National Development Strategy Croatia 2030 Policy Note:

Labor Market

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The objective of this note is to assess the degree to which selected policy tools (such as labor market regulations and employment contracts, active labor market policies – ALMPs, training and skills development policies for the unemployed, inactive, and vulnerable) are conducive to labor participation and employment. This note will first describe the broad trends that can be observed across the EU and in Croatia, and some of the main macro challenges that the country, and the continent more broadly, currently face. It will then focus more strictly on the labor market within the EU and in Croatia, analyzing recent trends. We will then provide evidence on the challenges and opportunities facing the country’s labor market and policy scenario, using EU-wide developments as a benchmark and to provide some context. The note will provide some policy recommendations to facilitate labor market participation and employment, before proposing a roadmap for implementation. Throughout the text, examples of successful or innovative policies from other EU countries in the areas identified will be presented.

**It is necessary to mention one caveat; this note focuses on the supply side of the labor market.** There are, however, many supply-side issues that are undoubtedly important challenges in the Croatian economy; however, such supply-side issues are only a part of the story. Supply-side reforms may improve the workings of the labor market at the margin, but such measures need to be accompanied by demand side interventions aiming to stimulate the demand for labor. A solid job creation pace will need to be maintained in order to significantly reduce inactivity and (especially youth) unemployment.
1 Overview of broad trends and societal challenges within the EU and in Croatia

This section examines some of the broad trends that can be observed across the EU and in Croatia, and some of the main macro challenges that the country, (and more broadly, the continent) currently face. As evidenced by the data observed, after the difficult years that followed the global financial crisis, growth resumed, with poorer countries catching up to richer ones. Despite these positive developments, total factor productivity has been growing unequally within the EU, and income inequality at the household level has been increasing in most countries, particularly in Southern and Continental Europe. The rapid technological changes which we observe across the continent will exacerbate these trends, with countries inevitably having to focus more on skills-intensive and high value-added activities, which will benefit high-skilled/high-paid workers, to the detriment of low-skilled workers. As the importance of the service sector will likely continue to grow and absorb a larger share of total employment, skilled workers will stand to benefit further, at the expense of low skilled ones. These trends will contribute to the further growth of the skills divide within the continent’s workforce, exacerbating and giving further momentum to the growing inequality pressures described above. As we show, Croatia is not immune to most of these developments.

Since the end of the second World War, the European Union has delivered enormous benefits to its growing number of citizens. Living standards across different member states converged rapidly, with poorer countries catching up to richer ones, thanks to growing internal and external trade, greater availability of financing, stronger regional integration, fast innovation, and the EU accession process. Today, Europe accounts for about one-third of the world’s GDP, despite having less than one-tenth of the population. At the same time, income inequality within the EU was kept at bay, compared to for instance to the United States.

The global financial crises put a dent in the achievements made in the post-war period, but in the last few years the convergence process restarted. As economic growth resumed after the shock of the widespread recession, unemployment rates began falling and are now back to pre-crisis levels in many EU member states. Countries in central and south-eastern Europe are growing faster than the rest of the EU, thereby continuing the process of ‘catching-up’ Despite these positive developments, some broad societal challenges loom.

First, total factor productivity (TFP) growth rates have been diverging across EU Member States. Although Nordic and Continental European countries witnessed positive rates of TFP growth, Central and South-eastern European countries (including Croatia) outperformed other countries, and therefore narrowed the productivity gap between them and richer EU Member States. On the other hand, Southern European countries have displayed decreases in TFP growth rates. This trend can profoundly affect future convergence within the EU, where the shrinking of the labor force (due in part to population

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ageing, and low levels of investments), makes the link between GDP growth and total TFP growth stronger.

Second, income inequality at the household level has been increasing in most EU countries, and particularly so in Southern and Continental Europe. Over 70 percent of income inequality across EU countries is explained by inequality in labor incomes, which has become more unequally distributed since the 1990s in most EU countries; such trend worsened after the 2008 financial crisis, particularly among Southern European countries. Greater inequality in labor incomes is, in turn, driven by a growing divide between the earnings of low-paid workers on one hand, and middle- and high-paid workers on the other hand. Throughout the EU, low earners have been falling behind, seeing their earnings decline in real terms relative to the early 2000s; specifically, this drop was relatively larger for the bottom 10 percent of earners. Growing inequality has important consequences on future economic growth, as children from low-income households have fewer and fewer chances to move up the income ladder in life (Bodewig & Ridao-Cano, 2018).

Figure 1: Trends in individual earnings by household income distribution, 1980s–2010s, index (1980s = 1), EU average

Source: Bodewig and Ridao-Cano (2018)

Third, rapid technological change will exacerbate the trends just described. As firms will continue to adopt new technologies, some jobs will move offshore or from old to new EU Member States, while labor markets will increasingly reward cognitive and interpersonal skills as opposed to manual skills and routine tasks. As figure 2 shows, since the late-1990s, tasks specific to different occupations have become more and more focused on non-routine cognitive analytical skills and on non-routine cognitive personal skills, while the intensity of routine manual skills has diminished considerably throughout the EU. These developments have not yet affected Central and Eastern European countries such as Croatia as much as the Continental and Nordic European economies, but the trend according to which jobs are becoming more and more about cognitive and interpersonal tasks is clear across all EU Member States. Countries will inevitably have to focus more and more on skills-

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2 Croatia is an exception in this respect, as the country’s Gini coefficient remained essentially unchanged between 1985 and 2015, and in 2017 stood at about 30 percent, in line with the EU and OECD average.
intensive and high value-added activities, which benefit high-skilled/high-paid workers, whilst being detrimental to low-skilled workers, especially in the non-service sectors.

Box 1: Defining Skills and Jobs

The International Standard Classification of Occupations (ISCO), prepared by the International Labour Organization (ILO) classifies jobs according to the tasks and duties (and therefore, according to the level and type of skills) needed to perform them.

- Nonroutine cognitive skills are typically associated with ISCO categories 1, 2 and 3, which include managers, professionals, and technicians (chief executives, administrative managers, hospitality, retail and service managers, legislators, doctors and nurses, teachers, lawyers, finance and accounting professionals, engineers, veterinarians, construction supervisors, etcetera).
- Nonroutine manual occupations can be associated with ISCO category 5, which include service occupations related to assisting or caring for others (hairdressers, cooks, waiters and bartenders, building supervisors, child care workers and teachers’ assistants, etcetera).
- Routine cognitive skills can be associated with ISCO categories 4 and some of category 5, which include sales and clerical occupations (such as, for instance, tellers, cooks, secretaries, etcetera)
- Routine manual skills are typically associated with ISCO category 9. Examples include elementary occupations in the agriculture, construction, transportation, production, hospitality, and food and beverage industry)


Figure 2: Occupation-specific task intensities, aggregated for each country and standardized over time, regional averages, 1998-2014

Throughout the EU, and in Croatia, employment is shifting away from primary and secondary sectors such as agriculture, industry and manufacturing, and towards services; in turn, the services sector is more and more reliant on non-routine cognitive tasks. As figure 3 shows, the
share of employment in the service sector between 2000 and 2015 has increased by 5.6 percent in Central and Southeast Europe, at the expenses of employment in the agriculture and fishing, and manufacturing sectors. Croatia is not an exception; even though structural transformation in the last 20 years or so has not been significant, the contribution of the service sector to total value added has increased to about 70 percent, against the decline of the agriculture and industry sectors, which in 2016 represented respectively 4 and 26 percent of the country’s total value added. Employment has followed this broad trend, with the share of Croatians employed in the service sector increasing from 57 percent in 2007 to almost 66 percent in 2017, while the share of those employed in agriculture and industry declined from 12 to less than 8 percent, and from 31 to 27 percent, respectively. Furthermore, across the EU, within the service sector, the subsectors which have seen the largest gains in terms of employment are those which rely the most on nonroutine cognitive tasks (and as such, are more reliant on relatively high skilled workers), such as transportation, information and communication, real estate, technical and professional services, and health services.³

Figure 3: Percentage point change in employment shares, 2000-2015

Figure 3a: Percentage point change in employment shares within the service sector

In other words, as labor markets shift further towards the service sector, and put a growing premium on cognitive (memory, attention, logic reasoning, etc.) and interpersonal skills, highly skilled workers have become increasingly well-positioned to reap the benefits of rapid technological change, while low educated / skilled ones increasingly fall behind. Across the EU, over the last twenty years or so, the share of workers employed in nonroutine cognitive occupations (which tend to be highly skilled) has been increasing significantly, while the share of the low-skill workers in routine manual jobs has been declining. This trend has affected countries in the central and eastern European area of the EU, like Croatia, as shown in Figure 4. Accordingly, as Figure 4a shows, the share of workers with high levels of education over the total workforce has been expanding, at the expense of that of low-educated ones. These trends are contributing to a growing skill divide within the continent’s workforce, leading to a situation in which highly-skilled workers gain, and lowly-skilled workers lose, and thereby exacerbating and giving further momentum to the growing inequality pressures described above.

