. *Fourthly*, there are strong *globalisation pressures* on many firms/sectors, only to increase in years to come – which may involve even drastic measures. *Fifthly*, these pressures involve *deregulation and opening competition* on markets served by public and/or privatised monopolies. (Croatian Railways, but Jadrolinija too; telecom sector) *Sixthly*, while major share of self-employed (including informal one) is still in agriculture, challenges of EU accession may be too big for many hardly sustainable farms and jobs they are providing.

As many recent cases show, such pressures are likely to be met with high resistance from employees and contested by unions, typically present in large firms and protected sectors; they provoke resistance from other affected but organised groups as small farmers are. Situation is more difficult for employed in SMEs or self-employed, where not only employees but employers are often defenceless to above pressures (e.g. dramatic impact on many small shops caused by entry of retail chains). All this can only lead to further differentiation of working conditions and employment statuses, while in the same time undermining a position of the 'core.'

Such processes produce major pressures on the state, and dilemmas on industrial/sectoral policies and crisis management; they generate pressures (by particular interests) and incentives (by politicians) to micro-manage. While this may be a legitimate policy answer (to protect jobs, sectors, local economies etc.), it may be costly and affect negatively competitiveness in short and growth in long-term, particularly if expert capacities are missing. Political economy may also be controversial: due to generating opportunities for 'quasi-rents' appropriation and corruption. Greater flexibility of the markets, on the other hand, leading to faster and (hopefully) more efficient relocations of resources, including the human ones, may be an avenue to greater social polarisations, and increased vulnerabilities of many, if some conditions are not met – greater adaptability, employability and competitiveness of Croatian work-force; but greater security of those faced with imminent risks too.

### 6. 2. 3 Vulnerable regions

As pointed by Nestić and Vecchi, geography is ‘a key factor driving poverty’ in Croatia (2007, 48). But, as shown on a number of issues (concerning employment and unemployment, human capital, economic and demographic structure, earnings, working and living conditions in many respects, social infrastructures but fiscal and policy capacities) importance of diverse geography of vulnerabilities can hardly be exaggerated. For most vulnerable Croatian regions, war-related shocks (often coupled with pre-war under-development and transition related breakdown of local industries) were an avenue to multiple vulnerabilities shared by great part of population, with very little remained scope for autonomously-led growth leading to faster economic and social progress. Paternalistic solutions certainly alleviate the most fundamental problems of poverty and deep social isolation and exclusion of many. Yet, more is needed – in order to activate human and other resources policies which will lead to greater human capital building (as indicated before – human capital deficits are in the centre of failing regions), to local skills upgrade should be in the centre of regional policies.

However, there is more to this: building regional and local capacities, presently very much lacking, but removing considerable institutional barriers to endogenous and in-coming entrepreneurs is as important as are major infrastructural state investments which might bring new life to some of these regions. Some of these regions traditionally were depending on the state both directly (as main job provider out of agriculture) and indirectly (through redistributions). Yet, only policies which will provide incentives for new job creation by productive firms may create momentum and synergies in local economies. This is something the state can hardly create but with intelligent and dedicated policies may certainly enable and encourage (affecting both potential or existing employers’ and potential or existing employees incentives’ – first to invest and create jobs, second to learn and work efficiently. In presence of low geographic mobility, such policies will need to be linked with attraction policies, particularly in regions/localities with pronounce ageing and de-population. Yet, in most immediate terms – one more aspect of solidarity needs to be in place: one which provides for security and opportunity across Croatian regions.

## 6.3 Institutional and capacity deficits

Decreasing contractual/institutional uncertainties (presently – high), increasing credibility of enforcement and trust in institutions (presently – low), leads towards greater respect for workers rights and encourages use of the law in their defence; but discourages its breaches. It gives greater credibility to contracting between employer and employee, but to social dialogue resulting with enforceable collective agreements too.

On the other hand, numerous reforms (mostly induced by EU accession processes) face great risk of being discredited due to low reformers’, i.e. governments’, capacity to make them really functional and enforceable. Increasing capacities for reform and its sustenance seem to be vital for Croatia’s European future.

### 6.3.1 Problematic enforcement

*Reforming judiciary system, increasing its capacities and rule of the law is vital for greater respect for workers’ rights.* Position of workers, job contracting, workers rights and their legal protection etc. is regulated by Constitution, by laws (labour law, laws regulating occupational safety and health etc.) and other acts. Their rights are also established through processes of collective bargaining leading to collective agreements. Multiple are institutions designed to protect these rights: courts, state inspectorate and nascent institutions of out-of-courts peaceful conflict resolution. Institutions for social partnership are put in place as well. However, credibility of legal protection is low, and capacities of unions to protect workers are – due to fragmentation and decreasing unionisation – limited.

