

# Transition from School to Work: Internships and First Entry to the Labour Market in Croatia

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“On the job training and work experience are the most significant sources of training for 24/30 occupations projected to have the most total job openings due to growth and net replacement”

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## PREFACE

This paper was commissioned by the European Training Foundation. The European Training Foundation (ETF) is an agency of the European Union based in Turin, Italy. It works with transition and developing countries to apply human resource development (HRD) strategies to socio-economic development. As the EU's centre of expertise ETF supports education and training reform in the context of the EU external relations programmes. The ETF deploys and recruits experts from multiple disciplines to handle complex and multidimensional topics in a team based approach, in order to create new knowledge, result orientated competencies and solutions in the partner countries. ETF is the focus for international debate, a point of reference for the wider community of policy makers and experts and at the centre of a group of organisations, individuals and networks with similar interests.

The work of the ETF is based on the evidence that education and training can make a fundamental contribution to increasing prosperity, creating sustainable growth and encouraging social inclusion in developing and transition economies. The ETF adds value to the EU external relations programmes by facilitating communication and learning between the EU and its partner countries; ETF considers system reform in education and training as a cornerstone for more efficient human resource development strategies.

The ETF provides services (advice and assistance) to the European Commission and a number of the partner countries that receive support from the European Union's external relations programmes for the modernisation of human resource development policies.

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The objective of this assignment is to carry out a survey on pathways for improving access to work/employment for young unemployed and the first time job seekers. Youth unemployment has turned out to be a challenge to policy makers as it persists being higher than average. This is particularly notable in ex-transition countries and is also the case in Croatia.

This study will try to identify the main impediments to access of youth to the labour market in Croatia in order to better design policy measures and seek new pathways to sustainable and good jobs on the labour market.

The methodology used is desk research including use of Labour Force Survey microdata base and other establishment survey and educational data. The main aim is to look at labour market outcomes of different educational streams and the rate of drop-out from the educational system. Interviews with different stakeholders have also been carried out in order to find out which particular barriers are regarded as the most important in youth access to the labour market.

## INTRODUCTION

Our first work experiences often shape our future attitudes to work. If they are negative, it will take a lot of success to reverse this first impression. Unfortunately, for many young people in Croatia and in many countries in Europe and the region this first impression is marked by frustrated expectations, inability to find suitable and decent work, long administrative and ineffective job search. The jobs which are found do not often add up to much. Short term contracts, offers from the shadow economy sector, low and uncertain pay packages, no access to further training opportunities, etc. In short, when investment in education and training is expected to yield some real world rewards, there is generally a failure to meet young people's expectations and needs.

Needless to say, this experience is not shared by all. Some young people are sought after while still at school or university by organisations hungering for a certain type of knowledge which is hard to come by among the existing labour force. However, they are not in the majority, which shows up in the higher unemployment rates of young people, their lower employment rates and duration of unemployment.

One of the reasons offered by employers is that the young have no work experience and therefore cost more than they earn. This view from the world of work points to an important fact: skills which are gained through the process of formal education are more in the realm of raw potential than practical competencies. Countries differ significantly based on the specificity and applicability of outcomes from formal education. They can be classified according to the level of involvement of the business sector in either the delivery of training or the curricula development. On the one end of the spectre are the apprenticeship systems in Austria where business entities have taken on the task of training together with vocational schools, or the Netherlands where practical training is done in school workshops to systems where skills are not very specific and most of the training is done on the job following employment such as in Sweden and Great Britain. All of them serve the purpose of facilitating the transition from knowledge to competencies or from Know-what to Know-how<sup>1</sup>. Generally speaking, the greater practical competencies gained through formal education, the lower the cost of on-the-job training for the employer and the lower the barriers to labour market entry for youth.

Internships, as a form of training refer mostly to acquisition of practical skills for undergraduates in their last year of studies or graduate students. From the point of view of the intern or apprentice, an internship is seen as a means of getting first applicable skills which will give them a head start on the market segment they are approaching. For the employer, this is a screening method of possible future employees and a cheap mechanism of getting certain types of work done which are not highly sophisticated and firm specific. For both sides, it is a screening process to achieve a better match between the skills of the worker/student and the requirements of the workplace/firms climate.

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<sup>1</sup> OECD (1996): The Knowledge Based Economy, Paris.

In this paper, focus will be on the first entry of young people to the labour market in Croatia as they exit formal education. We look at the 3 main 5-year cohorts of young people (15-19, 20-24 and 25-29) and seek out their trail of economic activity after leaving school. Each educational level is considered separately in order to assess labour market outcomes which may be education specific. On the basis of this analysis groups of young people with weakest labour market outcomes are identified. Possible roots of their disadvantaged position are sought for in the legislative, institutional and educational frameworks relevant for the particular groups. The potential use of internship type solutions to facilitating first entry to the labour market are discussed in view of experience in other countries.

## **LINK BETWEEN EDUCATIONAL ATTAINMENT AND THE EASE OF FIRST ENTRY TO THE LABOUR MARKET**

There are many factors which can influence the ease or the difficulty faced by first entrants on the labour market. The first is the quality, relevance and the level of skills gained during formal education. Low qualification levels are almost always linked to poor labour market outcomes. However, even high qualifications of the wrong type can be a major detriment to finding work – often the result of very slow reforms in the educational sectors which result in growing mismatch. However, even if educational outcomes are all that they should be there may be labour market characteristics which hinder a quick and efficient human resource allocation. Some examples are: rigid labour markets which protect insiders and set up barriers to new entrants, the high cost of labour which makes it too expensive to hire young people without experience, high hiring and firing costs which make adjustment through changes in the workforce a less interesting option. Even if there were no rigidities to hinder labour market mobility, there may be a problem with labour market institutions which need to be efficient interfaces between supply and demand for labour. On top of all these factors there is the question of market failure for various vulnerable groups on the labour market which are likely to face multiple types of barriers to entry. Even though the complexity of the link between education and the use of knowledge on the labour market is obvious, at the root of the issue are some very basic questions:

- Are the skills attained in the educational system relevant for our economy in the medium term?
- Is there an adequate system of labour market information in place to identify present needs?
- Are there mechanisms of transferring the skill needs to curricula inputs?
- Do we have a system which will tell us on time about future skill needs?
- Are institutions responsible for matching demand and supply efficient, quick and effective for adjustment?

### **Theoretical concepts**

There are several human capital theories which point to the links between the education and labour market outcomes. The human capital theory (Schultz, 1961; Mincer, 1962; Becker,

1964) brings out empirical evidence of the link between investment in education and LM outcomes. The higher the investment, the greater will be LM opportunities and all elements like earning curves linked to it.

The signalling theory, on the other hand (Arrow, 1973; Spence, 1973) indicates the importance of a certificate, diploma or other type of formal proxy for real skills and potential. Thus persons who hold diplomas from renowned educational establishment have an advantage in relation to others who may have the skills but do not have formal diplomas to verify them. Muller (2005) indicates that the two theories are not conflicting but rather mutually reinforcing.

The third relevant theoretical framework (Kalleberg and Sørensen, 1979), are matching theories which indicate that institutional factors could be exceptionally important since signals given by employers to potential employees can have a profound effect on LM outcomes. Employers try to recruit those applicants they consider to be both most productive and least costly for the kind of work the job requires. Workers strive to obtain the jobs that promise the best possible returns for their educational investments – monetary and non-pecuniary rewards, status, security or other aspects of job quality.

There are other factors which influence LM outcomes other than education and here the most important element is practical experience but also worker's and employer's preferences which could be based on a wide spectre of prejudices, traditional values and discriminatory behaviour.

Finally, the actual supply and demand for work determines LM outcomes depending on the degree of free reign of market forces in any country. Very organised and structured labour markets are often rigid due to legal frameworks which are backed up by strong interest groups, usually the social partners. Here, the market signalizes the need for change but the final outcomes are a matter of agreement between mostly conflicting interests.

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## **General trends vs. cross-country variation**

There are general trends present in most countries regardless of the educational system which is present in any one of them. Research (Muller, 2005) shows that on the whole educational attainment is positively correlated with positive labour market outcomes. It has been ascertained across the board that young people with ISCED 5 and 6 levels of qualification behind them not only enter the labour market faster than those with lower qualifications but that they also have higher quality, better paid jobs with often more opportunity for further training and personal development. The level of education seems to be a better predictor of LM outcomes than the divide between general educational and vocational education streams. However, opting for a vocational occupation rather than general education seems to reduce the risk of unemployment since the skills at hand are practical and they facilitate easier entry.

However, national educational systems do seem to have very strong influence on LM outcomes as can be seen by very different unemployment rates and duration of

unemployment of first entrants by countries. There are two factors which seem to influence these differences. The first is the degree of occupation specificity and the second is the clarity of signalling to the employers of educational tracks

It seems that the countries with more occupation specific education such as Germany, Denmark, Austria where enterprises are part of the educational system through apprenticeship agreements, the ease of entry is higher than in countries where young people get less occupation specific training (prevalently the Anglo-Saxon countries but also including Belgium, France). The third group are comprised of Southern European countries where the general level of educational attainment is lower than in the first two groups and the degree of vocational training and specialization are very limited. The latter group also tend to have many under skilled young people entering the labour market and with these characteristics they face significant barriers to entry.

The Croatian case is on the borderline between the first and the third groups. With very small drop-out rates from secondary school on the one hand and the fact that very high shares of young people have some form of secondary education, Croatia is very similar to the first group of countries and even does better in drop-out rates. On the other hand, our apprenticeship systems are limited to craft occupations and other vocational secondary schools do not provide adequate practical skills for entering the labour market. Since enrolment in non-craft vocational secondary schools is increasing over the years, making these skills more adapted to LM needs is increasingly important.

The second factor which influences LM outcomes is the stratification of the educational system i.e. the signalling effect of the tracking system between different education levels. If it is clear to employers what particular educational paths provide in terms of skills and competencies the time for the matching process will be shorter and more efficient. If it is not clear what skills are in place after secondary education or indeed after tertiary, the matching process will clearly be characterised by many types of selection processes and be more dependant on the efficiency of labour market institutions. In Croatia the distinctness of the education for craft occupations makes the visibility of this educational track higher but there may still be failure in the provision of adequate skills.

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### **Flexibility vs. security**

The legal environment can have a very decisive effect on barriers to first entry. Research shows that rigid labour markets reduce the hiring rate, matching is more difficult, ability to restructure is very limited and general mobility of both workers and skills is a factor which reduces the dynamics of growth. The concept of flexicurity has appeared as an integrated policy option to intentionally bring together several areas all of which have a direct bearing on LM outcomes. Where hiring and firing is expensive and or tied-up in knots due to administrative red-tape there is usually an aversion to employment as an adjustment mechanism to vagaries of the market. Employment adverse behaviour of employers has a history in Croatia since the transition period when downsizing of large proportions took place and behaviour opposite to labour hoarding has began to emerge.



Rigid labour laws are particularly harsh for young people at the entry to the labour market. Their lack of experience shifts the cost of on the job training to the employer and the risk of mismatch is usually quite high. This particular problem has often been dealt with through active labour market policy measures, i.e. employment subsidies for young workers without experience. The usefulness of such policies is discussed below, especially in countries where there is informal work and where temporary work contract dominate for new employees.

### **LM institutions**

If all the above mentioned factors did not impede first entry, the institutional factor alone could be a great detriment to fast and adequate reconciliation of supply and demand. Effective employment services with good relations to employers and job-seekers and the quality of the labour market information systems which they rely on for their work are one of the key ingredients of well functioning labour markets. Although IC technology has provided this sector with incredible tools for giving signals to actors on the labour market, the quality of mediation still hinges on “soft” elements of trust, reliability, responsiveness, and ability to transform data into meaningful information for stakeholders on the labour market.

In summary, although there are general trends which seem to indicate that educational attainment is positively related with good employment outcomes there are a score of other factors which are linked to the specifics of the educational system on one hand and on the institutional features of the labour market on the other. It seems that rigid labour market systems combined with low signalling potential of educational streams make entry barriers formidable for young people. In countries where signalling from the educational system is clear to employers and they can rely upon diplomas to be a good and predictable proxy for skills and competencies, more rigid labour markets need not necessarily lead to higher unemployment of the young (e.g. Austria). Finally, low signalling and flexible employment legislation can also result in relatively high unemployment due to often long job search in the matching process (France).

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## **THE CONCEPT OF INTERNSHIP AND HOW IT FITS TO THE CROATIAN CASE**

As various types of training in the work environment have developed around the globe, the terminology in the field is very varied. Internships, apprenticeships, traineeships, stage, volunteering are all terms which could refer to the concept but they are all different regarding the group to which they relate, the duration, sector or occupation, main motives and are, of course, country dependent.

**Apprenticeships** usually refer to practical training within VET school curricula and are most prominent in Germany and Austria. There are many variations of the system in other countries mostly relating to the duration of practical work, the dominance of the school or the companies in this educational process, the payments received during apprenticeships and many others. In some countries this form of practical training only involves crafts while in



others it is extended to all vocational occupations. In all countries practicing apprenticeships the target group are young people who have completed their primary education and have entered some form of vocational education programmes and are from 15-19 years old.

**Internships** usually refer to practical training for students during or after the completion of their studies. They may or may not be related to a particular occupation but when they are they are a compulsory part of practical experience which has to precede professional employment. They are very different from internships where the main purpose is to expand specific knowledge in some field which is the focus of a thesis or as a way of finding one's way into a company of choice for employment.

Therefore it seems opportune to differentiate between these two types of internship by calling the former compulsory, or **occupation related internships** such as in the medical and legal professions which usually culminate in an exam which needs to be passed before first employment in the profession is to ensue.

**Traineeships** is another term for internship used sometimes by multilateral institutions but also sometimes relating to the first year of employment in the public sector and is often regulated by the Labour law. Most trainees pass an exam which makes them eligible for work in the public sector, a frequent requirement in vacancies.

In this paper all types of practical training on the job engaged in by young people during or after formal education in Croatia will be looked at regardless of the term which is used for it and the level of education which it entails.

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## **CHARACTERISTICS OF INTERNSHIP AS PRACTICAL TRAINING**

An **intern** or **stagier** is one who works in a temporary position with an emphasis on on-the-job training rather than merely employment, making it similar to an apprenticeship. Interns are usually college or university students, but they can also be high school students or post graduate adults seeking skills for a new career. Student internships provide opportunities for students to gain experience in their field, determine if they have an interest in a particular career, create a network of contacts, or gain school credit. Internships provide the employers with cheap or free labour for (typically) low-level tasks (stereotypically including fetching coffee for the office), and also the prospect of interns' returning to the company after completing their education and requiring little or no training.

An internship may be paid, unpaid or partially paid (in the form of a stipend). Paid internships are most common in the following occupations: medical, science, engineering, law, accounting, finance, and technology and advertising fields. In the field of civil society organisations, think-tanks and humanitarian organisations internships tend to be volunteer positions for persons who want to gain experience in a particular field, help out or want to enter the sector on a professional basis.

Internships may be part-time or full-time; typically they are part-time during the university year and full-time in the summer, and they typically last 6-12 weeks, but can be shorter or longer. Internship positions are available from businesses, government departments, non-profit groups and organizations. Due to strict labour laws, European internships are mostly unpaid, although they are still popular among non-Europeans in order to gain international exposure on one's CV and for foreign language improvement.

### **Types of internships**

Internships exist in various industries and settings. Here are two primary types of internships that exist in the United States.

1. **Work experience internship.** Most often this will be in the second or third year of university. The placement can be from 2 months to sometimes even one full school year. During this period the student is supposed to use the things he/she has learned in school and put it in practice. This way the student gets work experience in their field of study. The gained experience will be helpful to finish up the last year of the study.
2. **Research internship (graduation) or dissertation internship:** This is mostly done by students who are in their last year. With this kind of internship a student does research for a particular company. The company can have something that they need to improve, or the students can choose a topic within the company themselves. The results of the research study will be put in a report and often will have to be presented.

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The practice of a mid-career person taking an internship is sometimes called returnship and this form of work is also gaining in interest in the U.S. and becoming more common due to the current economic crisis. It relates to workers who had lost their jobs and are trying to ease their re-entry into the labour market.

More and more we also see "virtual internships" whereby students meet with their supervisors once a week, if not less to discuss what work is being done and what future projects need focus. The rest of the work is dealt with on the students own time, via computer. This isn't much different from taking an online class at school, or working with classroom services. This model of the internship program is becoming more popular every semester, but it is still not widely accepted.

Europe however is moving toward complete virtual internships and is finding them highly successful. These specific internships are conducted from different cities, even different countries. Most student/supervisors never actually meet face to face at all during the internship time frame. Students are able to receive advice, work with, and be critiqued by people with various experiences. They don't have to rely on the skills and knowledge of the professional base within a 20-mile radius. They are able to network with people who live in

cities they want to move to, or even gain experience they may never have received otherwise. Professionals gain an understanding of what type of future employees exist in the market. They are able to realize that there is potential and interest in their company/job/field outside of their locale. It also allows them to "pre-interview" potential candidates before asking them to a full time position interview.

## Country examples of internships

### Ireland

Ireland is fast becoming a highly sought after destination for internships. Participants come from all over the world to experience some of the best resources available in Europe. Students of all ages can experience all aspects of the culture Ireland has to offer while completing their internships. A combination of accommodation is available, from host families to hostels to sharing in apartments with other nationalities. Students come to Ireland anytime from 4 weeks up to a year. Student preferences are adhered to - usually getting their first choice in their chosen field, media, hotel reception, cooking, marketing, business etc. Most internships in Ireland are unpaid but the host company may provide a full travel card for the duration of the internship. Chefs normally get free accommodation if working for a hotel. A reasonable comprehension of English is essential when seeking internships in Ireland, some agencies will organize an intensive English language course from one to three weeks depending on the length of stay before the intern joins a host company.

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### Spain

At Spanish universities it is uncommon to do an internship during the education period. The real working experiment for them starts when they are done with their study. However, Spanish companies are getting more used to having students doing an internship at their company nowadays. Mostly these are international students from other European countries. Spain is a popular country for students to go to for a short period of time to do an internship. A lot of times students want to learn Spanish and these are perfect opportunities for them to do so. Another reason to go to Spain for an internship could be the opportunity to increase cultural awareness or to experience working in an international setting. Students found that it is hard to get in contact with most Spanish businesses. The best way to find a good company to work at is with the help of a placement organization. The normal *stage* compensation rate in Spain is around €500.

### Italy

Since the Italian University System entered into the Bologna process, an internship experience (commonly referred to by the French term *stage*) has been made compulsory for almost all those studying for a bachelor's or a master's degree (especially in technical, economic or scientific faculties). Its goal should be reducing the gap between the companies'

demands and the too theoretical learning offered by Italian universities. However, since the internship is usually made at university as well, it is not a real work experience. Almost all the students therefore have to do a second internship after they are done with their studies, this time in a company, hoping to receive a proper professional training, being hired afterwards in the same company, or in another company in a close or related business. The internship period can last up to 6 months, renewable for other 6 months, so the total period can be up to 12 months. Student internships in Italy are usually not paid; entry-level graduate internships, instead, are generally paid, but the remuneration is usually extremely low, around 500 Euros per month, less than 1/4 of the gross monthly remuneration of a hired graduate employee, and without benefits other than the lunch. This poses a problem for fresh graduates, considering as well that some companies use graduate interns just to save money, making them work in under qualified positions for 6 to 12 months without offering them a proper training, or guaranteeing them post-internship hiring even if they showed to be highly-skilled, fast-learners and trustworthy workers.

### **UK, Canada and Australia**

Internships are often referred to as 'sandwich placements' in the UK and are validated work experience opportunity as part of a degree program. University staff give students access to vacancies and students apply direct to employers. Some universities hold fairs and exhibitions to encourage students to consider the option and to enable students to meet potential employers. In the modern labour markets graduates with work experience in the form of sandwich placements are not only deemed more desirable to employers but also research has demonstrated they attain higher level degree classifications than those graduates without such experience.