Figure 4: Percentage point changes in share of workers in each job type, 1998-2014
Figure 4a: Percentage point change between 1998 and 2015 in employment shares by level of education

Source: Bodewig and Ridao-Cano (2018)

Going forward, rapid technological improvements call for the urgent creation of employment opportunities for low skilled workers. Jobs with routine and non-routine manual tasks will continue to decline, leading, under the current scenario, to lower wages and fewer employment opportunities for low-skilled workers. This will increase the importance of finding creative ways to stimulate the demand for these types of workers, and to activate the large pool of unskilled youth and long term unemployed. On the other hand, as technological progress continues, the demand for non-routine, cognitive tasks will increase.

1.1 Overview of labor market-related developments in the EU and in Croatia

This section focuses on the supply-side labor market developments within the EU and in Croatia, analyzing recent trends. The main findings of this section include:

- In line with developments throughout the EU, the labor market in Croatia suffered in the post crises years, but recent years have shown signs of recovery. After a sizeable drop during the crises period, the employment rate in Croatia started increasing and currently stands at almost 59 percent in 2017, essentially at pre-crises level. However, these figure masks more worrying trends; falling absolute numbers of working age and active individuals. Even though the figures have been on the increase since 2013, the last decade brought an overall decline in the number of employed people, and an increase in the number of unemployed. Overall, the country is not creating enough jobs, even in the face of a rapid fall in the size of its active population.
- The employment rate in Croatia remains much lower than the EU average of 68 percent for the EU28.

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4 The ISCED classification is the following: 0 corresponds to no or pre-primary education; 1 corresponds to primary education or first stage of basic education; 2 corresponds to lower secondary education or second stage of basic education; 3 corresponds to upper secondary education; 4 corresponds to post-secondary non-tertiary education; 5 corresponds to the first stage of tertiary education, while 6 corresponds to the second stage of tertiary education

5 This section is based on the Systematic Country Diagnostic for the Republic of Croatia, and on “Portraits of Labor Market Exclusion 2.0; Country Policy Paper (CPP) for Croatia”.

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Long term unemployment, despite on a declining trend in Croatia, remains a major concern for the country and for the EU.

Following the trend observed across the EU, the gender gap in the Croatian labor market has been narrowing; however, it remains sizeable.

Throughout the European Union, the crisis led to an increase in unemployment among those with less than secondary education; while this trend was reversed in 2014, unemployment rates among the less educated have yet to recover to pre-crisis levels.

In the decade leading to the global crisis, Croatia enjoyed sustained growth. On the back of strong domestic consumption and net investments, GDP per capita increased by more than 4 percent per year, more than doubling to above US$22,000 in 2013, almost two-thirds of the EU28 GDP per capita level.

The effects of the financial crisis resulted in a six-year long recession, but since 2015 the economic conditions have taken a more favourable turn. In the pre-crisis period, growth was driven by a rapid increase of domestic demand and fuelled by large capital inflows. It triggered an import surge and a large spike in household consumption, leading to an expansion of non-tradeable sectors in particular (construction, finance, and accommodation and restaurant services). Despite rapid GDP growth, these trends also resulted in the current account deficit. increasing four-fold. However, external financing of the country’s large current account deficit dried out as markets took a turn for the worse. Borrowing costs spiked and demand for Croatia’s exports slowed significantly, leading to a 13 percent drop in output between 2009 and 2015. As markets recovered, liquidity became more readily available, and (mostly thanks to the EU-accession) the country recovered; GDP grew over 3 percent on average between 2016 and 2017 and is expected to expand by 2.5 percent in 2018 and 2019.

In line with developments throughout the EU, the labor market in Croatia suffered in the post crisis years, but recent years have shown signs of recovery. After dropping almost 10 percentage points between 2008 and 2013 (from about 60 percent to 52.5 percent), the employment rate started increasing and in 2017 stood at almost 59 percent, essentially equal to the pre-crisis level. Despite this recovery, the employment rate in Croatia remains much lower than the EU-28 average of 68 percent (Figure 5). Unemployment, on the other hand, peaked at over 17 percent in 2013, up almost 10 percentage points from its pre-crisis level, but has since recovered to 11 percent in 2017, just 2 percentage point above the EU-28 average.

The increase in the employment rate and decline in the unemployment rate observed relative to the 2014 peak are unfortunately mostly due to an overall fall in the number of active individuals, as opposed to actual increases in jobs creation. While the country has seen an increase in employed individuals since 2014, the total number of employed people declined by more than 120,000 units between 2008 and 2017 (from 1.725 million to just over 1.6 million). At the same time, even though the total number of unemployed individuals declined from 327,000 in 2014 to 205,000 in 2017, this is still above the 2008 figure of 165,000. In other words, the country is struggling to create jobs and, if anything, for several years in the post-crisis period has lost jobs. Overall labor market indicators, however, somewhat hide this situation as the total number of working age active individuals is falling rapidly, due to early retirement, population aging and migration outflows.

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Long term unemployment, despite being on a declining trend in Croatia, remains a concern for the country and for the EU. The share of long-term unemployment over total unemployment settled at about 33 percent at the end of 2017, down from 56 percent in 2007 and significantly less than the 2015 peak unemployment rate of 68 percent. The rate of long-term unemployment is, however, on the decline: reaching 3.1 percent of the working age population in the third quarter of 2018, it has almost aligned with the EU28 average of 2.8 percent (based on Eurostat data). However, Croatia’s current rate remains the fourth highest among EU countries after Greece, Spain, and Slovakia.

In line with much of the EU, the gender gap in the Croatian labor market has been narrowing; however, it remains sizeable. In 2017, the employment rate among Croatian men was almost 10-
percentage points higher than that of Croatian women, down from a 15-percentage point-gap in 2008. These figures are broadly aligned with those observed across the EU-28, which displayed an average gap of just over 10 percentage points in 2017, down from 14 percentage points in 2008. When it comes to unemployment, the rate among Croatian women was almost 1.5 percentage points higher than that observed among Croatian men, down from a 3.3-percentage point gap in 2008. Despite this improvement, the country underperforms relative to the EU, where the average difference between the unemployment rate among women and men is about 0.5 percent.

