



Mutual Learning Programme

DG Employment, Social Affairs and Inclusion

Peer Country Comments Paper - Croatia

***How temporary work come to the fore:
precarious arrangements emerging
from employment deregulation and
formalisation in Croatia***

**Peer Review on "The rise of precarious work (including
some forms of solo self-employment) - causes,
challenges and policy options"**

The Netherlands, 19-20 April 2018



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Table of Contents

1	Introduction	1
2	Labour market situation in the peer country	1
2.1	Non-standard employment	1
3	Assessment of the policy measure.....	6
3.1	Assessment of future policy development	7
4	Questions	9
5	List of references	10
	Annex 1 Summary table	12
	Annex 2 Examples of relevant practices.....	14

1 Introduction

This paper has been prepared for the Peer Review on "The rise of precarious work (including some forms of solo self-employment) - causes, challenges and policy options" within the framework of the Mutual Learning Programme. It provides a comparative assessment of the labour market situation, precarious non-standard employment arrangements and policy efforts with respect to precarious employment in Croatia, following the conceptual framework and reflecting upon the policies proposed by the host country paper.

2 Labour market situation in the peer country

Croatian labour market is characterised by one of the lowest labour market participation rates in the EU. The employment rate (20-64) has slid down from modest 64,9% in 2008 to 57.2% by 2013, only to partially recover to 61.4% by 2016., still far from 75% EU2020 target. Respectively, unemployment rate increased from 8.6% in 2008 to 17.4% in 2013. The unemployment rate has declined to 11.1% in 2017, yet is still third highest in EU. This reflects strongly at the policy level, as the employment and unemployment concerns take priority over the issue of employment precariousness.

Several policies introduced last years were intended to tackle informal work. Such arrangements (if sole employment) make for the most precarious form of employment, as there is no social nor contractual security for those involved. In the national LFS between 2001 and 2011 the share of people in employment reporting being informally employed (no contract, paid in cash) stood between 1,6% 2,3% (25-35 thousand), while a dedicated 2015 survey identified 18% of the unemployed, 11% of inactive, and 5% of retired respondents being engaged in informal work over broad range of activities, mostly provided for acquaintances. Such employment is mostly casual in nature, as modal annual income from such activities stood between EUR 130 and EUR 660, and just 8,5% reported more than that (Franić and Williams, 2017). Once formalised, those might have contributed to the increase of precarious employment.