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In these countries they have split the types of internship in unpaid or paid. The unpaid internship are mostly the ones that are chosen by students who are either still in school and doing an internship as part of the requirements of school or who have just left school. The purpose of these internships are to get understanding about how work is conducted in the English-speaking world and to improve one's English. Another plus is to learn about work ethic and to experience cultural diversity. The paid internship is mostly for people that want to come to these countries to improve their English. The job for them is not something that they are specialized in, but see it as something that will give them enough money to support their living in these countries.

### **Germany**

In Germany there are different kinds of internships as well. As in most other countries, most students take their internship during the fourth or fifth semester of their degree. In some fields of study it is common to write the final thesis in a company. Another type of internship has emerged, the post graduation internship. The high unemployment in Germany during the last years has made it hard for people to find the right job, especially for people that have

just graduated and lack work experience. Because of this, many offer to do an internship at their preferred place of employment while earning very little, in the hope of landing a job there in the future.

## **France**

At the French universities it is also most common to do an internship, called *stage*, during the third or fourth year of your studies. The duration of the internships varies from 2 to 6 months, but very seldom longer than that. In France it is also becoming more popular to do an internship after one has finished studying. Mostly for students that did not get the chance to do an internship during their study career, and try to gain some working experience this way. Most times with the thought of getting hired after the internship period. An internship in France is also popular for international students. The number one reason to do an internship in France is to learn the language. A lot of French companies seem to be open to students from different countries. It is a big plus for companies to have employees who speak multiple languages.

## **Netherlands**

In the Netherlands it is also common to do an internship during college. Just like in France it is called *stage*. Students will go intern for approximately 5 months. Companies are not obligated to pay the student, so sometimes small companies won't pay anything. The normal *stage* compensation rate in the Netherlands is around €300.

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## **Denmark**

It is not seen as appropriate to work without pay unless it is done as part of a work-trial where a person is tested by the authorities as part of plan to get the individual back into the workspace. The company is then compensated and the intern gets welfare during this period, which normally lasts about three months. The Trade Unions monitor this area very thoroughly so an intern cannot result in the loss of a paid job.

## **Internships in international organisations**

It is common for multilateral organisations such as the United Nations, ILO, the European Commission, and the OECD to operate traineeship programmes. The ILO for example, provides opportunities for undergraduates, graduates and postgraduate students who pursue a course of study or work in the fields related to the ILO mandate. The aim is to increase the understanding of relevant issues at the international level by involving them directly in the work of the Office and the application of ILO principles, programmes and strategies and to gain practical work experience related to their academic background.

The European Commission also operates a sizeable traineeship programme.

## Practical training in Croatia

The term internship is not known in Croatia as such but there are several practices which are similar to the internship concept. Here we will describe secondary school programmes which have apprenticeship components and occupation related internships which relate to university programmes. Other forms of internships, traineeships or volunteering which are optional but may be important for first entry on the labour market will also be described.

### Apprenticeship training in secondary school programmes

The main characteristic of VET education in relation to practical training is that exposure to working in companies or crafts is less than in Austria or Germany although their models were blueprints for the model of secondary vocational education in Croatia. Students feel that they are affiliated more to the school than to the company and this is reflected in the number of hours spent in practical versus theoretical training.

There are two types of vocational schools (VET) in this country. The first includes craft occupations and lasts typically 3 years. They prepare the student for employment on the labour market and after several years of traineeship can lead to a title of “master” who can then open up his/her own business and employ workers as well as train other apprentices. This is not an obligation for all but only for some of the traditional craft occupations. It is not easy to continue ones’ education with a 3 year diploma. It is possible but requires a lot of determination and input of new skills to reach the level required for entering a university programme. In practice, most graduates from these programmes remain in their chosen occupations most of their life or become employed in other occupations. There are 3 year VET programmes which have a much lower content of practical subjects and there is almost no in-company training. These, so-called industrial courses used to be important when the industrial sector dominated the Croatian economy and within it large companies. Most of them absorbed these workers who continued on the job training but since the transition destroyed many such systems and created many very small companies instead, there is no infrastructure for the continued practical education for industrial occupations and they represent one of the most vulnerable groups on the labour market. We can say that they lost both occupational specificity as well as suffering a loss of signalling effect to the employers.

4-year VET programmes are very different. They have a sizable segment of general subjects and should prepare a student for a university career in the related fields. For example, a person attending an electro technical school will be aiming to enrol on a related university programme. However, the practical part of the curriculum should ensure that basic practical skills are an outcome of the educational process and that employment in an electro technical occupation can be sought on the labour market. However, the practical component of the curriculum is too short and its quality is not monitored closely by the schools (with some exceptions which are more school specific than systematic) and employers who employ these graduates are often dissatisfied with the level of qualification related skills which they display at first employment. In this sense the occupational specificity as well as the signalling effect of these programmes is low which could be an indication of barriers to employment.

Since the greatest share of primary school graduates enter 4-year schools, their labour market outcomes as well as the types of skills which they gain in the schooling system are important for them individually but also crucial for the economy as they make up the bulk of the work force as will be shown below.

The third types of secondary schools are the gymnasia and they are intended as a stepping stone to a university career. Should students not be successful in finding a place at university, their labour market outcomes remain bleak as their competencies are not readily recognised by the employers. It will be shown later that pupils from gymnasia who do not manage to get a degree often find employment in administrative segments of client oriented sectors like tellers in banks, back offices and accounting departments as they are perceived by employers to be more versatile, adaptive and ambitious than their other VET school counterparts.

### **Compulsory occupation related internships**

All types of medical occupations from nurses to doctors require a period of practical work before their qualifications can be endorsed. In the majority of cases this practical training is carried out in hospitals and clinics but also private providers of health services. The Government is required to provide enough such *stage* vacancies since investment in education will default if this final step is not made. The same practice exists in the legal profession, the pedagogic professions, for social workers, policemen, drivers, pilots, customs officers, etc. It is usual for trainees to have a labour contract during their practice and is paid amounts as defined by the Labour law. Should they not be successful in passing the final exam, their contracts can be discontinued. However, there is a possibility of volunteering as trainees with only a volunteers contract which brings with it fewer rights and no or very low remuneration.

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The process of internship is usually defined in laws or by-laws for certain professions and usually entails a mentorship and a final exam. Most traineeships last one year and there is no guarantee that a successful passing of exams will result in employment. However, this exam is obligatory for employment to continue (if the trainees had signed a labour contract) or ensue after the training period is over.

There is an initiative by the Ministry of Health and social welfare to include the traineeship into the period of formal education instead of the period after graduation. The main reason is the cost of traineeship contract which is too much of a burden on government finances and the fact that entrance to the labour market is delayed especially for doctors whose internship lasts for 2 years. For them practical training should ensue during studying so that additional traineeships would not be necessary.



## **General traineeships arising from the Labour Law**

Persons who are becoming employed in occupations for which they studied can be employed as trainees<sup>2</sup>. They can be offered a temporary contract whose duration depends on elements of the bylaws relating to the particular occupation but not longer than 1 year. If it is envisaged that the traineeship should end with an exam, failure to pass the exam can be reason for termination of the labour contract. Trainees can also volunteer and the duration of the volunteer contract is only as long as the obligatory traineeship.

All new employees without work experience especially with a diploma from higher education are employed as trainees. In many occupations there is no requirement to pass an exam but this is present in almost all positions in public service. After the traineeship is over, the employer who wants to retain the worker is obliged to offer him a permanent labour contract regardless if the candidate was a volunteer or had a traineeship contract.

This one year of first work experience offered to all graduates or high school students is similar to the internship principle but is obligatory unless the employer wants to offer the candidate a normal work contract straight away (which he/she will do if they are very interested in employing particularly this person) since this entails higher pay. However, this is paid employment and internships are mostly unpaid or poorly remunerated. Therefore, in terms of remuneration, traineeships in Croatia are much more like normal labour contracts than internships.

Internships as they are practiced in other countries are much more like the volunteering which is usually related to gaining experience in the civil, non-profit sector. It would be unusual to find volunteering in the private sector in Croatia. More and more often, this type of volunteering is found as a stepping stone to some more substantial work since it shows that individuals have not waited for a permanent job but were willing to learn after formal education and gain work experience. Since most of the civil sector NGOs earn their income in project work, these young people have identified the importance of getting project management skills as well as the experience of working with often international enterprises which upgraded their communication, computer and language skills which are considered to be basic key competences.

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## **Students contracts**

What we do find often is work engaged in by students throughout the year or during summer months. This type of economic activity is organised by a student agency and serves as a means of earning additional income for the student and solving peaks of demand for the employer. Usually the type of work done is not related to the subject being studied. In this sense it could be seen as general training for work but sometimes employers invite students who they want to employ to work for them on student's contract before they offer them a permanent work contract. When asked whether this type of work helped them to find a job, students had mixed replies and most of them were of the opinion that although it gave them

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<sup>2</sup> Labour Law, Official Gazette 88/95, Articles 25-28.

a feeling of what it is like to work and have regular responsibilities, it was mostly not important for finding work.

### **Other traineeships and internships**

It is very unusual to find the types of general internships in Croatia which we have seen in the US and other countries. It is seen most often in institutes or other research institutions where exchange students on various stipends are interns for several months or longer. They are often graduate students working on a particular thesis or research fellows who are working towards a doctorate. Mostly, this type of internships is settled between institutions, i.e. between a faculty and a research institution but sometimes it is the initiative of the individual student who has managed to ensure a stipend and seeks internship. This is pursued mostly by foreign students or scholars who want to come to Croatia and is not practiced by domestic students in domestic institutions to any great extent.

### **Summary of section**

Internships have many forms and names across countries. What they have in common is the interest of trainees to gain work experience and the employers to ensure a regular and high quality supply of skills for their work. Both sides use the process for getting a good match of skills to work place requirements.

Croatia has several mechanisms for facilitating the process from school to work. The apprenticeship system is part of the formal vocational education system but it is much more accentuated in terms of duration of practical work and monitoring of its quality in craft occupations than other VET occupations. Therefore, the youngsters from 3-year craft schools should be best prepared for the labour market. This is, however not always corroborated by unemployment statistics. The reason for this can be found in the very slow changes in the traditional curricula which do not follow the demands on the labour market. The educational outcomes of 4 year VET schools fall short of the intended vertical mobility to high schools and universities as we will see in the next section and yet do not go far enough to prepare students for the labour market. Therefore, the VET educational system as it is now is one of the causes of youth unemployment for at least 3 reasons:

- Inadequate practical skills
- Skills which are not adequately matched to labour market needs
- No system in place for systematically identifying changes in technology, labour market demands, organisational changes which should find their way into modern curricula.

Some occupations have mandatory practical training like in the medical, legal and other public service occupations and they request a minimum duration of 1 year practical work which is either paid at lower rates but involves a work contract or can be completed in the form of volunteer work. The quality of such internships is not regularly monitored but there are standards which are mostly upheld through the demands of the final exam. Various

structures such as professional chambers are often involved in maintaining standards and sustaining the system.

Internships like in the European and American context are not widespread and are most similar to volunteering practices which are, however almost exclusively practiced in the non-profit, civil sectors.

## FIRST ENTRY TO THE LABOUR MARKET IN FIGURES

The youth labour market has some very distinctive features in relation to other groups. One of the long term tendencies which have influenced this specificity is the demographic factor which inexorably goes in the direction of a drastic reduction of the share of young people in the general population. Croatia is demographically a very old country and has had a negative natural increase since 1981. However, due to the positive migration balance, the total population is stagnating or falling very slowly in time.

**T1 - Share of young (0-19) and older (60+) age-groups in the population 1961-2007 and the ageing index<sup>3</sup>**

	1961	1971	1981	1991	2001	2007	2007-men	2007-women
<b>60+, %</b>	11,8	14,9	14,8	17,5	21,5	21,8	17,7	25,5
<b>&lt;20, %</b>	34,3	31,5	28,2	26,2	23,7	22,13	21,8	21,5
<b>Index of ageing</b>	34,3	47,2	52,6	66,7	90,7	98,5	81,2	118,6

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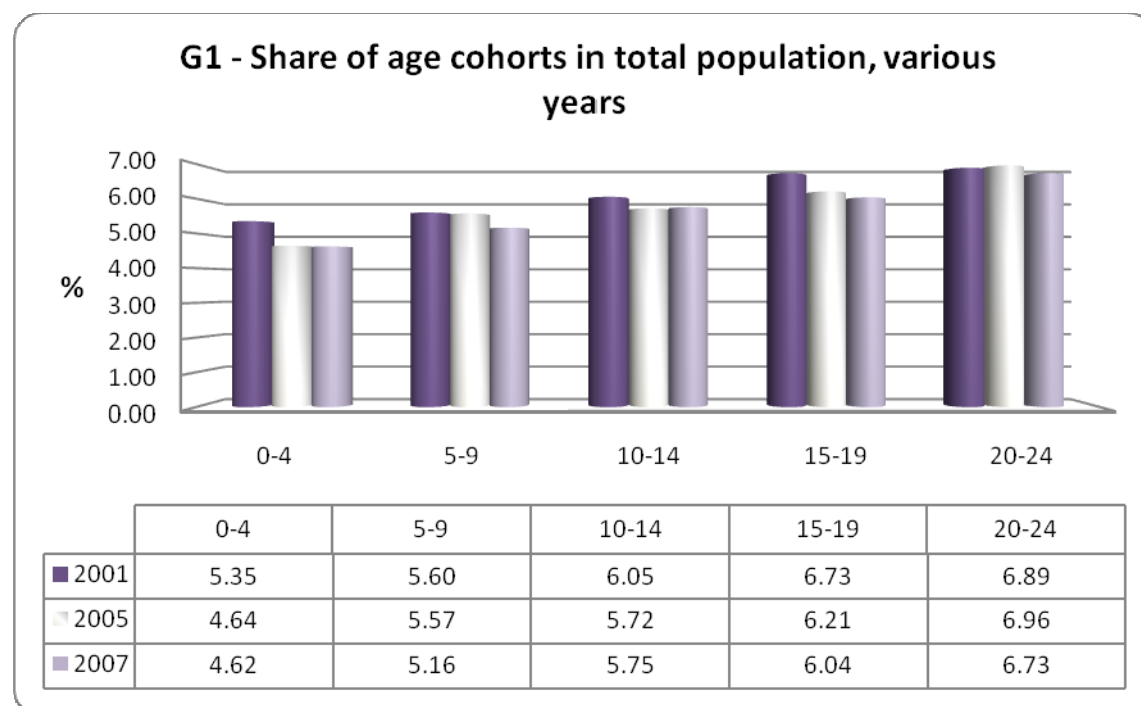
Source: Statističke informacije 2009, Croatian Bureau of Statistics (CBS)

Table 1 shows this long term tendency. The share of those younger than 20 in the total population has fallen from 34.3% in 1961 to 22.13% in 2007. However, the change of the share of elderly over the age of 60 is even more dramatic as their share in the population increased from only 11.8% in 1961 to 21.8% in 2007 which is a growth of 85%. This is due to the retirement of baby-boom generations which were very numerous especially in relation to the number of young cohorts who are under the influence of lower fertility rates.

<sup>3</sup> The ageing index is the relation between the share of older cohorts of 60 and more years and the young cohorts below the age of 20 in the total population. The higher the index, the older the population.

Consequently the ageing index has also increased from 34.3 to 98.5 by more than 287%. These indicators of the ageing of the population are particularly adverse for women whose ageing index was 118.6 in 2007 in relation of 81,2 for men.

Even over shorter time periods such as shown in Graph 2 below, the size of age groups is slowly decreasing as is their share in the total population. The graph shows that the youngest age group in 2007 is less than 5% of the population. At this rate of decrease (0,18 percentage points annually), the youngest cohort will form less than 3% of the total population in ten years.

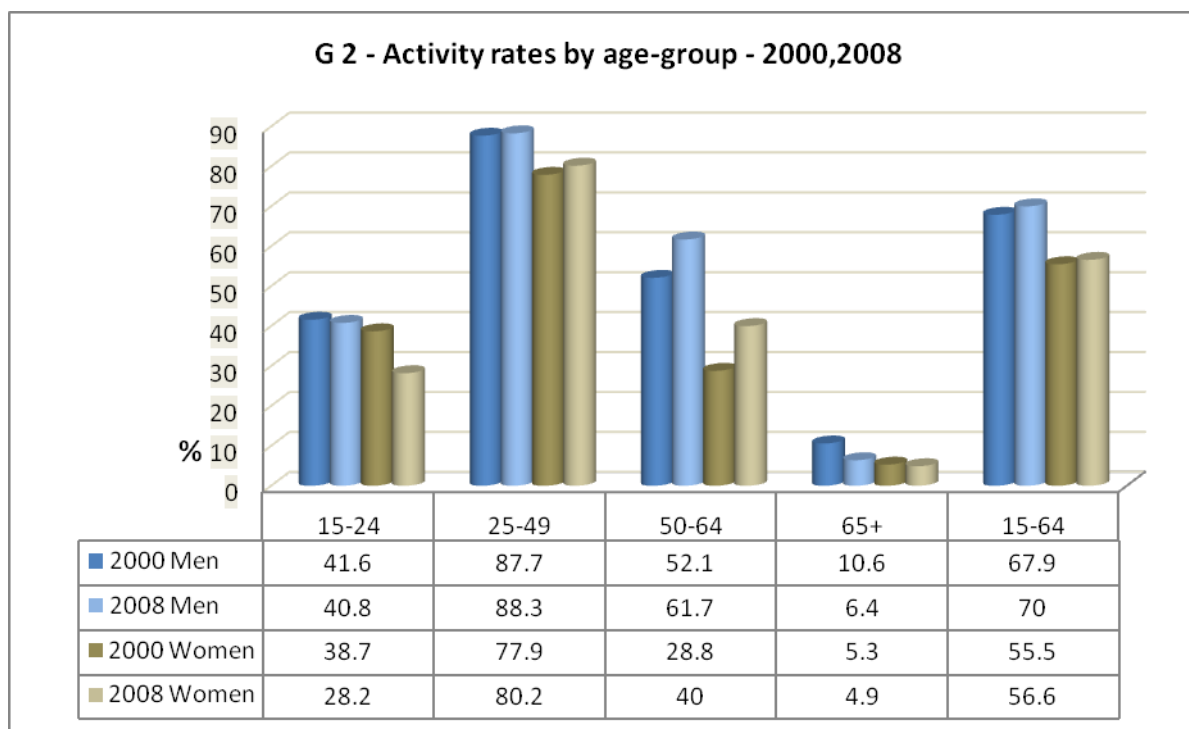


Source: Statistical information, CBS

The present values and estimated trends in population growth and the share of young cohorts in the total population indicate that the working age population will suffer from negative replacement rates and a growing average age, which will inevitably (even with an assumption of a migration promoting policy) lead to supply side problems on the labour market in the future.<sup>4</sup>

## Youth labour force participation

The youth labour market in Croatia is segmented along gender lines and through educational attainment. Young women have, on the whole, lower activity rates than young men, but also lower employment rates while their unemployment rates are considerably higher and this gap seems to be increasing in the very young and the older workers towards the end of the working life.



Source: LFS-own calculations

Graph 2 portrays activity rates by age and gender in 2000 and 2008. The youngest age group has much lower activity rates especially the women and there has been a reduction in activity rate for both genders during the time period shown. This is due mostly to higher enrolment into higher education which has occurred over the last decade. The age group 25-49 has experienced an increase in activity rates and the gender gap has slightly decreased in this age group. The biggest differences between the genders has occurred in the age group 50-64 where rates are substantially higher for men then for women (52.1% in 2000 for men and only 28.8% for women) but this difference has been reduced since both activity rates have risen and those for women more than for men. In the 65+ age group activity rates are low and decreasing through time. On the whole, activity rates for the working age population 15-64 did not change much although the change has been in the right direction for both men and women.

