

1. POVERTY

1.1. Recent trends

Developments of poverty and social exclusion in Croatia based on Eurostat:

- Despite the lack of data on various Eurostat indicators from previous years, a general **upwards trend of poverty** can be observed: the **at-risk-of-poverty-rate after social transfer rose from 17.3% in 2008 to 20.5% in 2012**, while at-risk-of-poverty before social transfer rose to 30.7% in 2011 (+5.7 p.p. since 2008). This trend, which is directly linked to the rise of unemployment rate, puts Croatia at the **third highest position for at-risk-of-poverty after social transfer** among EU-28 members – a cause for serious concern.
- Although there is no Eurostat data on other poverty indicators from earlier than 2010, all rates show an increase of at least some decimal percentage points. The highest increase between 2010 and 2011 occurred in the rate of **people living in households with very low work intensity, which rose from 13.7% in 2010 to 16.1% in 2012**.
- **Child poverty reached a new peak of 23.2% in 2012** – an increase of almost 5 p.p. since 2008.
- In-work at-risk-of-poverty is the only indicator below EU-average (8.9% in 2011).

Additional observations by Caritas organisations in Croatia provide a better understanding of the severity of the problem:

- While in-work at-risk-of-poverty appears to be the only Eurostat indicator below EU-average (8.9% in 2011), experience from Caritas network new beneficiaries shows that **people who maintained their jobs feel insecure** due to the fact that salaries were reduced, the cost of living rose and employers see redundancy as the primary way to make savings.
- Social transfers include various types of benefits provided by different levels of government (pensions, unemployment benefits, housing allowances, etc.). A **high percentage of population in dependency of social benefits goes hand in hand with the rising unemployment rate**. According to national statistics¹, the unemployment rate stood at 13.9% at the end of 2011. The figures further demonstrate that the two most vulnerable groups are young people aged 15-24 (unemployment rate: 36.1% in 2011) and older workers aged 50-64 (unemployment rate: 8.4% in 2011).
- This fact corresponds to Diocesan monitoring data, which reports a rise in the number of children at risk of poverty, which is directly linked to the fact that one or two parents lost their jobs. **Since 2010, there is a noticeable increase in the number of families with 3 or more children asking for help**: a) households receiving financial social assistance of accounted for 16% in 2010, 18% in 2011 and 20% in year 2012; b) single parent families: 9% in 2010, 13% in 2011 and 16% in 2012; families with both parents unemployed: 21% in 2010, 36% in 2011 and 46% in 2012. Furthermore, the number of **people aged over 50 asking for social benefit assistance has been increasing** due to a fact that their employers do not see them as suitable workforce.
- In general, people feel a deterioration of their poverty situation due to the effects of a global recession, unemployment and the privatisation of social and health security systems, which makes it inaccessible for the majority of people who already live at risk of poverty or under the poverty line. Subjectively, some **80% of people say they feel poor and social exclusion is described as social isolation**². Factors leading to this circumstance include unemployment (especially long-term), lack of education, lack of financial means for children's education, inability to pay for health services, etc.

¹ Croatian Bureau of Statistics, 2012, *Croatia in figures 2012*, page 10. URL: www.dzs.hr

² See link with an interview with Krešimir Sever, president of NSD in 2011 (Nezavisni hrvatski sindikati - engl. Independent Croatian Unions): <http://www.glas-slavonije.hr/161908/11/Svaki-peti-hrvat-je-sluzbeno-siromasan-a-cetiri-od-pet-se-osjecu-tako>

- Diocesan Caritas annual reports on social care and services provided indicate an **increased number of families with 3+ children, elderly, retired persons with under-poverty-line pensions and single parent families**. Families, in which at least one parent lost his or her job, usually ask for financial help in order to pay bills (electricity, heating, bank credits, gas, etc.).
- The State has failed to adequately protect the poorest and most vulnerable and it appears as if it is now struggling with attempts to protect what is left from middle class.

1.2. Recent policy developments

Since last year the following policy developments have been registered:

The new Law on Social Care, which was approved in March 2012, made changes in the institutional framework by giving back authority to city social care centres. This is a positive move due to decentralisation and better flexibility.

Assessment of Croatia's NRP and policies it refers to:

Croatia entered into full membership to the EU on 1 July 2013. It took part in the 2013 European Semester on a voluntarily and informal basis. Therefore, changes in legislation in various fields are still on-going. The following (planned) measures could contribute to poverty reduction: **changes in the Labour Act** which aim to expand flexibility of the labour force and improve the dynamics of the labour market; **Law on the control of bills** in order to increase transparency of income and paid taxes; reforming the **deinstitutionalisation of the social welfare system** – privatization of homes for elderly and disabled, adoption/placement of children without parental control, privatization of social health care system, care for mentally handicapped persons (planned for the end of 2013). Nevertheless, it remains to be seen how the planned measures are going to impact the reduction of poverty in Croatia. However, since the social welfare system depends on the future of economics and income generated to finance the public sector, their success will depend on the strengthening of industry, agriculture and entrepreneurship.

1.3. Recommendations

- ➔ **Labour Act changes should be enforced consistently** in order to contribute to the change of mentality and contribute to flexibility of labour.
- ➔ Facilitate **employment of social welfare beneficiaries** who are potential labour force with no restraints.
- ➔ Facilitate **employment of people with disabilities** in order to lower costs on pension insurance and their social inclusion through employment.
- ➔ Reform State measures by **improving links between education system and labour market**.
- ➔ Deinstitutionalization of **social welfare system**, in terms of privatization, by proclaiming measures in equalizing type, price and service standards for different groups of beneficiaries (the elderly and disabled, children without parental control, mentally handicapped persons). Creating a **new model of care** will have to include various factors, such as the creation of new types of services, changing the status of foster families, ensure adequate provision of education for health services, employment programmes, cooperation with civil society, etc.
- ➔ **Ensure equal access to social welfare services** regardless of income.

2. EMPLOYMENT

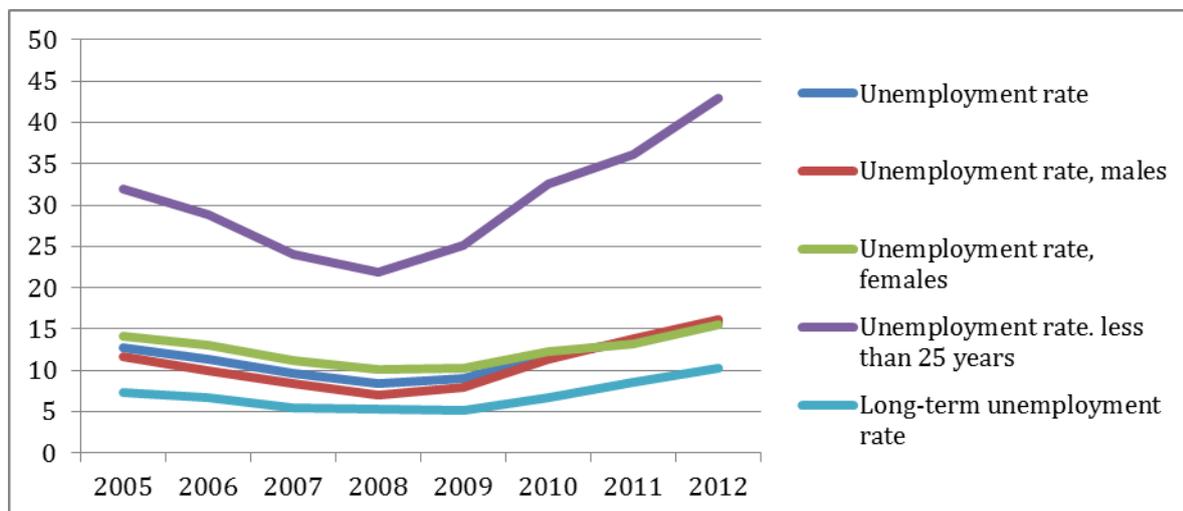
2.1. Recent trends

Developments of the employment situation in Croatia:

- **Youth unemployment almost doubled** since the beginning of the crisis and reached a new high of 43% in 2012. Compared to other EU countries, the rate ranks third-highest after Spain and Greece.
- **Long-term unemployment also almost doubled** as it rose from 5.3% in 2008 to 10.3% in 2012, affecting a considerably larger share of women (15.6% in 2012) than men (10.2% in 2012).

