

THE REPUBLIC OF CROATIA

**NATIONAL ACTION PLAN
FOR EMPLOYMENT
2005 – 2008**

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ABBREVIATIONS

Croatian	English
MAPZ	MAEP Measures of Active Employment Policy
HOK	CCT Croatian Chamber of Trades
SEE	CEE Central and Eastern Europe
CEEP	CEEP European Center of Enterprises with Public Participation and of Enterprises of General Economic Interest
HZZ	CEE Croatian Employment Service
EK	EC European Commission
EEZ	EEC European Economic Community
ESZ	EES European Employment Strategy
EKS	ETUC European Trade Union Confederation
EU	EU European Union
BDP	GDP Gross Domestic Product
UDV	TAV Total Added Value
HRK	HRK Croatian Kuna
CU	LL Lifelong Learning
OESR	OECD Organization of Economic Cooperation and Development
MGRP	MELE Ministry of the Economy, Labor and Entrepreneurship
MZOŠ	MSES Ministry of Science, Education and Sports
MF	MF Ministry of Finance
MP	MJ Ministry of Justice
MMTPR	MSTTD Ministry of the Sea, Tourism, Transport and Development
MPŠVG	MAFWM Ministry of Agriculture, Forestry and Water Management
NAPZ	NAPE National Action Plan for Employment
RH	RC The Republic of Croatia
MSP	SME Small and Medium-Sized Entrepreneurship
SE	GE The Gray Economy
UNICE	UNICE Union of Industrial and Employer's Confederations of Europe
PDV	VAT Value-Added Tax
VET	VET Vocational Education and Training

INTRODUCTION

Reasons for the Preparation of a National Action Plan for Employment

Unemployment is one of the most serious problems confronting modern society. Unemployment has a particularly serious impact on the long-term unemployed and the members of their families, while undermining the society and the economy as a whole. Naturally, the Republic of Croatia is not the only country that suffers due to a relatively high level of unemployment, considering that it is passing through a transition process toward a modern market economy. The restructuring of the economy is complex and difficult but it is also essential on this path. In this process, a heretofore high level of concealed unemployment has been revealed (insufficiently utilized employees or *unemployment* that exists within the existing employment), so that many persons are left without jobs. This, however, also promotes greater economic effectiveness that is essential for the development of the economy under the conditions of constantly increasing competitiveness. Thereby, the conditions are also created for increasing the number of new and different job openings.

A high level of unemployment is in no case limited solely to the transition countries. Among the member countries of the European Union, in recent years there have also been high rates of unemployment. There are several reasons for this phenomenon and much has been said about this subject. However, the European Union has obviously recognized the great significance of employment in the creation of economic and social wellbeing, and is decisively promoting measures for the reform of the labor market.

The European Union has done the most via the European Employment Strategy (EES) and adopted yearly guidelines for labor market reform in the member countries. Within the framework of this process, the member countries are preparing annual action plans for employment, pursuant to the guidelines of the European Union, while at the same time taking into account the specific circumstances of the individual countries. The countries that became members of the European Union in May 2004 have also followed this practice, both in regards to the obligation to reform the labor markets within the framework of the transition process and the procedure for European Union accession and also in preparation for assuring access to the structural funds of the European Union at a later time. It is believed that this is a worthwhile approach to the reform of the labor market that should follow.

The goals of the preparation and implementation of this Plan are increasing the effectiveness of the labor market in the Republic of Croatia, employment growth, a reduction in unemployment and the accession processes in Croatia's joining the European Union.

European Employment Strategy

Article 128 (2) of the Treaty establishing the European Community according to which the European Union was founded, provides a legal foundation for the adoption of the yearly guidelines of the European Community. The yearly guidelines are intended for the Member States but their goal is the development and assessment of the employment policy. The procedure for the adoption of the guidelines (the Luxembourg process) began in the year 1997 and has been evaluated the entire time. The most significant evaluation, conducted in the year 2002, confirmed the justification of this approach.

In the year 2000 in Lisbon, the European Council confirmed the strategic goals of the European Union with the objective of placing the European Union as the most dynamic and most competitive region in the world, based upon knowledge, sustainable and environmentally friendly economic growth, which would promote increased employment and social cohesion. In order for this to be achieved, equal promotion of the three mutually complementary goals was required from the Member States, as follows:

- full employment
- quality and productivity at work

- social cohesion and inclusion

The achievement of the stated goals requires further structural reform within the main mutually overlapping areas, based upon the ten employment guidelines of the European Commission, the realization of which was anticipated in the Member States in the year 2003. Active and preventive measures should be effective and contribute to the objectives of full employment and social inclusion, and thereby make it possible for unemployed and inactive persons to be included in various forms of training that would increase their competitiveness and facilitate their integration on the labor market. In this they should be supported by the contemporary institutions that are active on the labor market. It is also necessary to increase the number of new and quality job openings via the promotion of entrepreneurship and a more favorable business environment. Achievement of a suitable balance between flexibility and security should facilitate the achievement of greater competitiveness by enterprises, increase the quality and productivity of work, and facilitate the procedure for the adaptation of companies and workers to the economic changes.

MAIN PRINCIPLE

Reorganization of the existing procedures

In the preparation of this Plan, a certain number of principles were adopted that were followed. To the extent possible, the creation of additional legal provisions, new institutions and the spending of public funds were avoided. Instead, possibilities were sought for the reorganization of the existing procedures.

The creation of wealth that justifies the invested means

It was attempted to assure that the measures for creating wealth correspond to the means invested. In order to achieve this, for a certain number of cases, it is necessary to conduct pilot projects with the goal of the thorough evaluation of the measures prior to their implementation on the national level. There will also be a more systematic approach to the evaluation of the measures and programs of employment, in order to assure the maintenance of their effectiveness.

Partnership, development and quality

Furthermore, partnership will be conducted according to better quality programs that are important for the needs of the local communities, thereby assuring a value that is greater than the invested funds, and especially in cases when the participants secure, together with state funds, their additional funds. The partnership of the unions, employers, nongovernmental organizations, public and other institutions creates conditions for better economic development at the local level.

Indicators of the success of implementation

The European Employment Strategy has developed indicators of the success of implementation for the majority of the guidelines. They will be used for the assessment of the results of the implementation of the Croatian National Action Plan for Employment.

The determination of priorities

The determination of priorities is of vital significance for the definition of the most urgent and most important activities, which cannot be achieved at once. Therefore, in this Plan the measures are categorized in three groups, as follows: key measures, exceptionally desirable measures and desirable measures. Key measures are strategically essential and require immediate attention. Exceptionally desirable measures are not urgent to the same extent but they represent support to the key measures. Desirable measures are not urgent or

strategically essential but they are a contribution in the series of activities that should be undertaken during the medium-range period or integrated as part of the development policy.

THE ENVIRONMENT AND CHARACTERISTICS OF THE LABOR MARKET IN CROATIA

Competitive economy

Jobs on the economic market become available due to the production of goods and services that people want, can afford and are prepared to purchase. Competition among those offering these goods and services is becoming increasingly intense and acquiring international dimensions. In order to succeed in such an environment, the economy in Croatia must also become more competitive. Therefore, the Croatian economy cannot be effective according to international standards to the extent that it lacks a competitive labor force that is well managed, innovative, well-trained, flexible, adaptable and well-motivated. Only in such a case will it be possible to achieve a higher level of productivity, quality manufacture, and the variety and reliability of products and services that will create quality job openings with higher salaries and better public services.

A flexible and effective labor market

The labor market also has buyers and sellers whose overall numbers are not unchangeable. When there are a larger number of job openings, then a larger number of people become economically active. The number of jobs depends upon an entire series of factors, and is especially connected with the attitudes of employers regarding the quality and cost of labor. This can be seen the most clearly in the significant gray and unofficial economy in Croatia, where job openings appear and disappear depending on the supply and demand of labor costs. This process also exists in the official economy but it is characterized by a weaker dynamic and hindered by legal provisions and collective agreements.

A completely flexible labor market is not necessarily effective and is not necessarily in the interests of the society as a whole. However, a rigid labor market certainly does not service the society.

In order to achieve success on the especially competitive European and global markets, it is necessary to make maximum use of the available resources and human potential, and to be ready to organize and perform work in a completely new way. In Croatia, it will not be possible to create a dynamic market economy with an increased number of new and quality job openings without achieving a more effective labor market that responds to stimuli and offers everyone the opportunity to use their knowledge and skills. This can best be achieved through a balanced relationship between the protection of employment and social security, and the creation of the necessary conditions in order for employers to be able to adapt to the changing business environment.

Job openings and mobility

In comparison with western economies, the labor market in Croatia is still insufficiently dynamic. The number of new job openings and terminated jobs, as well as the people, who change employment, is relatively small. On the Croatian labor market, we find a general shortage of job openings and firmly rooted unemployment, while on the other hand the people who are employed remain in the same jobs for an unusually long period of time. At the same time, young people have difficulty finding suitable permanent employment, and there are also many discouraged and poorly motivated persons who have been unemployed for a long period of time and who have dropped out of the labor force for various reasons, although they are registered on the rolls of the unemployed.

