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**JOINT STUDY OF THE EUROPEAN SOCIAL PARTNERS  
“THE IMPLEMENTATION OF FLEXICURITY AND THE ROLE OF THE  
SOCIAL PARTNERS”**

**NATIONAL FICHE**

# **Croatia**

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## Preface

This national fiche is part of the EU Social Partners’ Study “The implementation of flexicurity and the role of social partners” carried out in the context of the EU Social Dialogue Work Programme 2009-2011, which includes “*Jointly monitoring the implementation of the common principles of Flexicurity, notably in order to evaluate the role and involvement of the social partners in the process and to draw joint lessons*”.

To implement this task in the best possible way and to involve national member organisations actively in the gathering of data and information, the study applies a methodology that consists of multiple levels of analysis using a variety of instruments to be implemented with the help of a team of experts:<sup>1</sup>

- The expert team, with the advice of European Social Partners, agreed on a *set of selected statistical indicators* in the field of employment and economic and social development with labour market relevance.
- National social partners were asked to participate in a *questionnaire-based survey* focussing on the relevance of the flexicurity concept within national labour markets, the role of the social partners in policy implementation and their views of the flexicurity concept. To complement the research, the expert team visited a number of countries and carried out interviews with national social partners.<sup>2</sup>
- Based on the two sources above and a review of available written materials and information, the expert team prepared *29 national “fiches”* on the implementation of the flexicurity principles and the role of social partners in the respective national contexts.
- Results of the questionnaire survey and main findings of the national analyses were discussed at four “*country cluster seminars*” that were organised by the European Social Partners with the help of national sections in Warsaw (November 2010), Lisbon (December 2010), Paris (31<sup>st</sup> January-1<sup>st</sup> February 2011) and The Hague (8<sup>th</sup> February 2011).
- In the light of the overall study results and the comments received by national social partners in the contexts mentioned above, the expert team has prepared a *comparative synthesis report* on “Social Partners and Flexicurity in Contemporary Labour Markets” that was presented and discussed at a *EU-level synthesis seminar* on 31<sup>st</sup> March and 1<sup>st</sup> April 2011 in Brussels.

This national fiche aims to present a broad overview on the economic and social context and the state of play with regard to flexibility and security in the labour market and current social security arrangements (sections one and two). Secondly, the report describes the role of the social partners and social dialogue in the implementation of policies and practices that can be considered under the broad umbrella of “flexicurity” (section three), also summarising inputs provided by national social partners to the questionnaire, from interviews carried out and other contributions made in the context of the study. Section three also presents brief descriptions of cases of good practice as has been indicated by the national social partners.

The text was originally prepared as draft report in the autumn of 2010 in order to facilitate the discussion at the cluster seminar on 31<sup>st</sup> January and 1<sup>st</sup> February 2011 in Paris. The original dossier has been reviewed and revised to take into account the comments and discussions that took place during the seminar or received afterwards.

However, it should be stressed that this report is presented as an “independent expert report”. It represents the views of the individuals involved in its preparation and does not purport to represent the views, either individually or collectively, of the social partners’ representatives that contributed to it, or those of the European level social partner organisations that were responsible for its commissioning.

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<sup>2</sup> The following countries were visited in the context of the project between May and July 2010: Denmark, France, Ireland, Italy, Czech Republic, Poland, Germany, Portugal and the Netherlands.

# 1 The economic and social context

## Economic crisis and recovery

Once one of the wealthiest of the ex-Yugoslav republics, Croatia's economy suffered badly during the 1991-95 war as output collapsed and the country missed the early waves of investment into Central and Eastern Europe. Between 2000 and 2007, however, Croatia's economic fortunes began to improve slowly, with moderate but steady GDP growth between 4% and 6% led by a rebound in tourism and credit-driven domestic consumer spending. The major growth sectors were in retail, construction and banking. Inflation over the same period remained moderate and the currency, the *kuna*, stable providing a solid economic landscape.

Croatia's structural reform processes during the last decade were very much driven by the EU accession process. Already in 2001 “The Stabilisation and Association Agreement between Croatia and the EU” was signed (entering into force in 2005). Following a resolution of all political parties in the Croatian parliament in 2002 that defined the country's EU membership as a strategic national goal, the application for EU membership was submitted by the government of Croatia in early 2003.

