



**REGIONAL REVIEW SERIES**

**GOVERNANCE AND FUNDING ARRANGEMENTS FOR SOCIAL SERVICES IN SOUTH EASTERN EUROPE: THE CASE STUDY OF CROATIA**

Kosovo Decentralisation of Social Services Project

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The DFID project supports the development of inclusive and fiscally sustainable delivery of decentralised social care services in Kosovo. The **goal** of the project is the effective transfer of competencies to municipalities in Kosovo. The **purpose** of the project is to strengthen management systems for the financial and administrative decentralisation of social care services and improve the capabilities of municipalities and CSWs to deliver social care services to people in need.

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## Table of Contents

No	Contents	Page
	Foreword	1
1	Definition and Governance of Social Services	4
2	List of Social Services and Responsible Institutions	7
3	Financing Social Services	11
4	SWOT Analysis of the Croatian System for the Delivery of Social Services	19

## Foreword

This series describes recent efforts to reform, strengthen and expand social services in the countries of South Eastern Europe (Croatia, Serbia, Slovenia and Macedonia /FYROM) and offers an overview of fiscal and administrative reforms that have been instituted to give these efforts greater reach and impact. Each of the country in the series of case studies draws from the common social policy and institutional legacy of former Yugoslavia which is made manifest by the universal presence of municipal Centres for Social Welfare (CSWs) which are responsible for the delivery of both social services and social assistance.

The case studies examine the financial and administrative reforms that have been instituted to restructure social service schemes as part of wider governance and financial reforms linked to decentralisation. The emphasis of these reforms has, to a significant extent, been on improving their efficacy in reducing risk and vulnerability, improving social cohesion and reaching those with special needs. The country case studies examine both social policy formation and the consequent experience with implementation of legislative reforms, new financial arrangements for funding social services, and the distribution of responsibilities across of centralised and decentralised (devolution, delegation, and deconcentration) systems for particular categories of social services

Local governments in the countries of South Eastern Europe are increasingly involved in the delivery of social services, and for making critical decisions including setting priorities through the allocation of resources, defining the types of services offered in a locality, and determining eligibility or access to different types of social services (e.g., residential, family based, community-based etc). The trend towards increasing the involvement of local governments in social service delivery is closely related to the overall process of decentralisation which has been unfolding – to various degrees – in the majority of South Eastern European countries.

Recent developments, including the adoption of legislation on intergovernmental fiscal relations and property taxes have accelerated decentralisation processes across different domains of social policy. Many emerging European countries have experienced considerable difficulties in clearly choosing an optimal type of decentralisation for social policy functions and social services in particular. Choosing the type and degree decentralisation of public services usually entails difficult political decisions regarding what constitutes responsibilities and powers in service provision. While dividing responsibilities for administering expenditures can be relatively easy, deciding which agency of structure of government should be responsible for policy-making (including regulation, standard setting and quality control) is typically more challenging and time consuming.

The broad objective of the series is to provide central and local government policy makers in Kosovo, who are in the midst of considering options for reforming the finance and governance of social services, with information on the recent experience and policy results of near neighbours facing similar issues. These case studies, in association with technical support provided by the DFID KSSD project at the central and municipal tiers of government, will empower the Government of Kosovo and their social service partners in their roles as active participants in the social policy process. Existing evidence on decentralisation indicates that the success of decentralising social service provision depends on an important set of factors including:

- The quality of intergovernmental institutions, including clearly defined roles and responsibilities , incentives, accountability, public participation and transparency;

- A stable fiscal framework, including well aligned expenditure and revenue raising responsibilities, feedback mechanisms between central and local governments, and local government capacity; and
- Civil; society and social structure

A central question facing counties covered in these case studies is how far decentralisation of social services can and should proceed. Although there are many arguments for and against decentralisation, stemming from political and economic theory, there are no easy answers and analysis of the impact of decentralisation of social services is inconclusive and country specific. Ultimately, decisions regarding the degree to which specific types of social services are decentralised are political. Experience from other counties, as well as those countries covered in this series, to date indicate the importance of having an overall strategic vision for the decentralisation of social services. Scarcity of resources is a major restriction on the efforts of neighbouring countries to decentralise social services, and in many instances key services and elements of the institutional architecture of service provision, have remained centralised. Efforts have also been further impeded by several additional factors: shortage of trained personnel; the immaturity of contemporary social work, only now re-emerging as a professional field; ineffective coordination between national and local levels that makes reaching target groups difficult; and weak utilisation of partnerships with non-governmental organisations providing social services.