Figure 7: Gender Gap on the Labor Market: Croatia vs. EU (Percentage Points)

Throughout the European Union, the crisis led to an increase in unemployment rates among those that had obtained levels of education lower than secondary school; while this trend was reversed in 2014, unemployment rates among the less educated have yet to recover to pre-crisis levels. Unemployment among Croatians with lower secondary education or less remains very high, at almost 20 percent in 2017. Although this is down about 6 percentage point from the 2014 peak of 26 percent, it is considerably higher than the 15 percent observed across the EU. At 7 percent, unemployment is much lower for Croatians with tertiary education (compared to lower education categories) and similar to the pre-crisis level of 6 percent. However, Croatia underperforms relative to the EU, with the average unemployment rate of tertiary educated workers across Member States settling at 4.5 percent in 2017.
Finally, and worryingly, much like many other EU countries, Croatia is aging rapidly. According to the World Bank, the elderly dependency ratio increased by about 13 percentage points between 1990 and 2017 (from 17 percent to 30 percent), and this ratio is projected to rise to 41 percent by 2050. The share of those aged 80 and over to those aged 15 to 64 is set to double over the same period. Low birth rates, longer life spans, emigration\(^7\), and early retirement, if unchallenged, will result in a rapidly shrinking working age population; the World Bank projects that the country’s working age population will decline by 30 percent by 2050\(^8\). Between 2008 and 2017 alone, Eurostat data shows that the total number of working age people in Croatia declined by over 154,000 (5.4%) (from about 2.85 million to 2.72 million). Croatia, similarly to many other EU countries, will continue to experience a shrinking base of young people entering the labor market, as fertility rates decreased to circa 1.4 percent in 2016, below the population replacement rate (which is estimated to be of 2.1 children per woman).\(^9\)

\(^7\) The emigration of young and skilled labor has contributed to the shrinking labor force, negatively affecting productivity and overall growth. According to the World Bank, the outflow of skilled workers from 1995 to 2012 contributed to lower real labor productivity growth; in the absence of this emigration, incomes in Croatia would have been 10 percentage points higher.

\(^8\) World Bank, 2018, “Portraits of Labor Market Exclusion 2.0; Country Policy Paper (CPP) for Croatia”.

Figure 9: Dependency Ratio in Croatia

Source: Replicated from World Bank. 2018
1.2 Challenges

This section describes the main supply-side challenges which the Croatian labor market currently faces.

• Inactivity and long-term unemployment, despite some improvements since the end of the global crises, remain a main concern in Croatia (just like in many EU countries), and in particular among women and the youth, which fare particularly poorly in the labor market. The rate of youth not in employment, education or training remains a key challenge for the country, and the number of young Croatians leaving the country is on the rise, pointing further to the fact that the country is struggling to create jobs in general, and for the unskilled youth in particular.

• Unit labor costs are high, due to a dual labor market in which wages are set by insiders, and to labor market rigidities.

• Croatia is aging rapidly, as are many EU or neighbouring countries such as Bulgaria, Romania, Bosnia and Herzegovina, (etc.). The working age population is shrinking quite rapidly; such ongoing demographic changes will result in fewer labor market entrants, especially in the face of decreasing fertility, with the potential of having negative consequences on the country’s pensions and health system, public finances, and overall macroeconomic well-being.

• The trend of low labor activity and high youth unemployment will need to be reversed as, to counter the effects of rapid demographic changes, the country will need to tap into the pool of young individuals as much as possible. Therefore, creating jobs for the current workforce is key in the short run.

• Croatia is struggling to endow workers with strong foundation and technical skills. The weak foundation skills of young Croatians have negative long-term consequences for both individuals and for the economy overall; poor foundation skills limit the ability to learn throughout the education system, and later to find and retain a productive job. Furthermore, Croatia’s educational system fails to produce an adequate number of graduates in science, technology, engineering and mathematics (STEM) and, even though participation in vocational education and training (TVET) is high, the curricula taught do not reflect employers’ needs. These shortcomings will continue to limit gains in productivity in the labor market, potentially impacting the future and further expansion of the country’s service sector. Service sector is gaining importance in terms of share of employment and is developing most rapidly in the subsectors that are more reliant on relatively more skilled workers.

• Due to rapid technological change, the share of workers employed in nonroutine cognitive occupations (which tend to be highly skilled) has been increasing significantly, while the share of low-skill workers employed in manual jobs has been declining. These patterns, along with the shift in employment towards the service sector, are contributing to a growing skills divide within the continent’s workforce, bringing about a situation in which highly-skilled workers gain, and lowly-skilled workers lose, potentially further increasing inequality.

• While temporary employment contracts are common in Croatia, part time working arrangements are not, just as in many other EU countries. Almost everywhere, the youth and women use these forms of employment more, and therefore facilitation of the part time working arrangements has the potential to increase labor participation among these groups.

• Croatia’s expenditure on labor market policy-reforms is mostly focused on the provision of benefits and is well below EU averages.
Despite some positive developments in recent years, Croatia experiences significant employment challenges; first among them, the rate of inactivity among the working age population is high. The Croatian activity rate settled at only 66 percent in 2017. That means that one-third of the country’s working-age population is inactive; although this is a slight improvement, compared to the 2013 and pre-crisis level of 36 percent, it remains well above the EU28 average of 27 percent. Furthermore, it should be noted that even though over the last 10 years, although the inactivity rate seems to have stabilized or been on a positive downwards trend, this is mostly because the number of active people has been shrinking at a slightly slower pace than that of working age individuals. According to Eurostat, between 2008 and 2017 the number of active individuals fell by almost 85,000 units (from 1.89 million to 1.81 million – a 4.4 percent decline), but the number of total working aged individuals declined by more than 154,000 units, a negative 5.4 percent change. In other words, the number of active people in Croatia has declined quite rapidly when measured in absolute numbers, but remains stable percentage-wise regardless, because the number of working age adults falls at a faster rate. Such high levels of inactivity are in part due to the early retirement rate, which in Croatia is almost double to that of the rest of the Union, and to the short duration of a typical employee’s working life – which in Croatia is 32.8 years, 3 years lower than the EU average, according to World Bank data.

Croatia has a higher rate of inactivity relative to the EU average no matter which gender is considered. Furthermore, the within-country difference in inactivity rates across genders is quite striking. As figure 11 shows, the inactivity rate among Croatian men currently hovers around 29 percent, more than 7 percentage points higher than the EU-28 average. Among Croatian women, inactivity settled at over 39 percent in 2017, down from the pre-crisis level of 42 percent, but more than 6 percentage points higher than the EU-wide figure. However, what is most worrying is that these figures, when compounded, highlight that the inactivity rate among Croatian women is a whopping 10 percentage points higher than that of Croatian men, one of the highest gender gaps in the EU based on Eurostat data.

Activity rates among the youth (especially among young women) are particularly low, as shown in Figure 11a. Activity rates for both young men and women (15-24 years) and older men and women (50-64) are significantly lower than the EU average. Women between 15 and 24 displayed a rate of activity of only 30 percent in 2017, 10 percentage points below the EU-28 average. Croatian women between the age of 50 and 64 registered an activity rate of 46 percent, a staggering 16 percentage points
below the EU average. The activity rate of young women is 11 percentage points lower than that of young men, (30 versus 41 percent); for older cohorts (between 50 and 64), the difference is of about 15 percentage points (46 percent vs. 61 percent). In part, these low activity rates are explained by the shorter duration of working lives among Croatian workers; according to the World Bank, an average working life in Croatia lasts just less than 33 years, lower than the average for the EU (35.4 years) and well below many new member states.

Furthermore, Croatian women display shorter working lives compared to males (30.7 versus 34.5 years respectively) but have a longer life expectancy (81 years compared to 75 years for men).

These high rates of inactivity greatly impact the country’s economic outlook. Youth and women, even if relatively educated, lose skills while not working. This, in turn, affects the overall current and future productivity, lowering economic growth. Low participation in the labor market and early retirement lower the overall level of contributions made to the country’s social insurance system, putting at risk the future adequacy of pensions and lowering replacement rates. Finally, shorter working lives, in light of longer life expectations and inadequate pensions, increase the risk of poverty among older cohorts, resulting in negative consequences on the public health system and burdening public finances.

