



Mutual Learning Programme

DG Employment, Social Affairs and Inclusion

Peer Country Comments Paper- Croatia

Assessment of options for decentralisation of Croatian Employment Service

**Peer Review on 'Strategies for Employment Policy
reform. Implementation challenges in decentralised
countries'**

Madrid (Spain), 5-6 October 2015



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1 Labour market situation in Croatia¹

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Croatia's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

Non-existence of the GDP growth rate since 2008 had an adverse effect on the situation in the Croatian labour market. Croatia has a relatively high participation of men in the age group between 25 and 49 years of age (around 83%), but a very low participation rate of men between 50 and 64 years (below 50%) and youth between 15 and 24 years (only around 27%). The activity rate for women from 15 to 64 years is about 42%, much lower than the average for men (56%) with very similar pattern regarding the participation in age groups but on the lower level. During the period of economic crisis since 2008, these rates decreased.

Employment rate for the population aged between 15 and 64 years has mostly been below 55%, with signs of very slow increase till 2008, but decreased afterwards to 54%. Employment is high for prime age men (above 80%) and low for youth (30%) and persons in the age group between 50 and 64 years (below 60%). The overall unemployment rate for the population between 15 and 64 years fell from 13% in 2005 to 9% in 2008 but increased to 16.1% in June 2015.

Educational attainment, age and previous work experience significantly determine the possibility of finding a job and define the position of individuals in the Croatian labour market. Even in the expansion periods, the persons with primary education or less and with youth without work experience faced huge challenges in entering the labour market.

The situation significantly deteriorated during the economic crisis. As a response to the fall in product demand, employers reduced hiring. The number of job vacancies plunged by around one-third and the unemployment/vacancies ratio doubled. At the beginning of 2010, there were 22 newly registered unemployed on every ten vacancies, whereas before the crisis there the ratio was only 11 unemployed on every ten vacancies. This implies that there are no job vacancies for almost 55% of the newly registered unemployed (World Bank; UNDP, 2010). The situation slightly improved in a few last years, but it is far from satisfactory.

¹ The author expresses his gratitude to Ms. Ivana Rogina Pavicic from the Croatian Employment Service for her help in the preparation of this paper.

2 Assessment of the policy measure

Croatia is a relatively small country of 4.3 million inhabitants. Until 2015, there has been only one discussion on the possible decentralisation of the Croatian Employment Service (CES) in 2007 during the preparation of the European Union's CARDS Programme for Croatia entitled *Capacity Strengthening for Administrative Decentralisation*. The proposals of the Programme have not yet been implemented due to the financial crisis and changes of the Government.

The Croatian Employment Service (CES) is a public institution owned by the Republic of Croatia. CES functions on three levels: Central, Regional and Local Offices. The first level is the Central Office which implements and designs national employment policy in its jurisdiction. The Central Office also provides guidelines for the work in the Regional and Local Offices. The second level within the CES structure is 5 Regional Offices and 17 Territorial Offices. Each Regional Office has an Advisory Council that consists of 3 representatives of trade unions and 3 representatives of employers association proposed by Local Economic – Social Council and one representative from the local association of unemployed persons. The third level in this structure is 99 Local Offices, which serve as the places of the first contact for the CES clients. In that way there is an adequate accessibility to the CES services on the whole territory of Croatia.

CES priority functions are: job mediation, career guidance, provision of financial support to unemployed persons and training for employment. CES activities are financed primarily from the part of social security contributions dedicated to employment. CES has strengthened its activities focused on increasing employment capabilities and reduction of unemployment, intensified its active policy measures in the labour market, developed local employment partnership and active cooperation with employers, as well as its capabilities in monitoring of trends and reorganising the needs on the labour market.

