

# **Human Resource Development Country Analysis CROATIA**

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**Working Paper\***

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## 1. MAIN ECONOMIC DEVELOPMENTS

*On the economic front Croatia is a strong candidate for EU accession ...*

Croatia has achieved **macroeconomic stability** with low inflation and has already gained recognition as a free-market economy. It has enjoyed considerable GDP growth rates during recent years with 5.6 per cent in 2002, 3.8 per cent in 2004 and 4.3 per cent in 2005<sup>1</sup> and Croatia's economy is expected to grow at an average rate of 6 per cent over the next seven years, aiming to reach 75 per cent of the average income per capita in the EU in 2013<sup>2</sup>. In economic terms, it is already now more advanced than the two EU candidates Romania and Bulgaria. In 2004, Croatian GDP per capita in euros at purchasing power parity amounted to 46 per cent of the EU-25 average, compared to Bulgaria (31 per cent) and Romania 32 per cent.<sup>3</sup>

According to the Economist Intelligence Unit (EIU), Croatia's stock of **foreign direct investment** per capita is US\$2,100 (2003 data), compared with Bulgaria's US\$1,007 and Romania's US\$829. As a proportion of GDP, Croatia's FDI is comparable with Bulgaria's 32.2 per cent and above Romania's 25.6 per cent.<sup>4</sup> Ranking 62nd among 117 countries, Croatia managed to improve its Growth Competitiveness Index compiled by the World Economic Forum in 2005, and following the start of EU membership talks, Croatia's investment risk rating improved as well.

Business optimism in Croatia has been on the rise in the first three months of 2006 and this trend could be expected to continue in 2006, according to the market research agency Hendel.<sup>5</sup>

The 3<sup>rd</sup> implementation report on the Charter for Small Enterprises of the European Commission puts Croatia in the lead together with Serbia amongst the Western Balkan countries when it comes to improving the **entrepreneurship environment** aimed at encouraging the development of small enterprises. Also the World Bank reported some positive changes in the business environment. Actions taken to improve the business environment concern the land registration system, the strengthening of property and creditor rights, one-stop-shops for business registration and the re-establishment of the basic features of the pension system<sup>6</sup> (change of the pension indexation formula), as well as the initiation of the health sector reform. The World Economic Forum sees bureaucracy, corruption and workforce skills as impeding factors, while the EIU holds that the country has a relatively well-educated labour force, rapidly improving road transport and telecommunications infrastructure and a well-developed banking sector.

Strategic branches of the economy include tourism, shipbuilding, transport, agriculture and the wood-processing industry.

The grey economy makes up an estimated 10-15 per cent of GDP, according to the National Statistical Office. Some economic areas are still characterised by protectionism (e.g. the Chamber's campaign "Buy Croatian products", recent opposition against import of agricultural and food products, or in the area of real estate and free movement of capital/banking sector).

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<sup>1</sup> Ibid, p.2. Data based on Croatian Bureau of Statistics and Croatian National Bank sources. Economic performance improved in the first two months of 2006 compared to last year, as all key sectors experienced considerably higher growth rates (Business news, 27 March 2006).

<sup>2</sup> On 14 May 2006, the National Council for Competitiveness endorsed the "Strategic Framework for Croatia's Development 2006-2013", a government document defining the main directions of Croatia's development between 2007-2013.

<sup>3</sup> Source: Eurostat. Data released on 20.12.2005.

<sup>4</sup> Economist Intelligence Unit: Country briefing – Croatia on Views-Wire Eastern Europe, 2005.

<sup>5</sup> The business optimism index (HLIPO) rose by 4.1 points to 112.6 in March 2006; this index is measured by the market research agency Hendel and the Croatian business weekly "Lider".

<sup>6</sup> World Bank: Country Assistance Strategy for Croatia 2005-2008, Zagreb, 2005.

New business start-ups seem to be less export oriented (3/4 of new entrepreneurs between 2002-2005 did not have any customers outside Croatia).<sup>7</sup>

Overall, the Croatian economy is already well integrated with that of the EU. Croatia is a member of the WTO. Croatia is also expected to play a leading role in enhanced regional economic cooperation and stability in the context of an enlarged Central European Free Trade Agreement (CEFTA).<sup>8</sup> In March 2006, the IMF review of the stand-by arrangement with Croatia concluded positively that the country has made significant progress in implementing the measures provided for under the arrangement.

As regards the knowledge economy and capacity to effectively invest in innovations, the World Bank ranked Croatia 9<sup>th</sup> with 6.22 points, ahead of Bulgaria and Romania (placed 10<sup>th</sup> and 12<sup>th</sup>) and other South-East European countries.<sup>9</sup> A study released by Cisco Systems Croatia in March 2006 revealed that Croatia will lack more than 5,000 IT experts in 2008. The average shortage rate on the Croatian market of IT experts was 16% in 2005 and is forecasted to grow to 25% by 2008.<sup>10</sup>

Looking ahead to the accession talks, there are unlikely to be many major obstacles. The country is some way short of EU standards on environmental protection, but the countries that joined the EU in May 2004 were similarly ill-prepared. The agricultural sector also needs modernisation, but the demands there are rather different than for shipbuilding, given the coddled nature of the farm sector throughout the EU.

*... but there has been slow progress with privatisation*

Croatia's biggest problem is likely to be with the slow progress made on privatisation to date and the lack of will to accelerate such sales, as well as the high level of state aid in the economy. According to figures released by the Agency for the Protection of Market Competition, state support accounted for 3.2 per cent of Croatia's GDP in 2003, compared with 0.4 per cent in the EU. Much of this aid is directed to the shipbuilding industry, which has some powerful political backers. Here, Croatia will be forced to react, just as Poland and the Czech Republic were with their inefficient coal and steel sectors. A government plan on the restructuring and privatisation of shipyards is being prepared by mid 2006, while privatisation of the remaining state banks and restructuring of Croatian Railways is currently under discussion.

In 2005 the Croatian Employment Service, with EU assistance, were ready to move in and support redundant workers in companies undergoing restructuring with active labour market measures (creation of so-called Mobility Centres on the premises of up to 10 companies). However, as restructuring and rightsizing never really got off the ground, the Croatian authorities were able to use only one quarter of the respective Labour Market Fund and remaining funds had to be returned to the EC Delegation.

Latent or open subsidies of the Government may, of course, lead to distortions in the allocation of resources. This, together with the enormous amounts the State had to invest in the reconstruction of war-devastated areas<sup>11</sup>, have been impediments to investing more funds in

<sup>7</sup> Brief news bulletin in English, 18 May 2006, HINA, Zagreb.

<sup>8</sup> CEFTA currently consists of Bulgaria, Romania, Croatia and Macedonia. Likely to join the organisation will be Serbia, Montenegro, Bosnia-Herzegovina, Albania and Moldova. The multilateral agreement is to replace more than 30 bilateral agreements on free trade zone and the new framework envisages negotiations to be concluded by October 2006.

<sup>9</sup> The World Bank has designed knowledge economy indicators to assist the countries in defining the necessary reforms for increased government investment in innovation.

<sup>10</sup> Study by IDC consulting agency, commissioned and presented by Cisco Systems Croatia in March 2006.

<sup>11</sup> Between 1995 and 2005 Croatia spent some 25 billion kunas on the reconstruction of houses in previously war-struck areas - so-called "areas of special state concern". The EU (and other donors) complimented national efforts by investing considerable amounts in the renovation of social and communal infrastructure, the integral development of the local community and social and economic revival programmes.

fields such as education, research and technology. Delaying the necessary structural changes slows down the creation of new jobs. The Government has recognised this, agreeing with the World Bank on a medium-term plan with a target of reducing subsidies to 2.2 per cent in 2007.<sup>12</sup>

## **2. CURRENT SITUATION AND TRENDS IN LM AND HR DEVELOPMENT**

*Croatia is demographically an old and ageing country*

Since 1991, the natural increase of the population has been negative but ageing itself has been taking place since World War II. In the middle of the 80s, Croatia shared the same total fertility rate as Western European countries but it was on a much lower level of development. This position has worsened since then, due mainly to the direct loss of potential fertility through war casualties, as well as emigration which has taken place especially among the younger cohorts.<sup>13</sup> In the period between the two latest censuses (1991-2001), this includes the war period 1991-1995, Croatia's population decreased by some 7.2 per cent.<sup>14</sup>

According to the 2001 census, Croatia had 4 437 460 inhabitants, 7.47 per cent (331,383) belonged to the national minorities, of whom Serbs accounted for 201 631 or 4.54 per cent. This is down by 8 per cent from the 1991 census due to a number of people from parents with mixed nationality declaring themselves Croat rather than Serb, as well as due to non-return of some Serb refugees after the war.

The depopulation trend changed the structure of the population, with a reduction of the share of the younger population and a considerable increase among the elderly. This demographic framework has a direct effect on the labour supply. It has been estimated that when baby-boom generations reach retirement age from 2005, the replacement of the working-age population will no longer be insured if immigration fails to restore equilibrium.<sup>15</sup>

During the past few years, the population grew slightly again thanks to a positive net immigration, mainly of labour from Bosnia and Herzegovina working in the construction and shipbuilding sectors. However, the size of net immigration declined recently<sup>16</sup>, which is why this cannot be established as a firm trend.

The implications of demographic change have a pervasive influence on both the labour market and the sphere of social protection. The present burden of the retired is looming over the employed in the formal sector, exerting a tremendous pressure on the contribution rate and thereby increasing the already high cost of labour.

On the other hand, expected reductions in the school-age population - some projections hold that the secondary education cohort may be reduced until 2015 by up to 25 per cent - could potentially ease off current pressures on crowded schools that, in bigger cities, often work in shifts.

*Labour market change in 1990s has been gargantuan*

The dimension of change which had taken place on the Croatian labour market since 1990 has been gargantuan. In the period 1990-1998 total employment decreased by 34.3 per cent, but the highest absolute and relative decrease was in state sector employment by 59.1 per cent. In

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<sup>12</sup> World Bank: Country Assistance Strategy for Croatia 2005-2008, Zagreb, 2005.

<sup>13</sup> Viertel, E., Crnkovic-Pozaić, S. et al: Assessment of the labour market and the vocational education and training sector in Croatia, unpublished draft, Turin, 2001.

<sup>14</sup> Croatian Central Bureau of Statistics, Statistical Yearbook 2005, Zagreb, 2006.

<sup>15</sup> Viertel, E., Crnkovic-Pozaić, S. et al: Assessment of the labour market and the vocational education and training sector in Croatia, unpublished draft, Turin, 2001.

<sup>16</sup> See table, Croatian Employment Service: National report update. Croatian labour market: Situation in a comparative perspective, developments and policy measures, April 2006, p.3.

the process, the share of state sector employment decreased from 79.3 per cent in 1990 to 49.3 per cent in 1998. At the same time, the private sector, which was regarded separately as 'agricultural employment and other', had improved its relative share in total employment from 20.7 per cent to 50.1 per cent. This was notwithstanding the constantly falling employment in subsistence agriculture. The latter had, however, not been adequate to absorb the shedding of labour from the state sector.<sup>17</sup>

In the same period the overall labour force contracted by 25.2 per cent. With inadequate job formation in the formal sector, many persons appeared to be leaving the labour force from this source which registers only formal sector jobs. Over the nine-year period 343 900 pensioners entered inactivity which is 180 900 persons less than the reduction in the labour force. This indicates that unemployed persons were hidden in the working-age population who were not actively seeking employment, probably discouraged by their long unproductive search.<sup>18</sup>

*Decreasing activity rates aggravated the problem of a contracted labour force ...*

Decreasing activity rates are an unwelcome and worrying feature especially in a country which has already suffered a dramatic contraction of the labour force. The activity rate went down to from 53.1 per cent in 1998 to 49 per cent in the first half of 2001, while the employment rate decreased from 47.0 per cent to 41.5 per cent of the population aged 15+ in the same period.<sup>19</sup> This decrease indicated that until 2001 the growth taking place in Croatia had had very little effect on employment creation (in the formal sector). A low level of utilisation of human resources has implications on the demand for goods and services, as well as wider implications for the economic welfare of the population and poverty, which had spread in the course of the transition and the war.

However, one reason for why administrative data sources do not give a true picture is that they count only those who had a formal labour contract, as defined by the labour law, while ignoring other types of work arrangements that had proliferated during the transition, especially part-time work on contracts where no contributions for social security had to be paid (now changed), only income tax. But working times, as well as the number of part-time jobs, are important factors in the development of the employment system.

*... but activity and employment rates are on an upward trend, albeit from very low levels*

2001 marked the low points in terms of activity and employment rates. Since then the labour market showed signs of recovery. Not least thanks to the economic growth, some system changes and data consolidation, activity rates were rising again (63.3 per cent in the first half year 2005<sup>20</sup>).

The total number of employed people rose from 2000 (1 340 957) to 2005 (1 420 574; preliminary data for the first half of the year) by 5.9 per cent<sup>21</sup>. The employment rate among the population aged 15-64 reached 54.7 per cent in 2004.<sup>22</sup> This is low compared to the EU-25 average of 63.3 per cent, but still higher than in Poland or Bulgaria. The female employment rate of 47.8 per cent in 2004 is also lower than the EU-25 average of 55.7 per cent although still higher than for example in Italy, Poland or Greece.<sup>23</sup>

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17 Viertel, E., Crnkovic-Pozajic, S. et al: Assessment of the labour market and the vocational education and training sector in Croatia, unpublished draft, Turin, 2001.