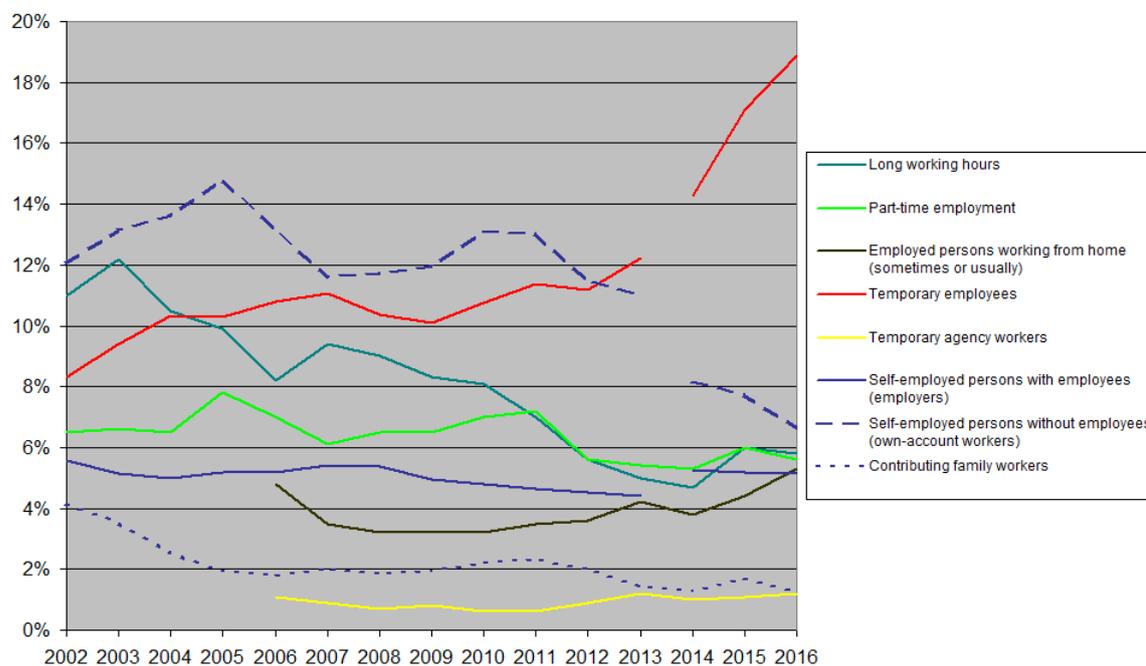
2.1 Non-standard employment

With respect to non-standard employment arrangements (fig. 1), part-time work is rather uncommon and concentrated among the solo self-employed (Butković, 2018, Matković, 2009).

Self-employment (per LFS), in particular solo self-employment, was stable between mid-1990s and mid-2000s (Matković, 2009), but shows a decennial trend of decline since - from 14,2% (15-74) in 2010 to 11,8% in 2013, and from 8,8% in 2014 to 7,2% in 2016.

Throughout the same period, temporary employment prevalence has been increasing - especially during the most recent sustained economic recovery. In 2012-2016 Croatia had the fastest growing rate and reached third-highest share of temporary employment contracts in the EU (increasing from 13,2% to 22,2% of all employees). Such a structural change might be a consequence of repeated deregulation of employment protection (Arum and Muller, 2004) since the early 2000s. Easier access to external numerical flexibility - via direct hiring of temporary employees - dampened the demand for external functional flexibility e.g. (sub)contracting the self-employed.

Figure 1. Atypical employment as share of total employment (15-64), 2002-2016



Source: LFS. *2014: series break for temporary employees and self-employed

Croatian labour market regulation is distinct for the diversity of possible legal options for temporary contracts, used both by public and private sector employers (Matković, 2013, Vukorepa et al., 2017).

- Fixed-term employment contracts went into expansion since the maximal duration of fixed-term contract was prolonged from 1 to 3 years in 1995. Several protections warranting equal rights for workers on temporary contracts were introduced during EU accession process ending in 2013, and maximal consecutive duration ceased to be "job-based" to become "employer-based" in 2009. However, the 2013 Labour Law changes led to decrease in temporary employment EPL (Kunovac, 2014), as duration limitation was lifted for the first fixed-term contract, while the requirement for elaboration of "objective reason" is now required only for subsequent fixed-term contracts with employers. Additionally, the changes introduced in 2009 and 2014 allowed for more flexible organisation of working hours which made this type of contract attractive for the employers for internal flexibility.
- Temporary agency workers are almost exclusively given fixed-term contracts. The regulation of temporary agencies was introduced in 2003 and was relaxed in 2014 by allowing such arrangement to last up to three years. to substantial growth in recent years (administrative figures increased from 11 734 in 2013 to 19 327 in 2016, and LFS data indicated temporary agency workers make up for 1.2% of all employment.
- Seasonal contracts are another specific type of fixed-term employment in expansion. In 2014 regulation was relaxed in terms of daily breaks and weekly work-time distribution (up to 60 hours per week, up to six months). While such employment is concentrated in summer and within the tourism sector, its importance cannot be overstated. Average peak-to-through difference in employment between January and July in 2014-2017 period (pension insurance register) summed up to 79-84 thousand – about 5-6% of total peak employment.