*Weak law enforcement makes all employees vulnerable to employers reneging on the contract, including collective agreements, and hurting other law-given rights.* Worrysome is *low capacity of courts* to effectively protect workers suing employers: ‘there is a gap between normative and factual level’ in workers’ rights protection: ‘labour cases last too long and in reality we cannot credibly rely on protection of rights protected by the law’ (Zrinščak, 2004). Great majority of cases concerns material rights (82.4% in 2005, but more than 90% on the courts too. (*Večernji list*, 24. 7. 2005; *Poslovni dnevnik*, 14. 8. 2006) In spite of the fact that labour cases should be tried in six months (very unrealistic in many courts), it normally takes three years to get first level ruling and additional two for the final one (Zagreb judge in *Večernji list*, 24.7.2005.; director of Office for Social Partnership, in *Poslovni dnevnik*, 14.8.2006). Even if this may discourage workers to enter into labour cases (particularly when being on their own – i.e. non enjoying unions legal support), they abound: in 2000 there were 18.650 cases, in 2001 – 30717, in 2002 – 34697, in 2003 – 48262, in 2004 – 46930, in 2005 – 23636, and in 2006 – 11547. (Ministry of Justice data see Table 6.1 below)

**Table 6.1: Labour cases filled with Croatian courts, by causes, yearly, 2000 - 2006**

	2000	%	2001	%	2002	%	2003	%	2004	%	2005	%	2006
Dismissals	2709	14.5	2350	7.7	1896	5.5	1934	4.0	1794	3.8	2194	9.3	
Material rights (wages, bonuses)	14098	5.6	27244	88.7	31582	91.0	43672	90.5	43342	91.8	19486	82.4	
Other causes	1843	.9	1123	3.6	1219	3.5	2663	5.5	2091	4.4	1966	8.3	
TOTAL	18650	100	30717	100	34697	100	48262	100	47227	100	23646	100	11547

Source: Ministry of Justice; Note: numbers relate to new cases filed in respective years

Considerable is a decrease in 2005 and 2006. While this *may look encouraging*, ‘normal’ is far from good and risks of new crisis are not eliminated. The 2002-2004 crisis was created by massive filling of cases (supported by unions) concerning collective agreements; this can easily happen again. European Commission’s 2007 Progress Report on Croatia (November 2007) stresses that ‘access to justice is still hampered by the lack of comprehensive system of legal aid. It is also obstructed by high fees for legal services.’ (EC 2007)<sup>95</sup>

*Labour inspection branch of the State Inspectorate is understaffed* – on December 31, 2006 instead of 178 (if one would be per 4000 employees, as the law requires) there were only 99 inspectors (. (SI 2007) In 2004/2005/2006 12510/12934/12962 controls were made - at about 3% employers only. (SI annual reports data) Annually, number of discovered misdemeanours is increasing. It points to greater inspection’s activity but also to increased social and political sensitivity to labour conditions: in 1998 only 4488 misdemeanours were discovered and processed, while in the 2001 -2005 period it increased from 13480 to 19672; in 2006 - 15418. They mostly concern illegal employment; illegal overtime or night work; rights to workers’ rest; failure to give to workers proper evidence on pay, contracting part-time work even if in reality it is full time work, and so on. The State Inspectorate (SI) rightly insists on more precise and unambiguous regulations on contracting. Often, unions, employees’ councils and workers are approaching SI concerning issues not falling into SI’s jurisdiction: SI reports attribute this to low credibility of courts’ enforcement but to fear of employees to sue employers too.

*Credibility of enforcement is low*: in 2004 inspectors filled 6789 cases with misdemeanour courts; in the same year received were 4684 courts’ decisions (related to 2003 or earlier); 1153 were decisions of ending court proceedings due to falling into overtime. In 2005, 7200 cases were filled with misdemeanour courts while 5503 court decisions were received (related to 2004 or earlier); even 1965 (or 36%) on cases falling in overtime. Finally – in 2006 – 6360 cases were filled, 6150 court decisions were received, out of which 3111 on overtime (i.e. 56%!) ! SI also complains about courts’ decision not being adequate enough. On the other hand, Nov 2005 law provision which allows for locking down premises if illegal employment was discovered in SI report (401 cases in 2006) is considered as one of the main reasons for reduction in that offence in 2006. Besides, increasing number of inspectors, SI report asks for a number of regulations to be changed and/or introduced, but, not surprisingly – major barrier to efficiency and/or credibility is judiciary.