Public services – such as social services – increasingly account for a major segment of local government expenditures, and there is growing importance attached to the outcomes they secure. As result, in the countries presented in this series – citizens and their representatives are beginning to show a heightened concern for ensuring that the methods and approaches through which social services are delivered, and the methods they use to pay for social services are not wasted. In particular attention has turned to ensuring that funds allocated to social services and monies paid to public service providers (including state and non-government organisations) are in line with policy intentions, and encourage cost effective provision.

In the wake of these developments, there has been a desire to move away from traditional methods of paying for social services, such as historical precedent, political patronage, or by the desire to protect vested professional interests. Instead, governments and other payers of social services are seeking to place greater emphasis on making approaches towards allocating public funds for the provision of social services more transparently and systematically, in the form of mathematical funding formulae.

A cynic might argue that this trend reflects the desperation of governments trying to devolve to the technical domain increasingly fraught political debates over funding decisions. There is an element of truth in this view. But equally governments clearly do wish to place their funding methods on more solid foundations. At the very least in order to retain support for the taxation necessary to sustain social services, governments wish to demonstrate to the public that tax revenues are being deployed systematically, in accordance with voters' preferences.

The trend towards formulaic funding mechanisms – as demonstrated in this series – has been given added impetus by improvements in the scope and timeliness of data sources (such as the Social and Living Conditions Survey, the Household Budget Survey, and numerous administrative data sources) that can be used to prioritise policies and goals in social services, and for measuring unit costs, inputs, activities and outcomes. These informational developments in the countries of South Eastern Europe have opened up opportunities to apply scientific approaches to the funding of social services. Moreover, many new statistical and

econometric techniques are emerging that enable models to be placed on a more scientifically secure foundation.

Yet, notwithstanding the increased demand for scientific funding mechanisms for social services, and the rapid improvements in analytical potential, the state of current methodologies for the design of funding formulae for social services is – with a few exceptions – very rudimentary and frequently analytically unsatisfactory. This series provides readers with an opportunity to gain insights into approaches that being used to design funding formulae in countries of South Eastern Europe.

Ultimately it is the aim of the DFID KSSD Project to help those looking to shape a new era of social services in Kosovo to surmount some of these obstacles, and to begin the process of addressing policy and technical concerns linked to the decentralisation of social services. The analysis contained in these case studies:

- provides national profiles of the direction, magnitude, and scope of progress in strengthening social services in each neighbouring country, the interface between social services and other aspects of social protection, acknowledging the problems encountered while highlighting successful practices that have been recognised and put in place;
- traces trends in national social service delivery, the formation of partnerships between central governments, local governments, and nongovernmental organisations;
- draws attention to the interface – financial and administrative – between social services and other aspects of social policy; and
- delineates the definition of social services and related governance arrangements, the responsibilities of different institutions that provide social services, the financing arrangements of social services –including budget formulas, and an assessment of the strengths, weaknesses, opportunities and threats that have emerged, or are emerging, within each country.

## Section 1: Definition and Governance of Social Services

Croatia has a population of 4,437,469 who live within 555 Local Self Government (LSG) units (429 municipalities and 126 towns) and 21 counties/regions. In the basic provisions of the Constitution the Republic of Croatia is a unitary and indivisible democratic and social state. Moreover Article 57 of the **Constitution** (in the economic, social and cultural rights section) provides that the State shall ensure the right to assistance for weak, helpless and other persons unable to meet their basic needs owing to unemployment or incapacity to work. The State is obliged to devote special care to the protection of disabled persons and their integration into social life, and receiving humanitarian aid from abroad may not be forbidden. Article 61 states that the family shall enjoy special protection of the State. Article 62 states that the State shall protect the condition of maternity, children and young people, and shall create social, cultural, educational, material and other conditions promoting the right to a decent life. Article 63 states that physically and mentally disabled and socially neglected children shall have the right to special care, education and welfare and the State shall take special care of parentless minors or parentally neglected children.