The financial crisis that started in the autumn of 2008 hit the country hard and real GDP declined by 5.8% in 2009 driven by a huge fall in domestic demand and industrial production. While long term growth prospects for the economy remain strong, Croatia will face significant pressure as a result of the global financial crisis. Croatia's high foreign debt, anaemic export sector, strained state budget, and over-reliance on tourism revenue will result in higher risk to economic stability over the medium term.

At the same time the tourism sector performed better than expected during the summer of 2009, somewhat cushioning the recession. Overall, the global crisis has led to a significant economic downturn.

According to the EU Commission's autumn 2010 economic forecast, the budget deficit of Croatia is projected at 5.7% of GDP in 2010. The EU Commission sees little chance that the fiscal deficit will narrow significantly over the next two years. Furthermore it is projected that the GDP will widen somewhat in 2011 before falling back slightly in 2012. General government debt is set to increase sharply from 35% of GDP to almost 50% in 2012 as a result of high unemployment and fiscal stimulation measures.<sup>3</sup>

### CROATIA - MAIN ECONOMIC INDICATORS AND OUTLOOK

	2007	2008	2009	2010	2011
<b>GDP</b> – annual percentage change	5.5	2.4	-5.8	-1.8	1.5
<b>Employment</b> – annual percentage change	3.5	1.1	-1.8	-4.3	-0.2
<b>Unemployment rate</b> (as % of total labour force)	9.6	8.4	9.1	12.5	12.3
<b>General government balance</b> (as percentage of GDP)	-2.5	-1.4	-4.1	-5.7	-6.1
<b>General government gross debt</b> (as percentage of GDP)	32.9	28.9	35.3	40.9	45.9

Source: European Commission: Autumn 2010 Economic Forecast.

<sup>3</sup> European Commission: Autumn 2010 Economic Forecast, Brussels, p. 154.

Overall, labour market performance deteriorated as a result of the crisis and major structural weaknesses persist. Unemployment rate that had decreased from 9.6% to 8.4% between 2007 and 2008 increased again to 9.1% in 2009 and is expected to reach 12.5% in 2010 according to the EU Commission’s forecast. The labour market is only to see a turnaround again and improvements in 2011 and 2012 as a consequence of a declining labour force that is declining stronger than employment that is also expected to decline in 2011.

In its most recent evaluation of the progress made by Croatia with regard to EU membership and responding to the global economic and financial crisis the EU Commission draws the following conclusions:

“The policy response to the global financial crisis has by and large been conducive to preserving macro-financial stability, although fiscal risks remain significant. A prudent response by monetary authorities as well as efforts to re-balance the budget helped anchor expectations of economic agents and supported the functioning of market mechanisms. However, the slow pace of economic restructuring and prevailing obstacles to private sector development continued to partly undermine a more growth-oriented allocation of resources, constraining the potential for higher productivity and catching-up over the medium term.”<sup>4</sup>

### Labour market indicators and trends

The process of transition from a planned to a market economy in Croatia had major implications for the labour market. The dominant characteristics of the early phase of the transition process in this area were an accelerated shift in the sectoral employment structure, decreasing levels of employment, and increasing unemployment. The unemployment rate rose from 10% in 1996 to up to 17.0% in 2001 before it started to decline. Unemployment rates vary significantly between counties, ranging from 13% to 40%, with particularly high rates in border regions.

#### CROATIA - MAIN LABOUR MARKET INDICATORS 2009 IN COMPARISON TO EU27

	CROATIA	EU27
<b>Employment rate – % population aged 15 – 64</b>	56.6	64.6
<b>Employment rate older people – % population aged 55-64</b>	38.4	46.0
<b>Self employed - % total population</b>	15.0	15.5
<b>Employment in services - % total employment</b>	53.7*	70.4
<b>Employment in industry - % total employment</b>	29.9*	24.1
<b>Employment in agriculture - % total employment</b>	16.5*	5.6
<b>Unemployment rate - % labour force 15+</b>	9.1	8.9
<b>Youth unemployment rate - % labour force 15-24</b>	25.0	19.6
<b>Long term unemployment rate - % labour force</b>	5.1	3.0
<b>Inequalities of income distribution (2007)</b>	4.5**	5.0

\* Data for 2004. Source: Eurostat, *Employment in Europe Report 2010*.