As well, there are several temporary work arrangements not relying upon the employment contract:

- Workplace occupational training is a one-year ALMP for persons without relevant employment experience. Target groups have been expanded in 2012 and 2017, making it account for 0.3-1.2% of total employment (number of entrants growing from 4762 in 2011 to 18597 in 2015, down to 9947 in 2017).
- Daily voucher system for seasonal workers in agricultural sector, introduced in 2012 peaked in 2013 at 5267 persons using vouchers for less than 90 days and went down to 3348 in 2015 (Grgurev and Vukorepa, 2018).
- Casual work agreed upon via means of "contract for service" or "author's contract". It was estimated to be used by 10 and 23% of employers respectively in 2015 up to 169 thousand persons were reported to tax authority, but summing up to 21 thousand of average wage person-years.
- Separately regulated student contracts for work of regular students. In Eurostudent 2014 survey 35% of students had reported working at least some time during the previous year; 16% more than 15 hrs weekly (Šćukanec et al., 2016).

Self-employment is no less diverse with respect to modes of employment. Contributions act distinguishes:

- sole traders and artisans (56 976 as of Jan 2018, including employers)
- persons engaged in liberal professions (19 924)
- agricultural and forestry workers (19 425)

These are subjected to different bases for calculating contributions and taxation, which can be as low as 38% of national average wage for registered family farms, to 65% for most artisans and small business owners, up to 110% for independent professionals and athletes. As well, aforementioned many worker are effectively self-employed via casual "contract for service" or "author's contracts" that straddle the space between temporary/gig employment and self-employment¹. Those are often commissioned by large firms and prevalent in media, culture and education sectors (CES, 2017), sometimes resembling bogus self-employment (Vukorepa et al, 2017, Matković, 2009).

When measured via LFS, solo self-employment is predominantly agricultural: in 2008-2011 it amounted for 65-67% of all self-employment, share falling to 55-56% in 2015-2016 (cf. 19% in EU-27). The rest of self-employment is concentrated in Manufacturing, Construction, Trade, Transportation, Professional services and Other services (each accounting for 4-7% of self-employed in the 2014-2016 period), while being virtually non-existent in other industries. In line with this, the solo self-employed are seldom young in Croatia (1% are under-25, cf. 3% in EU-27 and 6% in NL) and tertiary educated (14% in HR, cf. 42% in NL and 32% EU-27 average), while being more likely to be over 50 (50% in HR, cf. 6% in NL and 41% EU-27 average) and without upper secondary education (33% in HR, cf. 19% in NL and 24% EU-27 average).

¹ (LFS reporting categorised them as self-employed until 2013, and temporary employees afterwards therefore series break 2013-4 in fig 1

Table 1. Table 1: Structure of solo self-employed with respect to age, education and employment in agricultural sector, 2014-2016 averages

	HR	NL	EU-27
In agriculture, forestry or fishing	56%	7%	19%
Age under 25	1%	6%	3%
Age over 50	50%	43%	41%
Less than upper secondary education	33%	19%	24%
Tertiary education	14%	42%	32%

Source: LFS, tables [lfsa_esgan2], [lfsa_esgaed]

Challenges faced by workers in flexible employment in Croatia

Challenges faced by workers in flexible employment in Croatia will be illustrated via three most commonly discussed dimensions of precariousness: income adequacy, social security and working arrangements, and certainty of continuing work.

Table 2. Poverty, deprivation and transition to unemployment, 2014-2016 averages

	Income poverty	Severe material deprivation	Subjective poverty (EWCS 2015) making ends met with (great) difficulty	Transition to unemployment*
Croatia				
National total	19,4	13,5	22	
Employees (all)	4,8	7,4		
Employees (permanent)	4,1		19	3,1
Employees (temporary)	8,6		28	15,7
Employed, not employees	14,1	6,4	32	6,6
Netherlands				
National total	11,4	2,8	3	
Employees (all)	4,1	1,2		
Employees (permanent)	3,6		3	1,4
Employees (temporary)	8,5		3	5,4
Employed, not employees	13,2	0,7	4	1,7

Source: SILC,EWCS. *2015 and 2016 only.