Education and upgrading

The growth of the economy will depend equally on the innovativeness of people as well as financial stimuli. Success on the broad European market depends on Croatian competitiveness in all forms, especially on the success of the systems of education and upgrading. In order to achieve contemporary international standards, particularly in vocational training and upgrading, and in adult education, it is necessary to implement fundamental changes in the educational programs and their evaluation, as well as the training of educators.

Entering employment

Entering employment remains a significant problem for young persons, who are often employed for a specific length of time and in temporary jobs. Young people have a low rate of activity and a high rate of unemployment. They are part of the workforce that is exposed to instability and they have difficulties in finding permanent and promising employment, due to the relative inflexibility of the overall labor market. Within this group, a certain number enter long-term unemployment because they do not have working experience or because their working experience is of a short-term nature.

The able-bodied population of working age

The able-bodied population of working age in Croatia is declining, while on the other side there is a constant increase in the number of retirees. According to the demographic projections of the United Nations, the Croatian population in the mid 21st century could be reduced by one fourth. In comparison with the past decade, the number of young persons who will enter the work force will decline in the period between 2001 and 2011. The cumulative effect could already lead at the end of the first decade to a decline as great as 200,000 in the number of young economically active persons. The rate of dependency (the number of inhabitants outside the working contingent in comparison to the number of inhabitants inside the working contingent) will increase, which will create higher expenditures in the public financing system. The demographic changes will be felt when individual branches of the economy come to the point of expansion, especially in the service sector, because it is believed that it will be increasingly difficult to find young people to work. Great flexibility will be necessary in the manner of work and the availability for part-time employment. The supply on the labor market should become more effective in order to utilize the potential labor force in the optimal manner.

Employment

After decades of a constant decline in the number of employed persons, a change in this trend was recorded in the year 2001. Unemployment began to decline and the opportunities for employment began to increase. Despite the fact that employment in the crafts and trades grew, the number of job openings was inadequate in the economy as a whole, especially in small and medium-sized entrepreneurship. The changes in the Croatian economy occurred nearly exclusively through the termination of jobs in agriculture and industry, with growth in only a few activities in the service sector. The employment structure in industrial production is now very similar to that in the European Union but with greater employment in labor-intensive occupations. Employment in the public sector has declined and now amounts to approximately 35% of total employment.

Persons who are permanently employed in Croatia have a fairly high level of protection. Despite this, many have lost their jobs due to the restructuring of the economy. On the other side, employed persons remain for an unusually long period of time in the same jobs, which reduces the number and range of job openings that are created and become accessible to young and unemployed persons. Furthermore, at the level of the average real salaries, Croatia occupies second place among the countries in transition, and the differences in

salaries are relatively small. However, very little is invested in the advancement of the knowledge and skills of employed persons, and there is a trend that older employees, who are threatened by possible firing, are taking early retirement.

Long-term unemployment

More than half of the registered unemployed persons are unemployed for over twelve months. Long-term unemployment is increasingly evident within the category of older workers and they comprise an increasingly large percentage of the registered and long-term unemployed. They have limited knowledge and skills available to them, which are often obsolete. Some are without any education, whatsoever, and the majority does not have experience in seeking and finding employment. Many of them have withdrawn from the workforce for various reasons and the majority seeks employment inadequately. The rate of employment for this age group (over 45 years of age) is very low, and while young persons are entering the work force late, older persons are leaving it early.

Taxation of work

Croatia has a relatively favorable level of taxation of work in comparison to the other transition countries of Central and Eastern Europe, but it is high if we consider it in comparison with the less developed members of the European Union such as Portugal. Insurance in the event of unemployment operates on the principle of fixed compensation for the period of unemployment (approximately one quarter of an average salary) and this for a maximum period of fifteen months. Monetary compensation for the period of unemployment is received by less than one fifth of all the registered unemployed persons, and there are a similar percentage of persons who receive social assistance.

The unofficial economy

It seems that the unofficial economy has declined in the Republic of Croatia in recent times but it continues to remain significant. There are also great regional differences, which are particularly evident in the differences between the urban and rural regions.

Regions

The great regional differences are also a problem, with particularly marked differences between the urban and rural areas. Besides the traditionally rural regions, there are also problems in the border regions, regions with a great decline in industrial production, mountain regions and islands where there has been economic decline.

The labor market in the Republic of Croatia as a whole

The labor market is insufficiently flexible in order to use a modern market economy. There are a very small percentage of part-time workers, low mobility between profession and occupation, and insufficient investment in improving the knowledge and skills of employees. The educational system still does not offer the needed firm foundation and necessary support for the period of the entire working career of employed persons. The policy of lifelong learning is insufficiently developed and there are poor opportunities for additional training and advanced studies for unemployed persons. Despite the meager opportunities for part-time employment, the differences in employment according to gender are lower in Croatia than the European Union average.

The legal regulations and labor market policy show trends in a direction that corresponds to the situation in Croatia. It is necessary to strengthen the restructuring process in order to facilitate the reallocation of the available means within the economy. It is necessary to create a more favorable environment for new job openings and the development of small and medium-sized entrepreneurship. Most of all it is necessary, through the educational and training system, to improve the effectiveness of the supply on the labor market and prevent

long-term unemployment, through the strengthening of the activation of unemployed persons and measures that will meet the needs of the various categories on the labor market.

The plan that we are presenting on the following pages identifies the measures which the Government of the Republic of Croatia should implement with the goal of improving the success of the activity of the Croatian labor market, by which at the same time it would approximate the European employment strategy. The contents of the Plan are based upon the ten Guidelines for Employment in the year 2003, which were adopted by the European Commission for Member States, which we cite in the following text.

The measures will be implemented gradually according to the funds available.

IMPLEMENTATION AND FINANCING

The measures that are presented in this document also contain the schedule of the activities during the next three to five years. Attention will first be devoted to measures that are considered to be key. The authorized ministries/institutions that will promote the key measures are listed under the National Action Plan for Employment. The remaining partners have agreed to participate in the activities of monitoring the implementation and reporting of the realization of the Plan.

The Plan does not anticipate the significant expenditure of additional public funds. The funds for the implementation of the measures are planned within the framework of the existing items of the financial plan of the authorized ministries/institutions for each fiscal year of the implementation of the Plan. As necessary, prior to the implementation of individual measures, a pilot test will be performed in order to determine their effectiveness. Furthermore, it can be assumed with certainty that the implementation of individual measures will make savings in the overall expenditures possible.

The Government cannot and should not attempt to do everything that is anticipated by this Plan alone. In the solution of questions and the implementation of solutions, it is necessary for many individuals and institutions to participate. Their specific knowledge and understanding of problems will be necessary in order to improve cooperation at all levels. A portion of this cooperation has already been established, while others still need impetus. Effective cooperation presumes a more intensive manner of cooperation and a new manner of unifying possibilities from various sources, all with the goal of achieving the common objective.

THE NATIONAL ACTION PLAN FOR EMPLOYMENT ACCORDING TO THE GUIDELINES OF THE EUROPEAN UNION

EU Guideline 1. ACTIVE AND PREVENTIVE MEASURES FOR THE UNEMPLOYED AND THE INACTIVE

The States will develop and implement active and preventative measures for the unemployed and the inactive designed to prevent inflow into long-term unemployment and to promote the sustainable integration into employment of unemployed and inactive people.

The States will:

- ensure that at an early stage of their unemployment, all jobseekers benefit from an early identification of their needs and from services such as advice and guidance, job search assistance and personalized action plans;
- based on the above identification, offer jobseekers access to effective and efficient measures to enhance their employability and changes of integration, with special attention given to people facing the greatest difficulties on the labor market; Member States will ensure that:
 - *every unemployed person is offered a new start before reaching six months of unemployment in the case of adults in the form of training, retraining, work practice, a job or other employability measure, combined where appropriate with ongoing job search assistance;*
 - *by 2010, 25% of the long-term unemployed will participate in an active measure in the form of training, retraining, work practice or other employability measure, with the aim of achieving the average of the three most advanced Member States;*
- modernize and strengthen labor market institutions, in particular employment services;
- ensure regular evaluation of the effectiveness and efficiency of labor market programs and review them accordingly.

Unemployment of the young

Situation: As persons who have only been present on the labor market for a short time, young persons record a high level of unemployment and are chiefly employed in short-term jobs. Some young persons also become long-term employed persons. The constant transition by a great number of young persons between employment and unemployment will be reduced when employers realize that it is in their interest to offer a permanent work contract, and not a temporary work contract. This is connected with many factors, primarily with business confidence, the legislation that regulates the labor market and the availability and cost of the labor force. Over the long run, economic growth, more lenient legal regulations and a significantly reduced number of young persons on the labor market, will also change the attitudes of employers. The greatest attention in the coming several years should be focused upon preventing the entry of young persons into long-term unemployment.