18 Ibid.

19 Croatian Employment Service: National report update. Croatian labour market: Situation in a comparative perspective, developments and policy measures, April 2006, p.7.

20 Eurostat: Statistics in Focus, Population and Social Conditions, 20/2005.

21 Ibid, p.8.

22 Eurostat data

23 Eurostat data

**Table 1a. Croatian labour market & employment performance indicators/ benchmarks in 2004.**

	Croatia 2004 <sup>24</sup>	EU-25 2004	EU benchmark	
Employment rate (population aged 15–64)	54.7	63.3	70	Goal 2010 (Lisbon)
Employment rate (population aged 55-64)	30.1	41.0	50	Goal 2010 (Stockholm)
Employment rate (women)	47.8	55.7	60	Goal 2010 (Lisbon)

Lisbon & Stockholm employment targets for 2010 are far out of reach for Croatia. For example, to reach the target of an employment rate of 70 per cent, some 250 000 additional jobs would have to be created in the formal economy<sup>25</sup>.

*Formal sector employment underestimates the actual employment level*

As mentioned above, many Croats are involved, in one way or another, in informal work. A survey published in January 2006 showed that almost one third of payments to employees are paid under the counter. Illegal work quite often creates a supplementary income source more lucrative than the primary. Therefore, as far as policy makers are concerned, employment creation in the formal sector should entail a serious attempt to legitimise informal activities, which are obviously generating considerable shadow income. While this may have been the saving formula during the war and in the first stages of transition, it may now be time to make a more explicit attempt at reducing informal work. However, perceived high income taxes and social security contributions (estimated at between 31 per cent and 47 per cent)<sup>26</sup> discourage people from 'legalising' their jobs.

*The employment structure is changing further*

Between 2002 and 2004, as recorded by country statistics, the number of employed people in agriculture dropped by 15.5 per cent, while industry recorded a growth of 5.2 per cent and services by 5.5 per cent. The latter is mainly due to employment growth in real estate, renting and business activities, as well as transport and tourism. In 2004 employed persons in the services sector represented 62.3 per cent of the total number of employed persons<sup>27</sup>.

According to Eurostat, 17.0 per cent of all employed persons were in 2004 employed in agriculture, which is considerably higher than in EU-25 (5.0 per cent), 31.9 per cent in market services (37.2 per cent in EU-25), 21.5 per cent in non-market services (29.9 per cent in EU-25) and 29.6 per cent in industries (27.9 per cent in EU-25)<sup>28</sup>.

*Most jobs were created in small enterprises*

Croatia has one of the lowest rates of job creation (in the formal economy) and job turnover of 8.4 among all transition countries<sup>29</sup>.

The largest increase in the number of employed was recorded in small trades and crafts, namely by 26.3 per cent from 2000 to 2005.<sup>30</sup> Hence, the SME sector can be seen as the most

<sup>24</sup> Eurostat data

<sup>25</sup> ETF's own calculations.

<sup>26</sup> ILO & Council of Europe: Country Review of Employment Policy in Croatia, unpublished draft, 2004.

<sup>27</sup> Croatian Bureau of Statistics.

<sup>28</sup> Eurostat: Statistics in focus, Population and social conditions, 9/2005

<sup>29</sup> Croatian National Employment Action Plan, Zagreb, 2004.

<sup>30</sup> Croatian Employment Service: National report update. Croatian labour market: Situation in a comparative perspective, developments and policy measures, April 2006, p.7.

dynamic business sector in Croatia, with a rate of job creation estimated to be three times higher than in state-owned or subsidised companies.<sup>31</sup> The share of employment in small companies (less than 50 employees), which is estimated at 46 per cent of overall employment<sup>32</sup>, is growing.

*Unemployment is high, especially among women, older workers and young people*

Rising unemployment has been a constant phenomenon since the early 1980s, but it accelerated as a result of the war 1991-1995 and economic restructuring processes. The unemployment rate reached its peak of 16.1 per cent in 2000 (LFS data; population 15+), but has been decreasing since then (13.6 per cent in 2004)<sup>33</sup>. Official figures for 2005 are expected to confirm a further decline. The registered unemployment rate is higher than LFS data and was 18.3 per cent (total of 313 600 people) in February 2006, which was 5 per cent less than in February 2005.<sup>34</sup>

**Table 1b. Croatian labour market & employment performance indicators/ benchmarks in 2005.**

	Croatia 2004 <sup>35</sup>	EU-25 2004	EU benchmark	
<b>Unemployment rate (population 15+)</b>	13.6	9.1	3.0	Average 3 best countries (LU, AT, NL)
<b>Unemployment rate (women)</b>	15.6	10.3	3.8	Average 3 best countries (LU, NL, IRL)
<b>Long-term unemployment (per cent of active population)</b>	7.3	4.1	0.8	Average 3 best countries (LU, NL, AT/DK)
<b>Youth unemployment ratio (population aged 15 – 24)</b>	13.1	8.3	4.6	Average 3 best countries (IRL, LU HU)

Women are affected by unemployment more than men. Their share among all registered unemployed increased from 52.5 per cent in 1998 to 59.3 per cent in 2005. Even worse is situation with those aged 50 and over. While in 1998 their share represented only 9.1 per cent among all registered unemployed people, it has been constantly rising and reached 22.7 per cent in 2005. On the other hand, the share of young unemployed persons between 15-24 years of age among all registered unemployed decreased from 31.1 per cent in 1998 to 20.3 per cent in 2005.<sup>36</sup> The latter can be ascribed to the prolongation of participation by young people in education, as well as active labour market measures implemented within the period March 2002 and August 2005, of which many were targeted at young unemployed persons. Examples include the “From College to Work”, “From Classroom to Workshop” and “By learning towards Jobs for All” programmes. According to CES data, 64 663 participants of under 30 years of age were employed through these programmes, among them 51.8 per cent of women.<sup>37</sup>

Nevertheless, youth unemployment is still high, which is also a common phenomenon in many EU Member States. According to a survey undertaken by the CES in 2003 on first destinations of young people, their jobs, if found at all, are characterised by a very high turnover and many are in the shadow economy.

<sup>31</sup> Croatian National Employment Action Plan, Zagreb, unpublished draft, 2004.

<sup>32</sup> Ibid.

<sup>33</sup> Eurostat

<sup>34</sup> The gap between data on registered unemployed and LFS data is partly due to the informal economy, but also linked to the fact that unemployment registration is a precondition for access to health insurance.

<sup>35</sup> Eurostat data based on LFS data from the Croatian Bureau of Statistics.

<sup>36</sup> Croatian Employment Service. All data are data recorded on 31 December of the given year (no yearly averages).

<sup>37</sup> Croatian Employment Service: National report update. Croatian labour market: Situation in a comparative perspective, developments and policy measures, April 2006,

### *Long-term unemployment is a persistent problem*

Croatia's long term unemployment rate of 7.3 per cent in 2004 (LFS data) is extremely unfavourable comparing with the EU-25 average of 4.1 per cent. Particularly worrying is the high female long-term unemployment rate of 8.9 per cent.

55 per cent of all unemployed people are long-term unemployed, and almost 40 per cent have been claiming unemployment benefit for more than two years<sup>38</sup>.

### *Croatia is facing big problems in terms of social and territorial cohesion*

Certain groups of the population are particularly vulnerable to social exclusion. These include unqualified or low qualified or narrowly skilled people, young people with inappropriate education and/or without work experience, war veterans, disabled people and members of the Serb or Roma minorities.

While there were 45 225 war veterans registered as unemployed in 1997, this number dropped to 26 769 in 2005<sup>39</sup>. From March 2001 the Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity implemented a Programme for Vocational Training and Employment of Veterans and Children of Fallen, Detained or Missing Veterans, in which over 8 000 persons were included (the programme is still continuing).

No data can be given on unemployed persons by ethnic group, as Croatian legislation does not allow for such as distinction. However, employment promotion measures are explicitly mentioned also for the Roma.<sup>40</sup>

In terms of population and welfare, there are huge regional disparities in Croatia, indicated by a ratio of 17:1 between the most and least densely populated counties (*županija*) and a ratio of 55:1 for GDP levels. Registered unemployed rates vary significantly between counties, ranging from 13 per cent to 40 per cent, with particularly high rates in regions bordering Croatia's eastern and southern neighbour countries (war affected areas).

Rural areas suffer from a declining and ageing population, as well as lower skill levels of their population. 2001 census data show that the percentage of population older than 15 years of age without any education in some rural areas is 3-4 times higher than a respective ratio in urban areas of the same county.

### *Croatia scores high on some European benchmarks in education and low on others*

Croatia scores high on EU benchmarks, such as the rate of young people aged 20-24 who have completed at least upper secondary education, as well as the percentage of 18-24 year olds who have not completed secondary education and are no longer in education (early school leavers).

**Table 2. European benchmarks in education and training<sup>41</sup>**

	Benchmark 2010	Croatia*	New EU MS	EU 25
Completion of upper secondary education aged 20-24 (2004)	at least 85.0	92.5	90.1	76.7

<sup>38</sup> ILO & Council of Europe: Country Review of Employment Policy in Croatia, unpublished draft, 2004.

<sup>39</sup> Croatian Employment Service website. However, it has to be noted that in the reviewed period due to legal amendments there were changes in the definition of the status of war veterans .

<sup>40</sup> Croatian Employment Service: National report update. Croatian labour market: Situation in a comparative perspective, developments and policy measures, April 2006.

<sup>41</sup> Sources: Draft 2006 Joint report of the Council and the Commission; Eurostat: Structural Indicators. OECD: PISA database; ETF Key indicators database. (\*) most recent year for which data is available

Early school leavers (2004)	<i>no more than 10.0</i>	6.2 <sup>42</sup>	8.4	15.7
Graduates in maths, science and technology (2003)	<i>(Increase by 15.0) Already achieved</i>	3.4		31.1
Participation in adult learning	<i>at least 12.5</i>	2.0	5.0	9.9

Sources:

ETF (Key indicators database) (\*) most recent year for which data is available

Of course, the time spent in education is not a sufficient indicator for the actual knowledge and skills acquired. Functional literacy rates among the Croatian population are not known, as Croatia has not participated in respective OECD surveys<sup>43</sup>. The standards of education vary considerably between different counties and standard evaluation criteria, as well as national exams do not exist (except for the crafts trades where practical tests are carried out by the Chamber), although efforts are being made in this respect. The recently established National Centre for External Evaluation is in charge of preparing national Matura exams, as well as school assessment instruments and procedures.

Croatia performs very low in terms of its adult learning participation rate. In addition, the number of graduates from mathematics, science and technology disciplines is traditionally low.

*Overall educational attainment rates of the population are low*

Illiteracy rates in Croatia are low, but the few years spent in education by a considerable proportion of the Croatian population suggest that further efforts will be required in Croatia to raise basic and overall skill levels. According to the 2001 census, a total of 40.37% of the Croatian population had only basic school education (i.e. 8 years of compulsory education) or less. This included 2.86% without any schooling; 4.52% who had completed 1-3 grades at maximum, 11.24% who had completed only 4-7 grades and 21.75% who had completed basic school education.<sup>44</sup>

According to a survey by the Croatian Bureau of Statistics on labour in the second half of 2005, more than one-fifth (20.6%) of employees in Croatia have primary school education (8 years completed; 15.8%) or incomplete primary education (4.8%). Most employees (60%) have secondary school education. Less than one-fifth (19.4%) of employees hold university degrees, including master's and doctor's degrees (12.7%) or polytechnic degrees (6.7%). Women with university degrees make up 14.7% and women with polytechnic degrees 7.7% of women employees.

As for the unemployed, 72.1% have secondary education, 18.7% have primary education or incomplete primary education, and 9.2% hold polytechnic and university degrees. The survey also shows that 57.2% of inactive population above the age of 15 have primary education or incomplete primary education, 36.2% have secondary education and 6.6% hold university degrees. These data give additional weight to the need for continuing education and training in Croatia.

*Employers expect higher levels and different kinds of skills but the education system is slow to react*

A survey undertaken by the Croatian Chamber of Economy in 2005 reveals that employers feel very disgruntled by the competences of young people who have just left school<sup>45</sup>. They claim

<sup>42</sup> Knowing that many young people do not either enrol in or finish secondary education, the ETF has doubts about the correctness of this figure, which is however taken from official sources.

<sup>43</sup> However, participation in the OECD PISA test for 15-year olds is envisaged in 2006.

<sup>44</sup> ETF calculations based on published census 2001 data, [www.dzs.hr](http://www.dzs.hr)

<sup>45</sup> Croatian Chamber of the Economy, see [www.hgk.hr](http://www.hgk.hr).

that the education system, in particular VET, has not followed the trends in the economy and many young people continue to be trained on outdated profiles, materials and equipment. Technical skills of young people are insufficient, and key competences, such as using ICT, communication skills in their own and a foreign language, numeric skills, motivation for work, team work, problem solving and independence and self-initiative are underdeveloped.