The **Constitution** prescribes, in the Article 134, that units of local self-government shall carry out the affairs of local jurisdiction by which the needs of citizens are directly fulfilled, and in particular the affairs related to the organisation of localities and housing, area and urban planning, public utilities, child care, social welfare, primary health services, education and elementary schools, culture, physical education and sports, customer protection, protection and improvement of the environment, fire protection and civil defence.

In the **Law on local and regional government** it is stated in Article 19 that the units of local self-government in their self-governmental scope perform the tasks of local importance which directly addresses the needs of the citizens, and which are not assigned to state bodies by the Constitution or by law, and especially the tasks referring to:

- organisation of settlements and housing,
- town and urban planning,
- utility services,
- child-care,
- social welfare,
- primary health protection,
- education and primary-school education,
- culture, physical culture and sports,
- consumer protection,
- protection and improvement of natural environment, and
- fire protection

Article 20 of the law prescribes that the county, as a unit of self-governmental, performs tasks of regional importance, and especially tasks which pertain to:

- Education,
- Medical care,
- Town and urban planning,
- Economic development,
- Transit and traffic infrastructure, and

- Planning and development of the network of educational, medical, social and cultural institutions.

The **Law on social care** was introduced in 1997 and the social care system is defined in accordance with the subsidiarity principle so that the responsibility of the person and the family for own security is promoted. In 2007 law was amended, the complexity of the administration downsized, the material position of beneficiaries improved, access eased and new rights promoted in order to reduce institutionalisation. In 2007 the **Law on foster care** was adopted. The law provides care for a beneficiary (child or adult person in need) outside his/her family by placing them in another family. The conditions for custodianship within the network of the social care system, the way of providing care, the methodology for pricing, the delineation of rights and responsibilities as well as archiving and inspection oversight was also regulated in the 2007 Law. A **new Law on social services**<sup>1</sup> came into effect in April 2011 which defines social care as activity of public interest of the Republic of Croatia (Article 3) to insure measures and programmes related to socially vulnerable persons as well as persons in unfavourable personal or family environments. The new Law makes provision for, and includes, preventative measures, the introduction of user charges, measures to help satisfy basic life needs and support to individuals, families and groups. The goals are to improve the quality of life and support the beneficiary to satisfy own life needs and their active inclusion in society. The new Law on social care provides the scope for introducing new services such as supporting families in crisis, early intervention, respite and weekend accommodation, and services for finding employment. The new Law is expected to improve access to services and increase effectiveness. The **Family Law** (OG 116/03, 17/04, 136/04 and 107/07), **Law on courts for juveniles** (OG 111/97, 27/98 and 12/02), **Law on sanctions for juveniles prosecuted for criminal charges** (OG153/09) and the **Law on family violence** (OG 137/09, 14/10 and 60/10) further regulate the social care service system in Croatia.

The **Strategy**<sup>2</sup> **for development of the social care system in Croatia 2011-2016** from 2011 defines social care as activity with which a help is secured to cover basic life needs of socially vulnerable, helpless and other persons who - because of the adverse personal, economic, social and other reasons - cannot provide for themselves life needs on their own nor in their family settings.

### **Policies and the Regulatory system**

The responsible authority for social policies in Croatia is the **Ministry of Health and Social Security**. After the Social Protection Law in Croatia introduced in 1997, which was the first systematic post-war basic law in this field, the new law adopted on 13 May 2011 recognises **Civil Society Organisations** as one of the providers of social protection activities that can be effectuated by a network of public social services. The services that the new Act defines as public services can be under some conditions be granted under **concessions in a public bid**. This provision is expected to encourage competition between providers, with expectation to result in higher quality for users<sup>3</sup>.

In April 2007, the Government adopted a **Strategy for the reform of social benefit spending** which aimed to clarify access rights to social assistance. The objective of the reform was *de*

<sup>1</sup> [http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/reforma\\_sustava\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/reforma_sustava_socijalne_skrbi).

<sup>2</sup> [http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/reforma\\_sustava\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/reforma_sustava_socijalne_skrbi).

<sup>3</sup> <http://www.balkancsd.net/component/content/article/702-croatia-the-new-law-on-social-protection-gives-csos-the-opportunity-to-be-a-service-provider.html>.