The Croatian labour market continues to suffer from structural problems, such as low participation and employment rates as well as high rates of youth and long-term unemployment. Long-term unemployment in 2009 accounted for 5% of the total labour force and is significantly higher than in the EU27 average. Youth unemployment rates are high with around 25% in 2009, though it is lower today than in the early years of the decade.

<sup>4</sup> EU Commission 2009: Commission staff working document: Croatia 2009 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council. Enlargement Strategy and Main Challenges 2009-2010, COM(2009) 533, p.24.

The absolute and relative importance of different sectors and industries has gradually shifted towards that of developed market economies. However, overall job creation in the productive areas of the economy failed to attain sufficient levels to absorb the labour released from uncompetitive firms that were forced to adapt to the new market circumstances.

The Croatian labour market is described in figures in the summary tables below. Reliable and comparative data for the country in a number of indicators is difficult to source due to Croatia being a small country, and a non member of either the EU or the OECD.

However, the existing figures illustrate that Croatia differs significantly from the European average in a number of ways: The overall employment rate in 2009 was nearly 10 percentage points below the EU average and in particular the employment rate of older persons is low. Croatia’s economy is service based around tourism and retail and the country’s manufacturing sector is relatively small. The general rate of unemployment is high and even higher for younger workers; long-term unemployed as a share of the total workforce is clearly higher than the EU average.

### Flexicurity in the labour market and labour market policy

As the following table shows, the data base regarding flexicurity in the labour market of Croatia is rather weak. However, the use of flexible contract arrangements (part-time employment and fixed-term contracts) in the formal sector is significantly lower than the European average.

**CROATIA - FLEXICURITY INDICATORS IN COMPARISON**

	Croatia	EU27
<b>Total population having completed at least upper secondary education (population aged 25-64, %), 2009</b>	76.8	72.0
<b>Part-time employment - % total employment, 2009</b>	9.0	18.8
<b>Fixed-term contracts - % total employees, 2009</b>	11.6	13.5
<b>Access to flexitime, % total employees aged 15-64, 2004</b>	n.a.	31.3
<b>Percentage of employees (all enterprises) participating in CVT courses , 2005</b>	n.a.	33
<b>Lifelong learning participation – percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey, 2009</b>	2.3	9.3
<b>Job satisfaction – percentage of workers that are either very satisfied or satisfied with working conditions in their main paid job (EWCS 2010)</b>	72.7	84.3
<b>Strictness of employment protection – regular employment, 2008</b>	n.a.	2.11*
<b>Strictness of employment protection – temporary employment, 2008</b>	n.a.	2.08*
<b>Strictness of employment protection – collective dismissals, 2008</b>	n.a.	2.96*
<b>Public expenditure on <i>passive</i> labour market policies (categories 8-9) - % of GDP, 2008</b>	n.a.	0.96
<b>Public expenditure on <i>active</i> labour market policies (categories 2-7) - % of GDP, 2008</b>	n.a.	0.46
<b>Persons at-risk-of-poverty after social transfers - % of total population, %, 2008</b>	17.0	16.3

Source: Eurostat; *Employment in Europe Report 2010*; Eurofound (*European Working Conditions Survey 2010*); OECD.

\*OECD average

The figures also illustrate that though Croatia is characterised by an educational attainment level of younger persons having completed at least upper secondary education that is higher the EU27 average, the country is scoring worse on other indicators such as tertiary educational attainment or lifelong learning.

With regard to the main challenges the Croatian labour market is facing from the perspective of flexibility and security, a recent report comes to the following conclusions:

“In Croatia, we can observe a polarization of society in a relatively safe (but, considering the living costs, under-paid) employees (*insiders*) and the unemployed (*outsiders*), of which a substantial part is long-term unemployed with very small chances and probability of finding employment. So, the Croatian labour market and employment regulation give more attention to the preservation of existing jobs than to creating new employment opportunities. Such an unsustainable situation must change, and one way is surely the application of active employment policies and the implementation of the new concept of flexicurity.”<sup>5</sup>