Not surprisingly, thorough *reforms of judicial system and proceedings* are asked for as are increasing monitoring and sanctioning capacities of the labour and other relevant inspections. However, only if both targets are reached, credibility of law enforcement may be assured. This is on the top of the EU demands (e. g. EC, 2005a; EC 2007). Some have been arguing for the establishment of specialised labour court as well. Further development of mediation and arbitration capacities in labour disputes could provide *alternative to courts* –some progress in that respect was achieved with Office for Social Partnership’s activities concerning collective disputes. Finally, increasing inspections’ capacities and capabilities is of great importance as well. Yet, firmly establishing the social value and respect for employees’ rights, after so much of disrespect for them in years of ‘great transformation’, seems to be of fundamental importance. What may be at stake is political issue – control over discourse of social/rights.

Finally, increasing capacities and efficiency of the rule of the law, provides for a terrain in which *collective agreements enforcement* (shown in Ch. 5 as weak) would be easier, thus pushing all partners to more serious, but dedicated too, bargaining leading to credible commitments. This can only increase interest in institutions of social dialogue and participation.

<sup>95</sup> Some NGOs also claim that the present system does not stimulate attorneys to end proceedings quickly.

### 6.3.2 Increasing reform and policy capacity

*Increasing reform and administrative capacities is vital for efficient functioning of labour markets as well as for sustaining benefits from reforms.* There is a consensus of researchers, experts and foreign consultants: capacity weaknesses could impede implementation of reforms already (and/or to be) undertaken. (e.g. in WB 2007b, 12; HRD 2007) While international funds and assistance are aimed to reduce capacity constraints, the process is uneven and far from finished. This concerns the central state administration capacities but, even more – the local ones. In presence of demands associated with the EU integration processes, there is a major trade-off between speed and number of nominal reforms, on one hand and their real (not-intended) impact against the expected or planned one. Without proper managing, monitoring and evaluations, leading to policy corrections, it is hard to expect that numerous programs concerning PLMP and ALMP, concerning vulnerable groups or regions – will ever achieve complementarities and synergies which might result with virtuous cycles in employability and real employment, in changing incentives for (re)activation, (re)training and life-long learning.

*There is an element of risk too:* learning-by-doing is integral to capacity building in areas where *novelty* is inherent, and this is a time-consuming process. Good example is Croatian Employment Service which not only faced new context (of loss of monopoly in LM mediation) but new demands (in running ALMP) and act as a networker of actors interested in particular programs. However this asks for committed and career oriented civil servants; against present situation (of great turnover, and low premium on quality and integrity) reforms should address incentives of those supplying public policies/services and not only of those – potentially benefiting from them.

Presently, the system is overburdened with new demands for programs, action plans, outlines, for establishing new agencies, institutions...While complying with this may be enough to satisfy not only politicians in power, but those asking for them (EC, WB) and improve chances for Croatia's fast EU accession, some risks are inherent. *One* is that capacities may even decrease (due to being overburdened and due to higher attraction of private sector employment); *another* (and related to this) is culture of cynicism may evolve – when actors themselves accept that all is really about political self-serving and that real issue is – offering and taking rents. Instead of building 'Potemkin' villages (costly but of doubtful impact), real expectations concerning LM and other policies integral to decent work should be moderated and based on realistic assessment of their potential (ex ante) and true outcomes (ex post). One important aspect of that is developing *culture of evaluation*; another is increasing expert capacities of all social partners – unions and employers in particular. But also of assuring independent streams of research in labour markets, working and living conditions too. Presently, this is lacking – which certainly undermines the quality of policy making and evaluation in this area, as well as quality of social dialogue.

## 7. CONCLUSIONS

In this report, even if in some important aspects – still preliminary, an attempt was made to assess major trends in employment and unemployment, employees' employment and working conditions, their exposure to various risks, particularly those concerning: unemployment and inferior employment; poverty and LM marginalisation; inequality and unequal treatment, health and safety; social protection – its availability and adequacy; in their capacity for collective action and involvement in participation.

In all these respects, found were some *encouraging trends* - concerning decrease in unemployment, increase – though quite slow – of employment; there is an increase in real wages, poverty levels don't seem critical; there is a trend of shortening average hours of work and it seems that Croatia workers in general are not exposed to extreme intensity of work; child work is not widespread, job satisfaction is relatively high. In addition, social protection systems provide wide coverage to social security and health insurance, social welfare system provides wide variety of support programs (some successful ones). Mothers and children, war veterans are well protected and enjoy beneficial treatment in many respects. Institutional and policy reforms, very much led by IOs and EU accession processes, are upgrading, though slowly, protection for those most vulnerable groups and regions, as well as conditions for human capital development through reforms of education and VET. Institutional background for social dialogue is well-built and social partners are using it regularly to talk and negotiate over many issues.