*facto* streamlining of the system, controlling monetary social benefits and a fairer allocation of available funds in the GDP, at the same time increasing the share of social security funds subject to the assessment of income or assets i.e., means testing. In addition, in the course of 2007 the Government:

- Adopted a **National strategy on equal opportunities for persons with disabilities for 2007-2015**;
- Signed, in New York on 30 March 2007, the **UN Convention on the rights of persons with disabilities** and the **Optional Protocol to the Convention adopted by the UN General Assembly** and adopted the **Act on the Ratification of the Convention on the rights of persons with disabilities** and the **Optional Protocol to the Convention**.

In 2008 the Croatian Parliament adopted the **Ombudsman for Persons with Disabilities Act** (Official Gazette No. 107/07); and the Office of the Ombudsman is currently being established.

The Ministry of Health and Social Security<sup>4</sup> covers following **legislation** as part of the reform of social security system:

- law on foster care
- law on social care
- strategy for development of social security in Croatia 2011-2016
- decision of transformation of social centres (residential homes) and other legal entities conducting activities in the same area
- a plan for transformation of social centres (residential homes) and other legal entities conducting activities in the same area
- indicators for transformation of social centres (residential homes) and other legal entities conducting activities in the same area

In the field of **pension insurance** (which constitutes one of the components of the social protection system of the Republic of Croatia as a whole), two Acts governing the generational solidarity system were adopted in 2007, namely the **Supplementary Pension Act**, aimed at reducing the differences in pensions earned for equal number of years of past service or under equal conditions for beneficiaries having earned their pensions under the **Law on Pension Insurance**, and the **Law Amending the Law on Pension Insurance**, aimed at increasing, as of 2008, the amount of early retirement pensions, disability pensions due to incapacity for work, as well as the amounts of lowest pensions through modification of the method for their determination. However, the general problem and the necessity of further reforms of the pension system remains - 40% of pensioners are under 65<sup>5</sup>.

The Government of Croatia prepared a **methodological framework to measure the social impact of new draft legislation on socially vulnerable groups** (handicapped persons, chronically ill persons, children with inadequate parental care, poor people, unemployed etc.) within the Decision from 2007. In methodological framework is based on gradation systems (7 grades from no impact to extremely important positive impact). The decision framework is linked

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<sup>4</sup> [http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/reforma\\_sustava\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/reforma_sustava_socijalne_skrbi).

<sup>5</sup> EU Screening report on Chapter 19: Social policy and employment (<http://www.eesc.europa.eu/?i=portal.en.eu-croatia-jcc-third-meeting-reports.4866>).

to a risk management system which is defined by type of risks, probability of occurrence, impact level of the risk etc.

In January 2011 the Government of Croatia adopted a **Plan<sup>6</sup> for deinstitutionalisation and the transformation of social homes (i.e., residential care services) and other legal entities conducting social care activities in Croatia 2011-2016/2018**. The goal of the plan is to decrease the number of people in institutional care and to increase the number of exits from institutions and incentivising new forms of community and family-based services - especially family reintegration. The Plan and its guidelines for implementation have also been prepared.

**The licensing** of social care services is regulated within the Law on social care and is regulated by procedures to satisfy conditions and to meet minimum standards of quality (Article 170 of the Law). The procedures and the standards are regulated by the Ministry of Health and Social Care. Article 176 of the same law also regulates the **Accreditation procedure of residential homes** as well. **The basic framework for social care** in Croatia – in accordance with Article 178 of the Law on social care – delineates the following delivery agencies:

- The Bureaus for social care in the regions,
- Family centres,
- Homes for social care
- Centres for Social Care – which provide help and care.

The **Licensing for custody** in accordance with the **Law on foster care** is regulated in the Section V starting Article 27. It regulates conditions under which a licence can be awarded and conditions of renewing the license, and issuance and termination of licences. The custody contract is also regulated as well are the amounts and levels of compensation. The standards are regulated by a separate law that is prepared by the Ministry of Health and Social Security.

## **Section 2: List of Social Services and Responsible Institutions**

The responsible institution for the overall system of social care services in Croatia is the **Department for Social Welfare<sup>7</sup>**. It is operating within the Ministry of Health and Social Security and conducts care over children, youngsters and households that do not have enough means to cover basic needs or are in need of help to overcome the reasons for the vulnerability. The following is the **list of social services**:

- Protection of households with disturbed relations in marriage
- Protection of children with single parents
- Adoption
- Protection of children and adults under legal custodianship
- Protection of social sensitive groups and handicapped persons
- Children without proper parental support
- Children and juveniles with disorderly behaviour

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<sup>6</sup> [http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/reforma\\_sustava\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/reforma_sustava_socijalne_skrbi).