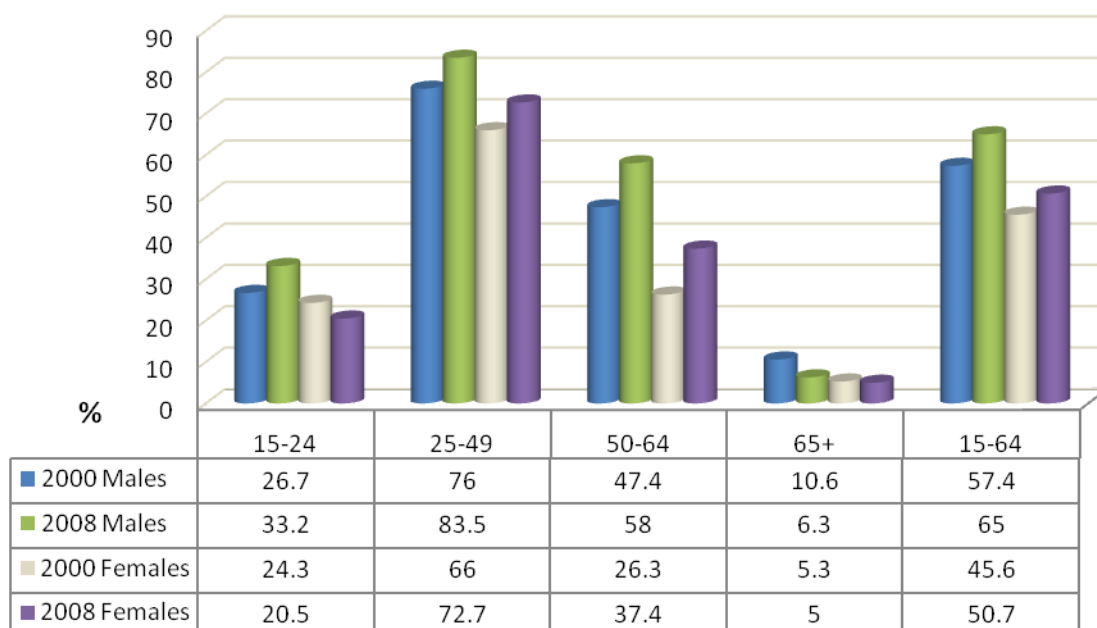
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## Youth employment

Employment rates of young age-groups are generally lower than those of the general population. While male employment rates show an increase from 26.7% at the beginning of the period to 33.2% last year, women's' employment rates have actually decreased from 24.3% to 20.5%.

The age group 25-49 had an increase of the employment rate around 10% for both men and women but the biggest increase was for the 50-64 age group where the employment rates of women show an increase of 42% and the men's' rates by 22.4%.

**G3 - Employment rates by age-group and gender-2000,2008**



Source: CBS, LFS, 2000, 2008.

Overall remployment rates, however, remain relatively low by European standards with 65% for men and 50.7% for women. It is clear that the efforts to increase overall employment rates depend very much on increasing them on the margin, i.e. for young people and for those older than 50. As will be shown later, a further decomposition of the young age group into 5-year cohorts will indicate more clearly what is happening as we follow educational outcomes and first entry to the labour market.

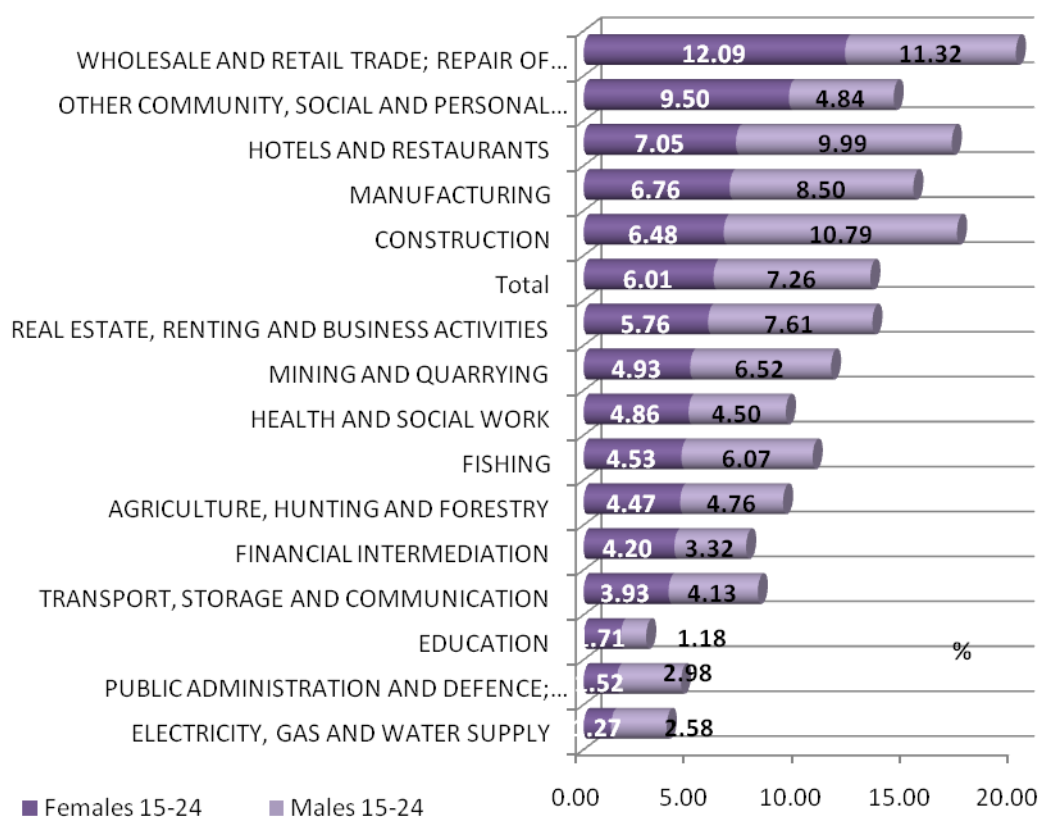
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### **Where do the young people work?**

The highest share of young workers in any sector is 23% and the average is about 13%. The young mostly work in the services sector, mostly Wholesale and Retail Trade (12,1% young women, 11,32% young men), Hotels and Restaurants (7.05% young women, 9.99% young men). Young men dominate also in Construction, Manufacturing and Real-estate. On average young women make up 6% of the female workforce and young men 7.3% of the male workforce.

A feature which stands out is the low share of young employees in the public sector, especially in education where it is below 3%. This shows how static the public sector is, and the barriers which exist here in employment of young people. Since tenure here is practically for life, new employees can only be admitted to fill places of those who have retired. It is not surprising that the sector of education is the slowest to change in comparison with other sectors of the economy.

**G 4 - Share of Young Men and Women in Employment by Sector, 2006**



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Source: CBS, Zaposlenost i plaće, various years.

### **Employment status and work characteristics of young workers**

Most of the young employed work as employees (76% of the age-group 15-19 and 89% of the age group 20-24). A very small percentage is self-employed (2%). A reasonably large share of the 15-19 year-olds (22%) work for cash or on short-term contracts or as unpaid family workers on farms or family owned businesses. This is not the case for the older age group where only 8% have this employment status.

The following table shows some of the work characteristics of the employed in our target group.



## T2: Youth employed workers and comparison with the 15-64 age groups

	15-19	20-24	15-64
<b>Size of enterprise</b>			
1-10	42	29	17,6
500+	13,5	6	11,2
<b>Type of contract</b>			
Permanent	39,1	63,1	85,7
Temporary	37,1	29,8	12,0
Seasonal	14,5	5,03	1,6
Occasional	9,3	2,11	0,8
<b>Duration of contract</b>			
0-1 month	3,3	0,5	1,9
1-3 months	41	31,6	27,1
4-6 months	19,5	30,2	32
7-12 months	12,7	18,5	18
13-24	4	7,3	7
24-36	0	3,1	1,8
36+	0	0,6	1,9
As required	19,4	7,5	9,8
<b>Full time/Part time</b>			
Full time	79	93,5	92,6
Part-time	21	6,47	7,4
<b>Hours of work</b>			
1-10	3	1,2	0,9
11-20	7	2,5	3,2
21-39	9,8	3,9	4,3
40-42	67,3	79,4	79,6
43-50	6,1	9,2	6,0
51+	7,0	4,2	6,0
<b>Benefits from work</b>			
Salary only	19,7	9,1	6,9
No benefit <sup>5</sup>	10,1	2,3	3,9
All benefits	70,2	88,6	89,1
<b>Other variations</b>			
<b>Usual net monthly</b>			

5 No benefit – work without pay and no contributions paid in.

<b>earnings</b>			
<b>No salary</b>	17,7	3,1	<b>3,8</b>
<b>Up to 137 Euro</b>	9,8	2,5	<b>4,8</b>
<b>From 138-205</b>	6,3	1,1	<b>1,9</b>
<b>From 206-273</b>	17,3	18,0	<b>9,1</b>
<b>From 274-342</b>	16,4	21,0	<b>12,2</b>
<b>From 343-500</b>	29,4	34,3	<b>27,5</b>
<b>501+</b>	3,3	21,1	<b>40,6</b>
<b>Years of service with present employer</b>			
<b>2005-2006</b>	90,5	59	<b>18,7</b>
<b>2003-2004</b>	7,5	28,8	<b>12,8</b>
<b>2001-2002</b>	2,0	9,8	<b>9,0</b>
<b>Before 2001</b>		2,6	<b>55</b>

Source: LFS, CBS, 2006

### **Point of entry on the labour market – small business entities**

The table above shows some of the characteristic and distinguishing features of the work relationship of young workers in relation to other age groups. It is clear that there are prominent differences not only between the 15-24 age group and the rest of the work force but that the younger age group 15-19 has its own specifics in relation to the age group 20-24. Almost half of the very young workers start their first jobs in small enterprises of less than 10 employees and 29% of the workers in their early 20s. On the other hand, only 17.6% of the whole workforce work in such small establishments. This could be a reflection of the job creation potential in small firms which makes it the likely point of entry for young people.

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### **Contractual arrangements more flexible among young age groups**

The generally dominant work relationship in the country are permanent contracts and 85.7% of the 15-64 workforce enjoy this form of relative legal security. However, only 39% of the age group 15-19 and 63,1% of the 20-24 have permanent contracts. Roughly one third of the young have temporary contracts in contrast to 12% in the whole workforce. The youngest age group is also more frequently represented in seasonal and occasional jobs (21% in relation to 7.14% and 2.4%).

### **Duration of contracts of temporary workers similar between age groups**

Although the youngest workers seem to have a slightly higher share of very short term contracts of up to 1 month, the most frequent duration of temporary contracts for all age groups is from one to 6 months which is how around 60% of the temporary workers work. One further factor stands out. Young workers seem to constitute a much higher proportion of

those working on indeterminate, open-ended<sup>6</sup> contracts which is another point of insecurity in their work arrangements.

### **Part-time work is still rare but more frequent among the young**

The share of part-time work is below 10% for all workers above 20 years of age. However, 21% the young from 15-19 years of age work part-time, which may be a sign of the changes which may occur on the labour market. Interestingly, only 1/3 of the young workers working part-time are young women. The reasons which they point out for working part-time are the following: a third choose to work part-time for personal reasons, 26% because that is usual working time for this job, 24% because they are studying the rest of the time and 19.4% because this was the only type of job they could find. Therefore, most of the young chose part-time work for convenience as they are involved with other activities.

### **Hours of work – less typical for the young**

The most frequent work arrangement in terms of hours worked is 40-42 hours regardless of age group although the share of full timers among the young is 67.3% and about 80% for other age groups. Nevertheless, young workers (15-19) work shorter hours more frequently. Almost 1/3 of them work less than 40 hours a week while this is at the level of around 10% for workers older than 20.

### **Work related benefits – unequal treatment**

Again, we can see that vulnerability on the labour market seems to be cumulative for the youngest age groups. Not only do they work longer hours or less than normal hours, have more frequent part-time status and temporary work arrangements but up to 20% of them only have a wage without health and pension insurance and 10% have no benefits whatsoever<sup>7</sup>. This may be their more frequent work as helping family members on a farm or family business. On the whole, up to 70% of the very young enjoy full benefits, 88.6% of the 20-24 year olds and 89.1% of the total workforce.

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### **Wage distribution by age – below average for the young workers**

Wage levels by age group vary significantly. The youngest age group again seems to have wages which are about 65.6% of the average for the whole 15-64 group. The slightly older young people already get 82.2% of the average. Quite a high proportion of the very young have declared that they do not get a wage at all (17.7%) which happens only in 3.5% of the cases for the 20-24 age group and 3.8% of the total population.

In summary, the characteristics of work arrangements clearly seem to be differentiated by age. All the features presented show that the young workers from 15-19 have a higher

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<sup>6</sup> Those contracts where duration of work is undetermined is usually linked to the characteristics of the job and workers can be laid-off without further ado.

<sup>7</sup> This means: no salary and no health and pension contributions.

incidence both of temporary work, part-time work, smaller number of hours, lower wages and less benefits. The older group of young workers from 20-24 years of age, most probably due to their higher level of education, are approaching average features for the mainstream work force but there are still quite a few discrepancies especially concerning wages and incidence of temporary work. However, among those workers who have temporary contracts, the duration of contract is not clearly distinguishable by age.

## **Young workers in the informal economy**

Work in the informal economy can be both in the realm of legal but unregistered or illegal economic activities. Typically, transition countries have larger informal economies than other European countries and the unregistered but legal informal work is to be found in agriculture, crafts, forestry and fishing. Illegal forms of work include jobs which are not covered by all contributions, taxes and surcharges as defined by the law or practices where a portion of the income is legal and another part is under the counter in cash. Employers combine the various practices depending on their service or production cycles. In a seasonally determined economy like Croatia, there are significant oscillations in labour demand throughout the year. In summer months demand for labour is at its annual peak and all types of employment from legal to informal are practiced by most employers, especially where tourist services are the dominant economic activity.

Unregistered and not necessarily illegal work is engaged in by 12% of young workers aged 15-24. About 9.5 thousand students and pupils work, 5.9 thousand work for cash or are unpaid family workers.

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Unpaid work is a form of employment in the illegal informal sector. We have seen that 17.7% of the 15-19 age group receive no income for work done which is almost 6 times more than for other employed groups. Avoidance of contribution and income tax payments is often prevalent among young workers but difficult to prove.

Unpaid overtime is also a form of illegal work which is prevalent in the private sector where trade union organisations are non-existent outside big enterprises.

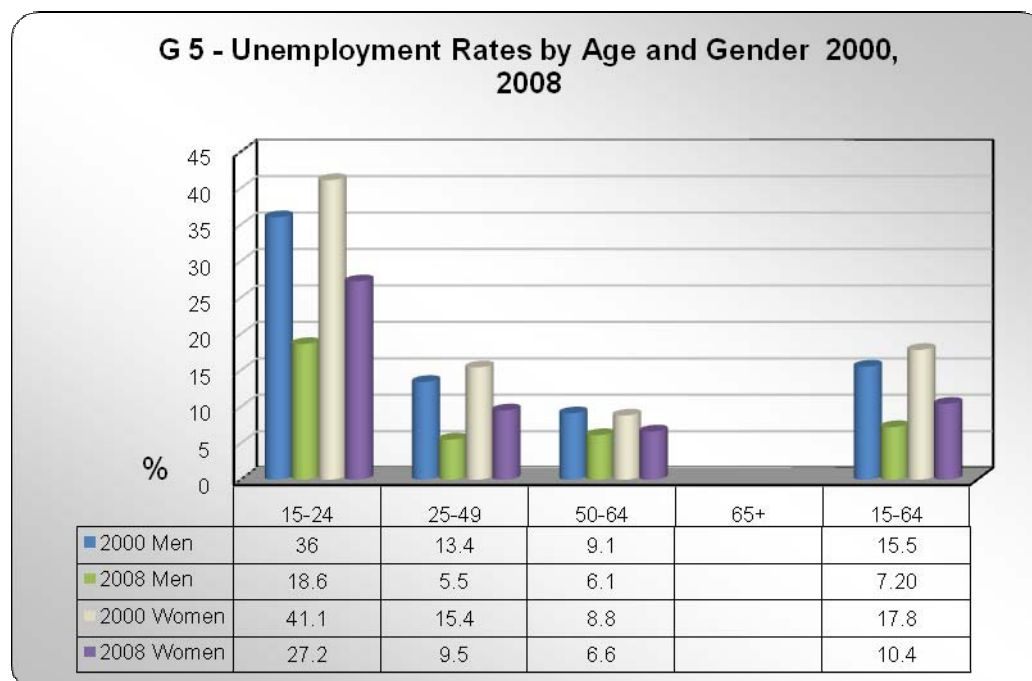
All these practices point to considerable exploitation of the young labour force and the insecurity they are facing at the time of their lives when independence should slowly be gained from family income support. When shortness of contract duration is also taken into account it becomes clear that young workers are bearing a disproportionate burden of flexibilisation of the labour market. This points to the need for policy interventions on behalf of this group on the labour market.

## **Youth unemployment**

Youth unemployment rates are more than double the unemployment rates both of the total population and differentiated by gender. However, over the last 8 years LFS unemployment rates of the population 15-24 have dropped by 53.5% percent for the male population and 41.6% for the female population. However they still stand at high 27.2% for women and

18.6% for men which stands out in relation to the unemployment rates for all men of 7.2% and 10.4% for all women.

It is worthwhile looking at the registered unemployment rates since they reflect the legislative framework. In 2008, male unemployment rate was 11.2% and the female rate was as high as 19.5%. This rather large difference can be attributed to the fact that many social benefits especially for women have begun to be granted through the unemployment status. For example, unemployed women who happen to fall pregnant are eligible for maternity benefits as a measure of population policy.



Source: CBS, LFS 2000, 2007.

This has prompted many women who want to start a family or have more children to register as unemployed in order to get the maternity benefit which obviously inflates the registered unemployment rates and makes targeting of active labour market policies difficult and the measures themselves ineffective and costly.

### **Duration of unemployment by age**

Long term unemployment meaning 12 months and longer seems to be a feature which is not typical for young unemployed persons. 76.6% of the young unemployed aged 15-19 found a job within a year on relation to only 44.5% of the 15-64 year olds. When we look at the very long-term unemployed, there were 31,3% of the

### T3 Duration of Unemployment by Age Group

	15-19	20-24	15-64
Up to 6 months	58.9	37.4	29.9
7-12 months	17.7	20.9	14.6
13-24 months	21.2	21.4	13.3
25-36 months	1.3	10.2	10.9
36+ months	0.9	10	31.3

Source: LFS, CBS

general population but only 0.9% among the very young and 10% of the slightly older. This seemingly contradictory finding actually portrays particular behaviours of the young, especially at the Employment service. Since young people are not eligible for unemployment benefit, there is no strong incentive to remain on the register for long periods of time. Among the young, especially those with lower qualifications, exits from the register for reasons other than employment are frequent. For example, in July 2007 there were 18,121 unemployed persons with only primary school and less and about 300 found a job that month. Almost double that number left the register in the same period.

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### The young unemployed are more flexible about uptake of jobs

In response to questions about the type of job which would be acceptable, the youngest age-group 15-19 portrays some answers which point to a potentially more flexible attitude than other age groups. For example, while 75% of the unemployed aged above 20 prefers a job in the public sector, only 59.2% of the young share this opinion. Furthermore, 14.3% of the young prefer to become self-employed in comparison to only 8.4% of the 15-64 age group. This is a significant difference and is corroborated by research on entrepreneurial activity of the population<sup>8</sup> which has shown a significant increase in entrepreneurial activity in the working age population. All age groups are predominantly in favour of permanent employment and part-time is still an unknown category on this labour market. However, roughly a third of all unemployed are displaying readiness to take on any job which is an increase in relation to previous labour force survey results.