## 2 Flexibility and security in recent labour market and social policy reforms

### Introduction and overview

Though not referring directly to the concept of flexicurity, the Croatian Government in various key documents that outline the national strategy towards reform and accession to the EU is stressing the need to more flexicurity in the labour market and the economy in the context of modernising the country and making the economy more competitive. Though the government in this context also stresses the need to improve social security within society as a whole, the support of flexibility in various fields (labour law, contractual arrangements, labour relations at company level) is clearly the focus of attention and activity as a number of government documents illustrate.<sup>6</sup>

Due to the lack of any response to the survey amongst national social partners in Croatia, the following information stems mainly from official government reports, EU Commission statements on the reform process in Croatia and statements of key actors in the Croatian labour market. A substantial part of the information was also taken from the materials prepared for a conference on flexicurity in Croatia organised by the EU-Croatia Joint Consultative Committee (JCC)<sup>7</sup> in Prague 2009: papers as well as conclusions delivered in the context of this event.<sup>8</sup>

### Lifelong learning and the mobility of workers

Reforms in the education sector have continued under the “Education System Development Plan for 2005-2010”. According to official reports quite a remarkable number of steps were taken to improve the quality of education at all levels, including provision of educational programmes for teachers. Additional efforts have been made in the development of a national qualifications framework. Higher education has been further aligned with the principles of the Bologna process, but the tertiary education sector suffers from inefficiencies, poor governance and a lack of funding.

The EU Commission in its evaluation and progress reports on Croatia’s accession to the EU is judging the progress made in the field of education, knowledge based society etc. as quite positive.

In recent years, Croatia has also made efforts to promote lifelong learning (LLL) and to extend its reach, by adopting a strategy and appropriate regulations. According to a recent report, however, there is still

<sup>5</sup> Political Science Research Centre 2010: The state of the Croatian labour market and education system in the context of EU accession, PSRC monthly report, June, p.8

<sup>6</sup> See for example the “Strategic Framework for Development 2006 – 2013” that was published by the Government of Croatia in 2006. See also the “Report on the implementation of the joint assessment of the employment policy priorities of the Republic of Croatia for 2009”, published by the Ministry of the Economy, Labour and Entrepreneurship, Zagreb, 2010.

<sup>7</sup> The JCC represents the European Economic and Social Committee (EESC) and Croatian civil society organisations. The JCC complements the bodies already existing within the framework of the Stabilisation and Association Agreement between the EU and Croatia and allows civil society organisations from both sides to monitor the accession negotiations and prepare Croatia's accession.

<sup>8</sup> See in particular: “Flexicurity in the Republic of Croatia”. Draft paper for the 5th meeting of the Joint Consultative Committee, held in Prague on 5 May 2009.

much room for improvement with regard to flexicurity, especially because the situation continues to be characterised by an overall low participation in lifelong learning, a lack of a cost-sharing system between the participants as well as shortcomings in the regulation and integration of LLL in the official education system.<sup>9</sup>

It should be mentioned in this context, that the level of participation in lifelong learning and training is extremely low in Croatia as the table in the previous chapter illustrates.

### External/internal flexicurity and contractual arrangements

Against the background of persisting structural problems in the Croatian labour market - in particular the high unemployment rate and the low employment rate - and the problem of a significant gap between jobs losses due to restructuring linked to transformation process on the one hand and job creation on the other, the need of increasing external as well as internal flexibility in the labour market is the issue of a lively debate.

In this context the Croatian government has carried out a number of labour market reforms in recent years on the basis of the National Employment Promotion Plan that also included measures to support internal flexicurity at the company level as well as measures supporting job creation (see below).

### Active labour market policy

Measures carried out in recent years included training and employment subsidies for young people without work experience, the long-term unemployed, older persons and vulnerable groups. However, though quite a remarkable number of measures exists, it is also reported that there is a relatively low spending on active employment measures. According to the Labour Office of Croatia (HZZ), in 2008, only around 7,500 persons were employed by virtue of the HZZ implementing active employment measures, while the ratio between the total number of such scheme users and the average number of the unemployed is 3.2%. Total spending for the implementation of these measures amounted to 0.04% of the GDP. Compared with 2007, the number of scheme users fell by 11.3%, whereas expenditure fell by 11.7%.<sup>10</sup>