- The general unemployment rate rose by 7.5 p.p. to 15.9% in 2012 while the **employment rate dropped by 7.6 p.p. to 55.3% in 2012.**

Employment trends in Croatia (% of population):



Youth unemployment is alarming since it has been constantly rising since 2008 and introduced two types of behaviour: **one group carries out undeclared work and the other waits for legal jobs which usually leads to long-term unemployment.**

According to Croatian Employment Service³ by the end of 2011, there were 104,273 unemployed youth aged 15-29 years and 139,770 aged 15-34 years; in late November 2012 (the latest data at the time of publication), there were 121,228 unemployed young people aged 15-29 years and 160,272 aged 15-34.

Another very significant unemployment figure refers to young unemployed people with tertiary education (magisterium, university degree and doctorate) who, in October 2012, accounted for 22,728⁴.

The high youth unemployment rate and a continued rise of the overall unemployment rate, which stood at 21.9% in February 2013⁵ (NB: Eurostat harmonised unemployment rate for 2013M02: 16.8%), is affecting the quality of life, not only of the unemployed but also their family members, children, or elderly dependents.

A report by the Croatian Employment Agency⁶ shows that the long-term unemployment rate is in direct relation to the overall unemployment rate. Exceptions to the large increase in unemployment (and long-term unemployment) are the capital town Zagreb and the Istrian county. The report states that the situation is generally better in north and central parts of the country due to the fact that the employment rate and all capital investments are concentrated in these areas whereas **the south and east suffer higher (long-term) unemployment and are at a higher risk of poverty.**

The "new" poor are people who used to be part of the labour market but have lost their job and have become long-term unemployed due to the fact that the economy does not show any signs of recovery. They are young(er) people who differ from the "old" poor by the fact that they have higher education and adequate skills required by the labour market. The **"new" poor (usually young people who lost their jobs, with secondary or tertiary education, a bank loan/mortgage, two minor children, coming from urban areas)** are in danger since they do not know the procedures for social welfare assistance; they also feel stigmatised and ashamed. According to the latest census in 2011⁷, over

³ Hrvatski zavod za zapošljavanje, URL: www.hzz.hr

⁴ Croatian Bureau of Statistics, URL: www.dzs.hr

⁵ Temporary data by the Croatian Bureau of Statistics, URL: www.dzs.hr

⁶ Hrvatski zavod za zapošljavanje, *Analitički Bilten*, 2011. URL: www.hzz.hr/docslide/analiticki_bilten_2011-4.pdf

⁷ Croatian Bureau of Statistics, 2013, *Census of Population, Households and Dwellings 2011*. URL: http://www.dzs.hr/default_e.htm

335,000 Croatians over the age of 25 lived in parental households, showing an increase of 70,000 compared with data from the 2001 census.

According to the Zagreb Economic Institute's comparison of World Bank statistics for Croatia (analysed time period 2008-2010)⁸, households with **elderly adults without pensions are in extreme danger of poverty**; the risk of poverty in **rural areas is even 2-3 times higher** than in the rest of Croatia. This data corresponds to unemployment rates.

Unemployment continued to grow through spring (NB: Croatian Bureau of Statistics unemployment rate in March 2013 21.6%, Eurostat harmonised unemployment rate 2013M03 16.6%) and gradually declined in summer (NB: Croatian Bureau of Statistics unemployment rate in June 2013 18.6%, Eurostat harmonised unemployment rate 2013M06 16.5%) and after the country's EU accession mid-year. However, this slight decline can be explained with seasonal employment fluctuations in tourism and cannot be seen as a generally positive trend.

2.2. Recent policy developments

Since last year the following policy developments have been registered:

The government allocated a total 61 million euro to new labour measures, about 12 million euro more than in 2012. The measures include **subsidies for employers, tax relief and self-employment support**. They focus on raising employment **opportunities for special social groups including people with disabilities, the elderly, war veterans and the Roma**.