Employers feel a great need for updating education and training, improving in particular the practical part of training and raising overall skills levels. Employers' associations at national level and individual employers are willing to cooperate with educational establishments, but such a dialogue has so far not been promoted by the Government in a structured manner across the system. A system of continuously monitoring labour market signals and demands is missing in Croatia.

Croatia is participating in the EU Peer Learning activity in the frame of the Education and Training 2010 goals and has identified the areas of higher education, key competences and the recognition of learning outcomes as priorities. Moreover, supported by an ETF project on the dissemination of the Copenhagen/Maastricht process on VET, a National Copenhagen coordinator was appointed in 2005. In this context, the MoSES has identified the development of a National Qualifications Framework as one priority area for 2006 and beyond.

### **3. ANALYSIS OF RELEVANT POLICIES AND IDENTIFICATION OF CHALLENGES IN RELATION TO THE MAIN PRIORITIES OF THE EMPLOYMENT GUIDELINES**

#### **Attracting and retaining more people in (formal) employment**

*Croatia's employment and job-creation rates are low*

The last decade has seen a substantial fall in employment, especially in those state or socially-owned enterprises which have been privatised or run down, and it is likely that there will be further restructuring, so that there are some people now in employment who are potentially redundant. As a result, unemployment has risen substantially and the structure of unemployment has changed, with a large increase in long-term unemployment where individuals have been out of work for more than a year: over half of the unemployed fall into this category. Where workers have been laid off from the large enterprises, they are likely to have multiple disadvantages in the job market. They are older than average; they have skills that are not in demand by other employers; they have had long service with their employer and, hence, no experience of job seeking. These are the likely to be long-term unemployed, for whom new jobs probably with small firms are often not appropriate without the acquisition of new or additional skills. They may also be likely to give up looking for work because of discouragement and become economically inactive. The employment rates for older age groups are particularly low in Croatia, as they are, for different reasons, for young people. The former have left the workforce early; the latter join it late through shortage of opportunities.

The National Employment Action Plan 2004 points out that the Croatian labour market is in many respects inflexible<sup>46</sup>. The rate of job turnover is amongst the lowest of the transition countries. People in jobs tend to stay in them for long periods, which means that young people, unemployed adults or new labour market entrants have limited job opportunities, except on a short term or casual basis. Employment creation is relatively sluggish in Croatia. Small firms are more active in this area than state enterprises but they do less well than in other transition countries, at least in part because of hitherto bureaucratic and regulatory requirements connected with setting up new businesses.

Based upon a survey of over 4,000 business owners and managers, authors of a World Bank report cited economic and policy uncertainty, corruption, high taxes and inefficient courts as key factors stifling entrepreneurship and the creation of new jobs.

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<sup>46</sup> CES: National Employment Action Plan, 2004.

The index for beginners and new entrepreneurs in Croatia has gone up from 3.62% in 2002 (one entrepreneur per 30 adult residents) to 6.11% in 2005 (one entrepreneur per 16 residents). The survey shows that the number of small enterprises with growth potential has increased, that regional differences are decreasing, and that new businesses are mostly started by people with secondary education (while in other countries they are started mostly by highly educated people). However, experts warn that necessity rather than business opportunity was the main reason for starting a business in Croatia and that businesses are, hence, very vulnerable. Also, they find that businesses are insufficiently export-oriented. 74% of new entrepreneurs did not have any customers outside Croatia. The survey also assessed the enterprising environment, whereby government policy received the lowest mark.<sup>47</sup>

#### *Employment legislation protects existing jobs*

A new Employment Law was passed in 2002 together with several key bylaws. They introduced changes in the following areas:

- Introduction of international standards in unemployment statistics by ensuring that unemployed persons were not employed, that they actively seek work and that they are available for work;
- Obligation of the unemployed to accept jobs which are up to 80km distance from their place of residence;
- Open door to private employment agencies both for mediation on the labour market as well as the implementation of active labour market policies;
- Discontinue mandatory declaration of vacancies by employers;
- Longer years of service necessary to attain eligibility for permanent unemployment benefits;
- Possibility for job-seekers to register without obligation of following mandatory activities for unemployed persons.

The labour law does not encourage laid-off workers to actively seek for jobs during the first six months after dismissal. Severance pay regulations require companies to continuously pay salaries of workers for a maximum of 6 months, while the persons who lost the job would lose this entitlement if s/he took up a new job. In addition, the redundant person receives a bonus of Kuna 6,000 after the 6-month period when s/he registers with the Croatian Employment Service (CES). If s/he finds a job beforehand, the bonus would be lost. The prospect of losing income was also the reason why only few redundant workers took up the opportunities offered through the Mobility Centres established by the CES on the premises of various companies undergoing restructuring, which were supported by the CARDS 2001 Labour Market Restructuring project.

Leading experts believe that labour legislation should be more flexible, which, alongside a fundamental reform of the education system, would advance the labour market and reduce unemployment. Relaxing labour legislation is, however, opposed by the trade unions.

#### *Levels of undeclared work are high like in many transition economies*

According to a survey conducted by the Croatian GfK agency in 2004, 11% of Croatian citizens above the age of 15 worked illegally. 6% had regular jobs and worked illegally part-time, while 5% said, illegal work was their main source of income. 58% of all illegal labour worked in construction, 13% in catering, 12% in tourism and 3% in agriculture. The actual percentage of people working illegally is certainly higher, as interviewed people tend to have reservations about reporting the truth. The fight against black labour is a priority by both the Government and trade unions. At the end of 2004, the Government adopted a three-year programme to curb the grey economy, the State Inspection Law was amended to increase inspectors' powers, the financial police was re-organised and a reform of the judiciary launched. These measures will

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<sup>47</sup> cf. 2005 survey of the Global Entrepreneurship Monitor (GEM)

however take some time to show desired effects. According to the Croatian Association of Independent Trade Union (SSSH), a reform of the tax system should additionally be launched to raise the tax base and reduce taxes.

*Active labour market policy has only recently moved up on the policy agenda*

In Croatia many people are unemployed and/or with low employability and are seriously exposed to economic poverty and social exclusion. Increasing the employment rate has become a key objective of social policy as well as of labour market policy. For many unemployed adults in Croatia, unemployment is a dynamic transitional state, but a large proportion of able-bodied people are very long-term unemployed. The effects are damaging and costly.

The task is to reduce both the flows into long-term unemployment and the stock of people already out of work for more than a year. The problems faced by many of the long term jobless are often multi-dimensional and frequently include low levels of education and of motivation.

Croatia has the normal range of passive measures. Unemployment benefit is insurance-based. For unemployed people in need, welfare payments are also available. These are not time limited like unemployment benefit. Around 20% of those on the unemployment register receive unemployment benefit. Another 20% receive welfare payments. A comparatively small number receive both. The administration of unemployment benefit is done by the CES, while welfare payments are administered by the Centres of Social Welfare.

There is a range of active labour market policies (ALMPs) and they are not yet sufficiently targeted to where most international evidence indicates they would be effective, i.e. disadvantaged people at risk of, or in, long-term unemployment. They are comparatively small scale and were suffering until 2005 from a funding mechanism that treats them as a residual, once the costs of passive measures are met. This has the perverse effect of diminishing funding for ALMPs as unemployment rises.<sup>48</sup> The funds for ALMPs are administered by the Croatian Development Fund. Active labour market measures in Croatia have been monitored, but not evaluated for net effect (what would have happened to the individuals, had they not gone on an active measure like training). Only for the public works programme has this kind of evaluation been made some years ago. It showed that the public works projects examined had almost no effect in improving the success of participants subsequently getting jobs in the open labour market. The Phare 2005 ALMP project will focus on an evaluation and redesign of ALMPs.

The majority of people on the unemployment register claim neither unemployment benefit nor welfare. However, groups of working-age people claiming welfare for reasons of disability, single parenthood, etc. are not required or actively encouraged or supported to find work.

The 2002 Employment Act extended activation measures within the administration of unemployment benefit. In particular, Article 8 sets out the conditions that must be met to be regarded as actively seeking work, Article 14 requires the construction of an unemployed person's professional plan to prepare for employment and Article 17 covers information and advice about active job seeking. The individualisation of activities is also being developed through operational procedures and the training of counsellors.

Croatia's spending on ALMPs has varied substantially over time. This is primarily the result of the inherently unstable funding arrangements. Mainly because of the lack of resources, training programmes for the employed and unemployed in Croatia until recently were carried out in very low volume. However, activities have increased in recent years.

*Regional differences are substantial but new ways of funding and governance are yet to come*

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<sup>48</sup> At the time of writing this analysis it was not clear whether this statement still holds true with the new measures adopted in 2006.

Croatia is divided into 20 counties and the capital of Zagreb. The counties are small, economically hardly self-sustainable administrative units that do not comply with the standards of the EU classification of territorial units (NUTS II). A redefinition of territorial units (probably 4 macro-regions) is presently in progress to provide the basis for allocating future assistance from the structural funds, but the Government expressed its intention to preserve the current territorial/ administrative organisation.

There are substantial inequalities within the country. Zagreb and other bigger urban centres are much the most prosperous areas, while smaller towns and rural areas have suffered from economic decline, both in terms of lower numbers in economic activity and higher unemployment. The population in these areas tends to be older than average, and is not mobile in the sense of being able to, or perhaps even wishing to, move to other parts of the country where job opportunities are more plentiful. Other areas are suffering from severe economic decline with the restructuring of the economy. These problems are multi-dimensional, and need to be tackled across a wide policy front.

Some counties have always been lagging behind others in terms of their level of development, including serious disadvantages in terms of access to education and training, as well as employment. These differences were aggravated by the war 1991-1995. According to a set of indicators<sup>49</sup>, disadvantaged counties include<sup>50</sup>:

- 1) Zadar, Šibenik-Knin, Sisak-Moslavina and Vukovar-Srijem counties
- 2) Lika-Senj, Karlovac, Slavonski Brod-Posavina and Požega-Slavonia counties

The former group of counties was supported by the CARDS 2003 Regional development and the CARDS 2002 Local Partnerships for Employment (LPE) projects, while the latter group is supported by the respective CARDS 2004 projects. The CARDS Regional development projects focus(ed) on the establishment of county partnerships, the drafting of Regional Operational Programmes (ROPs) and the design & implementation of infrastructure projects. Problems with the ROPs include that they focus on too small a unit (county level) and in general provided too little detail about HRD issues in the counties. That is why they were supplemented later on by the CARDS LPE projects managed by the CES whose remit it was/is to design (county-level) HRD strategies and appropriate measures. The latter have not yet been implemented

Regional development issues and preparations for a future absorption of European structural funds have only recently moved up on the Government agenda. A legislative framework and an institutionalised structure are still missing. However, an umbrella Law on Regional Development is in its final drafting stage and expected to be adopted by the Parliament by the end of 2006. This law will replace the existing three separate laws dealing with the areas of special state concern (war-struck areas), highland-mountain areas and islands. The body in charge of co-ordinating issues of regional policy and regional development is the Ministry of Sea, Tourism, Transport and Development. The same institution has coordinated the preparation of the National Strategy for Regional Development, which was supported by a CARDS 2002 project.

There are gaps in the legal framework and a lack of structures and capacity as concerns the management of development at county, let alone multi-county or (macro-)regional level. A survey conducted by the Croatian PULS agency in more than 90% of local self-government units showed that the most serious problems in most units were a shortage of funds, competent staff and advisory bodies, as well as poor legislation regulating the functioning of such units.

To get prepared for a proper planning, management, implementation, monitoring and evaluation of the ESF, the filling of legislative gaps, new partnership structures as well as a huge capacity-

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<sup>49</sup> The (draft) Law on Regional development uses the following indicators for determining the level of development:

- i) Economic index: 1) per capita income; 2) unemployment rate and 3) GDP on county level and
- ii) Demographic index: 1) population change between two censuses, 2) education level and 3) population density.

The counties whose indices reach less than 75% of the national average will be considered disadvantaged. For actual data – see annexes to the National Strategy for Regional Development or other sources.

<sup>50</sup> Final list still not decided.

building effort will be required at all levels - national, regional and local. First attempts have been undertaken with calls for project proposals to be funded from CARDS grant schemes, which showed mixed results in terms of the quality of tender documents, project proposals received and the contracting process.

#### *Steps were taken in promoting gender equality*

Steps taken in promoting gender equality include constitutional amendments that recognised the principle of gender equality as a constitutional value, the adoption of a number of significant laws, such as the Family Act, the Protection against Domestic Violence Act and the Gender Equality Acts, the amendment of the Labour Act and the Criminal Code, the first-ever appointment of an ombudsperson for gender equality and the establishment of the Government Office for Gender Equality. However, although the protection of women in the labour market from the point of view of legislation does not lag behind Europe, laws are often not implemented. Women are discriminated against in finding employment, when it comes to promotion and wage equality.<sup>51</sup> Women accounted for 58% of Croatia's 330,000 unemployed (in April 2005), and women aged 40-50 have the hardest time landing a job. Moreover, women are paid 10-15% less than men for the same job. The employment rate for women in Croatia is 45%, whereas in Europe it is 55%, within an aim to reach 60% by 2010. Few employers attach significance to experience, motivation and willingness to learn, with most inquiring about marital status and the number of children. In addition, the failure to make women equal employment candidates is to do with the lack of an adequate infrastructure to support women with children and family obligations.