At the same time, in particular representation bodies of the Croatian employers are complaining about the rigidity of the labour market and the overall poor efficiency of active employment policy. According to employers' organisations the measures which have been implemented are inadequate, not only because they have failed to identify the needs of the economy and those of the unemployed, but also because of the imbalance between the rights, obligations and responsibilities of registered beneficiaries. In brief, this points to the lack of efforts to activate the unemployed. Trade unions disagree with this conclusion and argue that what is constantly being bandied around is the notion that the unemployed are to blame for failing to find work and for the situation in which they find themselves. Although there may be a grain of truth here, responsibility for the current situation lies with all the parties involved in employment relations. Employers' primary motivation of amassing capital and their attitude towards the employees as “cost” is by no means conducive to change.

In contrast to this, the Croatian trade unions stress that the poor results of the active labour market measures can also be witnessed in the behaviour of the employers involved in implementing these measures. Trade unions are of the opinion that, more often than not, employers tend to retain employees for as long as they receive subsidies to employ them. Such jobs tend to disappear, however, once this period comes to a conclusion. Employers' true motivation is to acquire cheap labour, but this is

<sup>9</sup> “Flexicurity in the Republic of Croatia”, p. 3.

<sup>10</sup> Figures taken from “Flexicurity in the Republic of Croatia”, p. 4.

not helpful if we are to resolve the problem of unemployment. This practice helps employ “the vulnerable” amongst the unemployed for a brief period of time, but is in no way useful in terms of identifying the needs of the economy. In fact, such practice could be said to serve the sole purpose of identifying the needs of employers.

The poor effects of active labour market measures are not only the result of insufficient government funding. They are also the result of weaknesses embedded in, not just the Employment Service, but also in some new institutions, such as the Development and Employment Agency, the Fund for the Rehabilitation and Employment of the Disabled and the Regional Development Agency, whose presence is not felt in the labour market. Another unhelpful factor is the absence of the employment statistics which should be supplied by private recruitment agencies and private temping agencies.

### Supportive social security systems

According to a recent report on flexicurity in Croatia<sup>11</sup>, the country continues to operate an extensive and complicated social security system. Its system has been designed to cater for a wide variety of needs: from welfare for war veterans and their families, population policies, and social assistance for low-income groups, to a whole host of other social assistance programmes. Administration of the social security system is highly fragmented and there is insufficient coordination between the different government bodies which are authorised to provide social security services.

According to a widely quoted report of the IMF on Croatia (Report No. 08/159) from 2008, the nature of the social security system of the country were the direct reason for having one of the lowest employment rates in Europe.

However, when looking at the share of social security spending in the GDP (23%, which includes pension and health insurance), as far as purchasing power is concerned, Croatia ranked 30 out of 40 European countries in 2008. As far as living standards are concerned, there are indications that poverty is linked to old-age retirement, unemployment or economic inactivity and that it is most prevalent amongst older workers and also certain ethnic groups, in particular amongst the Roma.

In general, it may be concluded that social security spending is high, if measured by regional standards, but also that much of it is ineffective. In health care, ineffectiveness is primarily due to high spending, rather than poor efficiency; in education, ineffectiveness is due to modest results and general cost increases; in social security, ineffectiveness is due to poor target setting which, as far as the labour market is concerned, is particularly reflected in the fact that there are no initiatives to promote employment or that there is no link between the rights and obligations of the beneficiaries of social security.

Against this background the report on Flexicurity in Croatia concludes that *“it vital that the social security reforms initiated should continue in a manner that improves the status of the needy and limits spending by reducing ineffectiveness.”*<sup>12</sup>

### High quality and productive workplaces

In official government publications the issue of quality and productivity in economic and working life is referred to only with regard to improvements in the Croatian education system or with view on the

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<sup>11</sup> “Flexicurity in the Republic of Croatia”, see above.