Figure 11: Inactivity Rate by Gender: Croatia vs. EU (%)
The second main challenge currently facing the Croatian labor market is related to youth unemployment. After peaking at about 50 percent in 2013, the unemployment rate for Croatian youth (between the age of 15 and 24), dropped to 24.5 percent in 2018; although exemplifying the significant progress made, the current rate remains more than 9 percentage points higher than that recorded average for the same cohort in other EU member states. As seen in the previous section, young women fare worse than young men when it comes to unemployment. Worryingly, the rate of young people not in education, employment or training (NEET) is at 15 percent; despite showing some progress over the last few years, it remains well above the EU average of 11 percent. Disaggregating NEETs by gender reveals that the NEET rate is comparable among young men and women. Overall, the country is struggling to create enough jobs and opportunities for young people.
A third challenge of the Croatian labor market is high unit labor costs. Compared to other EU countries that have similar income and productivity levels (such as Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia), Croatia displays higher unit labor costs. In 2014, for instance, Croatia’s labor productivity was comparable to Latvia’s and Lithuania’s, but unit labor costs were more than 25 percent higher. Throughout the economic crisis, real wages in Croatia grew faster than productivity increases, and failed to adjust to the slowing economy. This downward rigidity in wages, which puts pressure on labor costs and hampers competitiveness, can in part explain the job destruction rates witnessed by the country in the last ten years.\textsuperscript{11}

High unit labor costs are, at least in part, due to a dual labor market in which wages are set by insiders. The Croatian wage setting system includes a Government-mandated statutory minimum wage,\textsuperscript{12} relatively uncoordinated collective bargaining processes (which are very prevalent in the public sector), and, until recently, a significant premium in terms wages and benefits for workers in the public sector. The wage and benefit premium for public sector employees, whilst likely being on the decline following the freeze in the pay of civil servants, puts

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{croatia_eu_labor_market.png}
\caption{Youth and the Labor Market: Croatia vs. EU (%)}
\end{figure}

Source: Eurostat

\textsuperscript{12} Since 2013, the minimum wage is discretionarily determined by the government following consultations with the social partners. According to Nestic (2018), “The minimum wage in Croatia since 1 January 2017 amounts to 3,276 kunas or approximately 435 euros. In 2016, it amounted to 40.2% of the average gross wage. It is the highest minimum-to-average wage ratio since the introduction of the minimum wage system in Croatia. During the recession, the minimum wage was frozen at first (2009–2012) but started growing with the implementation of new Minimum Wage Act in July 2013. In terms of net wage, the share of minimum wage in the average wage is a little higher due to the lower tax burden on the minimum wage compared with the average wage. Thus the share of the net minimum wage in the average net wage in 2016 was 43.9%”. According to Eurostat, this is in line with the EU average. See Danijel Nestić, Zdenko Babić & Sanja Blažević Burić (2018) Minimum wage in Croatia: sectoral and regional perspectives, Economic Research-Ekonomska Istraživanja.
pressure on the wage rate of the private sector, to the detriment of the country’s overall competitiveness and leading to market segmentation and an inefficient allocation of resources\textsuperscript{13}. Level of union density, at about 35 percent, is above the EU average of about 23 percent.\textsuperscript{14} These features likely contribute to an environment in which wages are set by insiders for insiders, and those who fall outside of collective agreements, or those not productive enough to receive the minimum wage, face lower chances of entering the labor market. They also harm overall competitiveness and lower the demand for labor.

**Rigid employment policies likely drive unit labor costs upwards.** Despite some significant progress has occurred in recent years, the Croatian labor market still displays some rigidities. Even though, since 2013, employees can be dismissed for misconduct or performance issues, the expected costs of dismissals remain high due to the difficulties employers encounter when attempting to prove the worker’s poor performance or misconduct, and, anecdotally, courts almost always rule in favor of the dismissed worker. A court ruling on dismissal takes 3 to 5 years, according to the World Bank, which is a deterrent to dismissing workers, even when, for instance, misconduct may be obvious. Furthermore, even in the event of a “legal” dismissal, employers must make mandatory severance payments for any termination of an employment contract that has lasted for more than two years. Redundancy dismissals are permitted, but rules apply as to which workers should be dismissed first (that is, the employers need to consider the workers’ family responsibilities), and employers may not hire another worker for the following 6 months. Workers in firms without collective agreements face less flexibility in terms of working time.\textsuperscript{15}

**Rigidities are, in turn, likely to in part explain the low rates of part-time working arrangements, which further limits the employment opportunities of women in particular, who tend to rely on them relatively more.** Croatia displays one of the lowest rates of part time work in the EU; only 6 percent of the country’s employed population worked part-time in 2016, against the 20 percent EU-28 average. Among women, 7 percent of those employed work part time against an EU average of over 30 percent. The limited availability of formal care centers for children and the elderly, compounded with the low flexibility in working arrangements, make it particularly hard for women to reconcile work and family obligations, limiting their participation and employment potential\textsuperscript{16}.

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\textsuperscript{13} According to Nestic et al, the public-sector wage premium, holding worker characteristics constant, amounts to 5 percent; in state-owned enterprises, the conditional wage premium is about 7 percent. See Nestic, D., I. Rubil and I. Tomic (2015), “Analysis of the Difference in Wages between the Public Sector, State-Owned Enterprises and the Private Sector in Croatia in the Period 2000-2012”, Privredna kretanja i ekonsomska politika 24, 7–50.


\textsuperscript{16} World Bank, 2018, “Portraits of Labor Market Exclusion 2.0; Country Policy Paper (CPP) for Croatia”.

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Strictly related to the above, outwards migration contributes to exacerbating the demographic challenges that the country is facing. About 22,000 Croatian-born youth between the age of 15 and 24 were living in another EU country in 2017 according to Eurostat data, a level equal to the 2008 one, but twice as high as the 2012 figure of 11,000, pointing to a general increase in the number of young Croatians leaving the country over the last 6 years. According to the World Bank’s policy note on demography and family policies, “the total population in the country is shrinking also due to high net emigration rates. It is estimated that the country lost around 200,000 people between 2007 and 2017, only in 2015 around 30,000 people emigrated. Moreover, a large share of emigrants is of prime working and potentially child-bearing age. Available evidence suggests that almost 50 percent of those who emigrated in 2015 were between 20 and 44 years. A recent study also suggests that some 50 percent of emigrants had completed secondary education and around 8 percent higher education”. It should be noted that the Government has been focusing on improving working conditions and increasing wages in sectors which currently face skills and workers’ shortages (such as the tourism industry) to prevent the youth from leaving the country. However, at least in the short term, the migration outflows described above, combined with ageing and low fertility, along with low activity and emigration outflows among the youth, will further decrease productivity, increase the costs of public healthcare, lower social security contributions, (etc.).

A fourth challenge is related to active policies and programs in support of labor participation and activation, which are traditionally limited and underfunded, and fail to target those most in need of activation. In recent years, efforts to activate groups at risk of unemployment and to support school-to-work transitions have intensified. Several Governments in the last years have attempted to promote the country’s employment among the youth, women, long term unemployed, and low skilled workers, much in line with the Europe 2020 Strategy and the 2016 New Skills Agenda for Europe, which both emphasize inclusive growth through the modernization and strengthening of employment, education and training policies, as well as social protection systems. Between the 2007-2016 period, new participants in ALMPs increased five-fold, from just under 8,000 to over 35,000. However, gaps in the supply, accessibility and delivery of services still exist. ALMPs still benefit only 1.8 percent of the working-age population and about 19.5 percent of the registered unemployed. Despite the large increase in funding, mostly financed by the European Social Fund, spending on labor market policies remains low (about 35% of the EU28 average), and mostly devoted to contributory measures such as
unemployment benefits (included in the graph below among the “passive measures” as per Eurostat classifications) as opposed to more active measures (trainings, counselling, etc.). As we have seen, Croatia currently struggles with creating jobs, especially for youth and women; as such, increasing the funding and range of ALMPs is unlikely to significantly impact labor market indicators unless these additional efforts are accompanied by stronger demand for labor, promoted through aggregate demand measures. That said, given the large pool of unemployment in the country, especially among the youth and women, and given how many of the unemployed are long term, better targeting, better matching services, and soft skills trainings could significantly improve the employment opportunities of at least some individuals.