Long-term unemployment

Situation: Despite the recent reduction in the absolute number of long-term unemployed persons, over half of the unemployed persons wait for a period of longer than one year for employment. For the majority of unemployed persons, unemployment is a temporary state (and a significant number of persons leave the rolls of the unemployed – over 20,000 each month), but there is a similarly large number of persons who enter long-term unemployment. On the most dynamic western labor markets, approximately 80% of the persons who join the rolls of the unemployed leave them within a period of six months. The corresponding figure in Croatia is lower than 50%. There is a clear correlation between the duration of unemployment

and the possibilities for finding employment. The longer a person is unemployed; there is a greater probability that he will remain unemployed. Therefore, a key priority in forming the policy of the labor market in Croatia should refer to reducing entry into long-term unemployment.

The causes of long-term unemployment are in the following:

- a low level of employability due to unsuitable education and a lack of working experience;
- employers do not tend to hire long-term unemployed persons because their long-term unemployment is an indicator of a lack of motivation and other undesirable personal characteristics;
- passivity in seeking employment and indecisiveness in accepting jobs (most often poorly paid) that are available;
- insufficient entry into risk that could disrupt the “way of life” up to the present, because of a fear of change, ending up in an even worse position; and
-
- In individual cases unemployed persons have additional forms of unregistered income (from working in the unofficial economy or small agricultural properties).

In any case, it would help if there were a large number of potential jobs available, i.e. if there were more job openings. At the same time, there is clear international confirmation that each fiscal cycle creates additional long-term unemployment that does not disappear with the beginning of the next fiscal cycle, which is partially because long-term unemployed persons drop out of the actual supply of the labor force, i.e. they withdraw into inactivity.

Programs of the Active Policy of the Labor Market (Measures of the Active Employment Policy)

Situation: The financing of the program of the active policy is neither sufficiently systematic nor consistent, due to great interruptions in the range, coverage and content of various programs. The programs are not well focused and are not connected with the measures of activation on the labor market. The effects of the programs have not been evaluated. The programs of active policy should be created in such a manner that they support the main direction and objectives of the employment policy, and should be closely connected with the counseling activities of the Croatian Employment Service. Perhaps it will be necessary to also consider new approaches, including workfare for persons who have been unemployed for many years and receive social assistance.

The Croatian Employment Service

Situation: The Croatian Employment Service is being modernized and transformed through the introduction of new techniques of administration, technology and advanced education and training of the administrative personnel and counselors. The Service is a key instrument in the implementation of the Government policy for the development of a more effective labor market. The Service has shown itself to be successful in the introduction of measures that arose from the recent legislative changes and has the ability to realize even more effective roles on the labor market. The Service has a significant quantity of knowledge available regarding the (various) labor markets in Croatia and unemployed persons, and is conducting pilot projects focused upon the better understanding of the needs of employers regarding the labor force.

Key measures

- The Croatian Employment Service will establish a transparent and integrated system for effective work with unemployed persons for the entire duration of the period that they are on the unemployment rolls of the Service, which includes the following:
 - preparation and agreement on plans for returning to work, for all unemployed persons, no later than two months after the beginning of unemployment and entry onto the unemployment rolls;
 - additional monitoring of all individual efforts in seeking employment;
 - a detailed and thorough interview with each person six months after the person has become unemployed;
 - Application of the active policies of employment in order to confirm that unemployment persons meet the prerequisites (availability for work and active seeking of employment) to justify registration on the unemployment rolls.
- The active employment policy will be directed at long-term unemployment (over 12 months), especially those facing entry into long-term unemployment.
- The active employment policy will include the following:
 - Education and training for the employment sought, including the preparation of a curriculum vitae, the application of various methods of seeking employment, interview preparation etc.
 - The acquiring of the basic skills, including personal presentation, literacy and numerical ability, teamwork etc.
- The active employment policy will be integrated into the processes of the Croatian Employment Service with the goal of the activation of unemployed persons. This means that the counselors of the Croatian Employment Service will include persons who have been unemployed for longer than six and twelve months, in the existing measures of the active employment policy, with the goal of preventing them from “falling” into long-term unemployment.
- Adequate techniques will be introduced (including study monitoring) for the assessment of the effectiveness of the individual applied measures of the active employment policy;
- A stable model of financing the active employment measures will be created and implemented.

(Leading/responsible institutions: the Ministry of the Economy, Labor and Entrepreneurship and the Croatian Employment Service)

Exceptionally desirable measures

- The Croatian Employment Service will reexamine its organizational structure with the goal of utilizing its existing available personnel capacities in the most effective possible manner;
- The Croatian Employment Service will improve its informatics system through the introduction of additional technological capacities;
- Depending upon the available funding, it will expand the active employment policy to the following:

- All adult persons who have been unemployed for longer than twelve months will have to attend seminars – educational programs that will enable them to seek employment.
- Co-financing of the employment of persons who have been unemployed for longer than six months (especially young persons), and those who have been unemployed longer than twelve months (persons who are older than twenty-five years of age).
- Education and training in activity that concerns the skills necessary for the labor market.
- In the form of a pilot project, the concept *Workfare* (work instead of social assistance) will be conducted in a small number of regions for persons who have been entered on the unemployment rolls for a certain number of years, and are at the same time recipients of benefits from the social welfare system. The pilot project will facilitate the thorough evaluation of the advantages and shortcomings of this concept in the Croatian environment.

Desirable measures

- All young persons up to twenty-five years of age who are registered on the unemployment rolls will be offered at least one opportunity for employment within the period up to six months from the beginning of their unemployment, or the improvement of their employability through education or other activities. For this purpose, a list of activities will be developed that will be based upon past experiences, including targeted subsidies for employment and education intended for vocational guidance, job seeking and acquiring the basic skills;
- The justification and feasibility of developing an “educational passport” will be considered, on which all the activities of young persons in connection with additional extracurricular activities will be entered;
- Support will be provided for the creation of local partnerships with better connections among the employers, unions, educational institutions and other relevant institutions, with the goal of creating firmer connections between the world of work and education. First of all, through mutual cooperation, efforts will be made to establish networks of the key participants and facilitate the exchange of information and joint activities. The existing partnerships (local economic-social councils and the advisory council of the Croatian Employment Service) will be used where they already exist;
- The Croatian Employment Service will introduce specially trained counselors who will provide additional assistance to unemployed young persons who are threatened by long-term unemployment and lead them through the available options;
- A network of centers will be prepared for vocational guidance, counseling and providing information. Measures will be developed for fostering progress in the local communities, schools and other institutions;
- The regular monitoring of the labor requirements of employers will be introduced

Indicators of success for Guideline 1:

- the total employment rate

- the unemployment rate of young persons and the percentage of long-term unemployed persons

EU Guideline 2. ENCOURAGEMENT OF JOB CREATION AND ENTREPRENEURSHIP

Member States will encourage the creation of more and better jobs by fostering entrepreneurship, innovation, investment capacity and a favorable business environment for all enterprises. Particular attention will be given to exploiting the job creation potential of new enterprises, of the service sector and of research and development.

Supported by the process of the benchmarking of enterprise policy and the implementation of the European Charter for Small Enterprises, policy initiatives will focus on the following:

- simplifying and reducing administrative and regulatory burdens for business and start-ups and small and medium-sized enterprises and for the hiring of staff, facilitating access to capital for start-ups, new and existing small and medium-sized enterprises and enterprises with a high growth and job creation potential,

- promoting education and training in entrepreneurial and management skills and providing support, including through training to make entrepreneurship a career option for all.

2. Encouragement of job creation and entrepreneurship

Situation: It seems that Croatia does not have low rates of job openings and job losses in comparison with other transition countries or more developed market economies. In more dynamic economies, approximately one out of ten jobs will be opened or lost each year, while in Croatia out of 100 jobs between 1994 and 2001, seven new ones were opened and nine jobs were lost. However, there is a great difference between the rates of the creation of new jobs in newly opened private subjects of the small economy and all the other subjects, including those with mixed ownership, majority privatization and completely privatized subjects, so that the rates are far higher in the private subjects than in all the others. At the same time, the rates of the termination of jobs do not differ considerably among the various types of subjects, although those in the newly opened private subjects during the entire period were higher than average. While the loss of jobs in the subjects under state ownership and privatized subjects was slow, the newly opened enterprises were more dynamic in this respect.

The most dynamic part of the business sector in Croatia is the small private companies and trades. The rates of the opening of new jobs and job losses in the “new” private sector of approximately 6% are nearly three times greater than those in the companies under state ownership. Despite this, the dynamic segment of the Croatian economy is much less dynamic than similar sectors in the other transitional economies.