Yet, many weaknesses exist, there are *worrisome trends*, there are numerous *institutional deficits*. Low activity and employment rates, coupled with unfavourable demographic trends, produce numerous challenges and threaten long-term sustainability of economic growth and viability of social protection systems – challenge of productivity increase is enormous but capacities to make it long-term sustainable are inadequate.

*Job creation is low and inadequate*, yet demands for greater LM flexibility may lead towards compromised security. Much needed LM reforms may put at risk many workers due to their low competitiveness and adaptability; major deficits and weaknesses in (re)training availability and capacities were found; necessary link between active LM policies and social policies is missing. On the other hand regulatory reforms, as well as investments (both public and private) in social infrastructure, may create conditions for major increase in voluntary part-time work and other flexible arrangements, for re-activation of those out of the workforce in order to supplement their low incomes. (e.g. pensioners)

There are groups on the labour markets exposed to *inferior employment statuses*, often coupled with inferior conditions on the job (e.g. exposure to unsocial hours, or unsafe conditions) – if employed, and facing greater risk of unemployment mixed with episodes of temporary work. *Young*, but not well educated, or with not-needed skills, are found to be in particularly unviable position. *Aged*, but low paid, are facing poverty risk due to low pensions, and health risks – due to weaknesses of health systems.

There are groups in the society facing *discrimination and exclusion* – in spite of some improvements their position on the LM is hard, and LM outcomes are inferior (e.g. ethnic minorities, persons with special needs). Gender differences are persisting, affecting women *on the LM* (their participation and employment rates are lower, their unemployment rates are higher; increasing is their share in unemployment and, particularly, in long-term unemployment), *at the work-place* (concerning pay differences, but occupational segregation and exposure to sexual harassment), *at home* (concerning home work and child caring; concerning great difficulties in balancing private life and work). Long-term unemployment, coupled with major structural imbalances, has become the most critical aspect of Croatian LM, while policies to deal with it are emerging too slowly to make significant impact.

Numerous are those low-paid (there is profound ‘attainment deficit’ for many); numerous are those exposed to unhealthy, unsafe and/or stressful working conditions, while employers willingness and state capacity to deal with this was found – inadequate. Potentials for major improvements in working conditions certainly exist – including greater participation (institutions like Employees Councils are mandated by the law – but too often taken just formally), more autonomy and work-place flexibility, more stimulating pay and training systems; yet managerial capacities to deal with such challenges are still inadequate at too many firms and sectors (including the public one).

There are vulnerable regions and localities – with worrisomely low capacity to substantially improve employment, working and living conditions. Polarisation in Croatia’s worlds of work cut not only across sectors, occupations, but across territory, as well. This, as noted, produces tremendous pressures, policy challenges, but raises a question of moral economy too, i.e. of solidarity across social groups and regions.

Nominally, Croatian employees enjoy (with some important exceptions) great deal of security provided by pension, health and social welfare systems. However, major weaknesses were found – and risks of compromising even present level of security are still high. Challenges of imminent reforms are great and their resolution very much depends on social dialogue between involved social actors. Yet, weaknesses and deficits of that dialogue are found to be important, as are weaknesses of actors themselves (fragmentation, low representativity) – this may lead to inferior policies but to inferior economic and social outcomes too.

One of the most worrisome aspects is certainly low credibility of formal institutions, their low enforcement and policy capacities, coupled with low trust actors put in them. This increases uncertainty and reduces motivation for dedicated and committed social partnership and dialogue. While further nominal harmonisation with European political (in terms of democratic deepening), institutional and regulatory frameworks will certainly provide a terrain where confronting ‘hard realities’ might be easier (and encouraging signs of that already exist), success is not imminent. Whether decent work conditions for all, as well as their sustainability, will come true will only depend on actors and their abilities and true commitments to economic progress and social justice, both still uncertain and not universally shared in present Croatian society. In that, strong culture of state paternalism is one of major barriers to be faced.

Finally, one important issue emerged from this report: lack of information, systematic data, research and policy analyses of too many aspects of labour markets and working conditions. This undermines the quality of reforms, policy making and social dialogue between partners. Upgrading knowledge on all relevant aspects of decent work, producing that knowledge systematically, would certainly lead to more realistic and credible

policies and outcomes in relation to expected ones. Closely related to that is lack of culture and capacity for evaluation, as necessary for on-going dialogue on all relevant issues.

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