<sup>7</sup> [http://www.mzss.hr/ministarstvo/ustroj\\_ministarstva/uprava\\_za\\_socijalnu\\_skrb](http://www.mzss.hr/ministarstvo/ustroj_ministarstva/uprava_za_socijalnu_skrb).

- Old and helpless persons and mentally ill persons
- Victims of trafficking
- Victims of family violence
- Rehabilitation and re-socialisation of drug and alcohol dependence

The structure of the social services system comprises a **network of residential homes** which are managed through the **Social Care Service House (SCSH)**. The SCSH is also responsible for the establishing, closure and the introduction of any statutory changes in residential homes (except for the family centres)<sup>8</sup>. Tables 1, 2 and 3 below provide insights into the **statistics about number of employees, capacity, and beneficiaries of public and non-public institutions** in the social care system of Croatia<sup>9</sup>.

**Table 1: Annual statistical report about public homes and beneficiaries of social services in Croatia in 2010**

Homes	Number of employees	Capacity	Beneficiaries	Requests for services	Limits	Number of services
Children without proper partial care	532	1017	840	358		
Children and juveniles with disorderly behaviour	466	1147	1088	872		
Mentally ill and handicapped persons	2063	4109	4369	821	22006	21993
Old and helpless persons	52	225	192	244	244	96
Old and mentally ill persons	1253	3216	4035	1992	1170	1021

Source: Social Care Service House

<sup>8</sup> More about the network of institutions see at:

[http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/mreza\\_domova/odluka\\_o\\_utvrdivanju\\_mreze\\_domova\\_socijalne\\_skrbi\\_i\\_djelatnosti\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/mreza_domova/odluka_o_utvrdivanju_mreze_domova_socijalne_skrbi_i_djelatnosti_socijalne_skrbi).

<sup>9</sup> More about these statistics see at:

[http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/statisticka\\_izvjesca](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/statisticka_izvjesca).

**Table 2: Annual statistical report about non-public homes and beneficiaries of social services in Croatia in 2010**

Homes	Number of employees	Capacity	Beneficiaries	Requests for services	Limits	Number of services
Children without proper parental care	113	246	210	58		
Mentally ill and handicapped persons	448	1134	1274	429	96	3034
Old and helpless persons (regional-zupanija)	5000*	10728	13324	51161	3132	3389
Old and helpless persons (not regional)		4857	4364	1684	433	288
Old and mentally ill persons	252	1010	972	636		
Persons with drug and alcohol dependence	36	154	84	68		
Victims of family violence	10	54	34	260		

\*includes also not regional home's employees.

**Table 3: Total capacity, beneficiaries and number of requests for services**

Homes	Capacity	Beneficiaries	Requests for services
Public	9643	9766	4287
Non-public	18109	17316	54254
Total	27752	27082	58541

Tables 4, 5 and 6 below delineate the sources of payments by beneficiaries for the public and non-public homes of the social care system in Croatia.

**Table 4: Number of beneficiaries by service/public homes and by source of payments**

Homes	Beneficiaries pay	Partly state partly beneficiaries	State pays	Others	Total
Children without proper parental care		153	680	7	840
Children and juveniles with disorderly behaviour		312	772	4	1088
Mentally ill and handicapped persons	90	1483	2684	112	4369
Old and helpless persons	109	44	7	17	177
Mentally ill adults	890*	1032**	1255	115	3292

\*beneficiaries and others pay

\*\*partly state partly beneficiary partly others pay

**Table 5: Number of beneficiaries by service/non-public homes and by source of payments**

Homes	Beneficiaries pay	Partly state partly beneficiaries	State pays	Others	Total
Children without proper parental care		2	208		210
Mentally ill and handicapped persons	24	505	629	116	1274
Old and helpless persons	2760*	326**	365	759	4210
Old and helpless persons (regional/zupanija)	8175*	1176**	620	561	10532
Mentally ill adults	206*	319**	413	34	972
Persons with drug and alcohol dependence		8	76		84
Victims of family abuse		2	31	1	34