The majority of newly established private companies are in the service sector, which has the greatest potential for growth and already comprises 72% of overall employment. The regional distribution of the new private companies is not uniform, with a concentration of small and medium-sized enterprises in the city of Zagreb, which has a larger number of small and medium-sized companies than the three most dynamic counties: Primorje-Gorski Kotar, Split and Istria. More balanced regional development is one of the greatest priorities in Croatia.

The percentage of small companies (with fewer than 50 employees), trades and associations (46%) in total employment is increasing but in the leading transition countries (except Slovenia) this percentage is greater than 50%. The private sector in Croatia has still not realized all its opportunities. Part of the reason may be due to the complex and expensive procedure necessary for opening a subject of the small economy (a small enterprise). Croatia has more requirements (13) and a longer period of time (50 days) for the setting up of an enterprise than any other transition country. Registration of enterprises in the majority of the countries of the European Union takes 20 or fewer days. However, other reasons also prevent or hinder the growth of small companies and their ability to create permanent employment.

When starting operations, small Croatian companies also encounter other difficulties. The hiring and firing of workers in Croatia is more complex in comparison to the average in the region and the Organization of Economic Cooperation and Development (OECD) countries.

Obtaining credit for expanding operations is considerably more complicated. Closing a company in Croatia is more expensive and takes more time than the averages for the region and the OECD countries. There are other difficulties in connection with the effectiveness of the public sector on the national, regional and local levels, the effectiveness of the legal system, the excessively frequent adoption of new laws and their amendments, as well as the direct and indirect involvement of the state in operations.

Key measures

1. Croatia will reexamine the procedure for the registration of small companies and trades. This is a complex area with many different institutions and agencies. Despite this, the goal is to reduce the average required registration time from 50 days to less than 20 days, according to the conclusions reached by the Council for Competitiveness. *(Responsible institutions: The Ministry of the Economy, Labor and Entrepreneurship and the Ministry of Justice)*
2. It will adopt measures for the acceleration of the legal procedures in connection with the resolution of business and labor disputes. *(Responsible institution: the Ministry of Justice)*
3. Croatia will begin creating a business climate that should not be less favorable than those of its regional neighbors, and this in the following areas:
 4. employment flexibility *(Responsible institution: the Ministry of the Economy, Labor and Entrepreneurship)*
 5. respect for the terms of contracts *(Responsible institution: the Ministry of Justice)*
 6. obtaining credit (financing) from banks and access to capital for specific intentions (risk investment) *(Responsible institution: the Ministry of the Economy, Labor and Entrepreneurship)*
 7. bankruptcy and the closing of companies *(Responsible institutions: the Ministry of Justice and the Ministry of the Economy, Labor and Entrepreneurship)*

Exceptionally desirable measures

8. There will be a review and rationalization of the existing system of counseling and support to small and medium-sized enterprises with the objective of creating a national network of cooperation with enterprises on the local level (also including the Croatian Chamber of Trades). Thereby, small and medium-sized enterprises will be afforded easier access to information on business planning, financial markets, new technologies, education etc.
9. To improve the quality of the public administration.

Desirable measures

10. The program of business and entrepreneurial education at the secondary and university levels will be expanded.
11. Entrepreneurial skills will be introduced into the curricula of secondary schools with practical exercises.

Indicators of success for Guideline 2:

12. the number of new job openings
13. the time required to register an enterprise

EU Guideline 3. ADDRESS CHANGE AND PROMOTE ADAPTABILITY AND MOBILITY IN THE LABOR MARKET

Member States will facilitate the adaptability of workers and firms to change, taking account of the need for both flexibility and security and emphasizing the key role of the social partners in this respect.

They will review and, where appropriate, reform overly restrictive elements in employment legislation that affect labor market dynamics and the employment of those groups facing difficult access to the labor market, develop social dialogue, foster corporate social responsibility and undertake other appropriate measures to promote the following:

1. diversity of contractual and working arrangements, including arrangements on working time, favoring career progression, a better balance between work and private life, and between flexibility and security;
2. access for workers, particularly low skill workers, to training;
3. better working conditions, including health and safety; policies will aim to achieve in particular a substantial reduction in the incidence rate of accidents at work and of occupational diseases,
4. the design and dissemination of innovative and sustainable forms of work organization, which support labor productivity and quality at work,
5. the anticipation and the positive management of economic change and restructuring.

Member States will address labor shortages and bottlenecks through a range of measures such as by promoting occupational mobility and removing obstacles to geographic mobility, especially by implementing the skills and mobility action plan, improving the recognition and transparency of qualifications and competencies, the transferability of social security and pension rights, providing appropriate incentives in tax and benefit systems, and taking into account the labor market aspects of immigration.

The transparency of employment and training opportunities at the national and European levels should be promoted in order to support effective job matching. In particular, by the year 2005, jobseekers throughout the EU should be able to consult all job vacancies advertised through the Member States' employment services.

Regulation of the labor market

Situation: Compared to other countries, the Labor Act and labor legislation were until recently very restrictive regarding permanent and temporary employment. At the same time, changes in the Labor Act introduced new requirements: mandatory worker representation in the supervisory councils of companies with over 200 employees,¹ solidarity contribution from nonmembers of unions in all companies in which the majority of the workers have accepted this, while the freedom of small employers to dismiss workers without explanation has been terminated.² These measures should act in the direction of strengthening the negotiation position of workers. However, due to the significant reduction in employment protection in the labor legislation, there has been greater overall leniency in the legal provisions for the hiring and firing of workers. Despite these facts, Croatia continues – in comparison with the average transition countries – to have somewhat stricter legal regulations for the labor market. Approximately 75% of the new labor contracts are for temporary employment, which means that employers are limiting their obligations and providing themselves with greater flexibility.

¹ Previously, worker representation was limited to companies with the majority of shares in public ownership and companies that were privatized under special agreements.

² The criteria for the definition of small employers has been changed from ten to twenty employees.

One of the most marked characteristics of the Croatian labor market is the low level of part-time employment outside of agriculture. Even the old Labor Act provided for the option of working part-time but the majority of employers did not use this option on either the weekly or monthly level. Part of the explanation is connected with the previous Retirement Insurance Act that had a discouraging effect on part-time employment. The situation is changing with the adoption of the Amendment Act of the Retirement Insurance Act (*Narodne novine* [The Official Gazette of the Republic of Croatia], No. 117/03), in which Article 2 stipulates: "A person employed part-time is entitled to an old-age pension after reaching 65 years of age (for a man) and 60 years of age (for a woman) if said person has been covered by insurance for a period of 15 years)."

Key measures

None are proposed.

Especially desirable measures

1. A procedure for the evaluation of the impact of the new legal regulations upon flexibility will be organized, and this for a period within 3 to 5 years.

Desirable measures

1. The reasons why increasing numbers employers are not offering part-time employment will be investigated.
2. Reintroduction will be considered of provisions within the Labor Act that were in force up to the year 1995, which required employers to consider the applications of employees for part-time work. This is pursuant to Council Directive 97/81/EC dated December 15, 1997, concerning the Framework Agreement on Part-time Work concluded by the Union of Industrial and Employer's Confederations of Europe (UNICE), the European Center of Enterprises with Public Participation and of Enterprises of General Economic Interest (CEEP) and the European Trade Union Confederation (ETUC), and which currently is not an integral part of the Labor Act.

Indicator of success for Guideline 3:

1. rates of employment for temporary, part-time and full-time work

Adult education

In Croatia, as in many other transition economies, particular attention should be devoted to programs of education and training for work, because the workforce is insufficiently qualified or perhaps not suitably qualified for the needs of the modern market economy and adaptation to world competition. This implies that the needs for investment in economic development must also include investment in human capital. This goal should be borne in mind when determining the various factors of social welfare policy. It can be anticipated that there will be an increasing demand for highly educated and professional persons if the Member States offer attractive opportunities for employment. At the same time it can be anticipated that a large part of the nonprofessional workforce and the more poorly educated persons will be adversely affected by Croatia's joining of the European Union. Therefore, it is of crucial importance to increase the mobility and average educational level of the Croatian workforce. This requires good and cost-effective programs of education that flexibly follow the needs of employers, employees, unemployed persons and other persons.

Measures

The measures for adult education and training are included in Guideline 4.

EU Guideline 4. TO PROMOTE THE DEVELOPMENT OF HUMAN CAPITAL AND LIFELONG LEARNING

Member States will implement lifelong learning strategies, including through improving the quality and efficiency of education and training systems, in order to equip all individuals with the skills required for a modern workforce in a knowledge-based society, to permit their career development and to reduce skills mismatch and bottlenecks in the labor market.

In accordance with national priorities, policies will aim in particular to achieve the following outcomes by 2010:

- at least 85% of persons in the European Union should have completed upper secondary education by 22 years of age,

- the European Union average level of participation in lifelong learning should be at least 12.5% of the adult working population (between 25 to 64 years of age).