Figure 14: Expenditure on Labor Market Policies, 2015 (As a share of GDP)

Source: Bodewig and Ridao-Cano (2018)

The fifth challenge facing Croatia is the need to endow workers with stronger foundational and technical skills. In 2016, less than 30 percent of those aged between 30 and 34 had tertiary education, a figure that is well below the EU average of 39 percent. Furthermore, almost one-third of the country’s 15-year-olds perform at the bottom levels of mathematics in the Program for International Student Assessment (PISA), which is above the EU average. Weak skills foundations among young Croatians have negative long-term consequences for both individuals and for the economy overall as they limit the ability to learn throughout the education system, and later to find and retain a productive job. Furthermore, Croatia’s education system fails to produce an adequate number of graduates in science, technology, engineering and mathematics (STEM). Graduation rates in STEM subjects at the tertiary level are below the EU average (22 percent in Croatia versus 25 percent in the EU), with a considerable gender gap (where females perform worse than males).
Against this background of the low quantity of STEM graduates in Croatia, any possible increase in the demand for employees with high-level qualifications in science, technology, engineering and mathematics generated by technological improvements and progress will likely go unmet.

According to the World Bank, even though participation in vocational education and training (TVET) is high, the curricula taught do not reflect employers’ needs, and almost half of TVET graduates end up working in a field outside their specialization. This divergence between the skills needed by employers and those supplied by the workforce is augmented by the limited role that employers play in the planning and funding of the TVET sector. Only 3 percent of those aged between 25 and 64 participate in some form of workforce education or training course; this lack of participation in advancement courses/opportunities reduces the overall employability of the country’s workforce.

Reports and anecdotal evidence of labor shortages in sectors such as tourism, catering, construction, and manufacturing abound, with the employers’ associations calling for an increase in the number of permits granted to foreign workers on a yearly basis. The fact that Croatia continues to be a net exporter of workers, and particularly of tertiary educated workers (see pg. 16), gives some credence to the anecdotal evidence mentioned above. It is important to stress that the Croatian Government has recently put a lot of effort towards addressing some of these issues and increasing the employment potential and opportunities for low skilled workers. The collaboration with the private sector when designing ALMPs is being strengthened, and the Croatian Employment Services currently plans to offer trainings for the unemployed in sectors where there is a shortage of manpower and skills. At the same time, the new “From measure to a career” initiative attempts to bring labor market integration measures closer to its intended beneficiaries by advertising success stories among the public. The “Get Employed in Croatia” campaign, furthermore, aims to inform the unemployed, employers and other interested parties on the currently available ALMPs co-financed by the European Social Fund. Despite these positive developments, addressing the structural issues described above will require time and a broader approach, and the shortcomings just mentioned will continue to limit gains in productivity in the labor market, with adverse effects on overall growth, at least in the short run. Furthermore, the lack of workers with strong foundation and technical skills can potentially impact the future and further expansion of the country’s service sector, which as we have seen is gaining importance in terms of share of employment and is developing most rapidly in subsectors more reliant on more skilled workers.


21 World Bank, 2016, “Croatia Policy Notes: Restoring Macroeconomic Stability, Competitiveness and Inclusion”

22 According to the World Bank’s Migration and Remittances Factbook 2016, approximately 882,000 non-second generation Croats – almost 21 percent of the country’s population at the time - had emigrated abroad by 2013 (mostly to Serbia, Germany, Australia, Slovenia, Canada, the United States, Austria, Italy, Switzerland, Albania), whilst there were 757,000 immigrants - 17.9 percent of the population - mostly from Bosnia and Herzegovina, Serbia, Slovenia, Montenegro, the Former Yugoslav Republic of Macedonia, Germany, Italy, Hungary, Austria, the United States. Almost 14 percent of emigrants had a tertiary degree.
This section describes the main supply-side opportunities on which Croatian policymakers can capitalize to improve the situation in the county’s labor market.

- **Recent labor market reforms supported a recovery in employment levels and greater flexibility.** Pushing forward this agenda, while protecting the rights of temporary workers and ensuring that the duality of the country’s labor market along permanent/temporary contract lines does not dramatically increase, provides an opportunity to stimulate the demand for less skilled and younger workers.

- **Ongoing efforts aiming to increase the availability of early childhood care and education (children’s nurseries and kindergartens and pre-school education) as well as long-term care to enable people to work, especially women, are a step in the right direction.**

- **Recent education reforms are a step in the right direction;** the country should take the opportunity to build upon these ongoing efforts.

- **Public investment in the coverage and total expenditure on active labor market measures for target groups has increased.**

**Recent labor market reforms represented a major step towards more flexibility.** In 2013, as a result of a set of measures aimed at increasing the use of temporary contracts and introducing some deregulation, “hiring costs were lowered by raising the permissible cumulative duration of employment with Temporary Work Agencies (TWA) from one to three years as well as eliminating the three-year duration of the first fixed-term contracts. Individual dismissals were made easier and less costly by (i) abolishing the requirement to retrain and reassign the redundant worker to a different job; (ii) allowing employers to dismiss workers who are on long-term sick leave (for six months or more), and (iii) reducing the maximum compensation for unfair dismissal from 18 to 8 monthly wages. Collective dismissals were made easier by abolishing the requirement to prepare a “social plan”). Working time flexibility was enhanced by allowing employers to redistributed working hours (i.e. to increase working hours during the peak periods and to proportionately reduce them during the slack period) with a maximum of 50 working hours per week (60 hours/week if provided for by a collective agreement). Part time employment was made less costly for the employer by introducing a pro rata principle, whereby...
all monetary benefits (bonuses, allowances, etc.) are paid in proportion to the actual working time.”

Despite these positive developments, additional efforts are needed as Croatia still ranks 107th out of 137 countries in terms of its labor market efficiency (according to the 2018 Global Competitiveness Index). The momentum built thanks to the 2013/2014 deregulation package presents an opportunity to push forward the labor market reform agenda.

These changes to the Labor Code supported a recovery in employment levels. The increases in employment registered since 2014 have mostly been the result of an increase in temporary contracts. Importantly, temporary contracts are used particularly to hire younger workers, which, as shown above, fare particularly poorly in the labor market. Such contracts also tend to be used relatively more to hire low skilled and hence lower-income workers; as such these work arrangements have the potential to improve the conditions of low-income households. However, the spike in temporary contracts is likely to be connected, even if just in part, to the labor rigidities discussed in the section above, as employers seek cheaper ways to hire or fire workers, so as to reduce their unit labor costs. It is not clear if this increased use of temporary contracts will lead to permanent hiring once the economy strengthens further: that being said, pushing forward this agenda while protecting the rights of temporary workers and ensuring that the duality of the country’s labor market along permanent/temporary contract lines does not dramatically increase, provides an opportunity to stimulate the demand for less skilled and younger workers.

Ongoing efforts to increase the availability of early childhood care and education (children’s nurseries and kindergartens and pre-school education) and long-term care to enable people to work, especially women, are a step in the right direction. Over the last years, the Ministry of Social Policy and Youth, together with the Ministry of Health, have been trying to make public elderly care services more readily available, setting up programs in which health service providers, civil society, and community centres join forces. In terms of policies targeting childcare, in order to ensure that families can benefit more widely from early childhood pre-school education services for children, subsequent Governments have been trying to increase the supply of pre-kindergarten care services and making pre-k education compulsory. Considering the significant degree to which labor market participation is hindered as a result of family care obligations, (particularly among women, who traditionally bear the lion share of the responsibility when it comes to caring for children and older/ disabled/ frail/ sick

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24 Croatia still ranks 131st out of 137 countries in ease of hiring and firing practices, and 63rd in redundancy costs.
25 According to the World Bank. “One out of five employees in Croatia has a temporary contract, more than in most EU countries. The incidence of temporary employment is much higher among the newly employed workers: 7 out of 10 workers are presently hired on a temporary basis. This represents a marked shift in hiring practices: the share of temporary employment is currently twice as high as in 2002. The increase in the share of temporary employment is not specific to Croatia, it happened in most EU countries over the last decade. (…) Temporary employment is most prevalent in small private firms, and its incidence is highest in the construction, and market services sector. Furthermore, less-skilled workers are most likely to hold temporary jobs; about one-third of workers in elementary (unskilled) occupations, and one-fourth in service and sales occupations have temporary jobs. In comparison, skilled blue-collar workers (such as craftsmen or machine operators) the share of temporary employment is about 15 percent.” Finally, temporary employment is particularly high among young workers; in 2016, among workers between the age of 15 and 24, the proportion of those with temporary contracts approached 62 percent. ( Bodewig and Ridao-Cano, 2018). See “Addressing Labor Market Duality in Croatia: A Single Employment Contract?” World Bank Policy Note, pg. 1, 2, 3, 4, and Bodewig and Ridao-Cano (2018), Growing United: Upgrading Europe’s Convergence Machine, The World Bank.
Further developing policies such as the ones described above can contribute to facilitating entry into the labor force for specific target groups.