\*beneficiaries and others pay

\*\*partly state partly beneficiary partly others pay

**Table 6: Number of beneficiaries by source of payment and type (public and non-public)**

Homes	Beneficiaries pay	Partly state partly beneficiaries	State pays	Others	Total
Public	1089	2889	5398	390	9766
Non-public	11165	2169	2342	1640	17316
Total	12254	5058	7740	2030	27082

In 2010 2.3% of the total population benefited from access to social services, and by regions the percentage ranges from 0.7% to 7.6%. Based on the Strategy for development of the social care system in Croatia 2011-2016, it is possible to discern references to **two categories** of beneficiaries: (a) people who are poor because have not own source of income or the income is lower than the adopted census; and (b) people with specific needs like disability, ageing, mentally illness, addiction, children without proper parental care, victims of family violence, trafficking victims, asylum seekers thus, those also in needs but not necessarily with low income but that because of the specific needs the costs of their needs are unusually high. **In general the two categories** refer to vulnerable groups or groups at higher poverty risks, social inclusion risks and those with low income (unemployed, older persons without pensions, one parent family), vulnerable ethnic minorities (e.g., Roma), people with disabilities and groups that are minorities exposed to extreme income and non-income risks (e.g., homeless, ex addicts, prisoners). The regional tiers of government in Croatia by the Law on social care (Article 5) can:

- Organise Councils for social care, and adopt a social plan on their territory;
- Organise and conduct measures and activities in accordance with the social plan on their territory;
- Suggest development of network of capacities in need related to social services on their territory in accordance with their social plan and the Strategy for social care network development in Croatia and can give opinion on about the Network regulated in Article 160 of the Law on social care;
- Coordinate the operations of entities legal and physical that conducts social care services on their territory;
- Ensure financing and organisation of operations of social care institutions if they are the founders;
- In cooperation with the Ministry ensure provision of social care services in less populated and underdeveloped regions and islands.

**Local governments by the Law on social care (Article 5) can** conduct operations of local interests and directly support the social needs of the citizens and take care of **archiving** about the rights the beneficiaries are realizing (Article 20).

### **Section 3: Financing Social Services**

The basis for calculating the financial allocations from shared personal income tax to LSG regions is prescribed in the **Law on financing LSG and regions**<sup>10</sup>. Article 45 regulates that out of the personal income tax (PIT) **12% is allocated to LSG and regions for decentralised functions and 17.5% for the equalisation of decentralised functions**. The same Article specifies that LSG and regions (under separate laws) will receive for decentralised functions **additional percentages from personal income tax of 0.5% for the Centres for Social**

<sup>10</sup> OG: 117/93, 69/97, 33/00, 73/00, 127/00, 59/01, 107/01, 117/01, 150/02, 147/03, 132/06, 26/07, 73/08.

**Welfare and 1.7% for residential care services (out of the 12%).** The schedule for sharing PIT in Croatia is illustrated as Table 7 below<sup>11</sup>.

**Table 7: Intergovernmental Fiscal Relations: PIT**

<b>Government</b>	<b>PIT share</b>
<b>Municipalities/towns</b>	<b>55%</b>
Out of which for decentralised functions	
basic schools	3.1%
fire-fighting	1.3%
<b>City of Zagreb</b>	<b>12%</b>
Out of which for decentralised functions	
Basic schools	3.1%
Secondary schools	2.2%
Social care	2.2%
Health	3.2%
Fire-fighting	1.3%
<b>Regions</b>	<b>15.5%</b>
Out of which for decentralised functions	
Basic schools	3.1%
Secondary schools	2.2%
Social care	2.2%
Health	3.2%
<b>Equalisation fund</b>	<b>17.5</b>

The **asymmetry in the system of financing social services** was introduced in the **Law on regions of special state care** from 2008<sup>12</sup> and the **Law on mountain's areas** from 2008<sup>13</sup>. The **Law on regions of special state care** regulates special care in regions that were impacted heavily by the civil war in ex-Yugoslavia. The goal is to achieve balanced regional development. The regions are divided in three groups: (i) regions close to the state border; (ii) areas occupied during the war (depending on the war circumstances) and (iii) less developed regions linked to economic development, structural problems and demographic criteria. In addition, the **Law on mountain's areas** (only applies to municipal LSG) regulates, among others, the quality and balanced social and economic development of regions of Croatia. The criteria are: altitude, terrain slope, climate and other natural characteristics that make life and work difficult. Also, LSGs that are: on island, that are with more than 20 inhabitants per km squared and that are with more than 40 inhabitants per km squared and that have certain amount of revenues per capita are not eligible to benefit from this law.