Policies will aim in particular to achieve an increase in investment in human resources. In this context, it is important that with the goal of promoting productivity competitiveness and active aging will be achieved; there will be significant investment in the economy in the training of adults.

The educational level of the workforce

Situation: While nearly one fifth of all employed persons in 1981 had not completed elementary school, in the year 1996 this figure was below one tenth. There was some increase in the percentage of employed persons with secondary school education, and there was a significant increase (from 12% to 17%) in the percentage of persons with two-year post-secondary school and college educations. On the basis of the development thus far and the educational structure of employed persons in more developed countries, it can be anticipated that these trends will become stronger. Regardless of the cited formal educational qualifications, the Republic of Croatia is still seriously lagging behind the Member States of the European Union, as well as some of the transition countries of Central and Eastern Europe. Tertiary education in Croatia is not sufficiently coordinated with tertiary education in Europe. The percentage of highly educated persons among the Croatian population (13%) is still lower than the European average (20%).

Formal education and training

Situation: Globalization, new technology and the development of the information society are significant changes and will continue to change the working world and society as a whole. The contemporary market economy requires educated and trained persons who are flexible, available and meet the needs of the economy. Perhaps the most important task is to help the population acquire the fundamental expertise and knowledge necessary for accepting the new knowledge and skills through which people can demonstrate their economic and social possibilities. The percentage of the GDP that is set aside for education generally corresponds to the situation in the region (over 5% according to estimates from 2002).

Generally in more developed societies, compulsory education has been prolonged, so that young persons are better prepared for life. The percentage of children enrolled in elementary school (approximately 98%) who complete elementary education is fairly high and of them approximately 94% continue at the secondary school level. For determining the quality and achievements of elementary education, comparative evaluation studies are necessary.

The curricula for the upper grades of elementary school are formed for the continuation of schooling at the general-program secondary school level, and not for the needs of continued schooling in trade or vocational schools (although only one fourth of all schoolchildren who complete elementary school go on to general-program secondary school). The subjects taught are too easy for the most capable and most highly motivated schoolchildren, and for those less capable and motivated, the subjects are too difficult. Secondary school education is overly oriented to vocational education. A significant number of young persons in Croatia

drop out of secondary and higher education. Undergraduate studies are overcrowded with students and material, so that there are not enough elective subjects and they are not sufficiently interdisciplinary. Undergraduate and postgraduate studies and the training of educators are not sufficiently systematic. Education outside of college is to a great extent insufficiently developed.

Vocational and technical education is organized in programs that last for 2, 3 and 4 years. In 10% of the cases, secondary school students attend dual programs that include a large number of hours of practical instruction (60-70%), and are conducted in workshops outside the school premises (trades/companies). This three-year educational program introduced in the year 1996 on an experimental basis currently covers over 57 occupations in the sector of trades, small entrepreneurship and medium-sized entrepreneurship. At the same time, 40% of the secondary school pupils enroll in the four-year program, while 20% of the students attend industrial and trade schools.

Knowledge of foreign languages in the Republic of Croatia does not only lag behind that of the present Member States of the EU but also considerably behind several of the countries of Central and Eastern Europe. A long-term strategy for the learning of foreign languages is one of the important prerequisites for the successful development of the Republic of Croatia and its eventual membership in the EU.

All the parts of the educational system must be more flexible and more accessible, which means less rigidity and fewer barriers (dead-end streets) according to the development and changing needs of the participants, society and economy. It is necessary to assure the negotiability of the system and for this it is particularly important to assure connections and opportunities for transfer between general education and vocational education at the levels of higher secondary education, higher secondary vocational education, higher education, and nonuniversity and university higher education.

The majority of these questions are currently being processed within the strategy of modernizing education and training in Croatia. The activity of the Council for Competitiveness and its recently published proposals for increasing the competitiveness of the labor force in Croatia are particularly important for the labor market.

Key measures

2. The emphasis of the secondary school educational system will be shifted from overly early specialization and narrow professional subjects toward the stronger acquisition of general fundamental skills with the goal of greater flexibility in the choice of occupation. *(Responsible Institutions: the Ministry of Science, Education and Sports and the Croatian Chamber of Trades)*
3. There will be a reexamination of the system for preparing students in the upper grades of elementary school for secondary school education. *(Responsible institution: the Ministry of Science, Education and Sports)*
4. Knowledge of foreign languages will be improved. *(Responsible institution: the Ministry of Science, Education and Sports)*
5. There will be support for the application of the best experiences in the development of the system of vocational education and training. *(Responsible institution: the Ministry of Science, Education and Sports)*

Especially desirable measures

6. A system for the counseling, training and employment of young persons who drop out of the secondary education system will be established

Desirable measures

7. Centers for individual learning, centers for long-distance learning and project learning will be promoted as a new manner of acquiring knowledge and personal skills for young persons, and their integration into the local society.
8. Special programs will be established for personal development, as well as pre-vocational education programs and training that will present the combination of work, training and the development of personal skills (within special programs on the development of projects).
9. A network will be set up among the institutions and training workshops as independent forms of training within the framework of a joint network of activities by employers or within the framework of training centers that already exist within companies.
10. The coverage of assistance programs will be increased through the determination of goals in the choice of occupation and seeking work. Participation will be increased in the training and programs for gifted and talented students. Quality will be improved and the programs will be of longer duration.

Lifelong learning

Situation: The majority of able-bodied persons have long left the formal educational system. They must hold their own regarding the inevitable and often profound changes in the demands of the labor market, and therefore must be capable of maintaining and developing their skills during their entire working lifetimes. In more developed countries, the education and training of adult persons are frequently conducted outside the classroom, via informal education, self-education or informal learning. The greatest share of education is conducted in the places where adult persons live and work, so that a “society that learns” occurs. These organizational forms support updated systems of the classification of occupations, the definition of skills and the content of educational curricula, short modular training, evaluation and certification.

Lifelong learning consists of all the forms of formal and informal learning. Every form of learning needs to be connected with the other forms, in order to facilitate the negotiation and advancement of the participant through the various phases and levels of learning.

Adult education in Croatia is the most neglected and least developed part of the educational system. Recently, private educational institutions have begun on a commercial basis to provide quality specific vocational and business training. In the future, this segment could develop further. The insufficient development of lifelong learning cannot be solved easily or quickly. It is necessary to introduce many measures, of which some are currently being adopted by the Ministry of Science, Education and Sports.

Key measures

11. Adult education will be included as an integral part of the educational policy. (*Responsible institutions: the Ministry of Science, Education and Sports and the Ministry of the Economy, Labor and Entrepreneurship*)
12. There will be a reform of the vocational training and education system in such a way that occupational standards, their curricula, modularization, evaluation, certification and recognition will be defined, in order for them to meet the needs of persons inside and outside of the formal educational system.

(Responsible institutions: the Ministry of Science, Education and Sports and the Ministry of the Economy, Labor and Entrepreneurship)

13. A coherent legal and institutional structure will be constructed for reform (above-mentioned measures under b) and the allocation of funding. This will include an organizational form based upon a tripartite council that will make collective decisions in connection with vocational qualifications, the assessment of the needs for occupations and skills, and the performance and quality of training, and will implement measures of modernization. *(Responsible institutions: the Ministry of Science, Education and Sports and the Ministry of the Economy, Labor and Entrepreneurship)*
14. The conditions will be provided for tripartite participation in the financing of education by the individual, employer and state. *(Responsible institutions: the Ministry of Science, Education and Sports and the Ministry of the Economy, Labor and Entrepreneurship)*

Especially desirable measures

15. The educational institutions will be modernized in order for them to meet the educational needs of adults better.
16. Within the measures of the active employment policy, educational and training programs will be financed for long-term unemployed persons with the goal of increasing their employability.

Desirable measures

17. Media campaigns will be organized and financed with the goal of increasing awareness about the importance of education and lifelong learning.

Indicators of success for Guideline 4:

18. inclusion in higher secondary education (data from the Questionnaire on the Labor Force)
19. inclusion in lifelong learning (data from the Questionnaire on the Labor Force)
20. the rate of absorption of persons who have completed their formal education
21. the number of persons who leave school

EU Guideline 5. TO INCREASE THE LABOR SUPPLY AND PROMOTE ACTIVE AGING

Member States will promote an adequate availability of labor and employment opportunities to support economic growth and employment, taking into account labor mobility, as indicated in specific Guideline 3. In particular, they will:

increase labor market participation by using the potential of all groups of the population, through a comprehensive approach covering in particular the availability and attractiveness of jobs, making work pay, raising skills, and providing adequate support measures;

promote active aging, notably by fostering working conditions conducive to job retention – such as access to continuing training, recognizing the special importance of health and safety at work, innovative and flexible forms of work organization – and eliminating incentives for early exit from the labor market, notably by reforming early retirement schemes and ensuring that it pays to remain active in the labor market; and encouraging employers to employ older workers.