Recent education reforms are a step in the right direction; the country should take the opportunity to build upon these ongoing efforts. The 2014 education strategy focuses on reforming the education and training system. Sustaining the momentum around this policy agenda presents a clear opportunity to prioritize the development of relevant skills, especially among low-performers, as this would contribute to narrowing the skills gap and boosting long-run growth. For instance, accelerating the development and implementation of national competence standards for teachers could help improve the overall quality of teachers, which in turn could strengthen the math and technical skills of students. The expansion of the use of performance-based financing to all public higher education institutions in the country, rather than only public universities, could help increase the quality of the higher education system, thereby increasing the overall skills attained by the student body.

Figure 16: Temporary and part-time employment by age group, 2016

Public investment has increased in terms of coverage and total expenditure granted on active labor market measures for target groups. Very promisingly, investments in training, and improved profiling and case management have been increasing in recent years. These investments have the objective of improving the employment potential of the youth, those with no work experience, and the long-term unemployed. The coverage of ALMPs has been expanding, with the number of new participants in ALMPs increasing five-fold between 2007 and 2016. Despite these efforts, a World Bank analysis suggests that programs still fall short of targeting those hardest to employ. Unemployment rates are higher among those with primary education or less (about 20 percent), youth and women; however, ALMPs still tend to cater primarily to those with tertiary education or post-secondary education. Policies and programs are failing to address long-term unemployment among the youth, in

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26 World Bank, 2016, Croatia Policy Notes: Restoring Macroeconomic Stability, Competitiveness and Inclusion”.
27 World Bank, 2018, “Portraits of Labor Market Exclusion 2.0; Country Policy Paper (CPP) for Croatia”.
particular among those with a less than tertiary education, and for those above 40 years of age. **Building on the positive momentum of Croatian policies, characterized by increased expenditure, greater coverage of programs, and a stronger focus on active measures, it will be crucial to accelerate policies which can address low participation and high unemployment among key groups such as women, youth, low skilled workers, and long term unemployed**. Given the EU-wide policy focus on these cohorts, significant external funding is likely to be available to further expand workplace training, employment subsidies, and public works programs.

1.4 Policy Orientations and Recommendations

The analysis above has shown that Croatia is grappling with a number of challenges. On the one hand, declining fertility, early retirements, and an ageing population are contributing to a shrinking working age and active population. At the same time, the pool of youth and women who remain outside of the workforce – and which the country desperately needs to tap into to counter the effects of the demographic changes Croatia is currently undergoing - continues to be large. The education system is struggling to produce workers that have the skills needed by the labor market, and this situation is likely to deteriorate as high-skills intensive employment opportunities in the service sector expand further. On the contrary, there appears to be an over-supply of low skilled youth, some of which resort to migrating abroad due to the country’s inability to generate jobs for such groups, and due to the limited effectiveness of policies in support of their activation.

**Going forward, Croatia will need to address high unemployment and inactivity rates, particularly among the youth and women.** This becomes more important in the face of a rapidly aging society; although, ultimately, demand-side interventions will be more effective in creating jobs, below we discuss some supply-side policy directions that Croatian policymakers may want to consider improving things at the margin. We also provide some concrete policy recommendations, including some examples of tools adopted in other EU Member States.

**The policy framework around labor markets should strive to combine flexibility with the provision of an adequate level of security and re-employment support measures for workers.**

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28 In the last years, according to the World Bank, “the government launched the Youth Guarantee program to identify, support, and monitor young people who are neither in employment nor in education and find them work within four-months of their unemployment. Several acts were also adopted to: (i) provide incentives to employers to employ or keep in employment such persons; (ii) increase the responsibilities and sanctions on unemployed persons to look for employment; and (iii) increase frequency and accessibility of counselling services. (…) Similarly, the Social Welfare Act (SWA) introduced a number of provisions to encourage work-able beneficiaries to transition from assistance to work. These measures include penalties for refusing job offers, time limits on participation in the minimum income guarantee program, and in-work benefits. However, provisions so far apply only to the beneficiaries of the minimum income guarantee program, which has low coverage. (…) Complementary employment services, such as individualized job search assistance and case management, are emerging. The Croatian Employment Services have been experimenting with more sophisticated profiling and individualized action planning to improve counselling services and support more difficult-to-employ groups. However high caseloads for counsellors hinder case management; in this vein, a new regulation reduces caseload per counsellor from 500 to 400. Case management is important for the long-term unemployed and other difficult-to-employ groups who face the highest employability and job access constraints.” These are some examples of the positive policy developments witnessed in the last years in Croatia, and efforts along these lines should be sustained. See World Bank, 2018, “Portraits of Labor Market Exclusion 2.0; Country Policy Paper (CPP) for Croatia”, pg. 23.
Temporary contracts can facilitate job entry, and create short term jobs, especially for the youth, and are needed in times of fast technological change. Croatia, as mentioned, has been increasingly making use of such working arrangements, leading to increases in employment levels, especially among the youth, in the last years. However, excessive use of temporary contracts can exacerbate the labor market’s duality and precariousness, especially among low skilled workers, who also tend to be the less affluent. This can lead to more inequality, as well as to lower job market attachment, lower investment in job specific skills and, hence, to lower productivity and growth. One way to reconcile the need to protect workers with that of attaining greater flexibility and job creation is to follow the “flexicurity” model pioneered by Denmark in the 1990s. According to this model, greater flexibility in the labor market is accompanied by: i) an effective net of social programs to protect workers in the event of economic shocks and in the face of unemployment²⁹, and ii) a wide set of measures to support workers’ re-entry into the labor market.

**Box 2: Addressing Labor Market Duality**

Several countries across the EU have attempted to reduce the discrepancies between the treatment of permanent and temporary workers, thereby addressing labor market duality. On one hand, governments have tried to reduce the cost of permanent employment by making “hiring and firing” rules covering permanent contracts more flexible. In Slovenia, for instance, the 2013 labor reform introduced shorter advance notice period, lower severance pay, and lower unemployment insurance contributions for permanent contracts. In Italy, employers are no longer obliged to reinstate workers dismissed for invalid economic reasons.

On the other hand, temporary workers are provided with some additional degree of protection by the legislation, somewhat closing the gap with permanent employees. Slovenia, for instance, in parallel to the changes to permanent contracts, mandated employers to pay higher unemployment contributions for temporary contracts. In Spain, the government introduced a relatively higher severance pay for temporary workers, while in France employers must now pay an “insecurity bonus” to temporary employers if their contract is not renewed. In Slovenia, Poland, the Netherlands, and very recently in Italy, limits on the maximum duration of temporary contracts were introduced to limit „chronic labor precariousness“.


Despite recent changes to the labor law introducing greater flexibility, as evidenced in the previous sections there are still complexities and rigidities which need to be addressed. The introduction of a single contract to reduce labor market segmentation between workers on temporary and permanent contracts should be considered, along the lines of the recent experience in Italy. Costs of dismissals remain relatively high, and there is room to reduce them further (for instance by revising the priority rules for redundancies, or shortening the time needed for courts to adjudicate on cases of dismissals) without necessarily lowering the overall level of employment protection. Benefits of public and private sector employment need to be aligned to support a more efficient allocation of labor resources.

Many countries are adopting a more integrated approach when it comes to providing security and re-employment measures for workers and for the unemployed. Social protection and active labor market measures are increasingly becoming two sides of the same coin, with many examples of countries in which employment programs are now embedded in social assistance programs. In Germany for instance, the 2005 reform of JobCenters is a notable example of a program aiming to move towards

²⁹ See “Family Policies”, World Bank, 2019, prepared as part of the Reimbursable Advisory Services Agreement “Support for Establishing the System for Strategic Planning and Development Management and for Preparing the 2030 National Development Strategy".
an integrated institution which serves as an entry point for both social assistance and employment programs. JobCenters adopt an individualized approach to services (i.e. individualized case-management), addressing individuals’ and families’ needs in a holistic manner, and granting access of the beneficiaries to a range of services including activation, assistance, health, and job placement. Similarly, the Irish Intreo agency, under the Department of Employment Affairs and Social Protection, provides “a single point of contact for all employment and income supports measures and is designed to provide a more streamlined approach and to offer practical, tailored employment services and support to jobseekers and employers”.

It is important to note that as the changes mentioned above were introduced, both Germany and Ireland benefitted from relatively strong labor markets, and rapid job creation has been a key factor behind the success of these reforms. As such, even though increased demand for labor cannot be substituted by measures aimed at increasing the employability of individuals, the German and Irish models may be of interest to Croatian policymakers as the use of temporary work arrangements continues to increase, and given the large number of youth unemployed and inactive.

The current set of active labor market programs should be carefully evaluated to assess their effectiveness, and only those found to provide value-for-money should be expanded or better targeted. The last few years have brought many improvements with respect to the range, scope, and financing of ALMPs in Croatia, as described above. The public budget allocated to ALMPs more than doubled in absolute value in 2018, and programs to support women, the long term unemployed, and disadvantaged groups have been introduced. However, according to the World Bank, existing programs still predominantly target the young and high-skilled who have been unemployed for less than six months, even though the most difficult and most numerous individuals in need of activation, and therefore those who should be targeted, are the low-skilled, the long-term unemployed above 45 years of age, and unemployed women above 30. Furthermore, existing ALMPs have not been carefully evaluated to understand their cost-effectiveness, even though there are currently some ongoing discussions with the government to do so, at least for selected programs and policies. As such, existing programs need to be carefully evaluated to assess the need for expanding or complementing them with other services to address the constraints to labor market participation that groups at the fringes of the labor market face. Profiling techniques may need to be further strengthened, building on the positive changes introduced over the last few years, to identify potential ALMPs beneficiaries and to assess their specific needs, both in terms of activation and in terms of social services/assistance. Less educated unemployed workers, on the other hand, may need more intense and individualized counselling to help them overcome greater barriers to labor participation.

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31 JobCenters in Germany were reformed in 2005 as the so called Hartz IV reforms were introduced, and since then the country’s employment rate has increased by almost 10 percentage points and the unemployment rate by almost 4 percentage points. In Ireland, Intreo was created in 2015 and since then employment increased by about 3 percentage points and unemployment fell by about 3 percentage points as well, according to Eurostat.
32 World Bank, 2018, “Portraits of Labor Market Exclusion 2.0; Country Policy Paper (CPP) for Croatia”, pg. 23.
Box 3: Towards Better Tailored ALMPs

The long term unemployed are a difficult group to activate. The longer the unemployment spell, the sharper the deterioration of one's skillset, and the more stigma one faces in society, making it increasingly difficult to re-join the labor market. Often, these groups need a combination of programs targeting the upgrading of beneficiaries' skills (apprenticeships, reskilling, and lifelong learning), focusing on beneficiaries' mental well-being, and providing incentives for employers. to hire them

Indeed, Croatia has been focusing more and more on increasing the employability and providing opportunities for groups with a particular disadvantage or those displaying low labor market indicators, such as, for instance, the long term unemployed and women. Since 2016, new activation programs, motivation trainings, and counselling have been measures introduced to improve the country's overall ALMP menu's targeting. For example, when hiring a person with disabilities, an employer can now get a subsidy amounting to 75% of their yearly gross wage. A project to support women in the labor market was launched in 2017, „Zaželi“ (“Make a Wish”) is currently the biggest project financed in Croatia by European Structural Funds, with a budget of about one billion Kuna and the objective of employing more than 7,500 women to provide home-care to more than 35,000 older citizens and persons at risk.

Within the EU, several countries have been experimenting with policy measures and programs specifically aimed at activating the long-term unemployed, searching for effective policy tools to reduce long term unemployment. It is important to note that the examples below have not yet been carefully evaluated, and therefore their effectiveness remains unknown.

In Bulgaria, the Government started subsiding the training and hiring of the long-term unemployed, while in Denmark a job premium scheme was introduced in mid-2017 and put in practice for the next two years, allocating to the long-term unemployed who enter employment a tax-free job premium of 10% of the earned income, up to a maximum of about 350 euros per month for up to 18 months, thereby providing this group of people with an additional incentive to take on work.

In Ireland, starting in 2013, public employment services (Intreo) were complemented with the services of a private employment provider, which was contracted to assist the long-term unemployed in their job search. The objective of the performance-based contract between the Department of Employment Affairs and Social Protection and the private provider was to cut the costs of job placement for the long-term unemployed and to expand the range of services at their disposal, beyond those that Intreo could provide alone.

In Latvia, the Ministry of Welfare began offering some services (including career counselling and motivational programs for job searching) aimed particularly at the reintegration of the long-term unemployed.


The network of social services in support of women in the workplace or wanting to enter the labor market, needs to be expanded. As we have seen above, in recent years there have been positive developments for women in the labor market, with gaps narrowing between men and women in terms of participation and unemployment. This presents a unique opportunity to introduce policies aimed at further facilitating the activation of women (especially low-income ones), focusing on measures to help workers reconcile their work and family responsibilities. The option of increasing the availability and/or accessibility of early childhood care services and pre-school education for children and of care services for the elderly, frail, persons with disability, etc., such as day care centers, support services at home or long-term care centers should be considered, as taking care of children, as well as disabled or elderly family members, is a significant barrier to taking up and retaining employment, for many Croatian
women\textsuperscript{33} Subsidizing access to early childhood care and education services (crashes, kindergartens) and adult care support and services for low-income households should be considered; the experience of Malta in this respect can provide an interesting example.\textsuperscript{34} Introducing mandatory paternity leave, which is currently not legislated in Croatia, and increasing the incentives for fathers to take paternity leave, in order to relieve some of the parental responsibilities currently falling on mothers, could also help increase women’s labor participation.\textsuperscript{35}

\textsuperscript{33} To understand the barriers to labor market participation and employment, the World Bank carried out a profiling analysis on Croatia’s out-of-work population (defined as the inactive, unemployed, disabled, retired, or those engaged in domestic activates), and the marginally employed (those with unstable jobs, those with restricted working hours, and those with extremely low incomes from labor). These two groups accounted for 46 percent of the working age population based on EU-SILC 2013 data. The analysis found that for about 12 percent of the total sample of people, care responsibilities were a barrier to employment, twice as much as the share within the country’s overall working age population. The analysis also found that about 17 percent of the out-of-work and marginally employed population, or about 8 percent of the country’s population, is made of middle-aged long-term unemployed women living in households with children and therefore facing care responsibilities, while reporting having limited access to care services.

\textsuperscript{34} The 2016 Special Module on Access to Services of the EU-SILC survey asked households about their unmet needs for formal childcare services. More than 7 percent of households reported having such unmet needs; 4.5 percent of households blamed financial reasons for their unfulfilled needs, while 1.7 percent blamed the unavailability of services. While over 92 percent of households did not report having unmet needs for childcare services, this does not mean that reducing the cost and increasing the availability of said services is not a needed change. It could be in fact that at least some primary caretakers within households (mostly women) have rationally decided not to be employed or actively searching for employment to begin with, and hence report not having childcare needs, but would reconsider such decision if services were more readily available and more convenient.

\textsuperscript{35} See “Family Policies”, World Bank, 2019, prepared as part of the Reimbursable Advisory Services Agreement “Support for Establishing the System for Strategic Planning and Development Management and for Preparing the 2030 National Development Strategy”.
**Box 4: Free childcare scheme for children under the age of three in Malta**

"In April 2014, Malta introduced a free childcare scheme for children under the age of three to incentivize more parents, particularly mothers, to return or to remain in work. In a national context of low female employment rates (51%), the free childcare scheme is specifically targeted at parents who are employed and paying social security contributions, including single parents. The scheme is also open to parents who are studying. Parents eligible for the scheme can send their children to a childcare center of their choice, free of charge.

The scheme has been positively received by working parents, service providers and the public in general. Nearly all childcare centers in Malta (97.5%) have joined the scheme which is run through a Public Private Partnership (PPP) agreement. Before the introduction of the scheme in April 2014, there were 1,600 children of working parents in childcare. By December 2014, this had increased to 2,567 children; it is expected to rise to 3,200 children by the end of 2015. Working parents save in childcare costs, making work pay, and child care providers are ensured a stable income. As a result, an additional 200 mothers are estimated to have entered the workforce in low-to-medium skill jobs and 50 new childcare providers were employed in the sector. Estimates indicate that scheme would be financially self-sustaining once a 40 per cent coverage ratio is achieved. As reported, from a cost benefit analysis perspective, most probably benefits already outweigh the costs if the work-life balance factor is considered."

*Drawn from: Executive Summary Peer Review on ’Making work pay for mothers’, Malta, pg. 1

Full report and background papers available at:
http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2204&furtherNews=yes

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To improve the alignment between the demand and supply of skills in the labor market, and to improve the relevance of skills developed through the education system, better information on the country’s labor markets is needed. Better information should be collected on the education system to assess the labor market relevance of specific fields of study, new curricula, and returns to investment in education. In this respect, Tracer studies are used by several countries to track and to keep record of students once they have graduated from schools or universities. Tracer studies collect detailed information about school-to-work transitions, career opportunities of graduates (divided by specialization, field of study, and sector of employment), skills used and needed, job satisfaction and further professional development orientation and possibilities. Through Tracer studies, information can be gained to reduce skills mismatches and enhance the responsiveness of education, at various levels, to labor market needs. At the same time, information on labor market needs from the employers’ side has to be collected to triangulate such information with the data made available through interviews with students and graduates and to complete the picture of skills demand and supply on the labor market. The establishment of an observatory to monitor all issues related to the country’s labor market (skills availability and forecasting, outflows and inflows of workers, vacancies, sectoral shifts, etc.) should be considered.

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36 See also with the European Commission’s 2018 Country Specific Recommendations, which point to the same issue. See Council Recommendation on the 2018 National Reform Program of Croatia and delivering a Council opinion on the 2018 Convergence Program of Croatia. See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018H0910(10)&from=EN

37 See https://www.etf.europa.eu/sites/default/files/m/CEDE612F00BFF6B3C12581A600278816_Tracer%20studies.pdf for more information
Box 5: The Role of Data and Monitoring in South Korea

Since 2005, to ensure that the skills taught to the current and future workforce are the right ones, the Korean Ministry of Labor has been conducting among businesses rigorous and periodical surveys (by region) on human resources and training needs. These surveys, aimed at providing authorities with the data necessary to plan training programs and make changes to the supply of courses, include an “establishment survey”, a “training demand survey among the unemployed”, and a survey among institutions to assess their ability to provide vocational training to the unemployed. In particular:

- The “establishment survey” is divided into two parts: one targets employees trained in-house, and one focuses on workers trained externally to the firm. These surveys capture both the skills that are likely to be demanded in the near future (i.e. the additional skills requirements) from new workers and the type of marginal skills improvements that firms are interested in making among their existing workers; combined, these surveys allow the government to forecast the future demand for workers by skills level and occupational sector.

- The “training demand survey among the unemployed” assesses the level of previous professional experience among the unemployed, future employment aspirations (as a dependent worker or as a self-employed worker), past training experiences (whilst unemployed), and future training needs.

- The survey among institutions training the unemployed aims to assess the ability of such centers to meet the future demand for their services. The survey is currently carried out among over 700 vocational institutions and focuses on past training achievements, upcoming training plans, and the number of students.


Table 1: Summary of Priority Policy Actions

<table>
<thead>
<tr>
<th>Title</th>
<th>Problem</th>
<th>Approach</th>
<th>Required action</th>
<th>Risks management</th>
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<tbody>
<tr>
<td>Employment legislation rigidities</td>
<td>High firing costs</td>
<td>More flexible employment legislation would increase the chances of job creation (other than temporary contracts) and reduce unit labor costs</td>
<td>Revise the priority rules for redundancies, shorten the time needed for courts to adjudicate on cases of dismissals</td>
<td>Opposition by trade unions</td>
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<tr>
<td>Lack of coordination between activation and social assistance policies</td>
<td>Separate agencies in charge of ALMPs and social welfare programs</td>
<td>A more integrated and individualized approach to active labor market policies and social welfare policies will benefit the unemployed and the inactive by increasing their chances of re-entering the workforce and escaping poverty</td>
<td>Integrate the systems and the platforms of the public employment offices and social welfare departments to allow for a more holistic and individualized approach to social welfare and labor reintegration policies</td>
<td>Resistance to change within existing agencies, to be mitigated by ensuring ownership of the policy change among the different agencies involved</td>
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<tr>
<td>High inactivity and unemployment among women, especially young ones</td>
<td>Obstacles to the participation of women in the labor market</td>
<td>Introducing measures to help workers reconcile their work and family responsibilities would allow specific groups (such as</td>
<td>Increase the supply of, and subsidize access to, childcare centers and long-term care centers for households, especially low-income ones</td>
<td>Availability of financing</td>
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<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
<th>Proposed Solutions</th>
<th>Financial Resources Required</th>
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<tbody>
<tr>
<td>High inactivity and unemployment rates, especially among the youth</td>
<td>Currently available ALPMs need to be carefully monitored and evaluated to assess their effectiveness and the opportunities to scale them up. Improved profiling techniques would allow to more clearly identify potential ALMPs beneficiaries and to better assess their specific needs. Long-term, and more educated unemployed, both women and youth, may benefit from greater access to part-time work, training/apprenticeship programs, or to measures facilitating the creation of self-employment opportunities. Long-term unemployed and low-skilled workers may benefit from more intense and individualized counselling to help them overcome greater barriers to labor participation.</td>
<td>Systematically profile the unemployed and the work-able inactive using advanced techniques, select priority groups within such pool of people, and clearly target ALMPs towards aiding such priority groups. The capacity of public employment offices to profile and serve beneficiaries may need to be strengthened, and/or some services may need to be contracted out. Additional staff (psychologists and career guidance counsellors) may need to be hired.</td>
<td>Availability of financing for the hiring of additional staff and establishment of additional programs. Explore the possibility of accessing ESF resources to mitigate such risk.</td>
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<tr>
<td>Inadequate skills of workers</td>
<td>Potential misalignment between the demand and supply of skills in the labor market, and limited relevance of skills developed through the education system. Weak skills of young Croatians have negative long-term consequences for both individuals and for the economy overall; poor foundation skills limit the ability to learn throughout the education system, and later to find and retain a productive job. This, in turn, leads to a divergence between the skills needed by employers and those supplied by the workforce.</td>
<td>Developing a coherent Labor Market Information System (LMIS) able to assess current and future skills needs and gaps. Such LMIS would rely on data collected among employers and among students and graduates of the country’s education system.</td>
<td>Availability of financing to run tracer studies and business surveys. Explore the possibility of accessing ESF resources to mitigate such risk.</td>
</tr>
</tbody>
</table>