To ease the transition to work, structural mismatch need to be reduced first of all through active labour market policies (ALMPs) targeting those groups of individuals with lower employability levels or those more likely to become long-term unemployed, such as the young, older persons and particularly women and persons with disabilities. Pursuant to the National Employment Promotion Plan and Guidelines for the Implementation of Active Employment Policy, the CES financed the employment and training of unemployed persons to address the labour market needs. Long-term unemployed and special groups of the unemployed had an advantage in the inclusion into training and other measures. In 2014, the total of 56,632 persons were included in ALMPs, which is eight time more than in 2009, when the number of unemployed participants was 6,540. The coverage rate (a share of participants in ALMPs in total number of unemployed) increased from 2.49% in 2009 to 17.26% in 2014.

Furthermore, the CES actively participates in solving problems linked to the large numbers of layoffs. Already during the counselling activities, the CES tries to provide assistance to redundant employees or those at risk of losing their job by offering placement services during the notice period. This aims to secure other employment for them and referring such employees to retraining or other programmes for the purpose of finding alternative job positions within the same company or elsewhere. In 2014, the CES received 39 redeployment programmes and 29 information of collective redundancies, involving in total 6,639 persons, of which 2,907 were women (or 43.8%) and 3,732 men (56.2%). Compared to 2013, when the CES received 107 Redeployment Programmes encompassing 3,457 persons, the number of programmes received in 2014 decreased for 39 (36.5%), while the number of persons encompassed increased by 4.8%.

Particular problem is a very low participation (activity) rate for older workers (50+). While the total activity rates in Croatia for the population in the prime age groups is relatively high, it is very low for older population (50 – 64 years). Adequate attention is oriented to promote the access to training for older persons, including subsidies

provided under the competence of the CES. They are actually a type of state aid for employment and have to be aligned with the national legislation on state aid. An employer who has received employment subsidies is obliged to keep the subsidized person in employment for 12 months, and keep the staffing level established at the date when the incentive was granted, during the same period.

In the past, the structure of ALMPs in Croatia had been inappropriate and mostly oriented to subsidies which do not improve the skills of the unemployed and (probably) have high deadweight costs and other adverse effects such as substitution and displacement. Finally, there had not been enough targeted to the most vulnerable groups on the labour market. The situation changed for the better in the last few years: measures began to be increasingly oriented towards those with the lowest level of employability and disadvantaged people at risk of or in long-term unemployment. Furthermore, ALMPs in Croatia have been monitored, but not fully and systematically evaluated for their net effect. However, according to already achieved insights and experiences, improved measures had positive impact on improving employment rates.

A particularly positive example of best practice are the mobile teams (MTs) organised by the CES. For the purpose of ensuring support to workers covered by redeployment programmes, the CES offers assistance through its MTs organised in all CES regional offices. The MTs are composed of career development professionals: employment counsellors, psychologists, lawyers, and other professionals, if necessary. The purpose of MTs is to prepare surplus workers for the labour market and act on their behalf while they are still employed in their respective companies. MTs provide various services: information about the labour market and the manner in which various rights can be claimed, counselling, i.e. assistance in defining their work potential, organisation of job-search workshops, vocational training, self-employment assistance, organisation of an internal employment service within a particular company where job vacancies can be posted, job placement services in the open labour market, and co-financing of employment with other employers in the case of older workers and/or persons with disabilities and special groups (treated addicts, human trafficking victims, victims of family abuse, asylum seekers, young persons leaving care - children's homes).

3 Assessment of the success factors and transferability

As mentioned above, except in one not yet implemented programme, there were no proposals for decentralization of the CES. The Spanish *New Strategy for Employment Activation* is an obvious example that with adequate and targeted measures, including decentralisation of the Public Employment Service; situation on the labour market can be improved despite the unfavourable economic circumstances. Particularly positive is that it is a comprehensive set of strategic reforms implemented to redesign the entire institutional framework of activation policies. The key features of the Spanish example, particularly outcome based allocation of funds to PES, introduction of PES performance indicators and cooperation with private employment agencies, are fully transferable and could be very useful in Croatia.