#### *Efforts are being made to integrate people at a disadvantage*

The 2002 constitutional law on minorities' rights, providing a comprehensive framework for relations with the 22 national minorities living in Croatia, is very good, generous and liberal, and could even be a model for the entire region. However, more time is needed for it to be implemented fully. The autonomy of minorities' representatives in parliament has been realised. Shortcomings exist, and further measures need to be taken, to protect minorities' political rights, their representation in the state administration, police and the judiciary, their right to education in the minority language, and how they are covered in the media. One of the major shortcomings is the non-existence of a legal explanation on how to determine minority quotas in local assemblies and on how to replace minority councillors. The Council for Ethnic Minorities had been given Kuna 22 million from the national budget in 2004 and 10% more in 2005.

Problems in refugee return in the past were caused by some remaining legal and administrative obstacles, especially as regards property restitution, the lack of dialogue with Croatian neighbours in the region, weaknesses in the judicial system, and the failure to allow minorities to become more efficiently involved in society and politics. Tensions are still high especially in some (previously war-struck) areas, with separate classes in kindergartens and schools, which did not exist before. Croat employers discriminate against Serb job-seekers and vice versa.

Officially, Croatia has a Roma population of 9 400 and unofficially about 50 000. The Romany people are significantly marginalised in almost all social and public professions and the conditions they live in are below the average standards of the rest of the country's population and other national minorities. They are stigmatised and discriminated against in both education and employment. Only 7% of Roma pupils enrol in secondary school and only 3.5% finish it, while only 14 students attending Croatian universities declare themselves as Roma. A number of cases occurred of racial segregation, separating Romany children and placing them in inferior classes. In March 2005 the Croatian Government adopted an Action Plan for the Decade of Roma Inclusion 2005-2015. Croatia's state support for Roma considerably increased, up from Kuna 2.76 million in 2005 to Kuna 11.9 million in 2006. The EU planned to

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<sup>51</sup> Women were in leading positions only in 6% of firms in Croatia, compared to 8% in developed countries (Statement from the Head of the Parliamentary Committee on Gender Equality in Croatia, May 2006).

assist the action plan with EUR 2.6 million in 2006 and another 5 million in 2007. The action plan defines measures aimed at helping the Roma to integrate in society and political life, preserving their tradition and culture, and promoting their education, employment and health and social care.

While legislation and special programmes exist for war veterans to help them reintegrate into society and the labour market, they have multiple needs. Most have poor educational qualifications, and the amount of remedial education and training available often does not meet the demand.

Access to education and employment for persons whose learning abilities are well below the average is very difficult, with only a few intellectually disadvantaged people having employment in the entire country. According to official figures, 64% of the 15,000 children with physical and intellectual disabilities are included in regular education. In reality, only children with slight intellectual impairment are entitled to education in regular schools, while the rest are referred to special schools or social institutions. The Zagreb School of Rehabilitation holds that there was only one specialist per 2 000 disabled children, and disabled people were exposed to social prejudice from pre-school age. In 2005 the Croatian Government adopted amendments to the law on professional rehabilitation and hiring of people with a disability, which envisages the establishment of a fund as a source of financing for the integration of disabled people into the labour market.

### **Improving adaptability of workers and enterprises**

In deciding about possible measures to address the core problems identified earlier, choices will have to be made. The following three sub-sections illustrate how some of the key problems might be tackled, and where the responsibility for action lies.

#### *Improving basic skills*

Croatia has recognised that the country has a major problem of lack of literacy. The reduction of illiteracy is a national strategic goal, the aim being that all citizens of Croatia should have education up to the end of primary school. Just recently, the Education Minister proposed that compulsory education be extended up to reaching the first (labour market) qualification. His proposal was prompted by the fact that between 8 000 and 10 000 secondary school students fail to complete secondary education<sup>52</sup>. As far as the economy is concerned, a further problem is that many people also lack numeracy skills and, even more likely, new types of basic skills such as computer literacy and problem solving. Lack of basic skills is particularly evident among the unemployed and the long-term unemployed. Employers will be most reluctant to hire such individuals, not only because they may not be able to do currently available jobs but also because lack of basic skills may prevent the acquisition of further skill. The long-term aim ought to be to move towards the key competences identified in the EU Reference Framework for Key Competences, namely communication in the mother tongue and a foreign language, mathematical literacy and basic competences in science and technology, ICT skills, learning-to-learn skills, interpersonal and civic competences, entrepreneurship, and cultural awareness.

The responsibility for dealing with the lack of basic skills among unemployed people and the funding of the remedy clearly lies with Government. In some senses it reflects the failure of the formal education system to provide adequate learning. Employers have no interest in low skilled unemployed and the individuals themselves do not have the resources or knowledge to acquire the necessary skills. The action in this area lies with the employment service which has contact with the unemployed registered with it, but not those who are unregistered.

The first requirement is that those with basic skill deficiencies be identified, and this will need some assessment by labour office staff to ascertain the current level of skill and the type of further training which would be most beneficial. There may also be problems of motivation of

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<sup>52</sup> HINA News Bulletin 25.05.2006

the unemployed themselves. They may not want to go back to school; they may have become accustomed to a life without work; or they may be working in the grey economy. Provision should also be made for the unemployed who are not registered. As pointed out earlier, many people who have left the labour force may have no interest in registering as unemployed, and may indeed be even more lacking in motivation as the registered unemployed. It is however necessary to consider how they might be attracted back into the labour force and provided with the skills they need, perhaps through appropriate marketing, since they currently represent an underused resource.

The amount of training in this area is currently not adequate. There must be an action plan to increase the supply of opportunities, involving partnerships at the regional level and below. Employers have to consider what basic skills would increase the prospects of recruitment; the employment service can provide information about the clients; and the providers can adjust their current offerings to meet the scale and pattern of demand. There is a range of possible providers - vocational schools, colleges, private training organisations – all of whom could provide opportunities on contract to Government, with the clients being supplied by the employment service, and possibly through outreach activities to get to those who are not registered unemployed. The partnership should keep a close watch on the effectiveness of the different providers.

#### *Skills for the market economy*

Most people who become unemployed need more than basic skills training. People in this situation need help before they undertake training, in the form of assessment and counselling. It may be necessary to consider what their current level of skill is and whether they have sufficient prior learning to acquire new skills. They may not have a clear idea of what they would like to do and would therefore need advice based on their capabilities and potential. One possible source of such counselling would be the employment service, but there may be other sources of counselling, which could be used, through private training and recruitment organisations, or in employers' associations or NGOs.

It is important to recognise that in a modern economy many skills are not the highly technical types which require long training. As the service sector expands, more and more jobs need personal and social or "soft" skills which ideally should be inculcated in school, but which many adults may lack, whether employed or unemployed. In Croatia, where the hospitality industry – tourism, hotels and catering – is likely to be a significant source of jobs in future, the provision of these soft skills is particularly important.

The general approach in most European countries is that employers should be responsible for training their own employees, since they know best what the training needs are and since the benefits of the more highly skilled worker accrue to the company. This approach has, however, not been entirely successful in ensuring a satisfactory degree of in-company training. Most Croatian companies do not do as much training as required, preferring to try to attract trained workers from the labour market or other firms. Some do not appreciate the need for and value of training; and some have, under serious cost pressures, cut back training budgets as an apparently avoidable expense. Bigger and international firms are more likely to appreciate the need for employee development, but there are problems particular to the numerous SMEs in Croatia. They are less aware of the importance of employee development; they are unlikely to have specialist human resource development staff who could push forward such development; and it will be more costly and difficult to give employees time off to be trained in a small organisation. The amount of training in the economy, and in some enterprises, is therefore lower than required for economic efficiency and individual development.

Possible approaches to government intervention in company training could include:

- a. Croatia has a law requiring firms to allow employees paid leave for a certain number of days for training. However, effects of this law are considered marginal. The point is that, without detailed regulation, and potentially burdensome and costly implementation

- mechanisms, this is difficult to police. Another problem is that there is no way of ensuring that the training is appropriate to the individual's or the economy's needs.
- b. Subsidies for company training, in particular management training, exist, but they are general. They are not targeted at specific disadvantaged firms or particular kinds of training, which is very costly. The issue of deadweight has not yet been analysed, where the subsidy is given for training the employer would have carried out in any case, so that training costs are transferred from the employer to the public purse.
  - c. The feasibility of tax incentives to encourage (co-)investments in training by individuals and companies may be considered. A related point is that the tax system should not hamper the acquisition of skills. For example, learners at People's Open Universities have to pay full VAT at 22%, which is a considerable disincentive to participation.
  - d. The introduction of levy and grant systems has not been seriously considered so far. These impose a levy on employers and give a grant to those who train in required skills.<sup>53</sup>

There is some evidence that certain kinds of intervention can influence the training market; others are difficult to control or of doubtful cost-effectiveness. This does not necessarily mean that they should be ruled out in the case of Croatia. Financial incentives may be very useful to provide a clear signal to enterprises of the importance of training, even if they are not designed to be long-term instruments but simply a pump-priming device. Where there is clear evidence that financial considerations are inhibiting companies from training, the case for financial incentives could be made. One example would be to provide free or subsidized assessments of training needs or the existing stock of skills for SMEs. Another is the funding of the training of potentially redundant workers in enterprises facing restructuring, building on the Mobility Centre model already piloted by the employment service, on the grounds that it is more sensible to try to deal with these workers before they leave and become unemployed. Joint funding between the employer and the employment service would be desirable, perhaps involving workers going to vocational training on release from their companies, or trainers coming into the firm to provide learning. The curriculum of learning should be based on individual needs, as assessed by the employment service.

In the interests of the long-term development of company training and adult learning in Croatia, it is important to involve employers by building on a partnership approach. This might go along with a range of measures to reinforce the employer effort (including also non-financial incentives, such as the Investor in People award).

#### *Training of managers*

This is a particularly important area in Croatia. The disciplines involved in managing companies in the past are very different from those required of private companies operating in a market economy and faced by increasingly severe international competition. In the previous industrial structures managers did not have to concern themselves unduly with increasing productivity or training their workers for new tasks. Many owners of newly private companies were not themselves entrepreneurs and had insufficient understanding of the need to train their managers to deal with the changed situation. This situation is changing. Large companies are developing good systems of management training, and higher education institutions are developing business education studies leading to diplomas or MBAs, though there may be some question as to the quality of training. For SMEs there may be greater problems, for the reasons described above. Managers of an SME have a wide range of responsibilities, which is why they needed broader training. But it may be impossible for such a manager to take time off for formal management training, especially if there is no immediate pay-off to the company.

Notwithstanding the improvements in some parts of Croatian business, the general perspective is that management training, and the need for managers to engage in continuous learning, is

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<sup>53</sup> The UK had such a system, but it was successful to the extent that it was the planning structure, which emphasised the importance of training rather than the financial incentives which improved training. The levy was not high enough to change employer behaviour on training, and since most employers both paid the levy and got grants, the system became inefficient.

not taken sufficiently seriously. A 2002 survey showed that less than 15% of first-line and middle managers, and less than 9% of top-managers underwent additional training.<sup>54</sup> The National Council for Competitiveness criticised the quality of management in relation to the objective of improving competitiveness and suggested that management training be given special attention. There are several possible action points, which might be pursued.

- An assessment should be undertaken of the formal management education courses provided by colleges and higher education establishments to ensure that their offerings are in line with best practice in other more developed economies.
- Links should be established between Croatian institutions and those in other countries. Such links already exist to some extent, but management education expertise is transferable, and Croatia should take advantage of the progress that other countries have made.
- Consideration should be given to establishing centres for management education and training at regional level, bringing together such providers as already exist rather than starting from scratch, and developing their offerings to suit companies in the regions and localities. They could be particularly important in offering training in entrepreneurship to encourage the creation of new small businesses.
- Networks of companies (including 'clusters') involved and interested in management training should be established at regional or local level. This would fall naturally to the Chambers of Commerce or employers' associations to organise. As part of this, it might be possible for larger enterprises which have in-house management training programmes to act as "mentors" for other companies who are less advanced, and in particular for SMEs, to encourage and guide them in their efforts to improve.<sup>55</sup>

### **Ensure an efficient use of and increase investment in human capital through better education and skills**

*Croatia spends less on education than EU countries and reforms rely heavily on external funding*

Overall investments in education have recently gone up to 4.3% of GDP. But this figure has to be seen against the backdrop of both a yearlong negligence of the education system and related reforms and the consequent need for enormous investments to upgrade both buildings and equipment, as well as curricula, materials and teachers' skills. A major source of financing reforms in primary, (general) secondary and higher education will come from the Education project 2005-2010, which is financed with a US\$ 85 million (€67.8 million) loan from the World Bank.<sup>56</sup> In addition, the EU CARDS programme supports (secondary) VET reform through various smaller allocations.