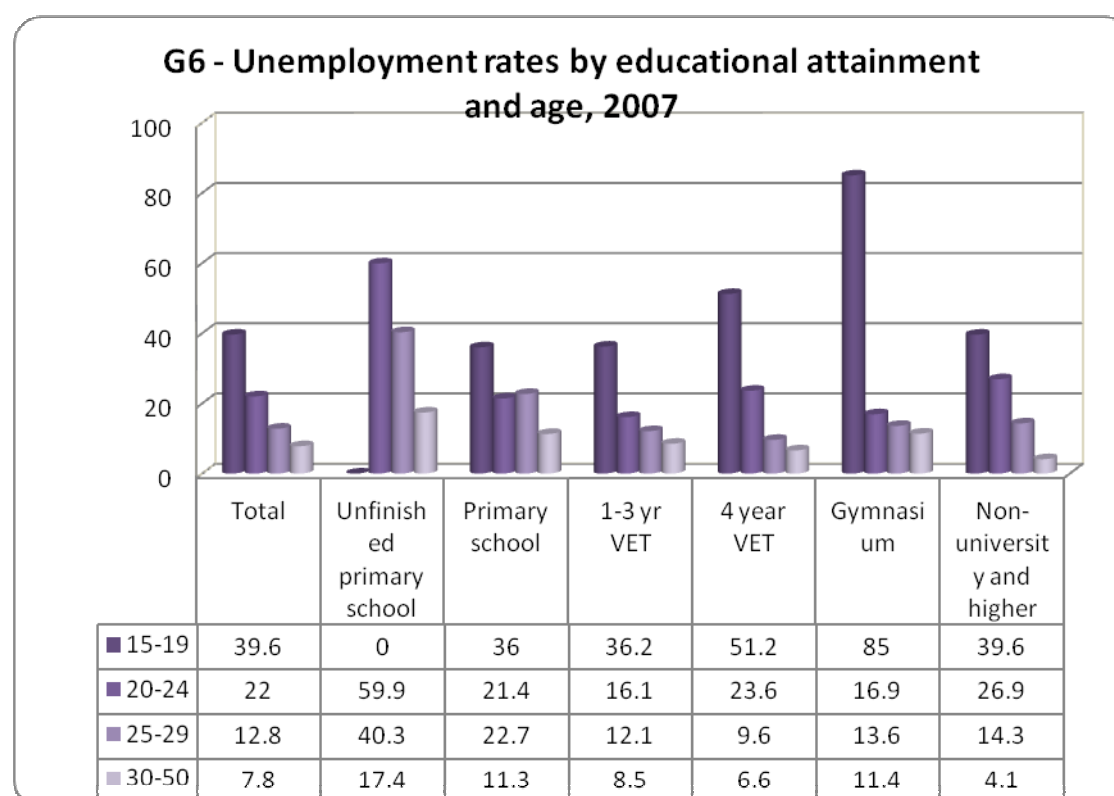
Another surprising feature is the willingness to accept training for a new job. Less than 40% of the unemployed were prepared to undergo training in the early 2000's but five years later roughly 70% of the unemployed are prepared for this in order to get a job.

<sup>8</sup> Global Entrepreneurship Monitor prepared by CEPOR in Croatia, [www.cepor.hr](http://www.cepor.hr)

Another important feature of a flexible labour market is mobility. There is not great difference between the age-groups concerning mobility. About 15-18% are not ready to move under any circumstances while from 55-61% are willing to commute daily. Any move which would mean a change of residence is not particularly acceptable. This is in contrast with the popular opinion especially among the educated young that they would like to work abroad. Only a very small proportion of the young unemployed expressed the wish to work abroad.

## LABOUR MARKET OUTCOMES AND EDUCATIONAL ATTAINMENT

The relation between educational attainment and labour market outcomes is not linear. On the one hand, it is clear that higher qualifications are related to shorter unemployment spells, higher employment rates and higher earnings over the life cycle than those with lower qualifications. Below we try to bring together educational outcomes with basic labour market indicators by age in 2007 in Croatia.



Source: LFS 2007, author's calculations

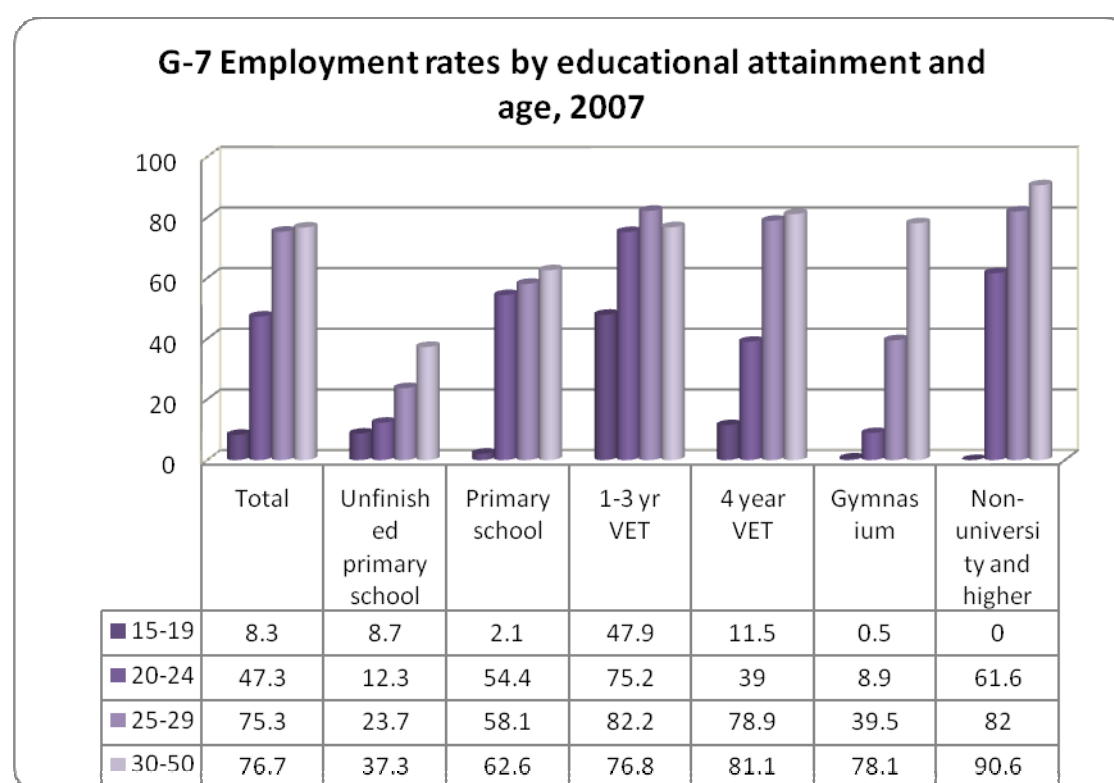
If we take the indicators for the prime age labour market group 30-50 as a proxy for expected future labour market outcomes for the younger age groups we see that generally all younger age groups regardless of level of education have higher than average unemployment rates which slowly converge to the average with age. For example, the unemployment rate of those with above secondary education was 39.6% at the age of 15-19 this reduces to 4.1% in the prime age group. Secondly, we see that unemployment rates for those with unfinished primary and primary school remain high even for the prime age population (17.4% for those with unfinished school and 11.3% for those with only primary



school). Thirdly, labour market outcomes for those who finished gymnasia are similar to those with primary education which may indicate that the signalling effect of this education stream is negative. Fourthly, the difference in labour market outcomes between 3-year and 4-year vocational schools shows that at age group 15-24 those from the former group have lower unemployment rates (3-year VET have 36.2% and 16.1% in relation to 51.2% and 23.6% for the 4-year VET). Thereafter, however, unemployment rates of 3-year VET are at 12.1% and 8.5% while the 4-year VET qualifications have rates of 9.6% and 6.6% which is below average.

Finally, these figures show the extent of the barriers of entry to the labour market for young age groups and indicate a need to look at all the other above mentioned factors which influence labour market outcomes.

A further indicator of labour market outcomes are employment rates which show which proportion of a particular age group is working.



Source: LFS 2007, author's calculations

A noticeable feature as shown in the above graph is the clear correlation of employment rates with educational levels. Low qualifications, especially those with unfinished primary school have low employment rates of 37.3% in the prime age group and there is very slow convergence to this across age groups. Moving toward higher education levels there is a progressively higher employment rate for all ages and it is the highest in the prime age group. Thus persons aged 30-50 with above secondary education have an employment rate of 90.6% and younger age groups converge to this level relatively fast. If we take the ratio between indicators for 20-24 age group and the 30-50 age group we can show the extent of the gap.

#### T-4 Convergence of employment rates by educational attainment and age to prime age rates

	Unfinish ed primary	Primary	3-year VET	4-year VET	Gymnasi um	Above seconda ry	Total
<b>20-24</b>	33	86.9	97.9	48.1	11.4	67.99	61.7
<b>25-29</b>	63.5	92.8	107	97.3	50.6	90.5	98.2
<b>30-50</b>	100	100	100	100	100	100	100

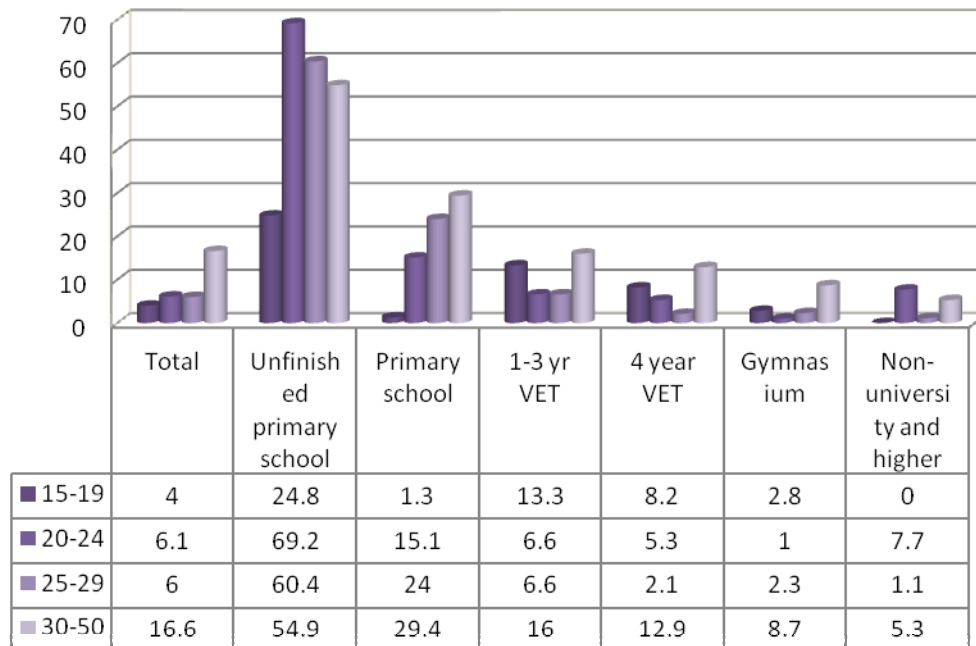
Calculated from G-7 above

We can see that persons with unfinished primary school not only have low employment rates but the convergence is slow. Groups which converge fastest i.e. the 3-year VET school graduates who typically enter the labour market after school and rarely go on to higher qualifications have very high convergence and indeed the employment rates of the younger group 25-29 (82.2%) is higher than for the prime age group (76.8%). Relatively slow convergence of the 4-year VET school leavers is in their attempts to enter higher education which is why their employment rates are only 48.1% in the age group 20-24 but once they enter the labour market they converge relatively quickly.

Again, the stickiest climb seem to have gymnasium graduates who, by the age of 25-29 are still mostly still studying and their convergence to full employment rates is the slowest among all the other educational categories. Although their numbers are not great the gymnasia graduates who do not proceed to higher education are a great waste of potential. The enrolment criteria for gymnasia are usually higher than for other 4-year vocational schools so that only good and very successful students manage to enrol. The inability of some of them to finish at least undergraduate degrees and their protracted studying followed by problematic labour market outcomes is indeed a waste on several accounts.

A further concern in view of the objectives Croatia has set itself to increase the activity rates up to European standards are the relatively high levels of inactive among the working age population. To have a look at this feature we have excluded those who are at school and look at the remaining inactive population by age and educational attainment. Are some of the educational levels more prone to inactivity? Is this related to age as well?

**G-8 Inactivity rates (excluding those at school) by educational attainment and age, 2007**



Source: ibid

Inactivity rates are more closely correlated to educational attainment than the previous two indicators. Age itself seems to have little influence on inactivity since school goers have been taken out of the data. Very clearly, persons who have not managed to finish primary school have by far the highest inactivity rates, about 3.3 times higher than average. Primary school graduated have much lower but still above average inactivity rates while all other qualification levels have either average or below average figures. Towards prime age, inactivity rates generally increase, the highest increase being in the vocational qualifications (from 6.6% to 16% in the 25-29 to 30-50 age groups in the 3-year VET qualification level / from 2.1% to 12.9% in the 25-29 to 30-50 age group in the 4-year qualification level).

These findings point to the policy related difficulties which can be expected to fulfil the EU levels of economic activity and employment rates. Namely, most of the move to higher activity requires extensive requalification policies for quite large numbers of low qualified people most of whom are hidden in the inactive population and may be hardest to stimulate into taking up higher qualifications.

### **The role of work during education as a factor of better employability**

Participation in economic activities during formal education may be a predictor of employability. If such young people have a greater propensity to find employment, then all those who were immersed in the world of work during education, regardless if it was in the scope of vocational apprenticeships or while working and studying at university could improve labour market outcomes. What was the experience of working students?

Only about 13% of interviewed persons recalled having a significant job during the course of regular education<sup>9</sup>. In 60% of the cases, participants did not end up working for the same employer after the end of education. The reason for this could be that the occupations they were working in were entirely different from what they studied. Most of the contractual arrangements were in the form of student's contracts while 24% of those who worked had some form of permanent employment while 19% had a temporary contract. About 15% of the working students were active in the shadow economy and they were mostly in the course of finishing 3-year VET schools.

Did this work experience lead to better employment opportunities after finishing school? It seems that among those who found employment after school few have attributed this outcome to previous work experience which they managed to acquire during formal education. In fact, most of them did not continue working for the same employer and often found employment in other occupations.

This factor could be important in assessing the importance of work experience for good labour market outcomes. In fact, since both secondary school graduates and university graduates on average have much higher unemployment rates than the prime-age population in the period immediately following formal education this could mean that lack of work experience is only an excuse for not employing young people. In fact, interviewees said that employers rarely asked for particular references since the jobs they were offering to youth were simple jobs which could be learned by doing them.

## Summary of section

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The above section has shown the following:

- qualification level is a good proxy for labour market outcomes – higher qualifications regularly have lower unemployment rates, higher employment rates and less than average inactivity rates
- the young have high barriers to entry on the labour market which is shown by the unemployment rates by age and educational attainment
- employment rates of the young converge unequally to averages for the various educational attainments –highest convergence for vocational 3-year graduates and the those with non-university or university qualifications
- low qualification levels are highly correlated with high inactivity rates
- Students who had worked during formal education consider that it may have been helpful for finding work but not usually finding work in the occupation for which they have studied.

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<sup>9</sup> A significant job is considered to be a job which lasts at least 3 months, for regular pay and not less than 20 hours a week. The form of the contract is not important but this did not include paid apprenticeship during school.

## ENROLMENT, INFLOWS AND OUTFLOWS FROM EDUCATION AND FIRST ENTRY TO THE LABOUR MARKET

In most years about 46 thousand children between 14 and 15 years of age leave primary school and seek to continue their education in secondary level education. The nervousness accompanying this process is not backed by figures. Namely, there are very few young people who leave school to work after primary school. Most of them (about 2640 across Croatia) have some type of work related disadvantage and consider themselves unable to work<sup>10</sup>.

**T5 – Enrolment and fluctuation in the educational system, 2005-2008**

	Enrolment 2005-2006	Outflow 2006	Inflow 2006	Enrolment 2006-2007	Outflow 2007	Inflow	Enrolment 2007-2008	Outflow 2008
Primary schools	387,952	49,578	37,726	376,100	46,814	40,412	369,698	46,328
Secondary schools, total	189,661	46,551	41,073	184,183	45,823	43,518	181,878	44,506
Gymnasias	51,176	12,288	41,073	51,338	12,288	11,834	50,884	12,185
Technical VET schools (4-year)	89,218	20,060	20,408	89,566	20,071	19,079	88,574	19,810 <sup>34</sup>
Industrial and craft schools (3 year)	47,568	13,694	11,582	45,456	12,994	10,724	43,186	12,033
Special secondary schools (1-3 yrs)	1,699	509	427	1,617	530	452	1,539	478
High schools	136,646	18,190	21,540	139,996	19,566	22,980	143,410	20,969
Polytechnics	14,420	1,528	3,249	16,141	2,231	4,825	18,735	3,215
Non-university	11,237	3,308	1,484	9,413	2,817	458	7,054	1,258
University	110,989	13,354	16,80	114,442	14,51	17,69	117,621	16,496

<sup>10</sup> Labour force survey 2007 based on a self-assessment of working ability.

Source: Statistical Information 2008, 2009, Statistical Bureau, [www.dzs.hr](http://www.dzs.hr) and own calculations

Table 5 describes both the enrolment and the inflows and outflows from the various levels of education over 3 years. What can be noted is the reduction of enrolment into primary schools due to a decline in fertility and ever smaller cohorts which enter the schooling system. There is also a small reduction with time of enrolment in secondary education from 189.7 thousand in 2005-2006 to 181.9 thousand in 2007-2008. On the other hand, there have been substantial increases in enrolment in higher education, i.e. from 136.7 thousand at the beginning of the period to 143.4 thousand at its end which is an increase of 4.9%. The biggest reduction occurred in the enrolment into industrial and craft schools of 9.2% while other types of secondary schools more or less retained their previous positions. The growth in the high school enrolment is mostly due to high growth of enrolment in university courses (6.0%) and in polytechnics (29.9%) the latter being due to the low start for this type of education which previously did not exist in Croatia.

These inflows and outflows from the educational system can not help us much in finding out what the labour market outcomes related to educational levels are although they do point to general trends of flows into and out of the various educational streams. To do this we have used the Labour force survey of 2007 and used 5-year cohorts from 15-29 and looked at labour market outcomes by educational attainment.