In countries with high long-term unemployment, most unemployed receive social assistance benefits and the interaction between the benefit systems and employment policy is significant. Additionally, as countries move to placing an emphasis on active jobseekers, the link between policy and delivery of social and employment services becomes more important. In Croatia, this link seems to be missing. There is no universal model for all countries, but there are some indications that Croatia could benefit from establishing a closer relationship between the employment policy and social policy. While possible decentralisation of the CES according to Spanish example will enable its better functioning in the long run, in the short-term there is a key priority to improve the CES collaboration with the Centres for Social Welfare (CSW) that are under the Ministry of Social Welfare and Youth.

The EU's CARDS Programme Report (2007) presents two alternatives. First alternative is to decentralise both CSWs and CES and shift responsibility for the provision of the employment services to the county level. Second alternative is to decentralise only CSWs. Thus, some of the steps analysed in Alternative 1 would still be available for closer co-operation of the two services, including mutual membership in the administrative council, joint councils at the county level or regular meetings of managers, support for co-location, agreements on sharing of information and co-operation plans, or staff exchanges. The report describes in more detail the first alternative of decentralisation of employment services in the context of decentralisation of social welfare services. This is based on the following reasoning:

- a) it is consistent with the decentralisation process in the area of social welfare and is thus best suited for aligning changes in both areas;
- b) the policy-makers and stakeholders at various levels have expressed interest in this option, and
- c) if less far-reaching changes were implemented, this analysis could still a useful purpose in guiding scaled-down version of the decentralisation, which would not be true vice versa.

Closer co-operation at all levels of institutions responsible for employment and social inclusion is important not necessarily just in terms of cost savings in employees and other minor direct costs, but also in terms of better services for individuals, importance of one-stop shops, especially for unemployed on benefits; better monitoring of benefits, less fraud and double-dipping; and better and more integrated policy-making.

4 Questions

- Any positive experience regarding the collaboration between Public Employment Services and Centres for Social Welfare in Spain will be more than welcomed.
- In the decentralised system, some of the current functions need to be reallocated while others will remain in their current place. The push for decentralisation offers potential for closer co-ordination and co-operation in the context of local and county accountability. How to ensure the benefits of decentralisation and to minimize the resistance?
- To reap maximum benefits from the decentralisation process, lower level(s) of the government (in Croatia, the counties) should have significant level of autonomy over resources devoted to employment policy to enable adjustment to local preferences (subject to national minimum standards). How to ensure clear division of responsibility and accountability as well as full respect of national minimum standards?

5 Annex 1: Summary table

Labour market situation in the Peer Country

- Non-existence of the GDP growth rate since 2008 had an adverse effect on the situation in the Croatian labour market
- Educational attainment, age and previous work experience significantly determine the possibility of finding a job and define the position of individuals in the Croatian labour market
- The number of job vacancies plunged by around one-third and the unemployment/vacancies ratio doubled
- The situation slightly improved in a few last years, but it is far from satisfactory

Assessment of the policy measure

- Until 2015, there has been only one discussion of the possible decentralisation of the Croatian Employment Service (CES)
- The CES has strengthened its activities recently, focused on increasing employment capabilities and reduction of unemployment
- The coverage rate (a share of participants in ALMPs in total number of unemployed) increased from 2.49% in 2009 to 17.26% in 2014

Assessment of success factors and transferability

- Particularly positive is that the Spanish example is a comprehensive set of strategic reforms implemented to redesign the entire institutional framework of activation policies.
- The key features of the Spanish example, particularly outcome based allocation of funds to PES, introduction of PES performance indicators and cooperation with private employment agencies, are fully transferable and could be very useful in Croatia.
- The important link between policy and delivery of social and employment services is still missing in Croatia
- Possible decentralisation of the CES will enable its better functioning in the long run, but in the short-term there is a key priority to improve the CES collaboration with the Centres for Social Welfare (CSW)

Questions

- Any positive experience regarding the collaboration between Public Employment Services and Centres for Social Welfare in Spain?
- How to ensure the benefits of decentralisation and to minimize the resistance?
- How to ensure a clear division of responsibility and accountability as well as full respect of national minimum standards?



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