Income adequacy

Relative poverty (as per SILC), and subjective poverty (as per EWCS) are substantially higher among temporary employees in Croatia (table 2). As well, material deprivation is higher for temporary employees than for those on regular contract (Ahrendt et al, 2017.). In part this is due to seasonal nature (up to four months) of substantial part of

temporary employment. Yet there not being minimum wage regulation for student employment, contract work and workplace training (although the later was set at minimum wage level in 2017) might contribute to in-work poverty of temporary employees. As well, workers on fixed-term contracts do tend to have lower wages than their comparable peers (Matković, 2013).

With respect to self-employed, even when merged with employers, reported income indicates higher level of poverty risk (albeit income is most likely underreported) and financial hardship. Yet, severe material deprivation is slightly less prevalent than among the employees. Solo self-employed fare comparable to employees (but worse than employers) with respect to material deprivation (Horemans and Marx, 2017). In general, the solo self-employed do not seem to fare worse than employees. However income inadequacy seems more prevalent among some, in particular in agriculture and among informally self-employed (Matković, 2009).

Reported patterns for both temporary employees and self-employed do not deviate much in relative terms from the ones reported for the Netherlands, and the size of income gap compared to those in regular employment seems to be lower than EU average (Ahrendt et al, 2017, Horemans and Marx, 2017)

Social security and working arrangements

Temporary employees working via fixed-term employment contract enjoy all the rights provided by labour law and their employers are obliged to pay all social security contributions (37.2% gross wage). In 2000s the contribution coverage of temporary employees has substantially improved (Matković, 2013). However, temporary nature of employment, in particular for seasonal workers, often does not suffice for them to qualify for unemployment benefit (which requires 9 contribution months in the past 2 years). Redundancy pay (relevant after two years in employment) does not apply in case of lapse of temporary contracts. Seasonal workers are often engaged in arduous working schedule, as 60 hours of work can be allocated without counting as overtime, with only 8-hour daily break (compared to 56 hours with 12 hr break for non-seasonal employment). While public employment service will mediate only for seasonal placements warranting safe accommodation with running water, heating and electricity (Ordinance on suitable accommodation), seasonal workers are often facing work-life balance challenges working away from home, separated from their families for several months at a time. Seasonal workers as well face old-age poverty risk due to patchy seasonal employment patterns. Young people in occupational training do not have the right to paid vacation, sick leave, or unemployment insurance, while their pension contributions are set at minimal wage level for the one year duration of training. The same setup applies for workers employed via daily vouchers in agricultural sector, yet calculated on the daily basis. Casual workers on "contract for service" or "author's contract" as of 2017 pay health and pension contributions at only half the regular rate (17.5%). Yet being defined as payment in exchange for the result of work, not for continuous work, those workers are not covered by labour law stipulations, unemployment insurance nor against accidents at work, while sickness benefits can be claimed only under extraordinary circumstances (Vukorepa et al, 2017). Student work is levied at up to 17.5%, but provides insurance only against accidents at work, does not include pension contributions, and is not subject to labour inspectorate. The forms of temporary employment not based on employment contract are very attractive for employers, both because of lower contribution rates and their on-demand nature. Yet to the workers they offer patchy social security and weaker (or no) working conditions warranties compared to employment contracts.

The self-employed are covered with all the social protection schemes (unemployment insurance being introduced in 2014), but with a few caveats. First, the contributions are set against fixed level, depending on categorisation (38-110% of average national wage). This has implications for benefit inadequacy (often at a stipulated minimal level)

for contribution-based benefits such as sick or parental leave, unemployment benefit or pension (Vukorepa et al, 2017). Second, all the contribution payments are sole responsibility of the self-employed person (MISSOC, 2017). Up to mid-2000s, the compliance was patchy, in particular with self-employed in agriculture (Matković, 2009). Contribution arrears can lead to denial of coverage and even debt execution process. Third, sickness benefit is not paid by the insurance for first 42 days apart from narrowly defined cases.

Certainty of continuing work

The rate of "stepping stone" transitions from temporary to permanent jobs (SILC 3-year average) has steadily declined in Croatia from 43.7% in 2011 to 35.5% in 2013, down to 30.8% in 2015, but is still better than EU-27 average (23.1%) or Netherlands (22.5%). However, due to seasonal employment patterns the LFS annual average of quarterly transitions from temporary to permanent jobs for 2016 stands at 10% (cf. 16% for NL). Workers in fixed-term jobs are more likely to be intent on changing jobs than their peers on permanent contracts, although to lesser extent than in 1990s (Matković, 2013), and per EWCS 2015 are less likely to have participated an employer-paid training in previous year (15% vs 31%) and more likely to see themselves at risk of losing their job (41% vs 13%). As well, the risk of becoming unemployed (table 1) is fivefold higher than for workers on permanent contracts.

As for the self-employed, they are more likely to enter unemployment (table 2) than permanent employees (6.6% vs 3.1%), and less likely to have received training in past year (14 vs 31%) as per EWCS 2015, but in general do not perceive their chance of losing their job higher. The flows into and outside self-employment have receded since 2002 (Matković, 2009). However, according to Eurofound research (Vermeulen et al, 2017), Croatia is on the last place in the EU in respect to self-employed who enjoy being their own bosses (78% opposed to 89% as EU average and 98% in six other counties) and first in the share of self-employed who did not become self-employed through their own preferences (31% opposed to 59% as the EU average and 86% in Sweden). This can help us understand the low prevalence of self-employment in Croatia as it is often a precarious form of work in agriculture or services.

3 Assessment of the policy measure

Unlike the Netherlands, in Croatia solo self-employment is contracting, not expanding, as the institutional framework allows for various forms of temporary employment. The role of part-time employment in Croatia is much less pronounced (Butković et al, 2016), and there is no on-call work framework (Vukorepa et al, 2017), but both have functional equivalents in temporary employment forms not based on employment contract (such as contract for service or student work or agricultural vouchers). Bogus self-employment does not figure in policy discourse or legal terms (Vukorepa et al, 2017, Butković et al, 2016), although some similar discussions were led about boundaries between employment contracts, "contract for service" and "author's contract".

While relative position of persons in precarious employment vis a vis those regularly employed is similar in Croatia and the Netherlands in terms of income adequacy and certainty of continuing work, the absolute level of hardship is greater in Croatia. Protracted economic crisis, low employment rate, high unemployment and concerns about informal work made all Croatian governments since 2010 to focus on combating unemployment and increasing formal employment by introducing flexibility in the labour Law (Butković et al, 2016), yet not much has been done to reduce labour market segmentation or to improve precarious forms of work.

As a consequence of the efforts to combat grey economy via the fiscalization of payments introduced in 2013, employers have increased the use of student work, while

agricultural vouchers were introduced as a part of Law on supporting employment in 2012 in order to combat unregistered employment. Formalizing employment was a rationale for the abandoned attempt at comprehensive regulation of casual jobs in 2013 (Butković, 2016). As well, the ALMPs supporting self-employment of 16 113 over the 2013-2017 period had the formalization of self-employment as one of its goals (Bejaković et al., 2016). Fixed taxation and contribution bases for the self-employed as well contributed to manageable formalization of self-employment since 1990s.

However, two policy attempts were made in Croatia to explicitly address challenges of temporary employment.

For those employing seasonal workers, there is an option, introduced via Labor Law in 2001, to pay minimal contributions throughout the year and thus "reserve" the worker for the following season. As late as 2011-2012, only 756 such "permanent seasonal worker" arrangements were registered (Bejaković, 2014). However, in 2013 an ALMP was introduced providing up to 6-month income support comparable to unemployment benefit for such workers, provided that employers qualify for certain conditions (Vukorepa et al, 2017, Butković, 2016). The number of beneficiaries of this ALMP has increased from 991 in 2014 to 2831 in 2017 (mostly seasonal workers contracted by big employers), but there is little evidence in pension insurance register of such arrangements happening if not "topped up" via ALMP, and the coverage of such contracts is miniscule (about 3.5%) compared to 80 thousand person seasonal oscillation in employment.

Second, starting in 2015, an attempt was made to decrease the high share of temporary employment, in particular among the youth, by introducing five-year waiver on health and unemployment contributions (effectively 17.2% of gross wage) for workers under age 30 who enter the permanent employment. The waiver is unconditional and it proved very popular with employers. As of February 2018, after three years of being in force, waiver is active for 88 847 persons in employment (cf. total 261 160 pension contributors under 30). However, while annual cost (via health insurance budget) is higher than 0.2% of GDP, there was no decline in temporary employment among the youth since this change was introduced, and transitions to permanent employment are not improving, indicating deadweight potential of this intervention. As well, it is likely that the widespread use of one-year workplace occupational training ALMP (as well at cost of 0.2-0.3% of GDP) had a contrary effect of increasing the prevalence of temporary employment among the youth.

3.1 Assessment of future policy development

As for the income adequacy considerations of the host country paper, the introduction of minimum tariffs for the self-employed bears resemblance to some sectorial tariffs in Croatia, in particular among liberal professions, but those are challenging to uphold, might impose additional costs to consumers, and bear risk of formalization. Yet with respect to income adequacy for the temporary employed, the minimal wage regulation should apply to all employment relationships, for the sake of preventing "race to the bottom". Such discussions are underway with respect to student contracts, yet this might prove to be a challenge for the arrangements of "contract for service", and it might move workers and employers towards informal activity.

With respect to regulatory protection, Croatia has taken the path of comprehensive participation of self-employed in social security schemes via contributions. But unlike "compulsory basic insurance" topped up by voluntary schemes as proposed in the host country paper, different contribution bases for different groups of self-employed and various tax and contribution levels for different forms of non-typical employment contracts were introduced. However, this solution did leave provision gaps, and led towards work arrangement niches that are perceived as "more favourable", while some provisions are inappropriate to the form of employment (e.g. sick leave), and the low base for contributions leads to adequacy issues under the setup currently in force in

Croatia. Global insurance scheme for all persons in employment (or citizens), and equal treatment of income from all work arrangements for tax and contribution purposes (cf. Vukorepa et al, 2017), could go a long way towards overcoming fragmentation of work arrangements, competitive undercutting, and decrease segmentation in the labour market.

With respect to training provision, it seems that current legal provisions for equal treatment of temporary workers are inadequate for bridging the training gap, and by definition they do not apply for self-employed. Therefore, framing post-school education as a right, as proposed by the host country paper, with ample public resources extending beyond those currently unemployed might go a long way in increasing employability, resilience and citizen participation in education throughout the life course.

4 Questions

- Openness to global competition does not seem to be an important factor in the rise of flexible work in the Netherlands. Could you elaborate on the role of technological change in the Dutch case, in particular with respect to self-employment? What are the implications regarding desired institutional changes?
- How does precarious work, in particular self-employment, cope with the challenge of work-life balance, in particular parental leave.
- What is the role of immigrant population in temporary and solo self-employment? Are there any distinct patterns or policies regarding intra-European migration?
- Are there any assessment of informal self-employment, and what are the policies targeting at it?

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Annex 1 Summary table

The main points covered by the paper are summarised below.

Labour market situation in the peer country

- Concerns about high unemployment and informal employment took priority over the issue of employment precariousness.
- Temporary employment has been increasing - from 2012 to 2016 Croatia had the fastest growing rate in the EU (increasing from 13,2% to 22,2% of all employees), while part-time work is rather uncommon and solo self-employment is in decline.
- This may be explained as a consequence of repeated deregulation of employment protection which provided easier access to external numerical flexibility - via direct hiring of temporary employees - and thus dampened the demand for external functional flexibility (e.g. via (sub)contracting the self-employed).
- Croatian labour market regulation is distinct for the diversity of possible legal options for temporary contracts: fixed-term employment contracts (general, temporary agency contracts and seasonal contracts) and several temporary work arrangements not relying upon the employment contract (workplace occupational training, daily voucher system for seasonal workers in agricultural sector, contract for service, author's contract, student contracts).
- Income adequacy, social security and employment security are less favourable among temporary employed and solo self-employed than among permanent employees.

Assessment of the policy measure

- Governments focused on combating unemployment (by increasing formal employment and introducing flexibility) exerted indirect influence on the labour market segmentation and the issue of precarious work: fiscalization of payments increased the use of student work, agricultural vouchers were introduced in order to combat unregistered employment, formalizing employment was a rationale for the abandoned attempt at comprehensive regulation of casual jobs, ALMP supported self-employment to assist formalization of self-employment.
- Two policy attempts explicitly address challenges of temporary employment
- Permanent seasonal worker – contributions and income support during off-season. While expanding, the coverage of such contracts is miniscule (about 3.5%) and there is little evidence in pension insurance register of such arrangements happening if not "topped up" via ALMP.
- Five-year waiver on health and unemployment contributions for workers under age 30 who enter the permanent employment. The waiver is very popular with employers and widely used. However, there was no decline in temporary employment among the youth since it was introduced, and transitions to permanent employment are not improving, indicating deadweight potential of this intervention.

Assessment of future policy development

- With respect to income adequacy, minimal wage regulation should apply to all employment relationships, for the sake of preventing "race to the bottom". However, it might move workers and employers towards informal activity. Minimum

tariffs for the self-employed in the Netherlands bear resemblance to some sectorial tariffs in Croatia, in particular among liberal professions, but challenging to uphold, might impose additional costs to consumers, and bear risk of formalization. With respect to regulatory protection, different contribution bases for different groups of self-employed and various tax and contribution levels for different forms of non-typical employment contracts leave provision gaps, and lead towards work arrangement niches that are perceived as "more favourable". Global insurance scheme for all persons in employment (or citizens), and equal treatment of income from all work arrangements for tax and contribution purposes could go a long way towards overcoming competitive undercutting, and decrease segmentation in the labour market.

- With respect to training provision, current legal provisions for equal treatment of temporary workers are inadequate and by definition do not apply for self-employed. Framing post-school education as a right help increase employability, resilience and citizen participation in education throughout the life course.

Questions

- Openness to global competition does not seem to be an important factor in the rise of flexible work in the Netherlands. Could you elaborate on the role of technological change in the Dutch chase, in particular with respect to self-employment? What are the implications regarding desired institutional changes?
- How does precarious work, in particular self-employment, copes with the challenge of work-life balance, in particular parental leave?
- What is the role of immigrant population in temporary and solo self-employment? Are there any distinct patterns or policies regarding intra-European migration?
- Are there any assessment of informal self-employment, and what are the policies targeting at it?

Annex 2 Examples of relevant practices

Name of the practice:	Permanent seasonal worker
Year of implementation:	2001 (2013 as an ALMP)
Coordinating authority:	Croatian pension insurance institute (registering contributions), Croatian Employment Service (assessing employer eligibility for income support)
Objectives:	Overcoming pension insurance gaps and providing income support for seasonal workers during the off-season, while ensuring labour supply for employers providing suca arrangements
Main activities:	Minimum-wage pension contributions (employer), up to six-month of income support (CES)
Results so far:	Increased usage (991 in 2014 to 2831 in 2017), but only when coupled with CES support. Still, minor part (3.5% of all seasonal workers covered).

Name of the practice:	Five-year waiver on health and unemployment contributions for workers under age 30 who enter the permanent employment
Year of implementation:	Jan 2015
Coordinating authority:	Regulated via Contributions Act, Croatian pension insurance institute (registered type of working arrangement)
Objectives:	Facilitate transition of young people into permanent employment
Main activities:	Employers are automatically waived 17.2% of gross wage contributions for five years when arranging a permanent contract with a person under 30.
Results so far:	Widespread use (89 thousand persons) and popularity among employers, yet no substantive reduction in youth temporary employment.



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