<sup>12</sup> See above, p. 6.

integration of long-term unemployed and other disadvantaged groups.<sup>13</sup> Apart from that only sparse information on challenges and initiatives to improve the quality and productivity at the workplace level exist. However, a recent report commissioned by Eurofound on the quality of life in Croatia also includes references to quality aspects of labour market developments during the last decade, drawing quite a deflating picture, stressing in particular the low quality of certain groups on the Croatian labour market:

“One characteristic of the labour force in Croatia, which distinguishes it from most of the EU Member States, is the relatively lower share of people who are employed in services and the high proportion who work in agriculture, which is characterised by low productivity, long working hours and low quality jobs. (...) In terms of job quality in Croatia, a number of indicators imply that the situation is not very favourable. In 2006, some 51.4% of employed people reported that they found their job to be too demanding and stressful, 39% indicated that they constantly worked to tight deadlines, while 23% reported working in dangerous or unhealthy conditions. At the same time, only 25% of jobholders cited having good prospects for career advancement, while 33% considered that they were well paid.”<sup>14</sup>

## Gender equality

Equality and the improvement of the labour market situation of women and ethnic minorities is regarded today as a main challenge by the Croatian government. The needs are quite obviously arising from facts such as a low female employment rate (58% compared to more than 70% of men in 2009 according to Eurostat figures) and other indicators (e.g. on work life-balance, childcare facilities).

As reported in a recent report by the Croatian government<sup>15</sup>, the Office for Gender Equality in 2009 carried out a survey on "*Perceptions, experiences and attitudes concerning gender-related discrimination in the Republic of Croatia*", which examined perceptions, experiences and attitudes concerning gender (in)equality at the workplace/on the labour market. The research concluded that there is a tendency towards committing gender discrimination against women in the business and professional sphere of the labour market, especially when it comes to better paid jobs and expectations of co-operation from their male colleagues.

Despite some progress in the context of developing a policy framework on gender equality (Gender Equality Act, “National Policy for the Promotion of Gender Equality 2006-2010”) the situation of women in the labour market is still problematic: Women are affected disproportionately by the widespread use of fixed term contracts. This discourages them from complaining about discrimination. The professionalism of social welfare centres and staff training in cases of domestic violence needs further improvement. Despite provisions of the Gender Equality Act requiring all public administration bodies, at the central, local and regional level, as well as other institutions to collect, process and present data disaggregated by gender, such data is still missing as a recent report of the EU Commission on Croatia’s progress in regard to the EU accession stated.<sup>16</sup>

It should be mentioned here that gender is not the only challenging aspect of equality and discrimination in Croatia: As recent reports published by the government as well as international organisations like the UNDP show, the living and working conditions of ethnic minorities such as Roma (between 0.25 and 0.5% of the total population) is highly problematic: around ¾ of the Roma are

<sup>13</sup> See for example: Republic of Croatia, Ministry of the Economy, Labour and Entrepreneurship 2010: Report on the implementation of the Joint Assessment of the Employment Policy Priorities of the Republic of Croatia for 2009, Zagreb, June.

<sup>14</sup> Eurofound 2007 : Quality of life in Croatia: Key findings from national research”, Dublin, p. 24 and 45.

<sup>15</sup> Republic of Croatia, Ministry of the Economy, Labour and Entrepreneurship 2010: Report on the implementation of the Joint Assessment of the Employment Policy Priorities of the Republic of Croatia for 2009, p. 27.

<sup>16</sup> EU Commission 2009: Commission Staff Working Document: Croatia 2009 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council: Enlargement Strategy and Main Challenges 2009-2010, p. 12/13.

reported to live in poverty, according to data for 2002 nearly 90% of Roma households had no regular source of income and the overall living and housing conditions are poor.<sup>17</sup>

### Financial sustainability

Against the background of existing literature there are two different challenges the financial sustainability the social security system is facing: First an inherent one, arising from the relatively high expenditure (compared to regional standards) on social policy as well as active labour market measures which is regarded by many commentators as ineffective and costly. A second challenge is arising from the fiscal effects of the 2008 global and economic crisis and the increasing debt burden, the state has to manage. Both aspects are regarded as a key challenge to the country as the EU Commission states in a recent report on Croatia:

“In reaction to mounting fiscal pressures, efforts were made to re-balance the budget. However, the gradual deterioration of the fiscal balance in combination with tight financing would have required a somewhat more timely and comprehensive fiscal response. The design of a credible fiscal strategy aimed at reducing budget rigidities and enhancing the efficiency of public spending remains a key challenge.”<sup>18</sup>

### Conclusion: Strengths, weaknesses and challenges

In conclusion, it should be borne in mind, as far as flexicurity is concerned, that economic, social and labour market reform processes in Croatia during the last decade were not so much driven by the guiding principles of flexicurity, but more orientated towards the adoption of the European Union acquis communautaire.