#### *Financing secondary education<sup>57</sup>*

Since 1<sup>st</sup> July 2001 secondary school financing has been partly decentralised. The intention of decentralising financing was to increase education planning and management responsibilities of local government and strengthen the schools' ties with its social and economic environment. Funds are derived from two sources – the State budget and local and regional self-government units (i.e. the City of Zagreb and county governments). The latter provide, through their local tax revenues, funds for:

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<sup>54</sup> Alka Obadic, Nina Poloski Vokic, Dubravka Sincic, The importance of education for countries and enterprises' competitiveness – Croatian macro and micro indicators, Sixth International Conference on "Enterprise in Transition", 2004.

<sup>55</sup> cf. Reid G. & Viertel E.: An approach to an adult learning strategy in Croatia, unpublished draft, ETF, September 2004.

<sup>56</sup> For more details on World Bank projects – see section 4 below.

<sup>57</sup> For a detailed analysis of financing secondary education, including VET, in Croatia refer to: Institute of Economics and National Observatory (2004): VET Financing Study, unpublished draft. Study commissioned by the European Training Foundation.

- investment and maintenance of school premises and equipment,
- operation costs of secondary schools,
- transport costs of elementary school pupils and employees in secondary schools,
- subsidies for co-financing of pupils costs for food and lodging in pupils' hostels,
- capital investments according to criteria determined by the Minister.

The Croatian Government establishes the minimum financial standard for both basic and upper secondary education for each financial year. This standard is to guarantee basic prerequisites for the implementation of the elementary and secondary school curriculum. Compared to international standards, this standard is very low.<sup>58</sup> No difference is made between general and vocational education. Rates for transfers to schools are determined by schools (and endorsed by local governments and the Ministry of Science, Education and Sport - MoSES) largely on the basis of the number of students enrolled, as well as estimates of running costs, using figures from the previous year (historical budget). Schools include in their plan salaries and remunerations to their staff and in addition they have to prepare pay lists for their hierarchy on a monthly basis to obtain payments through the MoSES. Schools are not allowed to hire new staff members or even change the number of working hours without consent from the Ministry. In addition, sub-budget items for material expenses, maintenance, purchases, teaching materials and equipment and other purchases, students' transport and capital investments are fixed. All this makes the use of budgets provided from the public purse extremely rigid and essentially limits the authority of the school manager and their boards.

If towns and counties cannot meet the minimum financial target, funds are topped up by the centrally provided 'Equalisation' or 'Balancing Fund'. This is the case for all local and regional self-government units, with huge differences whatsoever. According to the study on financing secondary education, in the period January to September 2002 the share of State funds in total education funds of Zagrebacka county and the City of Zagreb was lowest with 7.8% and 9.3%, respectively, while it was highest with over 80% in Vukovarsko-srijemska county (86.2%), Požeško-slavonska county (80.9%), Ličko-senjska county (80.6%) and Brodsko-posavska county (80.4%). Seven other counties followed suit with well over 70% (Babic et al, 2004 – see this study also for further details on the financing system). In general, of the approx. 20% of the school budget that has been decentralised, about one fifth is provided by the counties and the remainder made available centrally.

Secondary schools are encouraged to seek additional resources from the local community, such as from adult training courses, the renting out of premises, donations and the like. The founders of the schools, i.e. the city of Zagreb or the counties, stipulate the amount that either has to be transferred to (or is balanced with transfers from) the financing authority or can be re-invested by the school. Some schools, in particular those providing services or crafts products, have developed a considerable entrepreneurial spirit and are able to substantially top up available public resources by own income. However, universally, this is not the case and does not compensate for the lack of resources. It can be said that local government has limited financial capacity and, hence, remained financially dependent on the central government to a large extent.

Crafts businesses who take on apprentices are expected to cover costs incurred in relation to the training of apprentices on their business premises. However, as from 2001 the (then existing) Ministry of Crafts, Small and Medium Enterprises started allocating funds to support the craftsmen-mentors. Additional funds are provided through the Chamber to undertake promotional and development work in the dual system or VET in general.

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<sup>58</sup> According to education actors from Pakrac interviewed during the ETF's peer review mission in Croatia in September 2002, a school received Kuna 50 (€ 6.50) per student per month plus Kuna 50 (€ 6.50) per PC per month plus Kuna 2,500 (€ 330) per school per month plus Kuna 20,000 (€ 2,650) for urgent repairs per school per year.

The combination of relatively low expenditure on secondary education and low spending on capital investments is a major problem for technical and vocational schools. Vocational schools have high expenditure on materials and equipment, and the general view is that the maintenance of buildings is inadequate and equipment does not exist or is outdated.

As a major increase in government expenditure on education - while desirable and necessary - may be difficult to obtain in the near future (apart from the substantial World Bank loan, which will fuel the central budget from 2006 to 2010) a new emphasis needs to be put on a more efficient use of funds for education.<sup>59</sup>

Schools, local governments and the MoSES seem to be most concerned with using existing facilities and staff resources. Current funding mechanisms do not stimulate schools to innovate and to adapt their provision to the needs of the labour market. One of the school directors, asked if the scope of programmes offered by his school was adequate, replied, "yes, because we use all our teachers and classrooms". There are too many graduates from secondary vocational courses whose skills are not asked for by the labour market. The problem of young people who cannot find a job is then shifted on to the Croatian Employment Service. An overall analysis of how efficiently Government funds for education and training or related subsidies are used is not made.

The overall network of schools and their profiles needs revision through a much better steering from the central (or macro-regional/multi-county) level. The many small, uncoordinated school units with inefficient, overlapping administration contribute to the ineffective use of available resources. The adjustment of the network of schools and programmes needs to be based on projected skill needs by economic sectors, as well as national or regional economic and employment development strategies. VET in areas where there is clear surplus labour or no demand at all should be discontinued, and training for new, broader, future-oriented profiles be encouraged.

No system has been developed which would tie financing to results other than the number of students in traditional programmes. Better outcomes, i.e. reduced rates of education failure and the number of school graduates accessing higher-level education or finding jobs, should be measured and rewarded. This requires, however, that counties and schools have the minimum resources necessary for providing good quality education and training, as well as a regular monitoring and evaluation of the system, including also studies to trace the success of graduate students on the labour market or in progressing with their education career.

It remains extremely difficult for relatively depressed areas to fund increasing educational expenditure after the initial decentralisation settlement, and some kind of continuing settlement fund will remain necessary to maintain consistent national educational standards throughout Croatia. On top of this, less developed regions - and the people living in those regions - would require additional funding over and above the funds provided through the existing universal financial standard and the Equalisation Fund. This is to allow these counties to catch up and close existing development gaps with the ultimate aims of doing away, over the long run, of the two or three-class education system which has *de facto* taken shape in Croatia and of helping reduce social exclusion.

### *Financing of higher education*

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<sup>59</sup> To illustrate this: for example, in Varaždin four schools are situated next to each other on the same 'campus'. They share dormitories and some teachers (also for vocational subjects). But each school has its own administration. In the same county, there is the very well-equipped "Opeka" agricultural school which could, with just a few more classrooms and a regular bus service, take on some 100 students more. Just 50 km away, but within a different county, there is another, less well-equipped agricultural school in Cakovec. The two schools are competing for students. Also in Varaždin, more apprenticeship places in the dual system are offered by crafts businesses than are filled, with schools and local chambers again competing for students. In Pakrac, a new school building was opened which seems to be bigger than needed. Building plans had been designed before the war, and the Ministry of Reconstruction covered construction costs. The school with a similar profile in the neighbouring county is already not able to attract enough students to fill all places. Hence, a strategy is required to avoid the problems of competing vocational schools in adjacent counties and overlapping courses, which represents a waste of resources.

The 2003 Law on Scientific Activity and Higher Education provides for the financing, from the State budget, of public universities, two-year and four-year colleges, taking into account “the established capacities of each individual higher education institution, the price of a particular course, and a quality assessment based on evaluation” (MoSES, 2003). Institutional budgets are determined on the basis of annual work plans, as well as their employment structure. Other sources of income include tuition fees, donor funds for projects, donations from public or private entities, scholarships, publishing and expert assessment work, etc. Universities, two-year and four-year colleges receive state funding as a total lump sum and have relative freedom to decide about the use of funds, which would represent a good model for lower-level educational establishments, as well, if there was an appropriate network of schools and programmes and a framework for quality assurance, monitoring and evaluation.

Access to university is limited. Every year higher education institutions, together with the MoSES, publish a plan specifying the total number of study places available per programme, as well as the number of places for full-time students whose studies will be financially supported by the MoSES. Foreign students pay annual tuition fees that are up to three times higher than the ordinary cost for a full-time study.

The Law also stipulates that “private higher education institutions can be financed from the state budget according to the rules set by the National Council for Higher Education” (ibid). However, a number of higher education institutions, such as the *Polytechnics*, have not been eligible for public funding in the same way as the others. Up to now they have operated almost entirely on the basis of tuition fees which essentially restricts the circle of people who can benefit from such education.

#### *Financing of adult learning*

In the course of decentralising adult learning, public adult learning institutions, such as the People’s Open Universities, came under the authority of local governments. Thus, the financial status of these institutions depends on the financial position of the local government in question – some can make funds for education available, but the majority cannot. Institutions are asked to operate on market terms, although they are in a privileged position when it comes to implementing publicly funded training programmes. Since the introduction of the 1995 Law on Value Added Tax, adult learning institutions have to claim 22% VAT on top of their course fees which runs counter to the practice of providing fiscal incentives for education in other countries and which represents an additional barrier for low-income groups of the population. Exceptions are formal programmes verified by the MoSES. The Andragogical Centre/Croatian Association of Adult Education Institutions, that itself did not receive any state funding between 1990 and 2005, claims that successive Governments have not attached adequate attention to adult learning and budgets made available are in no relation to the actual need. They would like to see public adult learning institutions treated in the same way like public elementary and secondary schools, with guaranteed minimum financial standards.

A number of Ministries do provide funds for the education and training of adults (more information see in annex). Individuals and enterprises both fund learning, too, but there is no data on how much each contributes to the overall adult learning effort. A 2002 survey by the Croatian Chamber of Crafts and Trade, covering 274 small and medium sized enterprises, suggested that 85% of costs of formal adult education was borne by companies themselves<sup>60</sup>. There is no information on learning participation of specific groups of adults and companies as a whole, but unofficial data suggest that participation is very low.

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<sup>60</sup> cf. Marinovic, V. et al, Adult learning in Croatia – Stocktaking report, National Observatory paper, 2004.

There is more information about the funds provided by donors.<sup>61</sup> However, funds provided by donors, while contributing to the effort to improve adult learning, did not follow any overall strategy. Efforts have been made by a group of experts around the MoSES to draft an adult learning strategy and an action plan which were finally adopted in June 2004. Furthermore, an adult education law is in its final drafting stage and the setting up of a new Agency for Adult Education is envisaged. However, it may be questioned whether there is a clear set of priorities which the Croatian Government (as opposed to one ministry) and donors could follow in allocating funds. Training provision is dwarfed by the scale of the problem: relatively few people are given the help they need and a proper assessment of the need is not done.

### *Planned and implemented reforms*

Reforms of the (formal) education system started some years ago at the level of higher education, but got off the ground across all levels of the (formal) education system basically only in the last 2-3 years. Implementation was always hampered by the lack of additional resources for investments and innovation, which has however changed thanks to increased allocations for education from the State budget on the one hand and major loans taken from the World Bank and channelled through the national budget on the other.

Several measures have been taken in Croatia to improve legislation and the support structure in education. A Law on the National Centre for the External Evaluation of Education entered into force in January 2005. The Centre has been entrusted with the preparation of National Matura exams and the external evaluation of the system. Amendments to the Law on Secondary Education were adopted in 2005 taking into account these changes. New Croatian National Educational Standards were approved for different subjects in primary education and introduced in schools on a pilot basis.

In the area of secondary vocational education, an Agency for VET was established in January 2005. However, the Croatian VET system has not seen any major changes for more than a decade. The only exception is the complete overhaul of all crafts trade programmes. At the moment, schools are producing graduates in a rather closed circuit. Marks obtained at the end of the 7<sup>th</sup> and 8<sup>th</sup> grades are all decisive for pupils' choices and further progression in the education system, with little opportunity to change later on. In the 4 and 3-year VET streams, administrative considerations (e.g. availability of teachers and facilities) and the choice of students prevail over the needs of the labour market. The result is students frustrated with an education system that by and large does not promote employability and an economy which does not consider VET as important for its development strategies. At the end of 2005, 38% of all unemployed people had graduated from 3-year vocational schools, whose skills are no longer in demand by the labour market.<sup>62</sup> Best chances to find a job have multi-skilled people with high-level technical, computer and foreign language skills. In order to meet the new labour market requirements and prepare for lifelong learning, Croatia needs to step up reform efforts. Main challenges include a rationalisation of the programme & school network, the development of national qualification standards, a complete revision of curricula and teaching aids, the upgrading of workshop equipment, better cooperation with the private sector and intensive school and teacher development schemes.

An Agency for Science and Higher Education was formally established already in July 2004 and hosts the ENIC-NARIC centre. In the context of the Bologna process some 900 study programmes from all Croatian universities and polytechnics have been assessed and the majority of them approved in the four months preceding the new academic year 2005/2006. The Tempus programme through its various activities, such as Structural Measures and Joint European Projects between universities in the EU and Croatia, supports university reform and

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<sup>61</sup> These include EU projects which provide grant finance to set up a Labour Redeployment Fund in the frame of the CARDS 2001 Labour Market Restructuring project (finished), as well as to fund training measures in the frame of the CARDS 2002 and 2004 Local partnership (finished and ongoing, respectively) and the CARDS 2004 Adult Learning projects (not yet started). Adult training elements were included in USAID projects, the social reform project by the UK government (DFID), etc.

<sup>62</sup> Source: Croatian Employment Service.

contributes to preparing Croatia for participation in future Community programmes. Further reform efforts should be geared towards improving the quality and effectiveness of university management, as well as study processes and outcomes, as more than 60% of those who enrol at universities never graduate.

Another key challenge is the expansion and further development of higher professional education. Some years ago Croatia has introduced vocational pathways at post-secondary/tertiary level, so-called “polytechnics”, with increasing participation and good job perspectives for graduates. This kind of high-level professional and labour market-oriented VET ought to be considerably expanded and financed on a par with other forms of higher education.

Active labour market measures for unemployed adults were implemented between March 2003 and August 2005, but on a limited scale and not in a highly focused and effective manner. A new list of measures was agreed for 2006. Information & management processes and support tools still need considerable improvement. Attempts by the Employment Service to accompany processes in companies undergoing restructuring through on-site “Mobility Centres” were not highly successful, as mentioned above. European Social Fund approaches have been tested through a few pilot projects, but pilots need to move up from county to regional level and a lot more needs to be done to prepare partnership and management structures and potential project promoters.

Quite a number of people attend adult training courses to acquire different or higher specialist skills (hard data are not available) – especially in the bigger urban centres where there is a better offer, but mostly on a self-paying basis. There are a few examples of excellence where companies, especially the ones operating successfully in international markets, train the various categories of their staff. In addition, the MoSES has been running a programme since 2003 for adults with unfinished compulsory education, which has enjoyed increasing budgets and participation numbers. However, a more coherent and comprehensive adult learning policy, higher amounts of funding shared by the different public and private partners and new structures are necessary to improve the overall offer, access and quality of adult learning in a lifelong learning context. As mentioned above, adult learning participation is very low in Croatia, while 2001 Census data established a high proportion of low-qualified people. A strategy and action plan have been adopted by the Government in July 2004 and a new law on adult education has been drafted. The conception and development of more comprehensive and coherent adult learning policies, involving a wide variety of stakeholders and elements, will however need a new impetus from an EC CARDS project expected to start soon in mid 2006.

#### **4. SUPPORTING INSTRUMENTS FROM THE EU AND OTHER DONORS IN THE FIELD OF EMPLOYMENT AND HRD**

##### *World Bank loans for education and science*

In 2005 the World Bank has approved two loans to support education and science reform in Croatia: US\$ 85 million (€ 67.8 million) for an Education Sector Development Project (ESDP) and € 31 million for a Science and Technology Project (STP).

The overall objective of the ESDP is “to improve teaching and learning at all levels”. Key priorities of the ESDP include (i) the establishment of an externally administrated school-leaving examination (Matura) and the introduction of evaluation practices at system and institutional levels; (b) the development of decision support systems, such as an Education Management Information System; (iii) efforts to improve management, including policy development, planning and financial management capacities at the central level, administration and coordination capacities at the regional level, and educational leadership at the school level, and (iv) school-level improvement and the creation of professional learning communities in schools by training school curriculum specialists, in-service training for teachers, new teaching and learning facilities, upgrading regional teacher training centres and new curriculum materials for teachers. Progress on the ESDP will be measured by a standardised assessment test formulated by the

OECD, and performance of 15-year-old Croatian students will be assessed and compared to their counterparts in EU countries.

The World Bank project started implementation in 2006 and will be used also for financing physical infrastructure for VET schools, combined with national co-funding. The preparatory phase of the project has shown a number of teething problems with regard to institutional capacity of the MoSaS, such as the lack of a coherent vision for education development and a detailed implementation plan on the use of the funds for the forthcoming years is not yet available.

The STP is aimed at strengthening and restructuring selected Croatian scientific research institutions. The majority of the funds (€ 16.8 million) will be spent on the advancement of technology in Croatian companies, € 10.5 million on the restructuring of scientific research institutions, and € 3.7 million on the establishment of a Unity through Knowledge Fund, which will engage Croatian emigrant scientists in the development of Croatia's national innovation system.

#### *EC CARDS projects managed by the Education Institute or VET Agency*

EC funding support to Croatia resumed only in 2001 after the death of President Tudjman. In the field of HRD the Cards programme focuses on support to VET reform, development of the adult learning system, modernisation of the employment service and active labour market policies.

EC CARDS VET projects (CARDS 2001: €600,000; 2002: €1.5million; 2003: €4million; 2002 & 2003 projects are ongoing) are currently running with a backlog of three years. At the end of the three successive interventions in December 2007, VET legislation is expected to be drafted, social partner structures established, staff from the newly established VET Agency trained, a VET information system concept agreed, the list of occupations redesigned, key competencies, a few exemplary qualifications and curricula developed, new pre- and in-service teacher training courses piloted and school development projects carried out in a number of selected schools. Currently, all initiated reforms are at a very early, fragile stage and sustainability and follow up by the Croatian national authorities not certain. Given the pilot nature of EU-financed reforms, many more efforts would be needed to improve teaching and learning in VET, including at higher levels, in line with the needs of a modern economy and a cohesive society. This concerns in particular also the areas of higher professional education and all kinds of adult learning.

The EC CARDS 2004 Adult learning project (Euro 1.5 million; start: 2006?) is likely to assist the the MoSES to set up a database of adult learning providers, programmes, students and certificates; organise staff development, review financing schemes and further work on a comprehensive coherent adult learning policy; design criteria and procedures for a new quality assurance system for adult learning providers and the accreditation of qualifications or programmes; redesign and pilot-test the Basic Skills programmes for unskilled or low-skilled adults; move developments further in the area of adult trainers' training and arrange for a national adult learning campaign. There is a delay in implementation mainly due to related bottlenecks in the process of shifting from centralised to decentralised implementation and management of EU funds.

#### *EC CARDS projects managed by the Croatian Employment Service*

Main results achieved by the EC CARDS 2001 Labour Market Restructuring project (Euro 3 million; start: 2003 – end: January 2005) include:

- Qualitative labour market surveys have been designed and carried out in 4 Croatian counties (Zagreb, Osijek, Rijeka and Zadar) – 2,000 employers have been included in the survey;
- A strategy for raising the quality standards of counselling by the CES, as well as an action plan have been developed; CES and school counsellors have been trained to

give advice to both students and unemployed persons, including disabled and hard-to-place unemployed persons.

- New IT equipment has been purchased and installed.
- 6 Mobility Centres (small CES units) have been established on the premises of companies undergoing restructuring.
- A Labour Redeployment Fund has been established to fund labour redeployment measures.

The EC CARDS 2002 and 2004 Local Partnerships for Employment projects (Euro 900,000 and Euro 1.5 million, respectively; start: November 2004 and 2005, respectively) will contribute to the implementation of regional (i.e. county) development goals, as outlined in the Regional Operational Programmes of the Zadar, Šibenik-Knin, Sisak-Moslavina and Vukovar-Srijem counties, by appropriate human resource development measures. Local partnerships are formed and will:

- Carry out labour market surveys,
- Draw up human resource development plans, and
- Design and implement European Social Fund type of measures in their counties.

Basically the same project will be replicated by an EC CARDS 2004 project in the Lika-Senj, Karlovac, Slavonski Brod-Posavina and Požega-Slavonia counties.

The EC CARDS 2003 Decentralisation of the CES project (Euro 500,000; start: 2006) aims to assist the management of the CES headquarters and regional offices in planning and kick-starting the changes required to turn the CES into a modern institution, amongst others, through changes in management structures and processes, training and IT support. The ultimate aim is to contribute to achieving a higher flexibility and efficient outcomes on the labour market, and an agency that plays a prominent role in labour market dynamics and in ensuring outcomes defined by labour market policies at national and EU level. Implementation has been delayed due to problems related to the tendering process, therefore the project started only in April 2006.

In addition, two Phare projects have been approved. The Phare 2005 Active Labour Market (€2million) will undertake a systematic evaluation of the experiences with active labour market policy in Croatia, develop capacities of the CES management team, assist the CES in redesigning active labour market measures and test the new measures through a grant scheme. The Phare 2006 IT project proposal (€1.03million TA services + €1.6million supplies) aims to help improve the IT system to support the CES services, analyses and management of business activities, but has not yet been agreed with the Commission.

#### *European Training Foundation projects*

In complementarity with CARDS and other upcoming EU programmes or initiatives, the ETF continues to assist Croatia in the following areas in 2006:

- strategies towards the implementation of a National Qualifications Framework
- analyses and pilots in the development of key competences in education and of the teacher training system
- dissemination of results from the Copenhagen process on European cooperation in VET with a particular focus on career guidance and quality assurance;
- ESF preparations (capacity building measures for educational and labour market stakeholders).

#### *Other bilateral donors*

Other major bilateral donors include

- in the area of VET: GTZ, Germany (€1million VET project; focusing on the 3-year VET stream, fostering schools of excellence) and Kulturkontakt, Austria (projects in the tourism sector, on entrepreneurship training and the training of school managers) and
- to prepare the first National Employment Action Plan and provide counsellors' training: DfID, UK (project finished in 2004).

## 5. INSTITUTIONS AND CAPACITY FOR GOOD GOVERNANCE AND PARTNERSHIP

### *Social dialogue*

In Croatia there is quite an elaborate structure of social partnership arrangements at national level, which includes the Economic and Social Council (GSV). The subgroups of this Council, including one on education, are consulted, for example, on new draft legislation.

There are several levels at which the social partners are involved in the labour market governance. The governing council of the PES is tripartite, i.e. there are 3 members from trade unions, 3 members from employers' associations and 3 members from the Government. Additionally, the social partners are members of advisory councils in regional employment offices and they are, as a rule, involved in all the important decisions being made at the regional level.

The Chamber of Crafts and Trades plays a key role in implementing the (practical part of) the VET for crafts trades involving small and medium-sized crafts businesses in apprenticeships. However, this picture may be somewhat misleading in the context of workable partnerships in education and training.

The management board of the VET Agency, for example, does not include representatives of employers' organisations nor the economic trade unions. This is despite the fact that both the Croatian Association of Employers (HUP), the Chamber of Commerce (HGK), the Chamber of Crafts and Trade (HOK) and the Autonomous Trade Unions of Croatia (SSSH) had declared their keen interest in becoming involved in a tripartite dialogue with the Government on human resource development policy planning and implementation. Also, the adult education commission whose members were appointed by the Minister of Science, Education and Sports in February 2004 to elaborate an adult learning strategy did not consider social partner representatives.

Current provisions regulating education do neither stipulate nor encourage the establishment of effective partnership structures involving both the economic and education actors at regional and local levels. In the light of Croatia's aim to make education and training more responsive to the labour market, the lack of such structures is particularly strongly felt. It can be concluded that the importance of involving the social partners at all levels in the design and implementation of education and training policies for both young people and adults has not yet been fully recognised.

A number of proposals has been tabled which are hoped to be taken forward by the national institutions and relevant CARDS projects. One concerns the inclusion of partnership structures at the various levels in the new laws on VET and adult education. CARDS VET projects all involve social partner representatives alongside experts in all working groups. One of them focuses on sector committees whose task will be to analyse skill needs and profiles by sector and to develop new standards of competence and framework curricula. The CARDS 2002 and 2004 Local Partnership projects managed by the Croatian Employment Service were or are geared to design human resource development strategies and deliver training, amongst others, through effective local partnerships in selected counties.

The expected major influx of pre-ESF funds in Croatia's run-up to accession to the European Union will make it inevitable to have in place effective regional structures who are able to plan and implement, monitor and evaluate human resource development measures.

### *Public employment service*

The organisation of the public employment service (PES) is centralised, as far as financing is concerned, and the business processes are standardised in all regional and local offices. Regional office needs are planned locally, but investment decisions are approved according to relative needs and requirements of regional offices on the basis of a priority rank. Running costs are approved following comparison between regional offices and acceptance of least cost solutions.

Heads of regional offices are to be chosen on the basis of an open candidature, and the Director General suggests candidates for approval by the State Secretary of Labour. The Director General is approved by the Government on the suggestion of the State Secretary of Labour. The deputy directors are suggested by the director general and approved by the Government. In reality, we are not sure that the selection of staff is always based on people's competences rather than political affiliations.

The Law on Mediation in Employment has introduced, for the first time in Croatia, the possibility of setting up private employment agencies. In the meantime, some private agencies have been established. Along with standard employment mediation services, the Adecco Group, for instance, offers for the first time "temporary employment" for a very wide range of businesses in industry, tourism, administration, etc. The agency also organised training courses and special programmes for the least employable groups.

The CES is comprised of a central office, a network of 22 regional and 92 local offices. The Governing Council of CES is established on tripartite terms and consists of representatives from trade unions, employers and Government. Staff roles in the CES are divided along functional lines, and areas for skill and knowledge development have provisionally been outlined along the following parameters:

- *Counsellors* – who work predominantly with job seekers;
- *Advisers* – who deal predominantly with employers;
- *Administrators* – provide general office support;
- *Regional Directors* – provide managerial oversight of CES operations at regional level and line management support to local offices.

The Croatian Employment Service had, in 2004, 1.130 members of staff with the following educational profiles:

- 39 % with university and post-graduate degrees,
- 21 % with college education,
- 31 % with secondary school education,
- the remaining 9 % are highly skilled and skilled workers and those with primary school education.

The average number of unemployed persons per counsellor is 1.120 : 1 (figure from 2004). In accordance with the new Law on Mediation in Employment there are three client groups - unemployed persons, jobseekers and employers. Counsellors are divided by sectors of economic activity. Every counsellor is in charge of all enterprises within such a sector and the occupations within it. This arrangement is hoped to provide for a better understanding of companies' needs and to maintain a certain continuity of contacts with employers.

The CES policy, which has been implemented since 2003 with varying levels of progress and success under different directors general, includes the following priorities:

- fostering employment and reducing unemployment by professional brokerage on the labour market and implementation of active labour market measures;
- providing harmonious professional development of people by means of vocational guidance, career counselling and training of unemployed persons (retraining, additional training and acquiring special knowledge and skills);

- alleviating harmful effects of unemployment by administering unemployment benefit and assistance, entitlement to pension insurance for the category of persons with long years of service, reimbursement for expenses incurred in the course of training and reimbursement for travel and relocation expenses;
- implementing a new service approach policy in CES.

A new training centre was planned to be established within CES for providing continuous education to new and existing personnel, but the idea has not been implemented.

The new business processes are supported by ICT technology in 114 local and regional offices. The monitoring of business processes is effected through a system of “leading & lag” indicators of performance for each regional office. Efficiency is measured for individual counsellors in mediation, in implementation of active labour market policies, in administrative processes and all other types of interaction with the main client groups. Active labour market policies are periodically evaluated by external evaluators.

*Other public agencies in the field of education and training: Education Institute, VET Agency and Agency for Adult Education*

The chronically understaffed Institute of Education, financed by the central government budget, has seen a substantial increase of staff by 50% between May 2005 and May 2006 (from 86 to 130 specialists) and the projection in the coming years is to reach 200 staff in total. Physical infrastructure has been upgraded and the Institute will also move to new premises in September 2007 (next to the National Centre for External Evaluation in education, with which it is supposed to create synergies). The Institute is mainly dealing with teacher training for pre-primary, primary and general secondary and adult education teachers (not including VET), curriculum development for general subjects and some limited research/development projects. The Institute is expected to given the assignment of managing the CARDS Adult Learning project and there are plans to become an Agency of Education in 2006. There is a high need for capacity building in order to increase the quality and effectiveness of staff.

A separate VET Agency was established in January 2005 (operational as of September 2005) and has currently 30 staff, it was supposed to foster the development of the whole VET system and to act as a one-stop-shop for vocational education and training. Currently the Agency is mainly dealing with curriculum development and teacher training/certification for secondary VET and is implementing body (PIU) for 2 CARDS VET Programmes. A large part of the staff arrived from the previous VET department of the Institute of Education (a number of staff are close to retirement) but also some junior staff joined the Agency without relevant prior experience in VET. There is a huge and urgent need for training of staff and other capacity building measures. The same applies also for the PIU function.

The setting up of a separate Agency for Adult Education is under discussion (in addition to the Agency for Lifelong Learning, which will implement the EU Lifelong Learning Programme).

## **6. THE CHALLENGES AND RECOMMENDATIONS FOR HRD AND LABOUR MARKET RELATED REFORM/ MODERNISATION PROCESSES UNDERPINNING IPA OBJECTIVES**

Based on the analysis above, the main challenges in the forthcoming period (2007-2013) will be to a) create sustainable jobs and to reduce unemployment, b) to foster regional development and local human potential and c) to establish a nationally coherent HRD policy, that also increases the efficiency and quality of the education system.

In order to meet these challenges in line with the objectives and targets of the Lisbon strategy, a substantial increase in public and private financial resources is required, in particular for active

labour market measures, measures for disadvantaged regions/groups and for certain segments of the education and training system, such as adult learning and VET.

**Challenge 1:**

***To better use (avoid the wasting of) human capital and potential by transposing the expected economic growth into employment growth and reduce unemployment, thus fostering social and economic cohesion. At the same time, to successfully further develop and adapt Croatian labour market policy, regulations to European standards and to modernise and make labour market institutions more efficient.***

Croatia, like most transition countries, lacks job opportunities. Employment can be spurred only by policies that enable enterprise restructuring and improve the investment climate. To facilitate the creation of more and better jobs, the most important challenges are to make it easier to start businesses, plan for expansion, create better quality jobs in formal sector and ensure their progress. According to the World Bank<sup>63</sup>, Croatia should continue to cut the cost of doing business, improve the investment climate and ease labour market regulations. In addition, the World Bank urged Croatia to lower taxes on labour, reform the pension and social security systems, strengthen contract reinforcement and increase incentives for employment in less developed regions. Flexibility in the formal labour market may be increased further with the aim of higher employment and lower informality, but it needs to be counter-balanced by social security measures to ensure basic income security, particularly for those most vulnerable groups in society considering limited resources available. Flexi-curity approach focusing on lifelong learning and activation strategy can be kept as a long-term objective, but it is very important to define who the most vulnerable groups are in the Croatian context. The issue of informal economy also needs to be addressed by introducing measures stimulating the transition from informal to formal jobs as this considerable segment of the labour market is outside the scope of any legal measures of flexi-curity approach, with a potential negative impact on efficient labour allocation and labour productivity.

It is important to take a gender-sensitive approach to all efforts and everyday activities. In this context, Croatia needs to continue promoting gender equality in the areas of education, labour, prevention of violence against women and a stronger participation in public and political life.

The Government should also develop and enforce inclusive legislation that would ensure full integration into society of children with various development disabilities. The MoSES is asked to secure funding and support for disabled children to be given access to regular education throughout the country. Furthermore, efforts should continue to improve the position of disabled people on the labour market.

All this requires development of a more integrated approach of employment and economic policy, in line with the multi-annual EU Integrated Guidelines for Growth and Jobs. In addition, accelerated harmonisation with EU labour legislation and capacity building for the Ministry of Economy, Labour and Entrepreneurship (MoELE) and its labour market institutions (national and local employment agencies) is crucial and a precondition in order to enhance absorption capacity of all related measures and quality of human resources.

More specifically,

1. Capacity building to the MoELE and PES to develop and implement the National Reform Programmes and Integrated Annual Employment Action Plans (Twinning and technical assistance).
2. Development programmes for PES staff in order to increase PES capacity in servicing the unemployed and effectiveness and quality of services.

In terms of active and passive labour market policies and integrating social assistance with employment, Croatia already has many of the features of an effective policy framework. The strengthening of 'activation' and its integration with the administration of unemployment benefit,

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<sup>63</sup> World Bank: *Enhancing job opportunities in Eastern Europe and the former Soviet Union*, Washington, 2005.

job mediation and active labour market measures, is the right direction of travel in line with European Employment Strategy and flexi-curity approach but needs time to become fully effective. However, this basic system that applies to everyone joining the unemployed register needs to be adjusted and strengthened to address the problems of the long-term unemployed. This needs to be done through:

- Restricting active labour market measures to those still on the unemployed register after six months and concentrating their use to prevent people entering long-term unemployment;
- Intensifying 'activation' for people who are out of work for more than six months, including the introduction of compulsory job search workshops for those who remain unemployed at 12 months;
- Developing new measures to combat employers' negative perceptions of the long-term unemployed;
- Focusing ALMPs more on improving the basic skills of the long-term unemployed;
- Introducing a major new programme (workfare) for long-term unemployed recipients of welfare so that they can gain work experience and be reconnected with the world of work.<sup>64</sup>

Sometimes the impression is created that if only more funds became available for such measures, unemployment could be eradicated in no time<sup>65</sup>. We would regard it as much more appropriate for a transitional country like Croatia to invest in ALMP quality rather than in quantity considering limited resources available. Quality in this context means better targeting and prioritising certain vulnerable groups through:

- a coherent policy framework with clearly defined components that are mutually reinforcing in reducing the flow of people into long-term unemployment and in helping those who are already long-term unemployed;
- additional and new measures on the long-term unemployed or those most at risk of entering long-term unemployment and helping them through individualised counselling to make choices most appropriate to their needs;
- identifying those unemployed with basic skill deficiencies and to assess the current level of skill and the type of further training which would be most beneficial;
- having a portfolio of diverse opportunities and support arrangements for people with different personal circumstances through partnerships with other agencies and NGOs.

The CES should be confirmed as the main agent and policy instrument for the organisation and delivery of measures directed towards reducing long-term unemployment. It should be given clear objectives in relation to the long-term unemployed, adequate resources to meet them and distinct organisational and operational arrangements for the activation agenda. The source of funding for ALMPs should be made more secure. This will probably require that it be separated from that for unemployment benefit and be directly funded from the Ministry of Finance. Also arrangements should be introduced to strengthen joint working between the CES and Centres of Social Welfare, beginning with planning opportunities for the long-term unemployed and sharing information about common clients.

### **Challenge 2:**

***To reverse the trend of wide regional disparities between the capital of Croatia and the country, the major cities and rural areas, thus providing better employment and education/training opportunities to disadvantaged regions and groups and to reduce educational gaps.***

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<sup>64</sup> See Philipps, R. & Bejakovic, P.: *Draft final report by the Labour and Employment Team on the Social Assistance Project for the Croatian Ministry of Labour and Social Welfare*, Zagreb, March 2003.

<sup>65</sup> Neubauer, R.: *More Active Labour Market Measures – Panacea or Folly*, Paper presented on the International Conference *Employment in South-East-Europe as Factor of Stability and Development*, 28.–30. November 2002, Sofia - Bulgaria: Friedrich Ebert Stiftung.

Rural and regional development policy needs to pay more attention to HRD and education/training dimensions, and to develop integrated measures that contribute to socio-economic revitalisation (particularly true for post-war areas).

Policy advice, technical assistance on good practice from EU member states in improving the entrepreneurship environment aimed at encouraging the development of small and medium enterprises at regional and local level, needs to integrate HRD measures and plans.

As it remains extremely difficult for relatively depressed areas to fund increasing educational expenditure after the initial decentralisation settlement, some kind of continuing settlement fund will remain necessary to maintain consistent national educational standards throughout Croatia. On top of this, less developed regions - and the people living in those regions - would require additional funding over and above the funds provided through the existing universal financial standard and the Equalisation Fund. This is to allow these counties to catch up and close existing development gaps with the ultimate aims, in the long term, of doing away with, the two or three-class education system which has *de facto* taken shape in Croatia and of helping reduce social exclusion.

More specifically, in the area of education and training, measures could range from upgrading physical and human resources, as well as fostering innovative practices (eg Innovation Fund). Incentives for teachers in rural areas might be one potential policy measure in order to enhance the quality of the education system.

Increased support to less attractive and disadvantaged regions would not only reduce regional disparities but also diminish the pressure on the two macro-regional centres (Zagreb and Split).

### **Challenge 3:**

***To break up compartmentalisation of educational (sub)-systems as well as the dichotomy of educational institutions and the world of work by developing and implementing a comprehensive and coherent HRD / lifelong learning strategy, encompassing the formal and non-formal education systems, education and training institutions and the labour market, and to increase efficiency.***

The effective utilization of human resources and investments in quality improvements are the backbone of Croatia's social and economic development and its competitiveness. Increasing the number of individuals with higher-level skills, multi-skills and a mix of technical, methodological and behavioural competences and undertaking appropriate changes in the education system are prerequisites for accomplishing Croatia's strategic goals. Many characteristics of the education system influence its relevance and outcomes for society, including the simple balancing of educational profiles and employment needs, issues concerning the quality of education and the access to adult learning. Education will make the greatest contribution to the development of a knowledge-based economy and a cohesive society if it is commonly recognised as a valuable asset, if adequate investments in education are ensured in the State, companies and local government budgets and if quality education is accessible to individuals whenever, wherever and however they need it. Therefore a coherent HRD/educational strategy must be developed on the basis of the concepts of lifelong learning and the learning society and on the principle of a strategic partnership between public and private actors.

