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## **CASE STUDY 6 – CROATIA**

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### **Local/National Level Economic Policy Dialogue: the Competitiveness Council and Economic and Social Councils in Croatia**

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#### **Introduction**

Croatia has a wealth of experience in developing economic, social, and labor policy through dialogue between the public and private sector. During the past five years, Croatian governments, businesses, and trade unions, with help from two USAID projects, have made a concerted effort to develop effective venues for the dialogue.

The projects assisted the national-level Economic and Social Council (hereinafter referred to under its Croatian acronym “GSV”) and the National Competitiveness Council (NCC), and helped establish mechanisms for local dialogue between businesses, governments, and trade unions that provides input on national level policy.

This case study examines the challenges encountered, strategies developed, management of the process, and results obtained. The study will provide lessons learned that are applicable to other countries that are seeking to rapidly develop institutional mechanisms to facilitate business and labor input on national policy development.

#### **Institutional Framework**

The dialogue began at the national level, with the tripartite GSV. Business leaders also founded a Business Competitiveness Council, and the Government then worked with business, trade unions and academic institutions to establish the National Competitiveness Council (“NCC”). With USAID’s assistance, local Economic and Social Councils (“local GSVs”) were set up in most of Croatia’s 21 counties. Several of these councils are very effective and feed policy issues (and solutions) to the national-level GSV.

In general, the partnerships have the same objective: improve the business environment by getting input from government, business, labor, and academia on policies. In Croatia, the GSVs focus on economic, labor and employment issues, while the NCC focuses on microeconomic and macroeconomic policy issues that affect competitiveness. The leaders on the councils had only moderate interest at best in ensuring a voice from the regions in developing economic policy, but USAID and E.U. projects assisting them pushed this agenda. The venues for dialogue at the local level – local GSVs and ad hoc groups focused on competitiveness – had clear objectives to identify constraints to regional/local economic development and develop strategies to overcome or eliminate those constraints. The issues and constraints that needed to be addressed at a national level were then communicated to the national level councils or directly to the national government.

The councils are organized as follows:

**National Competitiveness Council (NCC)** – five Government Ministers; nine business leaders (CEOs of leading companies and presidents of business associations); four leaders of trade union confederations; four professors from the leading universities.

**National Economic and Social Council (GSV)** – the eighteen members include six trade union confederation presidents, six representatives of the Employers Association, and four government ministers and two vice-presidents of government.

**Local GSVs** – an even split of members from government, the local Employers Association office; and trade unions (18 total members).

**Local ad hoc competitiveness groups** – mainly local business leaders with some participation from local government, academia, and trade unions.

### **Processes and Milestones**

In Croatia, prior to 2000, the national GSV was inconsistently managed and had uneven results. At the request of the newly installed, reform-minded Government, USAID commenced the Tripartite Dialogue Project that was tasked with improving the Council's operations and performance. Subsequently the Croatian Government, trade unions, and Employers Association asked the Project to help establish local GSVs.

Another USAID project, the Competitiveness Initiative, was tasked with helping establish the NCC. The NCC had no mission to work at the local level or establish local counterpart councils, but the USAID Competitiveness Initiative was tasked with doing some pilot work on regional economic development based on competitiveness principles.

With USAID assistance, several members of the GSV and the NCC visited Ireland, and Irish participants in its Economic and Social Council came to Croatia to discuss how to improve the Council. The GSV members saw the Irish ESC as a good model and reorganized the GSV to try to emulate its success. The Irish National Competitiveness Council was also used as a model for establishment of the Croatian NCC.

Both councils worked very hard to incorporate lessons learned from Ireland, including establishment of secretariats, obtaining unbiased analysis on economic and labor issues, crafting a vision and yearly strategy, and identifying a limited number of issues to work on. Both councils are now more effective in determining priorities, utilizing neutral analysis, and engaging in constructive dialogue that provides the Government with solutions to economic policy issues and microeconomic constraints.

The USAID projects helped the GSV and NCC develop capacity to access and utilize research and analysis on priority issues. The Tripartite Dialogue Project also trained all members of the national and local GSVs on dialogue techniques, using the framework developed by the Harvard University Negotiation Project, and the Project trained Croatian facilitators to improve the dialogue process.

The Tripartite Dialogue Project worked with the newly formed Office for Social Partnership (the secretariat for the GSV) to spur establishment of local GSVs. Outreach activities were conducted and in most counties local leadership emerged. The leaders then had to solicit business, government, and labor leaders to participate.

Some were unsuccessful in getting leaders from all three sectors to the table. In several counties the GSVs were either not established or collapsed because of a lack of interest from

the local government. But in about half the counties, the set-up phase was successful, and the local GSVs are functioning, with regular meetings and outcomes. Several counties' GSVs are very active, particularly when leadership emerges either from government, business, or trade unions.

Representatives from all local GSVs meet regularly with the Office for Social Partnership, and this has helped to get local opinions into the dialogue of the national level body. However, most of the local issues don't get significant attention unless there is a crisis, e.g. a labor problem in a state-owned company. Some of the local GSVs benefited from the EU Quick Impact Facility (QIF) regional economic development project that helped several counties develop strategies for economic development.

The local GSVs successes include providing input into national policy on temporary employment, getting the national Government to address day-care and pre-school needs (which affect employees' productivity as well as children's school performance), helping establish a successful mediation service for collective bargaining disputes, and improving the local business environment and attracting significant foreign investment in several counties.