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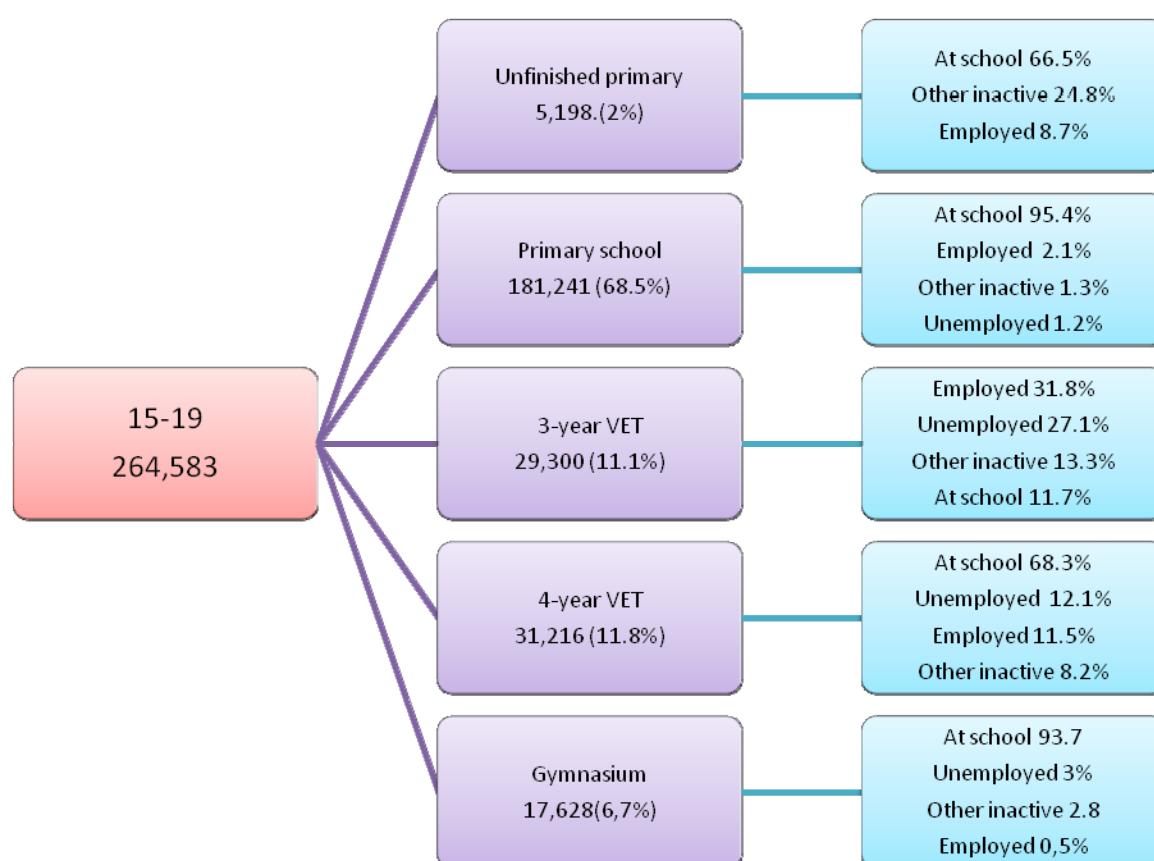
### **The 15-19 cohort according to economic activity in 2007**

This age group makes up 264,583 individuals. The diagram below which has been compiled by combining various cross references from the micro database of the Labour force survey shows the age groups from 15-19 according to the highest attained education level and the economic activity in which they are engaged in 2007. 68.5% of this group have completed primary school and the great majority of them 95.4% are currently in secondary education. A very small proportion 2% has still not completed primary school but 66.5% of them are still in the process of getting their compulsory qualifications. A small proportion (11.1%) has finished 3-year VET schools and 58.9% of them are on the labour market, mostly employed (31.8%) and some unemployed (27.1%). The smallest share is in secondary education (11.7%) and there is a relatively high share of other inactive<sup>11</sup> (13.3%). This shows how exposed young people with 3-year VET schools are to unemployment at this early age and indicates a blockage in the upward mobility in the educational process since only a small proportion continue studying. This has been corroborated by a recent study<sup>12</sup> which used a

<sup>11</sup> Total inactive refers to those at school and those who are not on the labour market and we have chosen to call them Other inactive.

<sup>12</sup> Educational and Working Careers of Youth in Croatia which was prepared as a background analysis for the UNDP in 2009.

sample survey of 2,450 individuals and inquired about their education and work, focusing particularly on those who have had a brake in education. It is shown that 3% of students do not finish 3-year VET schools and that 94% do not enter into higher education. Of that small number of students who do enter higher education the efficiency of studying is low such that only 31% graduate from polytechnics and 41% from university programmes. The others will later enter the labour market only with secondary school qualifications not having had any amount of work experience which is a barrier to self-employment or employment in their vocational occupations. Since individuals with this level of educational attainment make up 32% of the young population, the negative effects of this blockage are obvious.



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**Diagram 1 - Activity status of 15-19 year olds**

Source: LFS 2007, author's calculations

Unlike this group, 53.7% of those who finished 4-year secondary schools are enrolled at university but those who have entered the labour market are largely unemployed and only



11.5% are working. These outcomes are indeed not very optimistic. The same UNDP study gives some more insights. There was a 1% drop-out from 4-year VET schools and 55% of them do not go to university. Of those who do 65% choose a polytechnic and 35% go to a university. Their graduation success rates are somewhat higher than for the previous group but still the graduation rate for polytechnics is only 48% and for university graduates 46%. Because of the general orientation of 4-year schools towards further studies, the practical work component during school is much lower than in 3-year VET schools (2,600 / 480 hours of work in a company) and they never learn their “trade” to the satisfaction of employers. Thus, both those who enter the labour market straight after school as well as those who return after unsuccessful studying do not have a good labour market position and are prone to longer spells of unemployment.

It appears that all persons who have finished gymnasias are studying at schools of higher learning. But even from this group, 18% do not enrol at university<sup>13</sup> (UNDP) and their skills are not readily recognised by employers since they have no distinct occupation and it is harder to match them to find jobs as was documented in the previous section. The graduation rates of those who do go on to university are also higher than for other groups, 69% from polytechnics and 74% from university programmes.

## Conclusion 15-19

In the Croatian educational system the age group 15-19 has a high percentage of enrolment in to secondary school and thus have very low activity rates. When they do, however enter the labour market they have shorter than average duration of unemployment (below 6 months) since most of the occupations which they are capable of working in are simple, low skilled occupations in sectors which are always hungry for cheap and flexible labour such as construction, catering, tourism, agriculture and sales.

Regardless of their relatively short unemployment duration, they only have permanent contracts in ½ the cases and are prone to frequent dropping out from the unemployment register which may hinder their success in finding better jobs. The income from work is at the middle to lower income levels and for such young persons who are most often still at home this may appear as an attractive source of funds. However, their prospects on the labour market if they do not continue their studies or find a firm willing to help them acquire new skills will eventually become less competitive as age is not an asset in the construction and service industries.

Since only gymnasias and 4-year VET schools have access to higher education (theoretically there is no barrier for industrial schools but practically it is difficult to achieve) we can work out how many of these young people enrol in higher schools. What is worrying is that

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<sup>13</sup> There are obvious differences in results presented from the Labour force survey and the UNDP study since the former looks at age groups and their present activity status while the latter takes the whole population regardless of age and looks at their labour market positions in the past. Nevertheless, given the differences it is interesting to explore the situation in both of these approaches.

regardless of the fact that participation in secondary education is high and the dropout rates are very low, the lack of success in acquiring higher levels of education due to a high dropout rate makes the system very inefficient and expensive. Combined with the low absorption of secondary school leavers on the labour market it is clear that the transition to higher education has to be analysed more closely and the relevance of educational outcomes from secondary school programmes examined from demand side of the labour market. Therefore the challenges are:

- to reduce barriers to higher education for those who finish 3-year VET schools
- to increase the graduation rate for those who enter higher education from 4-year VET schools
- to make educational outcomes more in line with labour market needs for secondary school graduates
- To find a solution for drop-outs from higher education who have a gymnasium qualification that remain without occupations.

### **The 20-24 cohort according to economic activity in 2007**

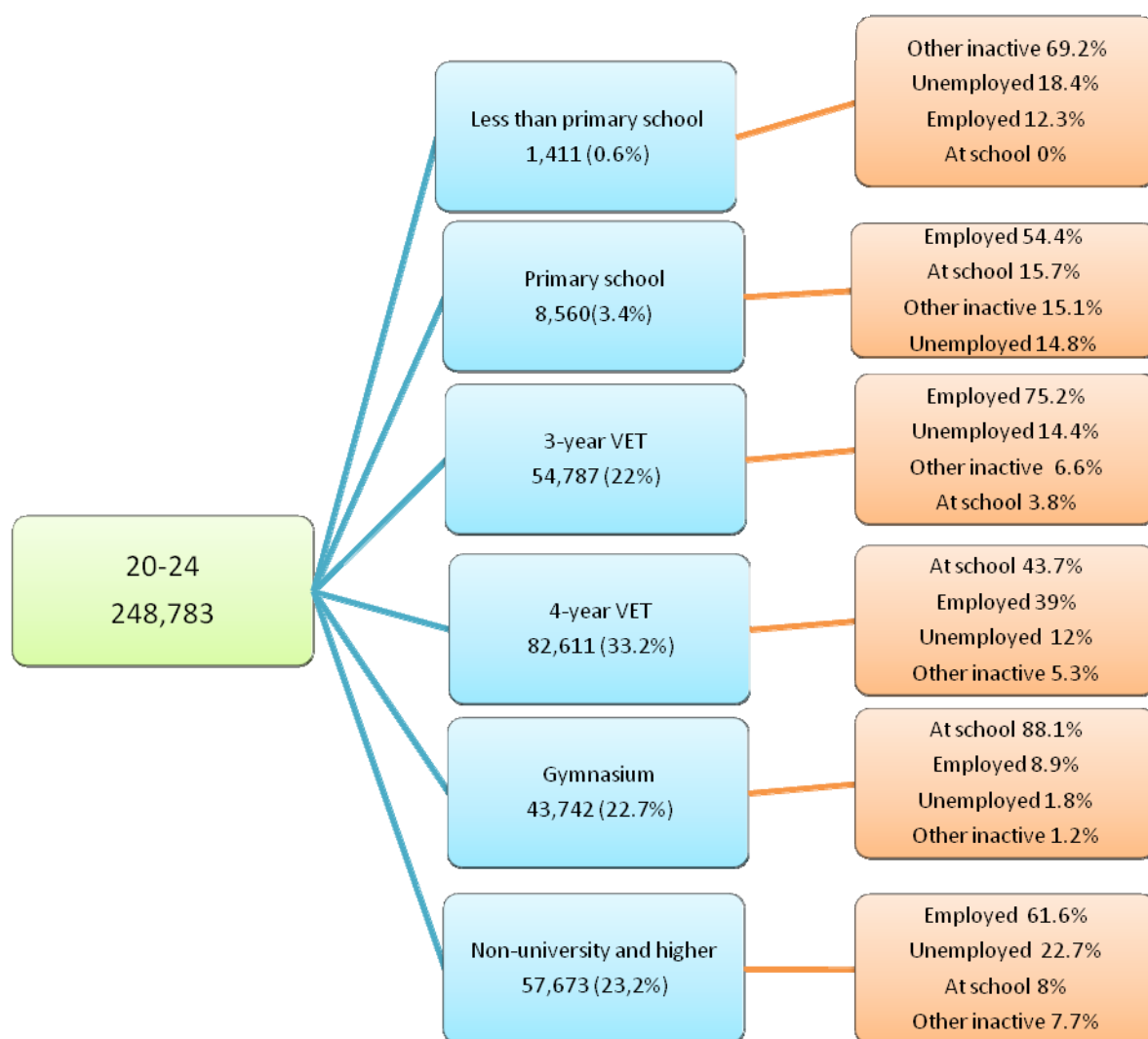
There were 248,783 thousand individuals in this cohort in 2007 and the majority of them 33.2% have graduated from 4-year VET schools, 22% from 3-year VET schools and 22.7% from gymnasia. 13.4% of them are currently unemployed, 33.2% are studying and 47.3% are working while those remaining are inactive. Again, the hardest hit by unemployment are graduates from higher education 22.7% of whom are unemployed, followed by 18.4% of those who did not finish primary school. At this age 54.4% primary school graduates, 75.2% of 3-year VET graduates, 61.6% of those who finished non-university or university courses are employed. 39% to the 4-year VET school graduates and 8.9% of the gymnasia graduates are working.

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Already at this young age 84.3% of those with primary or lower qualifications are inactive and not attending school.

Out of those still at school or university, the highest proportion are gymnasia graduates and 4-year VET school graduates. This highlights another specific feature of the Croatian educational system and that is the long duration of non-university and university education. At the age of 25-29, 88.1% of gymnasia graduates and 43.7% of the 4-year VET school graduates are still studying.

Due to the large numbers of young people with secondary vocational occupations and the tendency for the 4-year VET graduates to increase, it is of paramount importance to make sure that this group has acceptable labour market outcomes. We can see that the share of this category in the 30-50 year age group is 60.7%. Although they comprise only 6.4% of the unemployed their share of the non-active population is almost 50%. It seems that non-employment is more of a problem of these qualification levels when they come to prime age workforce than actual open unemployment. An analysis of the causes however cannot be covered in this analysis.



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## Diagram 2 - Activity status of 20-24 year olds 1

Source: LFS 2007

### Conclusions for the cohort 20-24

Key problem areas in terms of labour market outcomes which relate to employment for this age group are the following:

- This is the age at which persons who dropped out of school or have decided not to proceed to the next level of education enter the labour market. These are mostly persons who did not proceed to secondary school, graduates from 3-year secondary schools and those from 4-year VET schools who do not enrol at higher levels of education. Mobility at this age is crucial to prevent underachievement and glass

ceilings for many individuals who later get stuck on the labour market with low wages, low employability and limited transferable skills

- Unemployment which obviously ensues after each level of education has a huge negative impact on attitudes to work on the one hand, and on underutilisation of human potential on the other. It is not quite clear why employers refrain from employing young people more, and are prone to offer them jobs where their real potential cannot be realised
- Those entering non-university courses enter the labour market at this age but rarely continue studying. Just like the 3-year VET graduates they face a barrier in gaining higher skills.

## **The 25-29 cohort according to economic activity in 2007**

How does this picture change for the next cohort of 25-29 year olds? As shown below, the proportion of persons who are still studying is 7.7% but about ½ of those are gymnasia graduates who are still studying into their late 20s. We see that the share of 4-year VET school graduates who are still studying has been drastically reduced and only 10.6% are still at university while 78.9% are in employment and 8.4% are unemployed.

The labour market situation of non-university and university graduates has improved<sup>14</sup> and only 13.7% are still looking for work down from 22.7%. Their employment rates are already higher than for those with primary education and at about the same level as those who entered the labour market first, i.e. the 3-year VET school graduates with a 82.2% employment rate up from 75.2% for the 20-24 year olds.

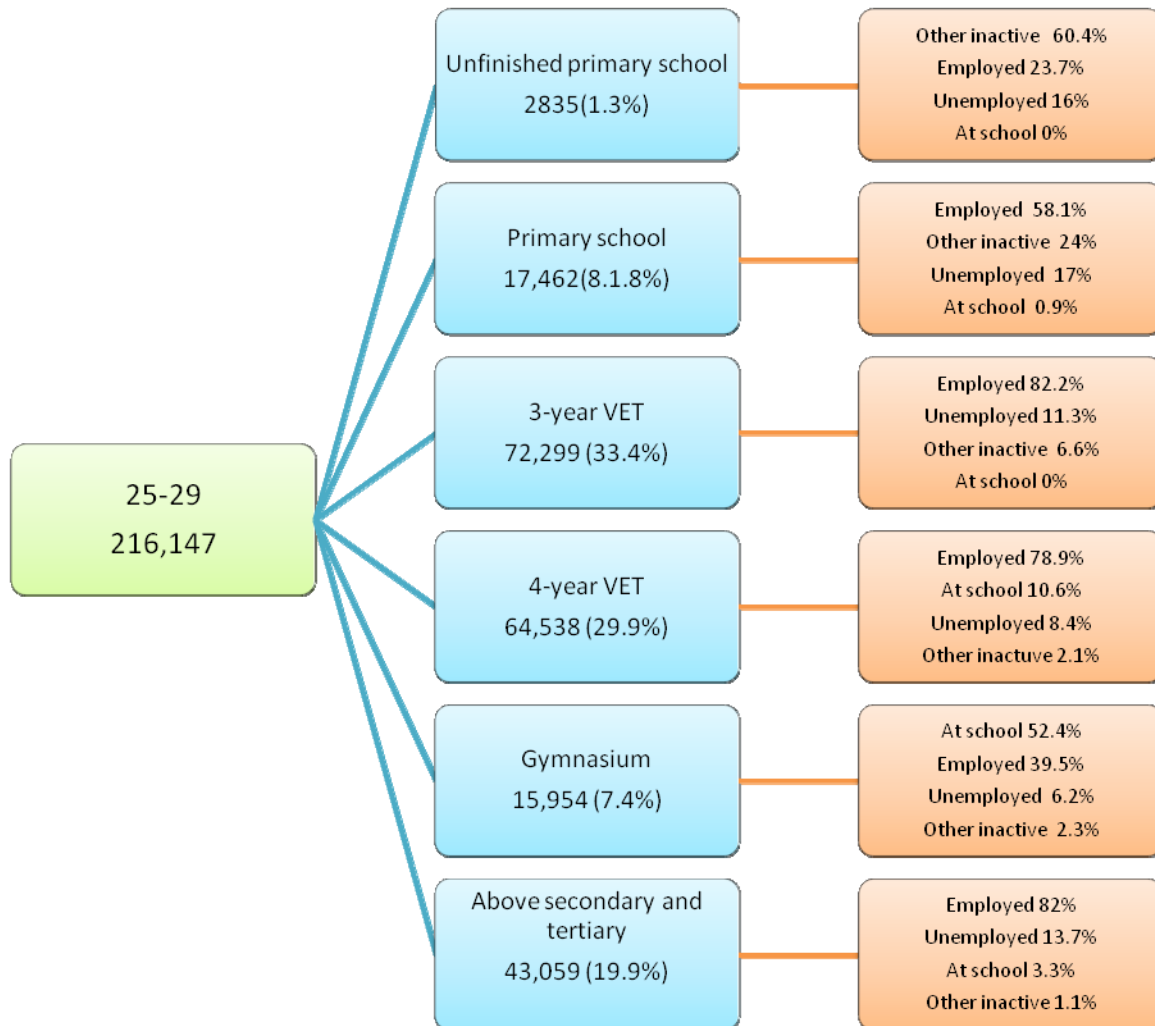
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For this age group one would expect high employment rates, low unemployment and low inactivity. Although it is true that all groups have higher employment rates (except from graduates of gymnasia), these rates range from 82.2% for 3-year VET graduates to 23.7% for those with unfinished primary schools and 39.5% of gymnasia graduates. This group seems to have particularly mediocre labour market outcomes. They are focused on entering tertiary education and yet 18% of them do not go to university (their employability with a gymnasium diploma is low) and about 1/3 do not get higher qualifications. They also have very protracted periods of studying and this delays their entrance to the labour market until the end of their 30's.

The UNDP study has also found that 4-year VET graduates are not very fervent job seekers and are not inclined to accept lower paid jobs although they have very little practical skills which interest employers. They are focused on getting a university degree but in fact only about ½ succeed in this. When they do enter the labour market, they do so almost without any work experience and no practical skills.

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<sup>14</sup> Although we are not following the same cohort through time but are taking cross sections of various groups at the same moment in time, it seems safe to suppose that the same pathways will await the age groups as they grow older.



