

Policy Paper: Innovative responses to transformative power of digitalization on Croatian labour market

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1. Introduction

Digitalization represents one of the most important reasons behind changes that occurred on Croatian labour market since turn of the century. Its principle request was targeted towards introducing greater flexibility in labour relations. Therefore, the actors of industrial relations on multiple occasions have been engaged in efforts to introduce more flexibility into existing legislative frameworks and practices. This policy paper will analyse the impacts of these efforts concerning new forms of work, education system and the active labour market policies. Within each of these areas the actors of industrial relations participated in actions that changed the existing legislation and practices, which in turn transformed and innovated their own *modus operandi*.

2. New forms of work

The major flexibilization of Croatian labour legislation occurred back in 2003 on the initiative of the employers while the trade unions were very critical of them. As result of these changes temporary agency work was introduced for the first time as well as work from home. Furthermore, the conditions when a fixed-term contract could be used were relaxed. As a consequence of changes introduced in 2003 the employment protection legislation index was reduced from 3.58 to 2.76. The second important wave of flexibilization occurred in 2014 when protection legislation index was further reduced to 2.28. As part of these changes the unequal working hour schedule was introduced which gives the right to employer to modify an employee's working hours according to the current work needs within certain monthly and yearly limitations. Furthermore, the use of fixed term contracts was further liberalized while part time work was promoted by securing that all material rights of part-time workers must be regulated in accordance with their working time. Last but not least, 2014 changes allowed employed workers to use the so-called additional employment contract with a different employer in a maximum duration of 8 hours a week.

These changes introduced some new forms of working such as agency work but they avoided regulating most others such as work through online platforms or casual work. In 2013, the Ministry of Labour intend to introduce new legislation that was to regulate casual and provisional work such as aid in the household, which is traditionally performed as part of informal economy. However eventually, the Ministry dropped this legislative proposal due to strong opposition from both social partners. The principal fear of the trade unions was that gradually jobs currently performed under regular contracts could be transferred into this new area. Therefore, the reality is that despite fact that over the years much flexibility was introduced into Croatian labour legislation, the number of new legal forms of working at disposal to employers remains limited.

In fact, only several forms of work detected by Eurofound in 2015 as directly linked to digitalization have been recognized by Croatian labour and tax legislation, and even these were heavily restricted in implementation. These forms are the voucher work, the work from home and employee sharing. The voucher work was legalized in 2012 but it is limited to agriculture and prohibited for the employed workers or for self-employed. Similarly, the work from home exists but provisions regulating it are so strict that in practice employers rarely use it. Finally, procedures were established in case of employee sharing, which however became jeopardized after coming to force of the GDPR directive which calls for their revision. All this does not mean that most new forms of work identified by Eurofound in 2015 are performed as part of informal economy. Instead, they are being performed through the work of self-employed or through work on civil contracts. Such practice is satisfactory in some cases but still quite insufficient in others. The case in point is work through online platforms which in many cases remains undeclared and as such out of reach for the tax authorities.

3. Education system

Croatian education system needs to be reformed in order to better suit the current labour market needs which are greatly impacted by digitalization. Namely, Croatia suffers from a significant mismatch between qualifications that the unemployed have and those required by the employers. With that in mind in 2013 Croatian government adopted the Law on the Croatian Qualifications Framework (CROQF) which is a reform instrument that regulates the system of qualifications on all levels. The CROQF was adopted under the strong influence of the EU and it enables the Croatian qualification levels to be compatible with the levels specified in the European Qualification Framework.

In accordance with this law the process of developing clearly defined competences in certain occupations is based on the existence of 28 sectoral councils as advisory and professional bodies expected to ensure that professional skills of future workers correspond with the needs of the labour market. Each council has 11 members and the trade unions and employers each have two representatives in every council. Both

social partners are very satisfied with their participation in the CROQF sectoral councils which provided them with the opportunity to influence changes within Croatian education system. As part of these changes the national curriculum has recently been modified and computer science was experimentally introduced in the fifth and sixth grade.

The second example where Croatian social partners (employers in particular) influenced digitalization related changes in the education system concerns the Vocational Education and Training (VET). Indicators for VET at the upper secondary level show that Croatia has a large proportion of upper secondary students participating in VET. Unfortunately, the employment rate of these students falls behind the EU average. Therefore, in 2016 Croatian government in close cooperation with representatives of Croatian employers started the process of developing Croatian model of a dual VET system based on the successful German model. In Germany the VET is closely connected with the changing requirements of the labour market. It allows the participants to acquire special knowledge and experience through close connection with the company where the practical part of training has taken place. Similarly, in Croatia the VET reform promotes stakeholder participation, especially greater involvement of employers, in work - based learning and in the planning and designing of VET programmes. Incentives will be given to providers of practical training places and to companies who offer capacity building to their mentors.

4. Active labour market policies

Active Labour Market Policies (ALMPs) are used to prevent the occurrence or to reduce the duration of unemployment and to smooth young people's paths to employment and qualifications. In the post crisis period, Croatian government in cooperation with the social partners developed several measures which are important for the workers because they enable them to better adopt to the new realities on the labour market. The most important ALMP in Croatia became the Occupational Training Measure which was praised by the employers but simultaneously criticized by most trade unions. They felt that it undermines the traditional training schemes which used to secure more material and other rights. The Occupational Training Measure stipulates that the state covers salaries (since 2015 at the approximate level of the minimum wage) and the social (tax) contributions for employers who train young university graduates for a period of 12 months. This also applies to young high school graduates in crafts professions(trades), who are trained for a period of 24 months. The labour law applies to the occupational training participants, except for provisions on material rights.

For the workers in the area of digital economy particularly interested ALMP were support schemes for the self-employed. This are state support measures in a duration of 12 months which are being given to unemployed individuals who decide to start their own business. There are several possibilities but in a classical situation a support scheme of around 10.000 euro is given to an individual. However, the support is

conditional on the existence of a business plan which must be positively evaluated by the experts working for Croatian Employment Service. Last but not least, the measure of education for the unemployed is very important in the context of digital transformation. As part of this measure the unemployed individuals are entitled to professional training and requalifying programs in an education institution in a period of six months. The education institution from the state budget receives funds which cover 100% of its respective expenses. At the same time participant every month receives from the state 50% of the minimal net salary as well as social (tax) contributions.

5. Conclusions

Digitalization changes relations on the labour market by undermining the base of the classical working relationship which presumes an open-ended contract with one employer and on a full-time basis. Furthermore, digitalisation causes additional polarisation on the labour market by increasingly destroying middle-income jobs while at the same time stimulating the creation of higher-income jobs (particularly in new digital professions) as well as lower-income ones. In such dramatic circumstances the classical role of industrial relations changes. The social partners are increasingly asked to go beyond their traditional activities and engage in a complex dialogue aimed at readjusting the legislative framework and practices to new realities on the labour market.

In Croatia the efforts of the social partners targeted towards the aforementioned adaptations are best visible in the ambit of the legislative changes related to the new forms of work, reform of the education system and in the area of new active labour market policies. Concerning the new forms of work, they were mostly accommodated through the legislative changes that promoted greater flexibility. However, out of the new types of work identified as such by the Eurofound as rooted in digitalization only a few have found their way into Croatian legal system. The most interested case is the **voucher work** which allows legalization of the small work assignments (even on the daily bases). By buying the voucher employer automatically buys all social (tax) contributions for that particular worker in the designated time period. The fact that voucher work is for the time being only allowed in the agriculture does not make it less interesting for the digital economy. Namely, since its introduction in 2012 there have been numerous voices within the employer's community calling for its extension also in other sectors, having in mind the impacts of digitalization.

Regarding the education system the adaptation of industrial relations is best visible on the example of the **new dual model of Vocational Education and Training (VET)** which will be introduced. The shift from classical to dual VET was, among other things, result of a constant pressure from the side of employers' which are dissatisfied with the situation where most unemployed individuals lack the education and skills that the modern digitalized labour market needs. The new dual model of VET reserves much

gather role for the employers' which are being granted with the opportunity to train their future workforce while still in education. Finally, concerning the Active Labour Market Policies (ALMPs) social partners contributed towards creation of a several new measures which try to address the mismatches on Croatian labour market. From the point of view of digital economy, the most significant of these measures are **support schemes for the self-employed**. They provide around 10.000 euro to an unemployed individual which decides to start its own business under condition that its business plan was previously approved by experts from the Croatian Employment Service.

The listed practical solutions are results of adaptation efforts of industrial relations' actors towards new realities on Croatian labour market. Their significance is mostly in the power of their example. Namely, they show that through combined efforts of the government and social partners solutions can be found to specific labour market disruptions caused by digital transformation.