### **Outreach Strategies**

The GSV had little credibility with the public and even within trade unions, the business community, and government, and was known as a talk shop that accomplished nothing. Thus, members and the public alike needed to be convinced that this dialogue venue was important and could help solve economic development issues. This also affected establishment of local GSVs, since members needed to be convinced that their investment of time and effort was worthwhile.

The Tripartite Dialogue Project, GSV, and Office for Social Partnership developed a public education campaign that relied on successful foreign experiences with economic and social councils, primarily in Ireland and the Netherlands, and joint appearances of GSV members from trade unions, business, and government. In 2001, the social partners developed a Partnership for Development document that was signed with great fanfare and set forth their joint commitment to policy dialogue and development and implementation of economic reform policies. However, this document was only effective for a few months, and it seems clear that the agreement was put together too quickly and needed to be based on expert analysis and a longer dialogue on the GSV's vision, mission, and strategy.

In addition, some GSV members traveled throughout the country to advocate that trade union, business, and local government leaders join the local GSVs. The Project also organized a workshop for new local GSV members, which several national GSV members participated in. As the national and local GSVs progressed, success stories were publicized. See, e.g., [www.socialno-partnerstvo.hr](http://www.socialno-partnerstvo.hr).

The NCC also engaged in a public outreach campaign, although as a new body with members that included CEOs of Croatia's top companies it did not suffer from the same negative image that the GSV had. The Competitiveness Exercise Project worked with the NCC to establish policy dialogue at the local level in selected municipalities, and the primary means of outreach were presentations and workshops.

### **Monitoring Mechanisms**

Local GSVs are supposed to report quarterly in writing to the national GSV, and many do. Activities are discussed in detail at the yearly local GSV conference. The GSV and NCC

produce annual reports of their activities. During the USAID projects, the projects submitted monthly reports including a report of results versus indicators and benchmarks.

## **Results**

The local GSVs have had some successes, including input into some national policy reforms and improvement of several counties' business environment and resulting attraction of foreign investment. Several of the local groups have been very successful in developing and implementing changes in their business environment and in communicating their issues and proposed solutions to the national level.

The national councils are now taken seriously, and the Government and Parliament do utilize their recommendations. But, because Croatia's economic and social policy reform process is slow and uneven, the national GSV and NCC have had mixed results. For example, the GSV quickly developed an effective new labor inspection regime, but after almost a year of dialogue on amendments to the Labor Code, the resulting changes were mainly cosmetic.

## **Challenges**

The councils and donor projects faced many challenges in getting local input into the policy dialogue process, several of which continue:

- Legacy of top-down government-driven decision making – this was a feature of the Yugoslavian socialist governments until 1990, and decentralization and democratization didn't move quickly until 2000.
- Legacy of a lack of decision-making power at the local level.
- Lack of understanding of the economic problems and the global economy.
- Lack of a culture of solving problems through dialogue and compromise.
- Different economic bases and obstacles to growth in different counties.
- Too many counties for a country of 4.4 million people mean that several counties make up each true economic region.
- Poor management of the Office for Social Partnership (secretariat) leading to a lack of assistance for local GSVs in general and particularly in coordinating work and communicating with the national GSV and Croatian Government.

## **Lessons Learned**

Croatia's experiences provide lessons learned for other countries and donors. We feel that among the important lessons learned are:

- Donors should provide training on process (e.g. effective communication) and substantive issues. It is most effective when it includes representatives from all social partners and they can discuss issues. Such training leads to improved relationships and communication, and can often lead to resolution of disputes.
- Donors should help facilitate relationships between councils and local experts as much as possible. This strategy builds sustainability by indigenizing the services and skills we bring to the project.
- Facilitation is of great importance to developing policy dialogue. In Croatia, as in other transitioning countries, there is limited experience and appreciation of using facilitators to improve stakeholder interactions and increase the productivity of meetings, seminars, etc.

- The public in Croatia and other transition countries still looks to the Government as the primary driver of the economic and social reform process, and the councils should work to change this perception through strategic public relations activities.
- Exposing GSV members to successful and professional economic and social councils has tangible improvement on GSV members' professionalism and attitude toward social dialogue and partnership.
- As demonstrated by the successful work of the social partners in Ireland, Belgium, Netherlands, and Austria, research and analysis are among the most important factors in building social partnership. Thus it is necessary to set up an arrangement for unbiased research and analysis to be performed, either through a secretariat, outsourcing to think tanks and experts, or through collaborative work between social partner experts as is done in Austria.
- Council secretariats are very important and their role should be well-defined and they should answer to the entire council, not one member, e.g. the Government.

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Mr. Lowther is a commercial law, economic policy, and institutional development specialist with eight years of experience working with national and local governments, NGOs and the private sector in support of commercial law reform, economic and social development, social partnership, policy dialogue, and an enabling environment for private sector growth. He has managed USAID-sponsored economic reform initiatives in Croatia, Bulgaria, Macedonia, and Bosnia & Herzegovina. Mr. Lowther designed and implemented innovative approaches to improve public-private sector dialogue in Bulgaria and Croatia. A commercial attorney with 11 years experience, Mr. Lowther provides technical assistance and training for public and private sectors on legal and economic reform.

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