**Diagram 3 - Activity status of 25-29 year olds 1**

Source: LFS 2007, authors' calculations

### Challenges for the age group 25-29

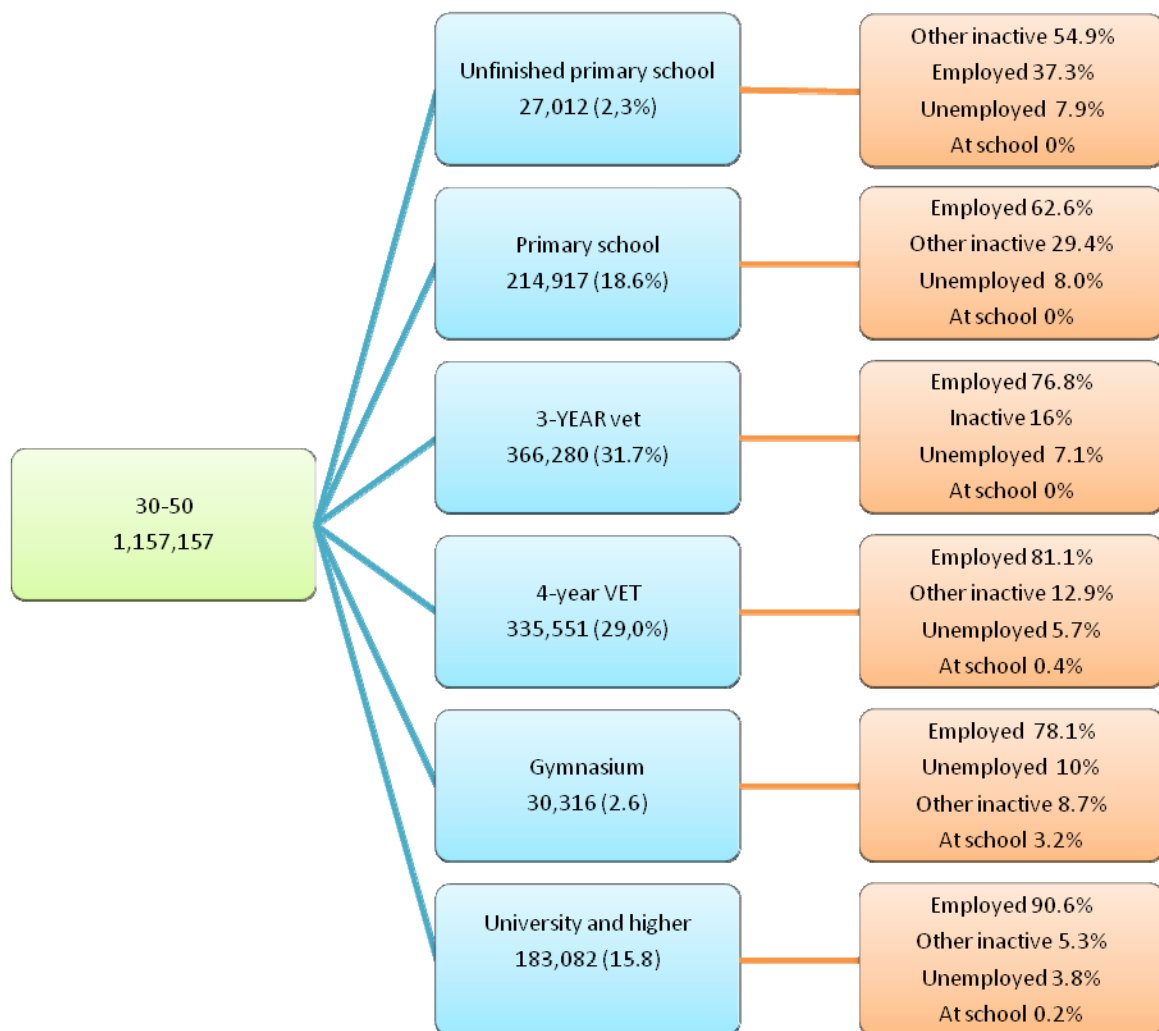
The problem areas in this age group have to be identified in relation of what the prime-age groups with the same levels of education have experienced. If we look at Diagram 4 it is

clear that young generations are much better educated on the whole. For example, 20.9% of the age group 30-50 have primary school education or less while only 9.4% of the 25-29 year olds have this level and 20-24 year olds have a lower level still of 4%. We see that unemployment levels of persons with lower qualifications are generally much higher corroborating the usual correlations between labour market position and educational attainment. It also shows that eventually persons with higher qualifications have much higher employment rates and lower unemployment rates.

Inactivity rates of those with low qualifications are also high and this is in itself a big challenge since attaining Lisbon goals of 70% activity rate would require the activation of these groups who are much more frequent among the prime-age than among the young population.

The unemployment share of youths with primary and lower qualifications is already nearing the levels which are prevalent among the prime age working population with the same skill level. At this point, training policies become difficult because these groups are either inactive or are already working and time for studying is not an option for many. It is also a very expensive undertaking given the numbers that have to be dealt with.

The long study periods of the gymnasium graduates is a problem in itself and something has to be done in order to shorten their period of university attendance as well as to ensure closure with adequate diplomas. Their employability after many years of studying which are often combined with unrealistically high expectations is low.



**Diagram 4: Activity status of 30-50 year olds**

Source: LFS 2007, authors' calculations

## THE LEGAL BASIS FOR INTERNSHIP: A BARRIER OR FACILITATOR?

There are many laws and regulations which directly and indirectly influence decisions of individuals about work and education. However, what is more important than the legal acts is the way they are implemented in practice and this mix of legal and real life contexts is a determinate factor in behaviours of individuals and institutions.

### Labour Legislation

The provisions for first entrants to the labour market in the Labour Law<sup>15</sup> allow for a probation period of up to 6 months during which the contract can be discontinued within 7 days if the work performance is unsatisfactory. The other form of “probation” is the traineeship status which can last up to 1 year and is usually implemented for employees with university qualifications if they have found employment in the occupation for which they studied. If a trainee was offered a permanent contract, in case the employee does not satisfy, the contract can be discontinued within the traineeship period. It is also possible to offer the trainee a temporary contract for the duration of the traineeship. For most mandatory traineeships such as those in health sector occupations, social welfare or the legal profession as well as some public service jobs, there is an exam at the end of the period which needs to be passed before first permanent employment is sought. Failure to pass the exam is adequate reason for severing the contract.

Alternatively, a young person who needs the practical experience before finding first employment can volunteer for a year to gain the necessary practical experience and pass the required exam.

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When looked at from the point of view of gaining practical experience these provisions give adequate opportunities for first entrants to gain some work experience and for the employers not to have too many legal obligations towards them. However, there is no provision for traineeships outside of the context of the labour contract which could include internships. Even the provision for volunteering is only mentioned in connection with gaining mandatory first experience for some occupations and does not apply to any other occupation. It is considered that volunteering in the private sector would be a form of exploitation rather than an acceptable work experience and is therefore linked only to certain occupations where it is mandatory.

The Volunteering Law<sup>16</sup> defines volunteering in a way which is not conducive to internship or traineeship other than for several occupations where practical experience is a precondition for finding work which is defined in the Labour Law. Therefore regulation of voluntary work as a mechanism of gaining work experience is not covered by the Volunteering Law but rather by the Labour Law. Further limitations of this law is that they consider volunteering to

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<sup>15</sup> Official Gazette 137/2004

<sup>16</sup> Official Gazette 58/2007



be acceptable predominantly for promoting public good and humanitarian work. Therefore it is acceptable in the civil sector and the non-profit sector. In fact, the concept that one volunteers as a source of new skills and knowledge is has no tradition in Croatia.

Therefore if we would like to make volunteering easier as a means of gaining work experience we could have to extend this opportunity generally for anyone and not just those who have to do practical work before their exams and final qualifications. There would also have to be a public campaign for acceptance of this policy and for spreading understanding of its' purpose and value.

Discussions in the Croatian Employment Service (CES) point to practices by employers which indicate that laws are not really implemented. Apparently it is usual for employers to sign up new young workers illegally as a sort of a pre-contract probation. The promise of a contract motivates such workers to persevere without pay for several months at which point they may be asked to leave or become employed. What does this mean for adjusting the present legislation? If volunteering is introduced as a way of getting work experience, this may introduce more legality into the system in the sense that the employers will continue to practice the same behaviour but this time it would be legal. Essentially, there would be little change for young workers in terms of work and treatment but they could enter these work episodes into their CV's which could be verifiable. Some provision would also have to be made for pension insurance since health insurance is already available to all citizens regardless of activity status.

### ***The rigidity of the Labour Legislation***

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Croatia has considerably deregulated its' labour legislation in 2003 by shortening lay-off periods, reducing severance pay, exempting smaller firms from the obligation of declaring larger scale redundancies and at the same time it has strengthened some of the security related benefits to countervail the loss of some other rights.

Although it is required to employ new workers on permanent contracts as a rule, in practice more than 80% of new hires are engaged on temporary contracts. Thus, the frequency of disregard of legal requirements makes control or sanctions almost impossible.

This is the reason why surveys of employers show that the issue of rigid legislation ranks about the 5<sup>th</sup> place among reasons which make doing business difficult in Croatia.

In principle, the strength of trade unions is high enough to bargain against more deregulation but they are not organised enough to monitor adherence to laws and demand sanctions. In this way, Croatia has seemingly rigid legislature but in real life a much more flexible practices exist.

### **Does Work Pay?**

The question of taxes is a serious concern in Croatia and even though the wage wedge was reduced in the beginning of 2000's it is still about 47% on average. However, low wages are either completely exempt from income tax or at the level of 15% so that generally low wages

for young people should not be a great detriment to entry. Nevertheless, it would be a great asset to youth employment if it was possible to have a cross the board possibility of volunteering for up to six months without labour contracts but with possibility of payment of pension insurance.

In minds of most workers with low or middle qualifications work does not pay. Their motivation for work is particularly difficult when the type of work offered is physically arduous and demanding. Discussions in the CES reveal that many young people with 3-year VET school qualifications prefer to do casual work rather than to have permanent employment at a low wage. They are also flexible and will accept any kind of work which pays well. Up to 50% of these young people do not work in the occupations which they studied for. This is especially true in the service sector and among hairdressers in particular where initial wages are very low and unless good salons can be accessed this work spells out long hours with little reward.

There is a similar situation among the technicians who finish 4-year vocational schools. Their expectations are to be more involved in management work rather than hands-on duties with the manual workers are expected to do in smaller firms. In the socialist period when large industrial systems existed they might have been responsible for a production department or a group of workers but today such division of labour is not frequent. Employees of CES repeatedly indicate a lack of motivation for work of young people. It seems to be true that all those who are prepared to work can find a job and a thankful employer but those seem to be in the minority.

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### **The law on secondary vocational education**

This law passed through Parliament in February 2009. It regulates the area of vocational education and defines the role of the Agency for Vocational education – ASO ([www.aso.hr](http://www.aso.hr)). However there are other laws which also regulate this area: the Law on Secondary Education, the Law on Adult Education and The Law on Crafts. This in itself is not a happy solution since one has to consult 4 laws to be able to understand the regulatory framework for outcomes of secondary education. Since each law also has different institutions which are responsible for implementing it, the degree of fragmentation for or regulation and of implementations does not contribute to transparency and effectiveness of the system.

One of the important elements in the law which is pertinent in view of the problems perceived for first entry to the labour market is the quality control of educational outcomes. According to the law on vocational education there are two ways in which quality is monitored. The first is external evaluation and the second is self-evaluation by school. External evaluation is implemented by analysis of standardized testing of students through national Matura while self-evaluation is the responsibility of School committees which include teachers, representative of the school founder, students and parents. This is the area where representatives of firms, the employment service and the organisations of social partners as well as local authorities should be present. It is clear that issue of quality as it is understood by the responsible authorities i.e. the Ministry of Science, Education and Sports does not

include the relevance of labour market outcomes of education. Therefore, there should be improvements in the standards for assessing the contribution of educational outcomes to labour market outcomes.

The second feature along similar lines is the governance structure of all agencies which have the responsibility for various educational levels. None of the agencies have tripartite governance structures or the participation of other ministries such as the Ministry of the Economy, Labour and Entrepreneurship, nor the representatives of the Croatian Employment Service. This points to the very closed nature of the educational system and seems to indicate that goals and aims which are mentioned in the preamble of the Laws namely that education outcomes should serve labour market needs is not upheld in the governance systems in the institutions and the influence of the economy is too limited.

A very good feature is that Sector Councils which are under the auspices of the Agency for VET do have members of the business community, the employment service, other ministries, chambers etc. Since they are responsible for identifying labour market needs and translating those into curricula elements this is a good way of involving all the interested parties to educational outcomes. However, a scrutiny of the members of Councils by occupational field reveals that representatives of the firms are a very small minority, usually only 1 representative in Councils which number in excess of 20 members. Can this be adequate for a particular sector? How is information collected from others? Is there a system of labour market data collection on a permanent basis which would be the analytical background for monitoring skill needs? Apparently there is not, although there are systems in place which could provide the needed information.<sup>17</sup>

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### **The law on higher education**

The Croatian higher education system comprises six universities, with some eighty faculties, art academies, and schools of professional higher education; five polytechnics; six independent schools of professional higher education and nine private accredited schools of professional higher education. The mission of universities is scientific, artistic and developmental research, especially the implementation of scientific research programmes that are of strategic interest to Croatia; artistic endeavour and professional work, as well as the undergraduate, graduate and postgraduate education based on them. The mission of polytechnics and schools of professional higher education is professional higher education and artistic and professional activities in accordance with the needs of their local community. Schools of professional higher education are mostly teacher academies or institutions established in certain fields where the need or resources to establish a full polytechnic were lacking. The higher education system in the Republic of Croatia is currently undergoing a comprehensive reform in order to be part of the European Higher Education Area by 2010

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<sup>17</sup> The CES has councillors who are experts for mediation in particular sectors. Since they mediate between key occupations in a particular sector across the country, they have very relevant knowledge which could be used for background information for the work of Sector councils. To my knowledge this has not been done yet.

and implement the Bologna Declaration, signed by Croatia in 2001. The new Act on Scientific Activity and Higher Education (2003, amended 2004) establishes a mixed system supporting on the one hand the specialist education at polytechnics, schools of professional higher education and universities, and on the other the academic education conducted solely at universities. The Act treats private and public higher education institutions equally. It also stipulates that a binary system will be established by 2010 so that professional studies will be offered only at Polytechnics and Schools of professional higher education and academic studies at universities. Under the new Act, academic and professional education are organised according to the system of transferable credits (ECTS).

The Law on Higher Education (Official Gazette 46/07) reveals interesting features in Article 66 which could be important for the transfer of knowledge and skills as well as creating opportunities for practical work for students. It is written that universities can, pending upon permission from the arch dean to establish organisations which can bring together practical work and research where students can participate in order to learn by doing. It is also possible to establish cooperation with the business sector and jointly organise training.

The opportunities from this part of the law have not been exploited to any great extent so far. Likewise, there is no mention of practical training or internships of any kind in the law itself.

In summary, the legal framework in this area does not seem to make way for practical training in any explicit way but neither does it provide substantial barriers to such organisational forms. However, the governance principles especially in legislature on vocational qualifications is not representative enough of the social partners and the business sector. Rather it is dominated by the representatives of the educational community and there are few possibilities for influencing the educational process in a systematic way from the stakeholders in the business and local communities.

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Fragmentation of laws and the consequent fragmentation of implementation responsibilities is certainly not a good feature for relevance of educational outcomes to the labour market needs.

## **INSTITUTIONAL BARRIERS TO SMOOTHER TRANSITIONS FROM SCHOOL TO WORK**

There are several institutional barriers which make the transition from school to work more difficult than it need be. Some are evident at the national level, some concern the local/ regional level and yet others relate to interactions between the three levels.

### **National level barriers**

The most prominent is the general lack of coordination between national level institutions which are responsible for dissemination of knowledge – the Ministry of Science, Education and Sport and the institution responsible for the application of knowledge – the Ministry of the Economy, Labour and Entrepreneurship and the institutions responsible for local and regional development – the Ministry of Regional Development. Historically, the first two

institutions have never jointly set goals for human resource development which is required for attaining economic development goals. In newer history there is more interaction driven by EU processes such that policy development is coordinated but not in the sense of integrated policies where common goals are set. Rather it is a process of determining policy measures which concern one segment only, most often this is the labour market. The process of policy development follows a pattern which does not guarantee that there is much ownership by various national level stakeholders and monitoring and evaluation practices are still weak and not part and parcel of the system. The Ministry of regional development is relatively new as traditionally they mostly engagement in rebuilding the war-torn areas and later areas of special government concern. There has been no regional or for that matter national development planning since the socialist period.

Croatia has a National Strategic Development Framework<sup>18</sup> which could be the basis for development planning but this process has not really begun. However, the counties have proceeded with their Regional operative programs (ROPs) before the Law on Regional Development was passed through Parliament and most of them have not only the strategic documents but also have action plan and some also have project pipelines developed for the purpose of funding from EU and other sources. Each of the ROPs is usually accompanied with a strategy for human resource development which tries to determine what the labour market needs will be in the future and what sort of changes need to be introduced in order to meet the needs of the regional labour market.

The national government has been slow to back up this bottom-up regional development efforts. This process was partly stalled by the need to institute NUTS 2 regions and although it is clear that Croatia will have 3 regions (North region, Adriatic region, Pannonian region) it is still not clear what structures will exist at this level. This is hugely important for the regions and a lack of a decision is slowing the process of identifying one's role in a group of counties and adjusting for the bigger regional market.

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These different adjustment dynamics at the national and the regional levels has created tensions as counties branch out to solve their problems themselves. One of the features of this was the fast expansion of higher education to counties which had no previous seats of higher learning. This expansion was done mostly by inviting certain universities to hold courses in the smaller cities so that local young people could have easier access to higher education. However, the proliferation of private and dislocated courses has reduced the quality of education on the one hand and has increased the differences in the supply of education, on the other.

### **Example of institutional barriers – lack of cooperation of institutions which have the same student population but no common goals**

In the aftermath of the socialist period there was one institution which was responsible for curricula development, teacher training (non-initial training) and quality assurance issues in

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<sup>18</sup> [www.strategija.hr](http://www.strategija.hr)

primary and secondary schools. This was the Institute for schools which has since been split into four different institutions. The original institution became the Agency for Teacher Training and the others were the Agency for VET ([www.aso.hr](http://www.aso.hr)) the Agency for Adult Education ([www.aoo.hr](http://www.aoo.hr)) and the Agency for mobility ([www.mobilnost.hr](http://www.mobilnost.hr)). Subsequently, communication between the 4 institutions can be said to be sporadic at best and yet they are jointly responsible for educational outcomes. An example is the overlap of responsibilities between the Agency for teacher training which is, among other duties, responsible for the general subjects in secondary education and the Agency for VET which is responsible for occupation specific subjects. The former carries out inspections of the quality of teaching, identifies training needs and delivers training. Therefore, the quality of educational outcomes due to quality of teaching is the key responsibility of this agency. However, they do not feel themselves to be responsible for labour market outcomes of students since their target group are the teachers. The dominance of general subjects in 4-year VET schools certainly reduces the employability of these students in their various VET occupations. If they discontinue their tertiary education (46-52%) or fail to enrol at university at altogether (55%) then we have a barrier which should be the subject of analysis and action on the part of this agency together with Agency for VET.

## **Devoluted institutions at the regional and local level**

### **Croatian employment service - HZZ**

The most important institution and the largest actor on the labour market is the Croatian Employment service. The institution dates back to 1907 and has a relatively dense network of outlets on 3 different levels: national, county level and municipality level. Its main functions are mediation, distribution of unemployment benefit, vocational guidance and implementing active labour market measures. Because of its functions and its widespread presence, the CES is the key institution for identifying labour market needs at the level of occupations and skills and therefore could have a prominent role in such institutions as the Sector councils which are responsible for recommending changes to the curricula. There is a feature of the mediation process in the CES which could be more directly included in the transfer of signals from the labour market to the school programmes, especially for vocational programmes.

The councillors in the CES are organised in such a way that they are responsible for tracking the needs of employers within a particular sector. Each councillor should perform as a one-stop-shop for employers in the sector so that all vacancies from this group of enterprises come to the same councillor within a region, all requests for active labour market measures, all announcements of lay-offs, etc. At the same time, all unemployed persons with work experience in the sector are also the responsibility of the same councillor as well as students who acquire qualifications relevant for the sector but have no work experience. In this way, the councillor becomes an expert for a particular sector, can exchange experience with colleagues mediating for the same sector in other parts of Croatia and can track changes in the technological requirements, skill specialities, and other demand of the employers in the sector. This particular opportunity has not been really identified by the Agency for VET.

Although Sector councils do always invite representatives from the CES, the opportunity of collective occupation specific information on a permanent basis from the whole country has not been used.

Another very favourable feature which can be made use of for a more integrated labour market information system is the fact that the ICT infrastructure for CES business processes is well developed although further investments have to be made. Additionally, the CES exchanges data on a regular basis with other institutions such as REGOS (an institution responsible for monitoring the contributions payments), the Pension Institute and the Croatian Bureau of Statistics. However, this exchange of information is only used for internal needs (such as cross-checking that users of labour market measures are abiding by contractual obligations) and not as part and parcel of a LMI system for support for ongoing systems of educational development.