In particular, policies will aim to achieve by 1010 an increase by five years, at the European Level, of the effective average exit age from the labor market (estimated at 59.9 in the year 2001). In this respect, the social partners have an important role to play. Any national targets should be consistent with the outcome expected at the European Union level and should take account of particular national circumstances;

and, where appropriate, give full consideration to the additional labor supply resulting from immigration.

Situation: The percentage of persons in the age group from 50 to 65 years of age in the overall Croatian population is high, although it declined slightly from 18.7% in 1991 to 17.8% in 2001. At the same time, the percentage of persons older than 65 years of age has greatly increased (from 11.6% to 15.6%). As in many other more developed countries, the population in Croatia is becoming increasingly older.

At a time of high unemployment, perhaps this guideline is not a priority in Croatia. However, persons older than 50 years of age make up a large percentage of the registered unemployed, which is recording a marked increase, and they are seriously affected by the problem of long-term unemployment. Furthermore, it is worth bearing in mind that older workers are less competitive than younger persons, and are frequently discriminated against in the selection procedure for hiring.

It is completely clear that the labor market will change in the future. Together with a reduction in the number of young persons who will enter the labor market during the next decade, older persons will have to remain economically active for a longer period of time, for which they will have opportunities. A reduction in the rate of economic activity for persons older than 55 years of age during the transition period must be stopped and redirected. This is also important due to the labor market and the financial sustainability of the retirement pension system.

Demographic trends, a low retirement age and widespread early retirement during the restructuring of companies contributed to a situation that in the year 2002 nearly three employed persons were supporting two retired persons. In recent years, the conditions for going into retirement have become significantly stricter.

Key measures

None are proposed.

Changes in the prerequisites for going into retirement will automatically lead to a reduction in the level of inactivity among older workers.

Especially desirable measures

1. A gradual transition from work to retirement will be promoted after the legally determined minimal age for going into retirement.
2. Public services will permit persons to continue working even after the legally determined age for going into retirement, with the condition that these persons continue to perform their assignments satisfactorily.
3. Discrimination against older workers will be prevented, especially regarding the opportunities for vocational guidance, employment service and vocational training.
4. Activation measures will be introduced that will place greater emphasis upon seeking employment for older workers, as well as for other age groups.

Desirable measures

1. Disincentive ("*malus*") penalties will be introduced (or the payment of part of the monthly unemployment benefit as in France and Austria) if companies fire large numbers of older workers. The money collected could be used for special programs for the employment of older persons or simply remitted to employers who retain older workers.
2. Programs will be strengthened (such as the program "From Experience to Profit") which were intended to motivate employers to employ older workers.
3. Information will be provided on the methods for improving the effectiveness of programs for the education and training of older workers, including assistance to older workers in finding productive employment. Special programs will be organized for training older workers, and under specific circumstances (such as in the case of workers in danger of losing their jobs) available funds from the measures of the active employment policy will be used for improving the skills of older workers.
4. Where productivity allows, working hours will be reduced and greater flexibility will be introduced into work organization.
5. Efforts will be increased in measures such as the Program for Promoting Self-Employment, with the goal of including unregistered economic activities into the official economy, so that the source of income for a significant number of persons registered as unemployed will be brought within the legal framework (especially older persons).

Indicator of success for Guideline 5:

1. the rate of employment of persons over 50 years of age

EU Guideline 6. GENDER EQUALITY

Member States will, through an integrated approach combining gender mainstreaming and specific policy actions, encourage female labor market participation and achieve a substantial reduction in gender gaps in employment rates, unemployment rates and pay by 2010. The role of the social partners is crucial in this respect. In particular, with a view to its elimination, policies will aim to achieve by 2010 a substantial reduction in the gender pay gap in each Member State through a multi-faceted approach addressing the underlying factors of the gender pay gap, including sectoral and occupational segregation, education and training, job classifications and pay systems, awareness-raising and transparency.

Particular attention will be given to reconciling work and private life, notably through the provision of care services for children and other dependants, encouraging the sharing of family and professional responsibilities and facilitating return to work after a period of absence. *Member States should remove disincentives to female labor force participation and strive, taking into account the demand for childcare facilities and in line with national patterns of childcare provision, to provide childcare by 2010 to at least 90% of children between three years of age and the mandatory school age and at least 33% of children under three years of age.*

Situation: During the decade of transition, the position of women regarding employment in Croatia worsened less than that of men. The percentage of women in the total number of persons employed increased from 43.1% to 45.5% between 1990 and 2001.³ This was due to change in the structure of the economy – industrial decline, in which more men had been employed, with a simultaneous increase in the service sector, in which more women were employed. Nevertheless, in the year 2002 the employment rate of women (37.1%) was still significantly lower than the employment rate of men (50.7%). Data indicate that Croatian women are well educated but nonetheless more poorly represented in leadership positions in the bodies of state administration and public companies. Furthermore, the number of women who are independent entrepreneurs or engaged in trades is low (fewer than 30% of the independent tradespersons and entrepreneurs are women). However the percentage of women on the labor market in Croatia is markedly high in less professional industrial, commercial and office jobs.

The suitable legislation has been adopted. According to the most recent amendments to the Labor Act (*Narodne novine* [The Official Gazette of the Republic of Croatia], No. 114/03), direct and indirect discrimination on the basis of race, skin color, gender, sexual orientation etc. are prohibited. The articles of the Labor Act in which discrimination is prohibited guarantee all citizens equal conditions for hiring and work, equal pay, opportunities for advancement at work and access to vocational training, as well as equal pay for equal work or for work of the equivalent value.

Some more time is necessary before it will be possible to gauge the effects of the legislation reliably but it is evident that the levels of compliance with the law and providing legal remedies for discrimination inflicted are of essential importance for the effectiveness of the legislation. In this area, for Croatia the most important criterion is the stability of the institutions that guarantee democracy, a legal state, respect for human rights and the rights of minorities. Croatia still lags considerably behind in meeting this criterion, especially due to the lack of adequate legislation that would protect the rights of the individual on a normative level, the ineffectiveness of the courts and the insufficient number of educated personnel, especially lawyers acquainted with EU legislation.

³ Bearing in mind the fact that methodological changes in the definition of employment in legal entities (including the army and police, in which the employees are generally male, in the index of overall employment) add approximately one percentage point to the percentage of women in the structure of overall employment.

The prevalence of institutions for providing childcare services has declined significantly since the period prior to transition. The current level of prevalence and the nature and cost of these services are not clear and require further investigation.

Key measures

2. Access will be ensured to effective and timely legal satisfaction in all cases of the violation of equal opportunity legislation on the labor market (*Responsible institutions: the Ministry of Justice and the Government Office for Gender Equality*)
3. Standards will be introduced for the identification of various forms of discrimination in employment, and mechanisms for their elimination, including court protection: (*Responsible institutions: the Ministry of the Economy, Labor and Entrepreneurship and the Ministry of Justice*)
4. An effective strategy will be developed in connection with the harmonization of the national legislation and the legal provisions will be expanded (Labor Act, *Narodne novine* [The Official Gazette of the Republic of Croatia], 114/03) in the area of social security, and to provide court protection and damages. (*Responsible institution: the Ministry of the Economy, Labor and Entrepreneurship*)

Especially desirable measures

5. More thorough investigation will be conducted into the causes of the differences between the genders on the labor market and further activities will be proposed, as necessary.
6. The differences between the genders and the trends on the labor market will be monitored, and in the annual report of the Croatian Employment Service there will be a three-year assessment of inclusion.
7. The cost and range of childcare services will be investigated.

Desirable measures

8. The public will be brought to the level of being sensitive to the existence of the problem. A high quality media campaign would be of great help in this matter.
9. Measures will be proposed and implemented that will facilitate the return to the labor market and improve the position of male and female workers with family obligations.
10. Measures will be proposed and implemented that will promote female entrepreneurship.
11. Measures will be proposed for including women in nontraditional jobs.
12. Target programs will be introduced for single mothers who face greater danger not only from unemployment but also from social exclusion.
13. Plans will be confirmed for the development and improvement of programs for the training and actualization of knowledge and abilities during and after maternity leave, counseling services will be established or developed for vocational guidance and planning, and target programs will be implemented for women on the labor market (particularly retraining, upgrading etc.).

Indicators of success for Guideline 6:

14. difference in the employment rates of men and women
15. differences in the salaries of men and women
16. professional structure according to gender (the percentage of women in high positions)

EU Guideline 7. PROMOTE THE INTEGRATION OF AND COMBAT THE DISCRIMINATION AGAINST PEOPLE AT A DISADVANTAGE IN THE LABOR MARKET

Member States will foster the integration of people facing particular difficulties on the labor market, such as persons who leave school early, low-skilled workers, people with disabilities, immigrants and ethnic minorities, by developing their employability, increasing job opportunities and preventing all forms of discrimination against them.