When key actors and social stakeholders in Croatia discussed the issue of flexicurity in the context of the EU-Croatia Joint Consultative Committee (JCC) in 2009, the following conclusions were drawn on key aspects in regard to an effective implementation of major flexicurity principles:<sup>19</sup>

- The JCC calls on the government of Croatia to further develop social dialogue in the Republic of Croatia, based on the principles of mutual recognition and respect. The Croatian Economic and Social Committee should prepare a strategy to advance social dialogue, with the support of the European Commission.
- The goals of the lifelong learning programmes should be set with the medium-term objective of helping the Croatian workforce. In so doing, special attention should be paid to less skilled workers. Comprehensive strategies for lifelong learning should be established and implemented on a tripartite basis. The European Commission should support this initiative which could significantly improve the socio-economic situation in Croatia.
- The European Commission should work with the Croatian Government to set up an independent statistical institute that would collect data on the labour market. It appears that there is a lack of such studies, although they would provide major added value to the work of the social partners and the Croatian Government. This would allow them to work on shared and objective data, with a view to properly assessing where and how the Croatian labour market could operate with greater flexibility and security.

<sup>17</sup> See: UNDP 2006: Croatia, Poverty, unemployment and social exclusion, Zagreb. Government of the Republic of Croatia 2005: National programme for Roma, Action Plan for the Decade of Roma Inclusion 2005–2015, Zagreb, Government of the Republic of Croatia.

<sup>18</sup> EU Commission 2009: Commission Staff Working Document: Croatia 2009 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council: Enlargement Strategy and Main Challenges 2009-2010, p. 22.

<sup>19</sup> Conclusions of the 5th meeting of the EU-Croatia Joint Consultative Committee, to be held in Prague on 5 May 2009.

### 3 The role of the social partners

#### General remarks on the role of social partners

According to EU official reports in the context of the progress made with regard to EU accession, tripartite social dialogue structures (the “National Economic and Social Council” was established in 2001) are relatively well developed, and the influence of social dialogue on the decision-making process and policy design has continued to improve. Representatives of social partners are also appointed as equal members (without voting rights) into four committees of the Croatian Parliament. However, representativeness criteria for participation of trade unions in collective bargaining have not been adopted yet and bipartite social dialogue is not yet sufficiently developed.<sup>20</sup>

The results of the EU joint social partners’ project with regard to the role of social partners in Croatia however, are more critical.<sup>21</sup> At a joint seminar in Zagreb organised in 2007 the following problems were pointed out in particular:

- Croatian laws on trade union registration were viewed by the participants as promoting and inappropriate degree of fragmentation of employee representation that made effective dialogue difficult;
- Government was felt not to promote social dialogue sufficiently nor take social partner views seriously enough;
- Pre-requisites for improvement in the quality and effectiveness of social dialogue were better planning and cooperation by the national level social partners; closer linkage between national and European priorities; increased material resources and better skilled staff.

As regards autonomous bipartite social dialogue, collective bargaining still focuses mainly on company level and the coverage of employees by collective agreements is relatively high.

For the economy as a whole, the proportion of workers whose pay is covered by collective bargaining is quite high - estimated at 60 percent, with 70 percent in the public sector and 40 percent in the private sector. Government extensions of sector-level agreements explain the high coverage. However, there are only a few sectoral agreements.

While there are no figures on employers’ organisation density, the trade union membership rate is estimated at around 34% (only around 17% in the private sector).<sup>22</sup>

#### CROATIA - MAIN SOCIAL DIALOGUE INDICATORS

	Croatia	EU27
<b>Collective bargaining coverage - % of employees covered by collective agreements, 2006</b>	60%	63%
<b>Trade union density - % of dependent employees who are trade union members, 2005</b>	34%	25%
<b>Employer organization density - % of employees employed by companies that are members of an employer organization, 2006</b>	n.a.	n.a.

Sources: EU Industrial Relations Report 2008.

<sup>20</sup> EU Commission 2009: Commission Staff Working Document: Croatia 2009 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council: Enlargement Strategy and Main Challenges 2009-2010, p. 46.

<sup>21</sup> See the documents on the capacity building project on the resource centres of the ETUC as well as the European Employers: <http://resourcecentre.etuc.org/Integrated-project-output-8.html>; <http://www.erc-online.eu/content/default.asp?PageID=512>.

<sup>22</sup> According to Nestić, D. and Ivana Rašić Bakarić, I. 2010: The Minimum Wage and Industrial Relations in Croatia, September 2010, p. 2.

With regard to participation at European level interest organisation, two national trade union organisations are currently member of the ETUC (SSSH/UATUC, Union of Autonomous Trade Unions of Croatia and NHS, Independent Trade Union of Croatia), the Croatian Employers’ organisation HUP is a member of BUSINESSEUROPE and two organisations (HOK and HUP) are associated members of UEAPME.

In 2009 and 2010 trade unions were faced with a number of labour law reform proposals by the Croatian government that from their view will undermine their bargaining capacity and influence in bipartite negotiations: One of the reforms proposed by the government in May 2010 that caused strong opposition by all trade unions confederations was an amendment of the Labour Code that would make it easier for employers to cancel collective agreements. If adopted, the amendment from the view of trade union organisations would cause employer-controlled trade unions to thrive, impose stricter conditions on collective bargaining, and allow works’ councils to compete with trade unions’ company-level organisations.

### Positions of the Croatian social partners on flexicurity

As described in the draft report for the EU-Croatia JCC<sup>23</sup> trade unions and employers generally have a “positive perception of the concept of flexicurity”, i.e. the kind of flexibility which simultaneously ensures reliable contractual arrangements, and of the current state of play in the Croatian labour market. However, with regard to the opinion on concrete aspects and main challenges the two social partners have quite different opinions:

#### *Employers’ position*

Employers do not consider the contractual arrangements permitted under Croatian labour law to be sufficiently flexible. The main reasons for such a lack of flexibility are to be found in the actual content of the legislation, which provides for a high level of protection of the workplace, rather than of employment, especially for “insiders”, whereas no security is available for “outsiders”.

As a result of the legislation in force, employment and dismissal procedures, as measures of the system’s flexibility, are complicated, protracted and expensive from the employers’ point of view. The rigid system of job security is supposed to have had negative effects such as the increased number of temporary contractual arrangements (particularly those based on the 2003 amendments to the Croatian Employment Act which had not existed previously), the resulting segmentation of the labour market (a high security level for “insiders” and a high flexibility level for “outsiders” and obstacles to labour market access for job seekers).

#### *The trade unions’ position*

The trade unions disagree with the employers’ argument about high security levels and claim, instead, that there is enough flexibility in the market. They are of the opinion that the lack of utilisation of the available instruments is not embedded in the actual legislation, but that it stems from the employers themselves. Because exaggerating the extent of inflexibility and failing to utilise the instruments necessary for flexibility to become a reality is the sole fault of employers.

The trade unions do not perceive employment and dismissal procedures to be complicated and believe that the employers’ argument is based on a handful of isolated cases. For trade unions the current

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<sup>23</sup> EU-Croatia Joint Consultative Committee: “Flexicurity in the Republic of Croatia”, Draft paper for the 5th meeting of the Joint Consultative Committee, to be held in Prague on 5 May 2009, p. 2-4.

arrangements enjoy the backing of Croatian lawmakers, providing enhanced security for employees, because of the specific nature of employment relations as fundamental human relations.

Furthermore, the trade unions do not share the view of the employers’ organisations that the lack of adequate flexibility “forces” employers to resort to temporary contracts more often, because the very nature of temporary contracts is sufficient proof that flexible employment options do exist.

## 4 Key points arising

From the point of view of the author of this report the following key points are arising in regard to flexicurity in Croatia:

- *Do the social partners regard the concept of flexicurity as a suitable orientation/concept to manage change and structural reform process in Croatia?*
- *To what extent is there already a genuine bipartite or tripartite debate on flexicurity in Croatia?*
- *How do the social partners assess the effects of the 2008 global economic and financial crisis on flexibility and security on the labour market and in the field of social policy?*

## Sources and references

### Replies to the questionnaire survey

No questionnaire replies were received from the Croatian social partners.

### Further resources

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