Thirdly, the vocational guidance system which exists in the CES is an underused but also an understaffed resource to act as a system of influencing the choice of occupation for students transferring to new education streams or for helping unemployed choose training which could result in better LM outcomes. There is currently an IPA project which will strengthen the role of vocational guidance as a service to the local community which will be backed by ICT technologies – a welcome contribution to better dissemination of labour market information to students, job-seekers but also for training providers and private mediators. This new strengthened function could support the introduction of a system of volunteering and internships in the future.

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### **Local/regional level barriers**

Both the national and the local governments have a role to play in the primary and secondary education. It is the responsibility of the local authorities to maintain and invest in buildings and other infrastructure as well as school equipment. The local community has a say in choosing the school principal and they sit in on School boards. The local departments of social services approve the enrolment quotas in cooperation with social partners and chambers of commerce as well as the local employment service.

The national government determines curricula based on the National qualification framework and this knowledge repository is the same for all schools. There is some possibility of voluntary choice of subjects which could be important regionally.

One of the biggest challenges which are stubbornly resisting reform is the burning issue of quotas for certain occupations. Employment services regularly prepare reports on labour market outcomes of occupations which are being taught in local schools. However, the final outcome is usually more of the same – no reduction of the number of enrolled students for redundant occupations. There are some institutional reasons for this. Firstly, the school principals depend on members of the School board for their re-election. The majority on the School boards are teachers. A principal who supports a reduction of students directly reduces the funding of the school and endangers the tenure of some of the teachers. Fewer students, less money from the Ministry of Education, surplus of teachers. Thus, the status

quo prevails. In other words, there is no process or contingency for redundant teachers although the process of curricular change inevitably must lead to changes both the numbers as well as the structure of the teaching staff.

The result is that students are forced to look for jobs in occupations different from those which they studied for or remain unemployed for long periods of time. As we will see later in the approach taken in designing active labour market measures the typical causes of unemployment such as the quota questions are not addressed. Focus is on unemployment outcomes and not the causes.

### **The quality of practical work in vocational schools – a serious concern**

Discussion held in the Chamber of Crafts and the Employers' Association HUP reveal that employers are often not satisfied with the level of skills of students who have attained secondary vocational qualifications. The system of education for crafts has a well defined apprenticeship system and craftsmen are both more involved in and more satisfied with the outcomes of 3-year craft schools. These have significant time allocated to practical work in crafts. Quality is assured and monitored by the Chamber of Crafts and crafts which accept students for practical education have to get a certificate which proves that they excel in their craft as master craftsmen and this includes a course in pedagogical skills for mentors and a presence of technological infrastructure which can give up-to-date skills to students.

The practical training entered into by students in 4-year vocational schools is far below the level in 3-year craft occupations. Schools have very little influence on both the choice of firms where students undertake their practical education and on the conditions which exist there for learning. Most of the responsibility for finding a firm lies with the students themselves. It is often heard that students acquire contracts for practical training by recourse to their private family networks and that often no actual practical work takes place or that students are there to sweep the floors and bring the coffee. In the Agency for VET they confirm that such practical training is at best a brief insight into an actual working environment and not really a strengthening of practical skills. In other words, there is no system of quality insurance which guarantees that students acquire a desired level of practical skills. This is certainly a very negative signal for employers who however also do not contribute much to making the system more aligned to their requirements. There is an expectation on their part that the public sector schools somehow solve this problem without involving them too much in the process. This is, of course, unrealistic.

The UNDP study throws some light on the practical training of students in firms, crafts or public institutions. 84% of interviewees who attended vocational secondary schools undertook practical training. Most of them (40%) did their apprenticeship in crafts, 23% in firms and 20% in public institutions. 16% of all students in vocational schools, 7% of students studying for craft occupations and 21% of students in 4-year vocational schools did not have any practical training outside school.

These poor results for attaining practical skills in the 4-year vocational schools are mentioned here as an institutional failing within this educational stream. Given the high level



of failure to enter and complete tertiary educational programs by students from this stream and the high level of drop-out from university and the large numbers of students entering such schools, this is obviously an area which demands more attention and contributes hugely to less than optimal labour market outcomes of education and youth unemployment.

### **Practical training during tertiary education**

The student population accesses practical training much more infrequently than the students from secondary schools. Only 3% of them did practical work in crafts and about 20% did practical training in public institutions. About 10% did practical training in firms. The practical training that did take place was mostly related to occupations in the sphere of social work, health and other public services while practice in industrial occupations seems to be very limited.

### **Involvement of social partners in education for VET**

The influence of social partners on national level policies, strategies and action plans is evident but clearly more of a formal than a practical nature. The capacity requirements of a hands-on approach by the trade unions is missing even at the national level and at the local level it is fragmentary and mostly irrelevant. Similarly, sector specific employers' associations and national level organisations are involved in all processes of policy development, in some Sector councils and some local level initiatives but this is not a system based framework but rather activities driven by individual initiative and motivation.

The Croatian employment service has a tripartite governing board at the national level and tripartite advisory bodies in all the counties. At the national level, decision making power is considerable but rarely implemented and at the county level there is no decision-making power what-so-ever.

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Another institution which has the potential to develop at the regional/local level are the regional offices of the Socio-economic council<sup>19</sup> which should be particularly sensitised to regional labour market problems. However, their effectiveness is limited and this institutional form seems to have difficulties in finding its role at the county level.

### **Local partnerships for employment**

Since the early 2000's there have been initiatives from the CES to establish local partnerships for employment. The idea was to bring together all local stakeholders who have an interest in well functioning labour markets, human resource development with the aim of supporting regional and local development. Such partnerships have been introduced in 8/21

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<sup>19</sup> The Socio-economic council is a tripartite body at the national level which has a say in all legal and policy changes in Croatia. It is an advisory body but has no actual power to stop legislation or policy but it can voice public opposition and initiate conflict laden situations which could impede and even stop certain government activities. The initiative to replicate the Socio-economic council at the regional level had good intentions but somehow never got off the ground mostly due to the low capacity of social partners in the regions.

Croatian counties through 2 successive EU funded projects and the third phase is in the process of being implemented.

The main activities of such partnerships was to make sure that there are adequate human resources for the implementation of regional development programmes and that the HR strategy is supported by series of actions which face local HR challenges. The partnership principle has become an accepted legal framework in the Law on regional development and is further strengthened by the EU requirements which make this form of organisation contingent of accessing the Regional development fund. There are already good examples of partnerships in Croatia which have worked in unison with local authorities to develop relevant human resource development strategies. However, a much wider top-down effort is needed to give real punch to the partnerships in this predominantly centralised system of governance which dominates to date in this country. It is important to know, however, that Yugoslavia was a more decentralized state than Croatia is today and that this tradition could be easily recreated in the Republic of Croatia. Understandably, the homeland war has made centralisation a necessary and rational choice but at this time it is a real hindrance to autonomous regional development potential.

### **Summary of section**

The institutional barriers to easier first entry to the labour market relate mostly to the way in which legal frameworks are abided by in practice, how institutions function, quality issues and the combination of effects from the national to the local level. Great inertia is present in the educational system which is exacerbated by fragmentation of the legal and institutional frameworks and the divisions between the national and the local levels. The biggest problem is the lack of common goals setting especially in the field of vocational education between national stake holding institutions. This lack of congruence is further intensified as policies and practice are affected at the local level.

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## **LABOUR MARKET POLICY MEASURES FACILITATING FIRST ENTRY: DESIGN, RESULTS, EFFECTIVENESS**

### **The National Employment Action Plan**

Croatia has considerable experience in designing and implementing active labour market measures. The first policies were implemented in the mid 90s but a first consistent program was introduced in 2000 and was later followed by 3 successive programmes. Within the project “Improving employment policy and implementation capacity in the Republic of Croatia” the foundations for developing an EU oriented labour market program was introduced. For the first time, the guidelines consistent with the Lisbon agenda were introduced through a participatory procedure which included social partners, national policy makers and representatives of main labour market institutions. The new National Employment action plan was developed in March 2004 and was accepted by Parliamentary procedure later that year.

Thereafter the same procedure was followed for every new labour market programme but the basis for future programmes was more deeply rooted in two analytical, strategic and policy documents which identified main challenges on the labour market. The first was the JAP which looked at the labour market characteristics and the other was the JIM or the Joint Inclusion Memorandum which focused on issues of social exclusion in Croatia.

## Youth in the NEAPs

All the analyses which preceded the design of the ALMPs indicated that young people were a group with unsatisfactory labour market performance which was resulting in high unemployment rates, waste of human potential and has further consequences for careers and earnings.

The rationale behind the measures implemented in all the programmes was the belief that young people were too expensive for the employers since they had no work experience and all the cost of on-the-job-training was transferred to the employer. The other hypothesis was that the relatively rigid legislature protected the insiders who feel endangered by competition of young, often better educated young job seekers who come at lower wages and salaries.

The third feature which guided the policy makers was that some of the unemployment was structural, i.e. that acquired qualifications did not match the demands of the workplaces.

The table below shows some characteristics of various waves of programmes which were designed for youth without work experience.

### T-6 ALM programmes implemented by the CES from 1998-2009 for young people without work experience

	Program A	Program B	Program B	Program B	Program C	Program D
Target group	Youth without work experience up to age of 30	Youth with undergraduate degree without work experience up to age of 28	Youth with vocational qualifications without work experience	Youth up to the age of 30 with up to 6 months experience in their occupation or 12 months experience in another occupation. It is mostly oriented to traineeships	Youth without work experience up to the age of 29	<ol style="list-style-type: none"> <li>1. Young unemployed up to age 25 who dropped out of secondary school without work experience</li> <li>2. Young unemployed with secondary or tertiary qualifications without work experience younger than 29 who have not worked in the last 6 months</li> </ol>
Duration of unemployment	At least 30 days	0+ No need to be registered as unemployed	at least 6 months	30 days		
Size of subsidy	Refund of the contributions	Refund of 60-80% of the	First 6 months 100	Refund of the contributions	Subsidy is a proportion of	Same as in previous 3

	paid on gross and net wages (approx. 50% of wage)	base pay for applying contribution rates (differs by qualification level). If the employer retains the worker after the end of subsidy period there is a 1000 Euro bonus. The subsidy is in the form of a voucher held by the young unemployed person and offered to employers during job search. Value of the voucher is higher if the young person returns to his/her place of residence	% of a fixed pay (slightly above min. wage)  Next 18 months the contributions are refunded		the base for payment of contributions for extended insurance by qualification  285 Euro for persons without qualifications  529 Euro for vocational and secondary qualifications  814 Euro for non-university and higher qualifications  Small firms get 50%, middle firms get 40% and big firms 20% of the above mentioned base	years but the base has been increased in 2009 to 358 Euro for all qualification levels  Small firms get 50%, middle firms get 40% and big firms 20% of the above mentioned base
Frequency of refund	Quarterly	Quarterly			Funding given to employer in advance	
Duration of subsidy	12 months or as long as the mandatory traineeships last (max 2 years)	12 – 24 months depending on occupation	2yrs	12-24 months depending on occupation	18 months for youth without an occupation, 12 months for others	8-12 months
Requirements	A temporary or permanent labour contract signed with unemployed person	A temporary or permanent labour contract signed with unemployed person	A temporary or permanent labour contract signed with unemployed person	A temporary or permanent labour contract signed with unemployed person	A temporary or permanent labour contract signed with unemployed person	A temporary or permanent labour contract signed with unemployed person
Minimum length of employment	Twice as long as the subsidy period	Until end of subsidy	At least 18 months		Duration of subsidy	12 months
Other requirements	Employer has to retain the initial number of employees at	Employer has to retain the initial number of employees with	Employer has to retain the initial number of employees	Employer has to retain the initial number of employees at start of	Employer has to retain the initial number of employees	Employer has to retain the initial number of employees at

	start of subsidy	permanent contracts at start of subsidy	at start of subsidy	subsidy	at start of subsidy	start of subsidy
No. of subsidies	July 1998-31 <sup>st</sup> Dec 1999 – 5,188	March 2002 – Dec 2005 – 5745	1,874	57,044	March 2006-December 2008 3,253	
Expenditure	5.5 mil Euro (exchange rate 7.3kuna/Euro)	135 mil Euro			4.5 mil Euro Share of measure for youth 23% or 1.04 mil Euro	
% of youth without work experience employed through the subsidy programme	13.3%	28,3%	6.7%	12.7%	3.8%	

Source: [www.hzz.hr](http://www.hzz.hr), Annual reports 2005-2008.

Program A: from April 1998- Dec 1999	Program B: January 2002-December 2005	Program C: March 2006-June 2008	Program D: 2009-2010
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The target group of young unemployed without work experience has been in the forefront of all the ALMPs in Croatia since programs exist. The conditions and the requirements have changed from program to program. The following observations can be made from the above table:

- with time the measures became more focused and better targeted at sub-groups of young people who were experiencing a more difficult unemployment situation than the average of the group
- The subsidy was mostly linked either to the contributions of some percentage of a base line amount which is used to levy the contributions on for various qualification levels. In former programmes the amount was refunded after proof was provided that wages were paid in full and later measures provided the amount in advance which was very highly regarded by the employers but could lead to misuse and complicated law suits afterwards,
- The numbers of participants in all the programmes except in the program from 2002'2005 were very low. The evaluated programme only encompassed 10% of the number of participants of the previous one. Thus the relevance of programmes for solving the problem of youth unemployment was marginal. Yet the amount of funds spent was substantial for usual Croatian budgetary constraints,
- the measures for young people were among the most expensive ones
- The varying duration of unemployment which was permitted in the various programmes shows that the attitude in the CES changed through time. In the first

programmes the duration of unemployment of participants was only 30 days and there is a high probability that young persons would register for the first time in order to get a subsidy after a months time

There are also some weak points of the programmes which concern their relevance. One of the biggest problems is the centralized design of the measures which does not take into account the needs of regional labour markets. All the measures are employer driven, which means that they initiate the access to subsidies and not the CES. In less developed regions where there are a few good employers, these measures are irrelevant and it can be seen that the most developed counties managed to “cream” most of the funds. Discussions with CES staff also reveal that employers send persons who they want to employ to register and wait out the time required to become eligible which is creates a negative effect.

The only program with an external evaluation was the programme implemented in 2006 and 2007. It was the focus of analysis for the Phare project “Evaluation, design of recommendations, capacity building and grant scheme management in the field of active employment measures in Croatia”.

### **Summary of main findings of the evaluation**

By the major part of respondents, ALMPs are regarded as good, useful and necessary. As the design and implementation of Labour Market Policies in general need the commitment and work of a multitude of stakeholders, this positive general result is a good starting point for any further development and future reform of active labour market policies for Croatia. However, it has to be said that the main groups interviewed were those who were either participants of the employers and as such may give biased answers. It would have been interesting to interview some of those who were not eligible for the measures or those whose requests were rejected by the CES.

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Apart from a series of recommendations linked to the effectiveness of the measures and a very detailed analysis of the opinions of all stakeholders there is very little analysis of the individual measures. The following are some of the employer’s comments on the measures for subsidizing youth employment:

- “The subsidy is particularly important for young people without experience because there are always additional costs until they learn how to do the work”
- „measures help employers to cut some of the high costs of employment”
- “young people get into work sooner with these subsidies and the danger of being out of work and to used to this situation is less serious”

The table below shows the age structure of the participants in the measures in relation to the share of these groups in the total unemployed population.

### T- 7 Structure of the unemployed and participants in ALMP measures by age groups in 2005-2007

Age group	Unemployed in 2005	ALMP participants in 2006	Unemployed in 2006	ALMP participants in 2007
<b>Total</b>	100,0	100,0	100,0	100,0
<b>15-19</b>	5,8	11,2	6,0	6,8
<b>20-24</b>	14,5	24,0	14,1	26,6
<b>25 - 29</b>	12,7	17,8	12,8	17,5
<b>30 - 34</b>	10,5	9,1	10,1	13,5
<b>35 - 39</b>	10,5	8,5	9,9	7,5
<b>40 - 44</b>	10,9	8,1	10,6	7,7
<b>45 - 49</b>	12,3	9,0	11,7	8,5
<b>50 - 54</b>	13,3	7,8	14,1	8,1
<b>55 - 59</b>	7,8	3,9	8,7	3,1
<b>&gt; 60</b>	0,6	0,6	2,0	0,7

Source: Project "Evaluation..." Final report, 2008

We can see that the share of young participants in all the measures exceeds their share in the total unemployed population. In 2006, for example, the share of the age group 15-19 was 11.2% in total participants but the share of this age group in the total unemployed population in 2005 was only 5.8%. The same is true for the age group 20-24 in 2006. On the other hand, in 2007, share of the youngest age group among all AMPL participants was not very different from their share in the unemployed population. The situation is just the opposite for older age groups which indicates that young people were more of the choice of the employers in all the measures. This shows that preferences of employers were to use subsidies to employ young people regardless of the measure which they applied for unless the measure specifically pointed to old age group. Apart from the subsidy for young unemployed without work experience there were measures for education and training and for those who were long term unemployed.

In summary, ALMP measures in Croatia which came closest to making a difference for young people without experience were in Programme B which was implemented from 2002-2005. These measures included young people who just left school or university and the numbers which were covered by subsidies and vouchers were significant. All the other programmes covered a very small percentage of the young unemployed population to make any difference. Unfortunately, only measures in Programme C were evaluated so it is difficult to make comparisons with other programmes.



## VIEWS OF STAKEHOLDERS

Problems of first entry to the labour market of young people are, or should be everyone's concern. The social partners have a direct interest in promoting more and better employment but there is also the burning issue of regional development, social inclusion and loss of national human potential if this transition is not smooth and timely.

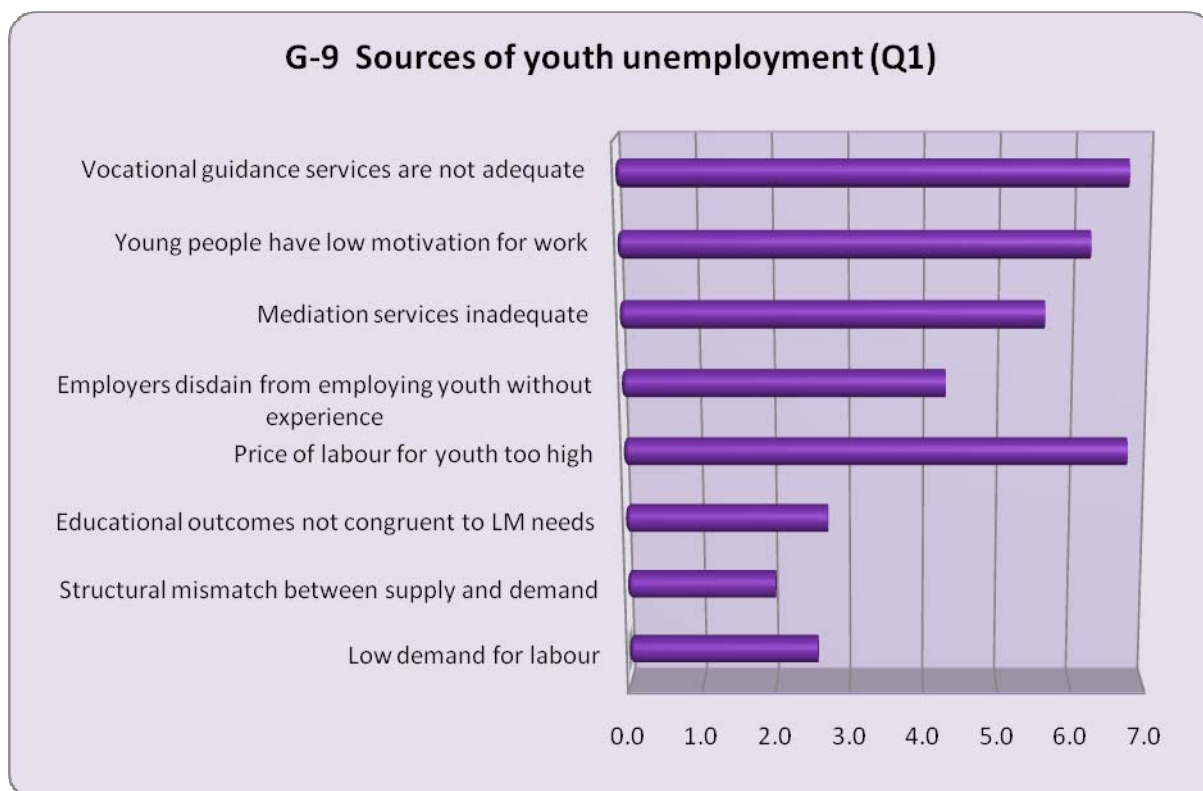
In order to better understand the position of various stakeholders discussions ensued in the Croatian Employment Service regional office Zagreb and the central office, the European Commission, the Agency for Vocational education and the Ministry of Science, Education and Sport and the Chamber of Crafts. Also, a questionnaire was designed which asked the following:

1. Which of the following barriers to you consider the most detrimental to the access of youth to the labour market?
2. Which legal barriers if would you like to single out?
3. Which of the new policy measures introduced in Croatia could help to reduce barriers to first entry?
4. Which of the following types of practical training could help most in preparing youth for the labour market?