In particular, policies will aim to achieve the following by 2010:

- an average EU rate of no more than 10% of persons who leave school early;
- a significant reduction in each Member State in the unemployment gaps for people at a disadvantage, according to any national targets and definitions;
- a significant reduction in each Member State in the unemployment gaps between non-EU and EU nationals, according to any national targets.

Persons with disabilities

Situation: On the basis of data from the census of the Croatian population in the year 2001, an investigation was conducted on disability in Croatia. It showed that 9.7% of the total population is comprised of disabled persons, of whom 11.5% are men and 8.0% are women. The percentage of disabled persons increases with age. In the group between 45-49 years of age, 12.7% were disabled, in the group between 65-69 years of age, 19.3% were disabled and among persons older than 85 years of age 27.5%. Approximately 2.5% of the unemployed are persons with disabilities. A recently adopted law has introduced a quota system according to which employers are required to employ 2% of persons with disabilities among their total workforce.

In Europe, Croatia has nearly the smallest percentage of disabled persons of working age who are permanently employed (7.4%). The others receive assistance within the social welfare system. The number of these persons doubled during the 1985-1998 period (and amounted to 9,667 per 100,000 persons). (*Highlights on Health in Croatia –World Health Organization, 2003, <http://www.who.dk>*).

On the unemployment rolls of the Croatian Employment Service, 7,500 persons or 2.5% are persons with disabilities, of whom 60% are men. On the average, such persons are poorly educated with little working experience, and are at greater risk of long-term unemployment than other persons who become unemployed.

There are a legal framework and programs for preventing discrimination against persons with disabilities and providing them with assistance. The Vocational Rehabilitation and Employment of Persons with Disabilities Act were adopted in the year 2002 but the regulations have still not been ratified. The Act permits a spectrum of measures for support and introduces a quota system that requires employers to employ a certain percentage of disabled persons within their workforce and if they do not do so they are required to pay a contribution to a special fund for the assistance of disabled persons.

The program “A Chance for Us, Also” that was introduced in the year 2002, provides assistance to persons with disabilities in finding and holding employment, and also includes a program of mentorship, adaptation to the workplace and follow-up after hiring. Approximately 120 persons were included in this program during the first 18 months of its implementation.

Vocational guidance is also available and includes an assessment of working abilities and a proposal for increasing employability and hiring.

The majority of disabled persons want to have a full role in the society and the working world. In order to help them to achieve this, assistance programs should train them to

prepare for, find and hold suitable employment in the open economy. Many of these programs exist but it is necessary to strengthen them in many aspects. It is particularly necessary to develop a higher level of professionalism within the Croatian Employment Service for providing assistance to persons with disabilities and to develop a network of various types of organizations and agencies that provide specialized types of assistance.

Key measures

17. Counselors will be identified who will specialize in providing assistance to unemployed persons with disabilities, and develop relationships and provide advice to employers. *(Responsible institution: the Croatian Employment Service)*
18. The effectiveness of the quota system will be evaluated. *(Responsible institution: the Croatian Employment Service)*

Especially desirable measures

19. The conditions will be eased for the inclusion of persons with disabilities in the previously-mentioned measures of the policy of active employment.
20. Assistance will be provided in overcoming barriers in communication and the mobility of persons with special needs.

Desirable measures

21. The system for the education and rehabilitation of young persons with disabilities will be reviewed.
22. The system of the vocational rehabilitation of adult persons with disabilities will be improved.

Indicator of success for Guideline 7:

23. the rate of employment/unemployment of persons with disabilities

EU Guideline 8. TO MAKE WORK PAY

Member States will reform financial incentives with a view to making work attractive and encouraging men and women to seek, take up and remain in work. In this context, Member States should develop appropriate policies with a view to reducing the number of working poor. They will review and, where appropriate, reform tax and benefit systems and their interaction with a view to eliminating unemployment, poverty and inactivity traps, and encouraging the participation of women, low-skilled workers, older workers, people with disabilities and those furthest from the labor market in employment.

While preserving an adequate level of social protection, Member States will in particular review replacement rates and benefit duration; ensure effective benefit management, notably with respect to the link with effective job search, including access to activation measures to support employability, taking into account individual situations; consider the provision of in-work benefits, where appropriate; and work with a view to eliminating inactivity traps.

In particular, policies will aim at achieving by 2010 a significant reduction in high marginal effective tax rates and, where appropriate, in the tax burden on low paid workers reflecting national circumstances.

Taxes

Situation: The Croatian tax system is based upon a group of direct and indirect taxes. Croatia, in comparison with other countries, collects the highest percentage of the GDP via contributions (11.4% in the EU, 9.4% in the OECD and 13.6% in Croatia). However, the total taxes and contributions at work are relatively low.⁴ They were reduced from 48% to 41% during the second half of the 1990s. Further reductions in taxes and contributions in the year 2003 reduced the tax wedge to 39% of the total cost of labor. This is 9 percentage points lower than in the year 1995 and relatively low according to the standards of the EU and the other transition countries of southern and central Europe.

In the year 2001, income tax was paid by 2.4 million taxpayers, i.e. approximately every other citizen of Croatia. During the period studied, the number of all taxpayers grew, so that in the year 2001 there were 24% more than in 1995. However, their increase according to individual groups is fairly uneven. The greatest growth was in the number of retired persons: in 1995 there were 618,499 and in the year 2001 there were over 60% more.

The Croatian tax system (too) often has been subjected to changes and it can be said that in itself it is not an obstacle to most employment. It is now necessary to avoid further instability, simplify the tax system, and make it as clear and understandable as possible. The relationship among the minimum wage, contributions to social welfare, increased wages, taxes and their effect on poorly paid workers is highly complex, so that there are a whole series of possible solutions that should make it pay for this target group to work.

Key measures

None are proposed.

In the context of the National Action Plan for Employment, changes have not been proposed that need to be introduced immediately. However, the situation of poorly paid workers should be considered by a group of experts with the objective of finding a solution to the problem in connection with the fact that the continued reduction of taxes will not help poor workers who do not pay taxes.

⁴ A tax wedge refers to the share of all the taxes and contributions paid by the employer and worker within the overall labor cost. Since the tax wedge changes according to the amount of the individual worker's pay, and since it would be possible to make a comparison of the tax wedges among various countries and periods, it is generally calculated for the worker with the average salary, but it is also possible to observe various thresholds, such as those who earn two-thirds of an average salary or twice the average salary.

Especially desirable measures

None are proposed.

Desirable measures

None are proposed.

Monetary compensation during unemployment

Situation: The amount of monetary compensation for unemployed persons in Croatia, in comparison to the average wage, does not deviate significantly from the average in other advanced transition countries. Among six countries of Central and Eastern Europe (the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia), three have lower and three have somewhat higher amounts of compensation. The maximum duration of the right to receive compensation, fifteen months, in Croatia does not deviate much from the average.

At the moment, the highest amount of compensation during unemployment is 1,000 kunas (until recently it was 900 kunas in comparison to the average wage of approximately 3,600 kunas). This means that monetary compensation for unemployed persons in Croatia is actually a flat rate, so that the established amount is significantly below the national average wage. Only approximately 20% of the registered unemployed persons receive compensation during unemployment. Approximately another 20% are long-term beneficiaries of the social welfare system.

Compensation in the social welfare system depends upon the material status of the recipient of compensation. The basic forms of assistance that are regulated by the Social Welfare Act are assistance for support, assistance in covering housing costs and care, and assistance in goods. The necessary information is not available regarding the characteristics of the beneficiaries or the correlation and impact of compensation in social welfare (and other compensation) upon their future or realized income. Nonetheless, it is completely clear that the beneficiaries exercise their rights for a long time. In order to receive social assistance, beneficiaries currently must apply at the Center for Social Assistance and the Croatian Employment Service. This procedure seems unnecessarily bureaucratic and expensive, and it would be necessary to make it more rational.

The level and duration of monetary compensation during unemployment does not differ from that in other countries, and should not be a significant factor in the level of registered unemployment. Regulations in connection with the receipt of monetary compensation have changed significantly during the past two years, and before the introduction of significant new changes it is necessary to investigate the effects of the prior changes carefully.

Key measures

24. In the next three years, the effect of the current regulations in connection with monetary compensation during unemployment will be investigated. (*Responsible institutions: the Ministry of the Economy, Labor and Entrepreneurship, and the Croatian Employment Service*)

Especially desirable measures

25. The possibility will be determined and introduced for the Croatian Employment Service to pay monetary and social compensation to registered unemployed persons.

Desirable measures

26. The possibility will be investigated of paying reduced monetary compensation to recipients of compensation who accept temporary employment.

Indicator of success for Guideline 8:

27. the tax wedges for various types of workers (workers who earn the average wage, two-thirds of the average wage, twice the average wage) – see the explanation in Footnote 4.