The government also introduced the so-called "stage" for young people which lasts 12 months; employers receive government support, employees receive approx. 215 euro per month and a chance to enter the labour market and get some experience. However, the majority of participants of this programme **usually return to the unemployed group** after the 12-month "stage" trial; **they feel exploited and extremely unoptimistic about their future**.

Other measures include subsidies for employers in order to provide professional training. When hiring people older than 50, the employer receives 50% of the worker's gross wage from the state. The 2013 budget also includes salaries for public workers.

Despite the good intentions of these employment measures, a significant increase of the employment rate cannot be expected. The measures do not contribute to skills improvement or gaining of new knowledge for the long-term unemployed. Closer co-operation between the state and the labour market is needed in Croatia. The state is not able to create jobs; it should rather reduce the number of its employees and allow the private sector to easily and quickly create jobs by reducing bureaucracy and administrative barriers, reviewing tax policies and encouraging innovation.⁹

According to the European Employment Observatory¹⁰, "for poverty reduction there are two most significant key areas: labour market and pension system. In various strategic documents the Government tried to improve the targeting of active labour market policies (ALMPs) at long-term unemployed persons and at those with the lowest employability. Thus, in the **Joint Memorandum on Social Inclusion of the Republic of Croatia** (JIM) prepared by the Ministry of Health and Social Welfare (MHSW, 2007) the proposed priorities and measures underlined the **need to focus ALMP measures on the long-term unemployed or groups at risk of long-term unemployment** instead of targeting almost all unemployed persons. In other words, the aim is to decrease both the inflow into

⁸ Ekonomski institut Zagreb, 2013, *Recesija i siromaštvo u hrvatskoj*. URL:

http://www.bank.hr/UserDocsImages/Dokumenti/Predsjednik-preporuke/Nestic_Danijel_2013-03-23.pdf

⁹ SETimes.com, The news and views of Southeast Europa, 2013, *Croatia tackles high unemployment rate*. URL:

http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2013/02/02/feature-01

¹⁰ European Employment Observatory, 2011, *Situation and consequences of long-term unemployment in Croatia and measures for its decrease*. URL: <http://www.eu-employment-observatory.net/resources/reports/Croatia-AdhocRequest-LTU-Croatia.pdf>

long-term unemployment and the number of those who are already long-term unemployed, particularly by helping the latter group to find work. The problems encountered by many long-term unemployed are generally multidimensional, often involving a low level of both education and motivation.

Active labour market policy measures in Croatia have **not been sufficiently adjusted to the crisis conditions** and their impact on unemployment has been lower than needed. The measures are implemented on a small scale: the number of participants is low in relation to the number of unemployed. Expansion of the education, training and skilling programmes in response to the crisis probably will not significantly improve the current employment prospects of the unemployed, although it may improve their future chances.”

According to the European Employment Observatory’s recommendations for Croatia, an effective active labour market policy (ALMP) may help in alleviating (reducing) the structural (frictional) disharmony between supply and demand, primarily by reducing the professional and spatial disharmony between supply and demand, and increasing the transparency of the labour market. The most important instruments of ALMP to improve harmony are **training and professional development, informing and counselling with regard to labour demand, selection during recruitment, and mediation.**

2.3. Recommendations

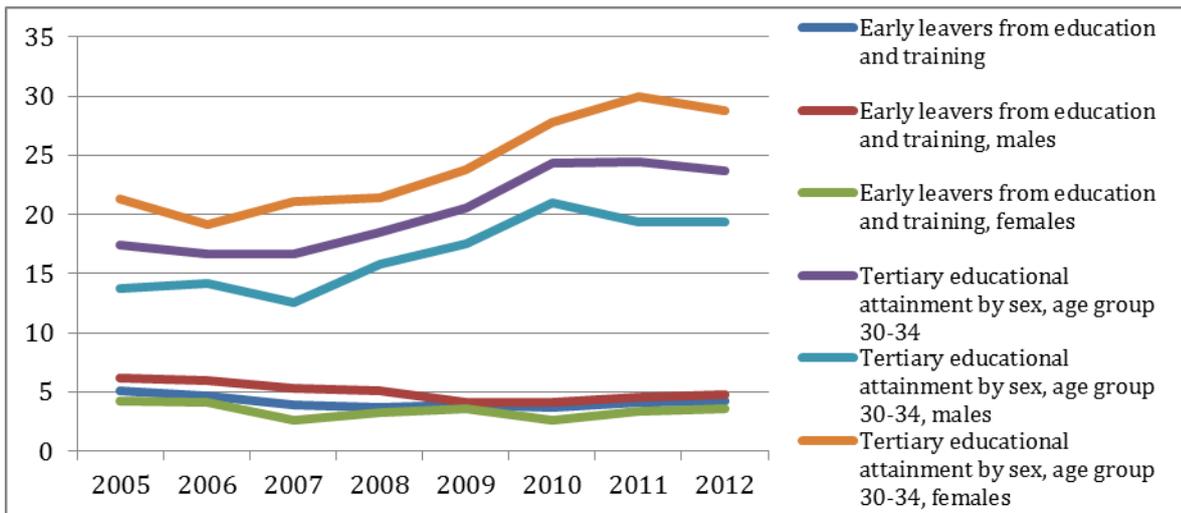
- Invest in the "quality" of ALMP. Quality here means a coherent framework of measures with clearly determined components which mutually reinforce each other in alleviating long-term unemployment and assisting the persons who suffer from it. Such a framework implies directing additional measures towards the long-term unemployed or those in greatest danger of sinking into long-term unemployment, assistance through personal counselling in the selection of what is most in line with their needs. This also includes the choice of different possibilities and support for persons with various personal conditions, as well as cooperation and partnership with other services and NGO's.
- One of the most important priorities of Croatia’s economic policy is to increase employment. There is obviously a strong inter-relation among poverty, education, employability and long-term unemployment. The problems that many of the long-term unemployed have are mostly multidimensional, and frequently include a low level of education and motivation.
- Employment of the long-term unemployed should be encouraged, and through appropriate working activities the social inclusion of those persons may be improved as well. At the same time, time evaluations of the real efficiency of individual measures do not exist. This can be tackled by introducing new techniques (tracking studies) to collect data about the achieved effects.
- Job creation through diverse programmes enables the fight to begin against long-term unemployment. It is well known that for unemployed persons it is most important not to lose working experience (i.e. acquired knowledge and skills) and ties with the labour market. The supply of jobs and employment within various programmes, such as public works, may have greater benefits than programmes of in-service training, pre-service training and professional improvement.

3. EDUCATION

3.1. Recent trends

Developments in the field of education in Croatia:

- **The early school leaving rate rose by 0.5 p.p. to 4.2%** in 2012 but remains well below EU average (12.8% in 2012).
- **Tertiary education attainment increased by 5.2 p.p. to 23.7%** in 2012 but also remains well below EU average (35.8% in 2012).

Education trends in Croatia (% of population):


The concept of lifelong learning and adult education has been a dominant topic in education progress reports since 2006. Within the past five years more importance has been given to improving vocational education, learning outcomes and tertiary education.

3.2. Recent policy developments

The State has not succeeded in offering adequate career prospects to qualified labour force. While the Bologna process, Erasmus, and similar programmes have increased the mobility of students and Croatia's EU integration process, the Government's education policy innovation remains prone to the import of educational policy solutions from abroad. Without taking into consideration specific Croatian social and economic values, needs and responses, this approach only continues to contribute to brain drain, which is expected to continue after accessing EU.

3.3. Recommendations

- Focus on a national qualifications framework based on relevant learning outcomes.
- Guarantee quality assurance systems and high quality early childhood education.
- Improve teacher training, entrepreneurship and cultural awareness.
- Improve adult teachers' and trainers' competencies, to recognise prior learning outcomes; and to develop quality management system in adult learning.
- Introduce prequalification for older generations within LLL programmes.
- Introduce new interdisciplinary programmes to correspond to changing requirements.