For LSG's and regions that belongs under these two laws (regions of special state care and mountain's areas) under the law on financing LSG and regions (Article 45) sharing of the PIT is 90% for LSG and 10% for regions to finance the decentralised functions (among which social care). For some towns from the law on regions of special state care the sharing of PIT is 55% for the LSG and 15.5% for the regions to finance the decentralised functions (among which

<sup>11</sup> <http://www.mfin.hr/hr/raspodjela-poreza-na-dohodak-temeljem-zakona-o-financiranju-ijlprs>.

<sup>12</sup> <http://narodne-novine.nn.hr/clanci/sluzbeni/340349.html>.

<sup>13</sup> <http://www.poslovnii-savjetnik.com/propisi/podrucja-od-posebne-drzavne-skrbi-brdsko-planinska-podrucja/zakon-o-brdsko-planinskim-podruc>.

social care) and 17.5% for equalisation in financing the decentralised functions (among which social care) and increased with additional percentages from the personal income tax of 0.5% for the Centres for Social Welfare and 1.7% for residential services. The **Law on social care regulates the details of financing the social care activity** (Article 12-Article 21).

If there is a **fiscal gap to finance the decentralised functions in accordance with the minimum standards then the gap is financed from the central budget transfers**. The sources of financing the social care in Croatia, in accordance with the Law on social care, are illustrated in Table 8 below.

**Table 8: Social Services by Sources of Financing**

<b>Central budget</b>	<ul style="list-style-type: none"> <li>• Money support, one time support, education, handicapped pensions, support for help and taking care, status of guardian, inclusion support)</li> <li>• Social services (first social services-information, start up needs, counselling, family mediation, support at house, expert support at family, early interventions, upbringing programs and integration (education), services to stay in country, accommodation, expert support in employment</li> <li>• Intergenerational solidarity</li> <li>• Financing the Bureau and family centres for which founder is the Republic of Croatia</li> <li>• Financing homes of social care for which founder is the Republic of Croatia</li> <li>• Financing construction, reconstruction of space, buying buildings, capital maintenance, emergency maintenance, equipping space, ICT investment for which founder is the Republic of Croatia</li> </ul>
<b>Regional self government budgets</b>	<ul style="list-style-type: none"> <li>• Heating</li> <li>• Money support above standards if they have budget for it</li> </ul> <p><b>For those institutions for which regional self government is founder:</b></p> <ul style="list-style-type: none"> <li>• Capital and regular maintenance</li> <li>• Equipment</li> <li>• Vehicles</li> <li>• ICT and communication equipment</li> </ul>
<b>Local self government budgets</b>	<ul style="list-style-type: none"> <li>• Money support for Accommodation</li> <li>• Money support above standards if they have budget for it</li> </ul> <p><b>Big towns and main towns where region's head is:</b></p> <ul style="list-style-type: none"> <li>• Food for people's kitchens</li> <li>• Services for homeless</li> </ul> <p><b>For those institutions for which local self government is founder:</b></p> <ul style="list-style-type: none"> <li>• Capital and regular maintenance</li> <li>• Equipment</li> <li>• Vehicles</li> <li>• ICT and communication equipment</li> </ul>

Finance for regional Bureau's for Social Care is sourced from the following tiers of government:

- **Central budget:**
  - Wages and salaries
  - Transportation and training
  - Non-financial assets
  
- **Regional budgets**

- Compensations for employees (business trips, field work, trainings, compensation for field work)
- Goods, services, small inventory, maintenance, energy
- Services (phones, postal services, communal services, health and veterinary services, intellectual services)
- Other expenditures related to the social care activities (insurance, representation, fees)
- Financial expenditures (bank services, interests)

For Residential Services for which the founder is the central government financing is sourced from the central budget across all economic budget categories. **The decentralised functions of social services assigned to the regions are:**

- Assets for residential homes
- Material and financial expenditures of the Bureau for social care
- Help to beneficiaries that heat their homes with wood-based fuels

Aside from salaries, which are paid by the Ministry of Health and Social Security, Regional government is responsible for financing residential homes established by the regional tier with regard to the following items of expenditure:

- Expenditures related to the employees (not salaries. Only travel cost, trainings and field work),
- