



Croatia: the challenges of reforming social benefits

ESPN Flash Report 2018/52

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JULY 2018

This Flash Report focuses on the European Commission concerns regarding the efficiency of the Croatian social benefit system, in particular in relation to poverty alleviation. There is a need to distinguish between three different issues: the institutional architecture, the degree of duplication between local and central level benefits, and the distorting effects of benefits for war veterans. The Action Plan for Social Benefits 2017-2020 adopted by the Croatian Government in 2018 seems insufficiently ambitious to resolve the challenges..

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Description

The need to “improve the efficiency of the social benefit system” has been a recurring narrative theme as a major reform priority in Croatian social policy over many years, referred to repeatedly in the policy assessments of, inter alia, the World Bank and, in recent years, the European Commission. In a Staff Working Document issued in March 2018, the Commission states that “the consolidation of the benefits system with the aim to improve targeting and reduce poverty has not advanced (in Croatia)” (European Commission, 2018a, p. 36). It is certainly the case that successive governments have made and then reneged on commitments in this area, with policies not always being evidence-based, notably in relation to institutional arrangements but, also, with regard to changes in calculating amounts of social assistance for dependent children (see for instance Stubbs and Zrinščak, 2015). However, it is important to address the issue of streamlining benefits in a broader context and to understand the political economy of the policy choices being made. Three issues are crucial here.

Firstly, the issue of the administration of benefits has tended to be focused on the idea of a “one-stop-shop” as “a central point for the administration and provision of social benefits and services” (European Commission, 2018a, p. 36). This was first mooted in reforms led by the World Bank in 2001.

It was, subsequently, in 2014, a condition for a World Bank loan with a previous Government, led by the Social Democratic Party, agreeing to delegate this function to county level deconcentrated offices of central administration (see World Bank, 2018). The fact that this commitment was, on several occasions, postponed and has now been “abandoned” (European Commission, 2018a, p. 36), is a response to how difficult the reform was to achieve in practice, the lack of capacity of said offices and, crucially, reflects widespread criticism that access to social assistance would be reduced not promoted by the move. The real issue here is that there appears to be no alternative proposal on the table regarding where, when and how a similar system should be established in the future. The failure to carry through on this proposal also sets back work on closer linkages between social benefits for those capable of work and employment benefits and services offered by the employment services.

Secondly, a complex issue is the extent of duplication of benefits and, in particular, overlaps between benefits administered at the central and the local levels of government. The issue is complicated by two important facts:

- Not all local governments provide social benefits equally: the larger cities, with more resources, tend to provide more than small municipalities. This has not, thus far, been a major focus of concern even though it has major implications for inter-regional equity in social policy. One study suggested that almost two

thirds of all local government expenditure come from cities and about half of that from the city of Zagreb (Šučur et al, 2016). There is an imbalance between needs and resources, therefore: in 2011, Zagreb had 179% of the per capita GDP of Croatia as a whole and, in 2013, gave an average of 596 kuna (Euro 80) in social benefits per capita, compared to only 153 kuna (Euro 20) given by Virovitička county (Šučur et al, 2016, p. 6 and p. 46).

- Studies suggest that social expenditure in Croatia is highly centralised, with social spending at regional and local levels, excluding spending on education, less than 0.5% of GDP (ibid).

Given these facts, it is far from clear whether the costs of consolidating benefits at central and local levels would exceed the benefits nor the extent to which such a consolidation would have any significant impact on reducing poverty and social exclusion. In addition, politically, any further centralisation of the benefits system is likely to face political opposition from local and regional governments.

Thirdly, and most controversially of all, the Commission began in 2018 to put a degree of pressure on the Croatian Government regarding the distorting effects of significantly high expenditures on war veterans and their families. These benefits, taken together, amount to around 2% of GDP, with a recent Law on Homeland War Veterans and Their Families (NN 121/2017) expanding certain categories of rights and likely to increase spending in both the short- and long-term. It is important to highlight the discursive gap between the Commission that argues that the "effectiveness of social benefits is hindered by ... the existence of privileged categories such as war veterans" (European Commission, 2018a, p. 22) and successive Croatian Governments who see war veterans benefits as completely outside the social benefit system,

as (partial) compensation for war sacrifices and, even if they had the political will to reduce them would face massive and organised opposition if not revolt. Although these benefits are categorical and neither needs- nor assets-based, largely passive, not always transparent, and increasingly extended to new beneficiaries, in Croatia as well as in neighbouring Bosnia-Herzegovina, they are likely to prove intractable to change.

Outlook & commentary

The Action Plan for Social Benefits 2017-2020 adopted by the Croatian Government in 2018 as part of the National Reform Programme, is, as the Commission has noted (European Commission, 2018a, p. 36), less focused on specific measures to consolidate the benefits system and, instead, emphasises the establishment of a clearer evidence-based and information system. It does not contain any commitment to improving the adequacy or coverage of benefits (including those to the poor and excluded) nor any proposal to reduce regional inequalities across Croatia. At the moment, the Government's priorities appear to focus on war veterans and their families and demographic renewal (see for example Zrinščak, 2016) rather than benefits to the poor. Measures proposed in the Action Plan are lacking in ambition, and more focused on system functioning, transparency, and technical consolidation in terms of the naming of different benefits.

The Commission has now followed up on part of the 2017's Country Specific Recommendation which referred to the need to "improve coordination and transparency of social benefits" (European Commission, 2017, p. 7). The 2018 CSRs include the need to "consolidate social benefits and improve their poverty reduction capacity" (European Commission, 2018b, p. 5). As we argue here, however, this is far from simple and

is much more political than technical in its scope, requiring at the very least, a consensus between the Commission and the Government about what is actually being referred to and clear political will to improve both the adequacy and coverage of the basic social assistance scheme, termed the guaranteed minimum income scheme.

Further reading

European Commission (2017), Recommendation for a Council Recommendation on the 2017 National Reform Programme of Croatia, COM(2017) 510 final.

European Commission (2018a), Staff Working Document Country Report Croatia, SWD(2018) 209 final.

European Commission (2018b), Recommendation for a Council Recommendation on the 2018 National Reform Programme of Croatia, COM(2018) 410 final.

Stubbs, P. and S. Zrinščak (2015), ESPN Thematic Report on minimum income schemes.

Šučur, Z. et al (2016), *Struktura naknada, izdaci i korisnici programa socijalne zaštite u Republici Hrvatskoj [Structure of Benefits, Subventions and Users of Social Protection Programmes in Croatia]*, Government of Croatia and UNDP.

World Bank (2018) Implementation Completion and Results Report: Social Protection System Modernization Project. ICR00004446. Available at (accessed 26 July 2018): <http://documents.worldbank.org/curated/en/209091528124911226/Croatia-Social-Protection-System-Modernization-Project>.

Zrinščak, S. (2016), "Proposed Changes to Maternity and Parental Benefits in Croatia", ESPN Flash Report 2016/31.

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