Each of the questions had a choice of predetermined answers each of which had to be ranked according to importance or given a mark valued from 1-5. Interviewees were prompted to give additional reasons which they found to be missing among the offered choices. The questionnaire was distributed to ministries, agencies, social partners, researchers, educational establishment and others. 47 questionnaires were sent but only 7 were received. Due to the weak response (partly due to start of holidays) we can only have an overview of the answers and can not claim any representativeness for the various interest groups. We have 2 answers from the CES, one from the Ministry of the economy, one from the Croatian competitiveness council, one from trade unions and one from the Faculty of informatics and one from the Institute of Economics.

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In the response to the first question regarding the barriers to access of youth to the labour market there is relatively high congruence of the answers as shown in the graph below.



Source: responses to the questionnaire

In this question there was a possibility to rank the various sources of youth unemployment. The lower the value of potential source, the higher the rank. In this vain, our interviewees have opted most strongly for structural mismatch between supply and demand as the most prominent cause of youth unemployment, which points strongly at the inadequacy of educational outcomes.

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The next highest ranked are “educational outcomes are not congruent with LM needs” and “low demand for labour” with a rank between 2 and 3 out of 9. The fourth reason was “employers disdain from employing youth without work experience”, thereafter “mediation services are inadequate”, “young people have low motivation for work”, “vocational guidance services are not adequate” and finally the least important reason is “the price of labour is too high”.

It is interesting that stakeholders think that the price of labour is the least important factor for demand for young employees. In fact, they seem to be assuming that the young are offered wages outside the formal contractual system where they cost little. Obviously, the interviewees are reporting from the point of view of experiential information rather than statistical fact.

The feeling that there is structural mismatch between supply and demand is again an experiential point of view since there are not scientific research results in Croatia which provided hard evidence that this was indeed the case. Nevertheless, these views seem to have some backing in views which are upheld by employers in the daily press, viewpoints of the employers’ organisations and personal experience.

The second question relates to legal barriers to smoother entry of young people without experience to the labour market. This question was not answered by all the interviewees. The most interesting comment came from the Ministry of the economy, labour and entrepreneurship. In their opinion, the biggest barrier to youth employment originates from labour legislature and all the legislation linked to the educational system. There is particular reference to the negative effect of rigid labour legislation on the fate of those without work experience on the labour market. Representative of trade unions indicates that both the Law on vocational education and the Law on higher education seem to be impervious to labour market needs. There is mention of the fact that Croatia has no laws which place formal and informal learning on an equal footing and that is considered especially important by the trade unions because work experience could actually lead to a qualification of there were standardised exams which could evaluate the skills.

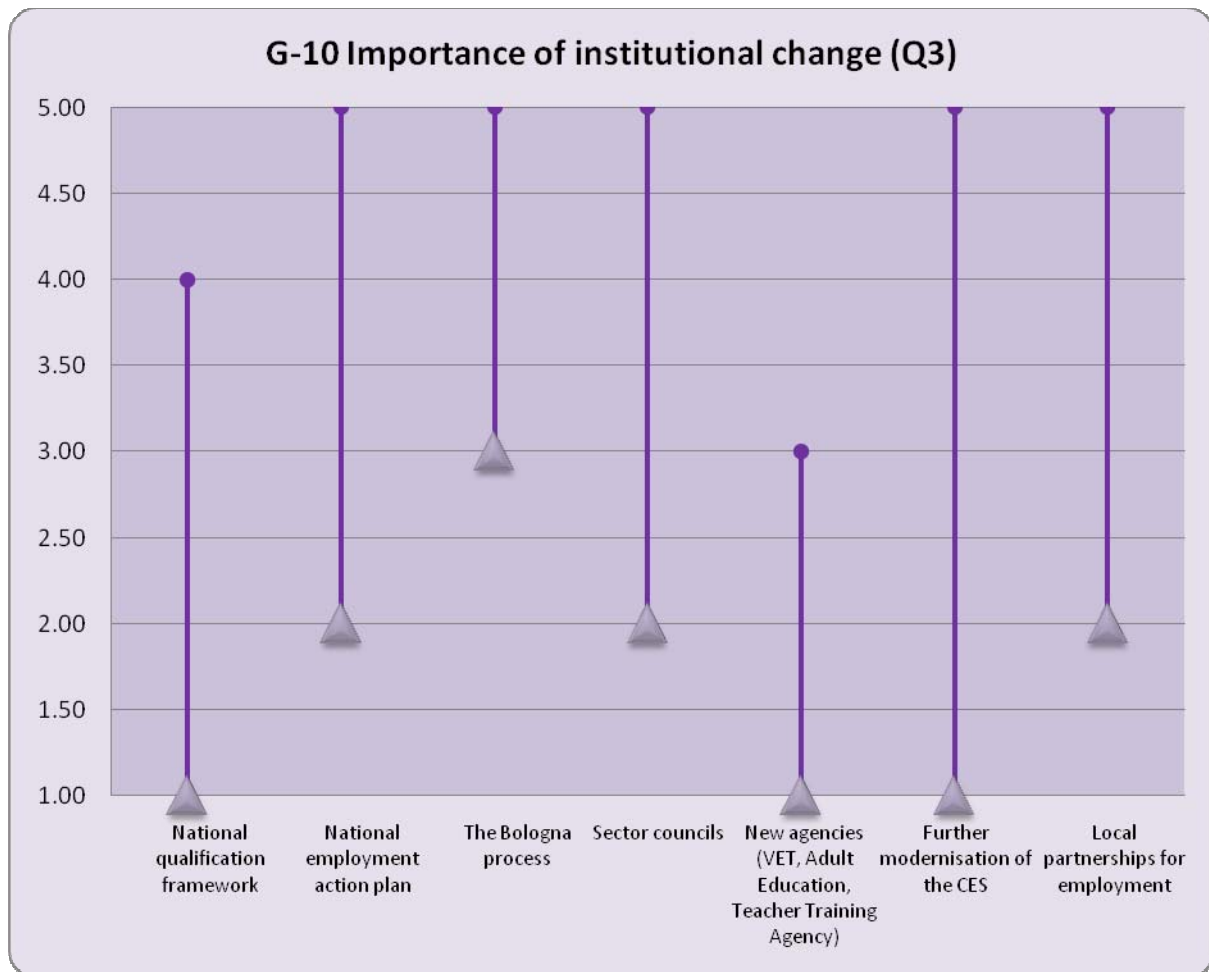
The representative of a research institution mentions that laws which regulate education are not in line with the needs of the labour market but are totally autonomous and out of context of the economy. She thinks that this creates long term misbalances which can be only temporarily dampened by the tax regime. Therefore, there is a need for conscious and continuous adjustment of the educational system to the needs of the labour market.

The representative of the training providers thinks that the legal framework poses no particular impediments except that the procedures for lay-off in the Labour Law are quite difficult and expensive for the employer which makes them resort to temporary rather than permanent contracts.

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The representative of the Competitiveness Council does not see a major problem in the legislative framework but thinks that flexibilisation of working time and the working relationship should be introduced into everyday practices.

In the third question the interviewees were asked to ascertain the importance of recent institutional change which took place in Croatia. Several choices were offered and it was required to evaluate the importance of each individual change with a mark from 1 to 5, with 5 being the highest, and 1 the lowest mark. Results are shown in the graph below.

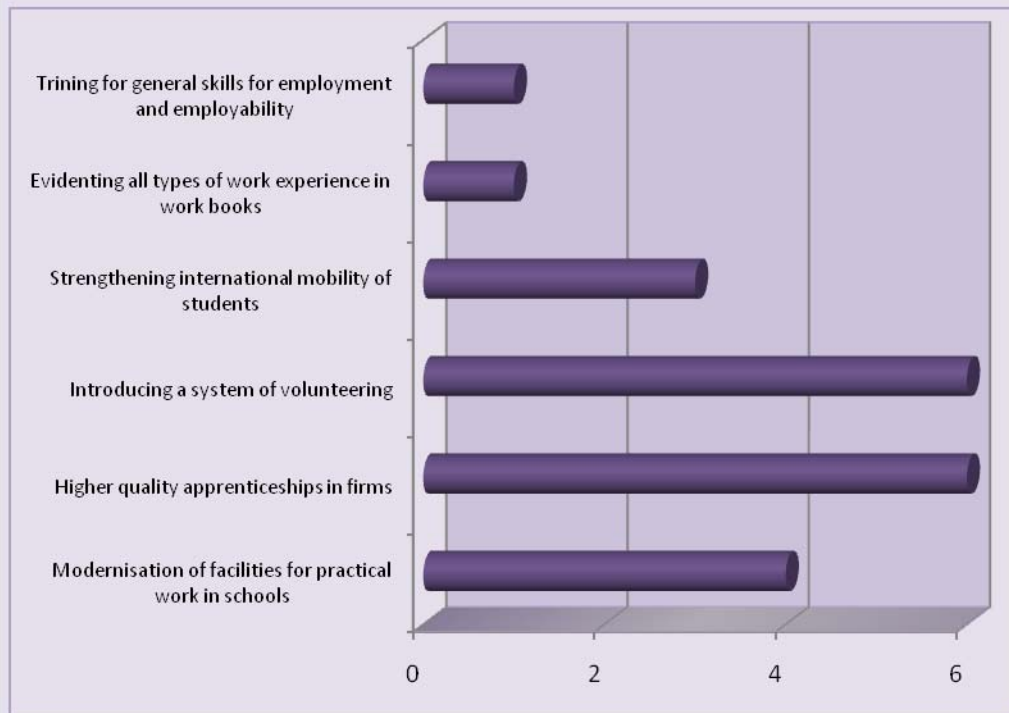


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What is indicative is the large divergence in answers among the interviewees. The high-low graph shows the range of answers from 1 – 5 for each of the mentioned institutions. The marks given to the National Qualification Framework were between a high 4 and a low 1 even in our very small sample. The National employment action plan has a few fans but the marks are from a low 2 to a high 5, so there is no visible unanimity about the importance of this policy tool. The Bologna process got quite high marks with the lowest being at 3 and the highest at 5 which is a rather narrow range. However, sector councils are thought of as being very important (namely by the representative of the HZZ) and hardly important at all by others. The lowest marks with the most convergence of answers relate to the new agencies which have sprung up in the wake of the previous Agency for Schooling. The highest mark is 3, which indicates a very lukewarm enthusiasm. Most interesting is the wide dispersion of answers relating to the further modernisation of the CES. Logically, CES employees who were interviewed put this aim at the forefront of their agenda but also the trade union representative put this aim as the most important of them all. Others, particularly, other public servants, and the representative of research and training gave this aim 2 to maximum 3 points, obviously not recognising the opportunities which could be developed through a strong HZZ.

Finally, the fourth question related to the importance of practical training for finding employment faster. The graph below shows some of these results.

**G-11 Which of the following forms of practical work would help in bringing young people into the world of work (Q4)**



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Each bar is an average of all the answers and we can see that most points were given to two answers, i.e. “Introducing a system of volunteering” and making sure that there is higher quality apprenticeships in firms. The third form which was suggested was to improve facilities for practical training in schools.

Although there was much non-response to the questionnaire some lessons were learned. Firstly, on most issues representatives of stakeholders have quite divergent views. Secondly, most interviewees did not opt for modernisation of institutions such as the employment service and the improvement of conditions for practical work in schools. It is considered that the working environment is much more conducive for learning than the school environment.

Finally, nobody really sees the importance of integrating the various policies in the field of regional development, education and the labour market except the representative of the trade unions. She points out that without aligning these types of policies and without assessing future skill needs there can be no serious and meaningful reform of the educational system.

## FINDINGS AND RECOMMENDATIONS

The main findings of this paper are the following:

- the entrance of young people to the labour market is difficult in Croatia
- labour market outcomes are positively related to the qualification level – higher qualification levels have better labour market outcomes
- there are signs that the students of the most numerous education strand which is gaining in importance – the 4 year vocational schools – have inadequate practical training which limits their employability
- they aspire towards tertiary qualifications but in fact less than half enrol at a school of higher learning and less than half of them ever get a degree
- there is too much drop-out from tertiary education from this education strand and without such qualifications students are left to compete for work with younger and probably more qualified students who are directly entering the market
- 3-year vocational schools are better prepared for the labour market but there seems to be substantial mismatch between the structure of demand and the structure of supply of craft occupations (a persistent overproduction of certain types of occupations and no development of new, more sought for occupations)
- gymnasia students who are focused on entering tertiary education also have a drop out rate of about 20% which is a great barrier to employability
- there are forms of apprenticeship in Croatia which are mostly linked to vocational secondary education but also for certain occupations in the health sector, law occupations, social welfare and a whole range of public administration work places
- mandatory, occupation related practical training is recognised in the labour law and the volunteering law but this is an unknown practice for most other occupations
- active labour market measures have addressed the problem of youth unemployment in all ALMPs but with very little success; it is obviously a problem of a structural kind which can not be solved by fine-tuning via ALMPs
- the degree of integration between governance structures of education and the labour market from the national to the local level is low; each would like to remain within its own court-yard
- institutions on the labour market are not adequately prepared, especially at the local level to work in partnership and to design meaningful integrated policies
- there is too much centralised decision making in Croatia which impedes independent action at the county level and funding is usually not available which may change now as Croatia becomes eligible for funding from European structural funds.

## RECOMMENDATIONS

- Continue the decentralization process in Croatia – local actors, local knowledge, global outreach and financing (to a large extent)
- carry out a detailed analysis of the interface between the labour market and the educational system by occupation
- bring together various data sources into a labour market information system which can be used for vocational guidance, placement and as a basis for curricula change by occupation
- join European research efforts for ascertaining future skill needs (Cedefop)
- Integrate governance, strategies, policies in the fields of regional development, education and the labour market
- strengthen the Sector councils with more involvement by social partners, enterprises and researchers, CES councillors and vocational guidance experts / reduce the dominance of teachers and administrative staff from various government agencies
- introduce tripartite governing boards in all new agencies
- insist on high quality practical training especially for 4-year secondary schools in enterprises
- analyse the reasons why there is such a lot of drop-out from tertiary education and why studying takes so long on average and design changes which will ensure less risk of failure to access higher qualifications
- invest in teacher training, quality standards, new technologies for practical training both in schools and in enterprises
- change the labour law to include the possibility of volunteering for the first 6 months for all persons without work experience
- develop a service for placement in internship posts in Croatia and abroad for students, graduates and postgraduates
- promote networking and mobility of students between educational establishment and between schools/universities and firms and research facilities
- make sure that all work experience is evidenced in work books and not just work based on a labour contract
- do not waste money on wage subsidies for youth – replace it with a well organised internship or volunteering system
- Analyse possibilities for counting this work experience as years of service for pension insurance
- conduct tracer studies or other evidence-based evaluation approaches to assess the results of critical VET paths or innovative practices to ease transition from education to work.

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## The Questionnaire

# UPITNIK o TRANZICIJI IZ OBRAZOVANJA NA TRŽIŠTE RADA

PROJEKT: TRANSITION FROM SCHOOL TO WORK: INTERNSHIPS AND FIRST ENTRY TO THE LABOUR MARKET IN CROATIA

NARUČITELJ: European Training Foundation

Upitnik pripremila: Sanja Crnković-Pozaić

1. Koja od sljedećih prepreka smatrate najvažnijima za uključivanje mladih na tržište rada? *Which of the following barriers do you consider to be most important in preventing access of youth to the labour market?*

(dodijelite rang od 1-9 navedenim razlozima)

- a. Nema dovoljno radnih mjesta općenito
- b. Postoji nesrazmjer između ponude i potražnje
- c. Znanja koja se stječu u procesu školovanja nisu odgovarajuća za poslodavce
- d. Cijena rada mladih je previsoka
- e. Poslodavci ne žele zapošljivati osobe bez radnog iskustva
- f. Službe zadužene za posredovanje nisu adekvatne
- g. Mladi ne žele raditi
- h. Zakazale su službe za profesionalnu orijentaciju
- i. Nešto drugo? Molim, navedite

.....  
.....  
.....

2. Koje **zakonske prepreke** vidite u bržem uključivanju mladih na tržište rada? (Zakon o radu, Zakon o strukovnom obrazovanju, Zakon o visokom obrazovanju, Porezni zakon, itd.)

*Which legal impediments do you see as important in preventing better access of youth to the labour market?*

*Navedite zakone koji po vašem mišljenju sprječavaju brže zapošljavanje mladih uz objašnjenje*

.....  
.....  
.....  
.....

3. Unatrag nekoliko godina uvedeno je nekoliko novina koje bi mogle promijeniti poziciju mladih na tržištu rada. Molim vas da odredite koji od sljedećih **politika i mjera** bi najviše mogle pridonijeti tom cilju

*Please identify which of the following policies and measures could be important for improving the position of youth on the labour market.*

(ocjene važnosti od 1-5 pri čemu je 5 najviša a 1 najniža ocjena):

- a. Nacionalni kvalifikacijski okvir.....
  - b. Nacionalni akcijski plan zapošljavanja.....
  - c. Bolonjski proces.....
  - d. Strukovna vijeća.....
  - e. Nove institucije (ASO, AOO, AZOO, AZM).....
  - f. Daljnja modernizacija Hrvatskog zavoda za zapošljavanje.....
  - g. Lokalna partnerstva za zapošljavanje u županijama.....
  - h. ....
- .....
4. Što bi od sljedećih oblika praktičnog rada u tijeku školovanja bilo korisno za brže uključivanje mladih u svijet rada? (*zaokružite najviše 3 odgovora*)  
*Which of the following forms of practical work could be important in facilitating the inclusion of youth into the world of work?*
- a. Modernizacija škola i praktikuma kako bi se dobila nova tehnološka znanja?
  - b. Viša kvaliteta praktične nastave u odabranim poduzećima koja zadovoljavaju tehnološke i pedagoške zahtjeve za srednje strukovne škole
  - c. Uvođenje sustava volontiranja u toku studija kao dio redovne prakse uz kontrolu poslodavaca
  - d. Jačanje međunarodne mobilnosti stranim fakultetima i poduzećima
  - e. ....
  - .....
  - .....
  - .....
  - .....
  - .....

HVALA NA STRPLJENJU! JESTE LI ZAINTERESIRANI ZA STUDIJU NAKON ZAVRŠETKA? DA / NE