Continuous efforts are needed in Croatia to:

- Improve overall skill levels of the working age population by increasing the share of higher education graduates, in particular the share of post-secondary VET graduates (Polytechnics) and to develop further mathematical, natural and technical sciences and increase student numbers;

- Considerably expand adult learning opportunities for both employed, unemployed and inactive people by creating an appropriate support framework for CVT/LLL (eg better targeting of current instruments, joint funding models between employers and employment services, new incentives such as the introduction of a further education/training cheque or a Training Fund for employed people and individual adults etc.);
- Foster the development of management training in particular for SMEs (review and assessment, network of companies at regional/local level, synergies with existing training organisations);
- Support the development and implementation of a comprehensive National Qualifications Framework (NQF) – comprising all levels of education, including higher education - and to adjust educational programmes to the knowledge and skills needed in the future, with a particular emphasis on the development of interdisciplinary and key competences at all levels of education (particular entrepreneurial way of thinking);
- Further modernise initial VET (move from an input to an output oriented system, shift from a traditional model of provision to a learning organisation model, funding mechanism that stimulates innovation in schools, raising the quality of VET by introduction of quality assurance mechanisms and national standards, improve the efficiency of the VET system, modernisation of the apprenticeship system, promoting innovative and modern professions, integrated system of career guidance and counselling);
- Promote the establishment of effective partnership structures, involving in VET and LLL both the education and economic/social actors (eg creation of national and regional joint Employment and VET Councils, to learn from good practice of sectoral agreements in the EU and the framework of European social partners for the lifelong development of competencies and qualifications);
- Develop and introduce a system of continuously monitored labour market signals and demands for the purpose of educational (VET) planning;
- To modernise the training of teachers as the key change actors at all levels and improve their material conditions with a view to attract and retain highly-skilled people; in particular, the development of a modern VET teacher training system (standardised initial and continuing teacher training for VET) and greater emphasis on school management training;
- Build capacity of the MoSES (eg Twinning), educational institutions and agencies at national and local level; in particular the VET Agency in order to become a one-stop-shop institution for VET issues;
- Support to occupational and social integration of risk-groups (students from rural and poor families, ethnic groups) and foster intercultural education amongst pupils from different communities (eg Croats and Serbs in Eastern Slavonia);
- Implement external and international evaluations and reviews (eg review of the quality and efficiency of educational institutions and networks, the efficient use of resources, tracer studies of graduates etc.);<sup>66</sup>
- Improve status and incentives for private initiatives in education and training and foster public-private partnerships (PPP);
- Enhance integration of Croatia in EU education and training initiatives and networks with a view to learn from good EU practices.

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<sup>66</sup> Recommendations are partly based on National Competitiveness Council: *55 Policy recommendations for raising Croatia's competitiveness*, Zagreb, 2004.

## Annex 1

### Various adult learning initiatives in Croatia

(State of play May 2005)

#### 1. MoSES, 'Literacy' project for unqualified or low-qualified adults:

The 2001 Census revealed low educational attainment rate of a high proportion of the population, although the picture has improved over the years and there is a clear trend towards younger people being better educated than their parents' generation. People are considered 'literate' when they have completed 8 years of compulsory elementary education (basic school). Although the project has been running since 2003, 2005 has been the first year of uninterrupted implementation. Everyone who would like to complete basic school is entitled to participate in the programme. Adult learners have to follow a fixed curriculum whereby 8 years have been merged into 3 and which has been endorsed by the MoSES. Also textbooks were endorsed by the MoSES. In addition, the latter have established a list of institutions allowed to deliver the courses, which include basic schools and People's Open Universities. Adult learners also have the possibility to acquire vocational qualifications.

Financing is done through a "Cheque for the Elementary Education of Adults" (there is a general Law on Cheques in Croatia) which, in essence, is a one-page contract between the individual and the MoSES. Funds are then channelled by the MoSES to the institution that has been chosen by the individual. The value of the cheque depends on the form of training or qualification level or whether somebody simply takes an exam, and amounts to a maximum of Kuna 2,250 – 2,500 (Euro 300-333). An evaluation of the programme during the period 2003-2004 showed that people aged 15-24 years were the most highly represented age group. 50% of the participants had not completed 4-7 years of elementary education.

In 2005 some administrative tasks were transferred to the county offices of state administration who collect the cheques, do a pre-check and send them on to the MoSES. Some offices have been very successful in publicising the scheme and working together, for example with the labour offices. The MoSES keeps a record of all participants.

#### Issues:

- ⇒ Insufficient marketing of the programme in some (or most) counties
- ⇒ Amounts available per person very low
- ⇒ No focus on counties with educational attainment rate much below national average
- ⇒ Fixed curricula
- ⇒ No specific training of adult trainers (many of them are primary school teachers)
- ⇒ Predefined list of institutions entitled to deliver the course; NGOs not included; no provision for family learning
- ⇒ What is offered in terms of vocational qualifications dependent on what's available in the county
- ⇒ Prior assessment of adults' skills??
- ⇒ No provision/ not enough funds for publicity, accompanying research, monitoring & evaluation, teacher training, counselling of adults, childcare facilities, transport costs, etc.

The CARDS 2004 Adult learning project is planned to undertake an evaluation and pilot-test a revised 'Literacy' programme, including trainers' training.

#### 2. Ministry of the Family, War Veterans' Affairs and Intergenerational Solidarity (MoFVAIS), War Veterans' programme (for the re-integration of unemployed ex-soldiers into the labour market)

The aim of the programme is to reduce unemployment among war veterans, their spouses and children. Approx. 9% of all unemployed are ex-soldiers. The majority of them have not completed upper secondary education (27% completed only elementary school). Kuna 30

million (Euro 4 million) is made available annually for the following six measures, whereby demand exceeds what can be financed:

- i. Training for 'known employer': Employers would have to contact the Ministry if they are interested to train and hire a person. The Ministry would finance such training if employers can provide adequate practical training facilities. So far employers were not seem to be highly interested, and the scheme has been under-utilized.
- ii. Training for 'unknown employer' is aimed at persons without work experience or with qualifications not demanded by the labour market. The interested person would have to choose some training and contact the Ministry for funding. The Ministry finances up to Kuna 7,000 per person. 350 participants were financed last year.
- iii. Attendance of short-term courses on how to start up a business. This measure can be taken in combination with others.
- iv. Granting of a loan for business start-ups with a favourable interest rate of 2%.
- v. Support to the establishment of agricultural cooperatives.
- vi. Support to 'individual projects'. Condition: at least 3 more war veterans have to be included in the project and working contracts a duration of min. 24 months. Last year 23 different projects were financed.

Annual activities are agreed by a steering group that includes representatives from the Croatian Employment Service and the Andragogical Centre.

#### Issues:

- ⇒ The range of measures available for war veterans appears to be a good mix of training and employment promotion schemes which could inspire the design of active labour market policies, as implemented by the Croatian Employment Service.
- ⇒ Although representatives from the Employment Service are involved in debates around the design of such measures and although these measures are said to be implemented in an effective fashion, there appears to be a duplication of administrative structures for measures which clearly fall within the remit of the Croatian Employment Service.
- ⇒ Although ex-soldiers do deserve particular attention (and the respective programme politically motivated), the question is whether such measures should not be available for all other (low-skilled, disadvantaged) unemployed adults, as well, rather than just for this particular target group.
- ⇒ The CES runs its own scheme for War Veterans and it is unclear to which extent this could be merged with the Ministry's programme.

The Phare 2005 ALMP project – component on evaluation of existing ALMPs - to undertake an in-depth evaluation also of this programme and eventually come up with recommendations as to the design and implementation of the programme, as well as capacity-building and administrative arrangements required within the CES if they were to handle this scheme.

### *3. Ministry of Defence, SPECTRA programme*

SPECTRA is a programme under which training measures are financed for military officers who have to leave the army & police due to its down-sizing (reduction by some 10,000 people). The programme also includes initial interviews, counselling & guidance, as well as information for companies. Training measures are funded from the Defence Ministry's budget and through the Fund for the Development of Employment & Training (incl. Grant scheme funded by CARDS). Only such courses are funded that have been verified by the Ministry. The Ministry of Defence covers 85% of the costs, the participant 15%. The maximum amount per persons is Kuna 15,000 (Euro 2,000). So far 270 training contracts have been concluded and a total of Kuna 280,000 (Euro 37,300) has been spent.

Issues:

- ⇒ Redundant workers from different sectors do not enjoy the same entitlements.
- ⇒ Is the markedly higher amount justified, which is available for the training of (better-off) officers in comparison, for instance, to the (poorer) unskilled or low-skilled adults?
- ⇒ Could the whole bundle of ALMPs available for the war veterans be applied also here? And could the scheme be managed in closer collaboration with the CES?

4. *Croatian Employment Service, Active labour market policies (ALMPs)*

Since March 2002 the Government has been funding the following schemes:

- A – From university to workplace (for university graduates)
- B – From classroom to workshop (for semi-qualified people, additional on-the-job training)
- C – Training for known or unknown employer or to maintain employment status
- C1 – 30-day apprenticeships
- C2 – Further training or retraining for both unemployed and redundant workers
- D – Experience leading to profit (special scheme for women over 40 and men over 50)
- E – A Chance also for us (scheme for disabled people)
- F – Work for War Veterans (scheme for war veterans and their dependants)

The take-up of the individual schemes during the period between 1 March 2002 and 30 April 2005 has been as follows: C2 – 45,350 participants; F – 8,377; C1 – 6,161; D – 5,667, A – 5,215, B – 1,720, E – 308; 72,798 in total.

In the same period the Government has been funding a scheme called “Training for a Job for All” for which a total of Kuna 364,169,426 (Euro 4,855,600) has been made available. Training focused primarily on the following sectors where there was a short-term demand for labour: shipbuilding, construction, tourism and catering. A total of 51,511 persons found employment through the scheme.

Problems include the low motivation of unemployed people to undertake training, as well as the fact that training institutions offer partly the same courses, but for different prices. The employment service cannot check the quality of the training offered. As a rule, they have to choose the most economical offer which is often not best quality.

Issues:

- ⇒ In-depth evaluation required of efficiency and effectiveness of ALMPs, which may lead to an eventual redesign of the Government’s active labour market policy.
- ⇒ More targeting required on long-term unemployed people, for which more comprehensive, integrated solutions are essential, combining activation and counselling & guidance measures and training with support to reintegration into the labour market and other forms of assistance (childcare, transport, medical assistance, support to job application, etc.).
- ⇒ More focus on preventing unemployment and on preventing people from becoming long-term unemployed.
- ⇒ Decentralisation of employment services and empowering of local staff who ought to liaise closely with the unemployed person and employment initiatives in the region and become ‘case managers’.

These issues are to be addressed by the CARDS 2002 & 2004 Local partnerships for Employment, CARDS 2003 Decentralisation of Employment Services and Phare 2005 ALMP projects.

- ⇒ Another issue is the lack of quality standards or nationally agreed qualification standards against which programmes could be assessed and verified.

Further work is required on setting up of a National Qualifications Framework (system of levels & descriptors, as well as quality criteria for programme approval), as well as a national system

of qualification standards at different levels → ETF NQF project (to be continued), partly CARDS 2002 VET and CARDS 2004 Adult learning projects, as well as Phare 2006 (question mark).

#### *5. Croatian Employers' Association (HUP)*

HUP was established by leading businessmen in 1993. The association has around 5,000 members of established rather than new firms of any size. They are organised in 22 branch associations. HUP forms party to the national and important international social dialogue structures (ILO, EU). HUP runs a programme called PUMA for the training of managers from its member firms. Smaller companies get a discount on course costs. Course delivery is decentralised; courses are held, for example, at the county offices of the Chamber of the Economy in Pula and Rijeka. Active learning methods are applied in the form of workshops or case studies rather than lectures.

#### *6. Chamber of the Economy (HGK)*

Like HUP, HGK is run on the basis of membership fees. They cooperate with Ministries, associations and providers and arrange for a number of training courses, e.g. for human resource managers or foreign languages. HGK organises on an annual basis the EDUCAPLUS fair where training providers are invited to present their continuous training offers. In 2005 they have formed party to discussions, amongst others, on VET reform and the State Matura project. They would be interested to develop a scheme by which skills of adults which were acquired through non-formal or informal learning would be assessed and certified.

#### *7. Ministry of Economy, Labour and Entrepreneurship*

The MoELE runs programmes for both business advisors in intermediary organisations and (would-be) entrepreneurs at beginner's and advanced levels. It also finances the Croatian Agency for Small Enterprises which helps small companies to form networks with a view, amongst others, to meet common training needs. Furthermore, the MoELE has set aside Kuna 11.75 million to support the crafts sector. Nine initiatives are being sponsored, including support to Schools for Master Craftsmen (min. subsidy: Kuna 80,000), training for a 'Master craftsman' title and the taking of respective exams (max. Kuna 10,000 per project), seminars on topics related to a pre-defined list of crafts, as well as crafts activities which have a long tradition in Croatia but risk to disappear (max. Kuna 30,000 per project).

For more details see 2004 report on progress towards the European Charter for SMEs.

Issues:

⇒ The MoELE sponsors training to become a Master craftsman for (self-)employed people only, not for unemployed.

#### *8. People's Open University Koprivnica*

This POU can be considered as one of the most successful examples of a multipurpose community learning centre, which also engages in international projects. Apart from training courses for adults, some (Zagreb) university faculties offer their programmes on the premises of the POU (some 600 students) so that students do not need to travel to Zagreb. Adults have to pay full VAT (22%) for all (non-formal) training courses. The POU demands that this be removed, as paying full VAT on education services is not in line with practices in EU and other countries.