EU Guideline 9. UNDECLARED WORK

Member States should develop and implement broad actions and measures to eliminate undeclared work, which combine simplifications of the business environment, removing disincentives and providing appropriate incentives in the tax and benefits system, improved law enforcement and the application of sanctions. They should undertake the necessary efforts at the national and EU level to measure the extent of the problem and progress achieved at the national level.

Undeclared work

Situation: The Public Finance Institute in Zagreb conducted an investigation in connection with the unofficial economy in Croatia for the period between 1990 and 2000. Various methods of evaluation yield various results in a range of 7 percent of the GDP upward. The unofficial economy was reduced during the 1990s but it still has a value of more than 11 billion kunas. The reasons for this reduction could be in the improvement of the statistical system, the introduction of value-added tax, the stabilization of large commercial systems engaged in retail sales, the entry of foreign companies on the Croatian market, changes in the country image etc.

The unofficial economy consists of undeclared and under-declared activities. Although undeclared activities are more frequently the case, under-declared activities are significant and more dependent on the amount of the tax burden. In more developed countries, the penalties for undeclared workers are high and the system of control is better than in Croatia. Greater penalties for undeclared labor and a write-off of the past debt to the state could result in an increase in under-declaration and a reduction in undeclared workers. This is an anticipated trend in the structure of the unofficial economy during the development of the transition process.

Investigation has concluded that it is more important to prevent the causes than to punish the consequences of the unofficial economy. The state and state institutions should be based upon and implement ethical standards and conduct reforms of the educational and legal systems. It is necessary to strengthen the legal system and its implementation, and it necessary to continue to reduce tax, administrative burdens and discretionary decision-making in the economy. Improvements are necessary in the transparency and clarity of the legal foundations, the effectiveness of public controls and courts, and the professionalism of the state services, anti-corruption value systems, the level of social cooperation and trust and a reduction of political clientelism, particularly in public institutions.

Key measures

28. The range, causes and consequences of the unofficial economy will be regularly monitored and assessed. *(Responsible institution: the Ministry of Finance)*
29. Transition will be fostered from undeclared work to the official economy via incentives, amnesty and greater penalties. *(Responsible institution: the Ministry of Finance)*
30. All the groups of registered unemployed persons will be activated and workfare will be introduced in the form of a pilot project. *(Responsible institutions: the Ministry of the Economy, Labor and Entrepreneurship, and the Croatian Employment Service)*
31. The possibility will be investigated for increasing the authorization of the work inspector in preventing work by unregistered subjects. *(Responsible institutions: the Ministry of the Economy, Labor and Entrepreneurship)*

Especially desirable measures

32. The functioning of property rights will be fostered, which will reduce entrepreneurial risk and lower transition expenses. There will be promotion of formal property rights contracts and their validity, especially the putting of the land registry books in order, and informal institutions will be developed that will protect ownership rights and norms that will support partnership behavior and trust.
33. Work inspectors will be used and they will be centered on the economic areas in which undeclared work most often occurs.

Indicators of success for Guideline 9:

34. No indicators are proposed.

EU Guideline 10. REGIONAL DISPARITIES

Member States should implement a broad approach towards reducing regional employment and unemployment disparities. The potential for job creation at the local level, including in the national economy, should be supported and partnerships between all relevant actors should be encouraged. Member States will do as follows:

- promote favorable conditions for private sector activity and investment in regions lagging behind;
- ensure that public support in regions lagging behind is focused on investment in human and knowledge capital, as well as adequate infrastructure. The potential of the Cohesion and Structural Funds and the European Investment Bank should be fully exploited.

Situation: There are various types of regions in Croatia that lag behind in economic development. Besides the traditionally rural regions, there are also the border regions, regions of great industrial decline, mountain regions and the islands. Some of them are labeled as regions of special state concern and are the subject of target policies and measures. The development of all these regions will significantly depend upon the accessibility of the creation of new jobs and employment opportunities.

In the Republic of Croatia, there are great regional differences. Zagreb provides many opportunities for employment. In Istria, the opportunities for employment and development are connected with the tourism sector, Mediterranean agriculture, fishing and a firmly rooted entrepreneurial culture. Central Dalmatia is still under the influence of the repercussions of the recent war. Production capacity has weakened but recovery is anticipated, together with an improved road infrastructure and the revival of tourism. The sparsely inhabited islands are economically weak and are assisted from state sources. In the southern part of the region, the economy is recovering and tourism is increasing.

The labor market is generally worse in rural regions than in urban regions. In some rural regions, the percentage of the active working population in the total population reaches only 37% (for example, in Zadar County), in comparison to 43% in the urban milieus in the same county or 46-47% in the majority of urban regions in the other counties. There are also great differences in the *employment of women* who live in rural regions in comparison with those who live in urban regions. The percentage of women in the active working population in rural regions is much lower (35-42%) than in the urban regions (45-47%).

A large percentage (up to 47%) of the agricultural population is inactive regarding work. Many regions are confronted with significant demographic and social problems, for example a large percentage of older persons, hidden unemployment and a large and immobile agricultural population. Many milieus and rural regions, as well as outside of them, are confronting economic and social decline, and offer greatly limited potentials for development due to the unfavorable position for labor and capital.

Problems in the regions that are the most severely affected are severe and multidimensional. They require coordinated and multidimensional assistance through a series of various policies. Activities must support each other and be coordinated. Sustainable recovery will depend upon an effective partnership for the development of the local economy, employment opportunities, and a pleasant living environment that will attract and hold the newly arrived population. This will be an especially challenging task if the overall aging of the population and the attractiveness of Zagreb for young ambitious persons is kept in mind.

Key measures

1. A multi-agency strategy will be developed toward the redevelopment of regions lagging behind that will network the regional institutions and agencies connected with

competitiveness and employment: *(Responsible institution: the Ministry of the Sea Tourism, Transport and Development)*

2. A uniform approach to recovery will not achieve good results everywhere. Various institutional, management and financing systems will be tested. They can include, for example, the following:
 1. local partnership of employers, unions, public institutions (especially educational), and nongovernmental organizations that will collect resources and direct programs toward agreed upon recovery objectives;
 2. specially based development corporations/financing agencies funded by the state;
 3. entrepreneurial zones outside the customary tax system;
 4. development led by the introduction of infrastructure.

(Responsible institutions: the Ministry of the Sea, Tourism, Transport and Development; the Ministry of the Economy, Labor and Entrepreneurship, and the Croatian Employment Service)

1. The good experiences of the development policies from the Member States of the EU will be applied to Croatia, and will improve the accessibility of the rural population and enterprises located in rural milieus. *(Responsible institutions: the Ministry of the Sea Tourism, Transport and Development; the Ministry of the Economy, Labor and Entrepreneurship, and the Croatian Employment Service)*

Especially desirable measures

1. Barriers to the free flow of the workforce will be eliminated. Barriers to the real estate markets, technical and social infrastructures etc. will be removed, (which is possible to achieve via suitable tax policies, reducing the inflexibility of the payment system etc.), that will increase the capacity to absorb labor in regions with potential.
2. There will be continued development of the economy, the technical and institutional infrastructures for creating the conditions for the growth of new companies, improvement in training and education, information services and counseling, and co-financing of programs and activities that indirectly improve the competitiveness of the commercial sector (for example, programs of quality, market-oriented information systems, activities that promote improvement of the land structure etc.).

Desirable measures

1. The development of human resources will be assured in rural regions (training and seminars for achieving new skills, for example from the area of market research and development, farm management, agricultural methods that are not harmful to the environment, that are directed toward various target groups, for example entrepreneurs from agricultural regions, young farmers, persons engaged in environmental protection, women and disabled persons who live in rural regions etc.).

Indicators of success for Guideline 10:

1. the unemployment rates according to region
2. the number of newly opened companies in the regions

ANNEX

Representatives from the following institutions participated in the preparation of the National Action Plan for Employment:

1. The Croatian Employment Service
2. The Ministry of the Economy, Labor and Entrepreneurship
3. The Ministry of Agriculture, Forestry and Water Management
4. The Bureau for the Advancement of Education
5. The Ministry of Science, Education and Sports
6. The Ministry of the Sea, Tourism, Transport and Development
7. The Croatian Parliament, The Committee for Gender Equality
8. The Office for Human Rights
9. The Office for Social Partnership
10. The Office for Strategic Development
11. Management Systems International
12. The Office for Organizations
13. The Croatian Employers' Association
14. The Croatian Chamber of Commerce
15. The Croatian Chamber of Trades
16. The Croatian Bureau of Retirement Insurance
17. The Confederation of the Independent Trade Unions of Croatia
18. The Croatian Trade Union Federation
19. The National Observatory
20. The Institute for Public Finance
21. The Croatian National Bank
22. The Institute for International Relations
23. The Economic Institute
24. The College of Economics in Rijeka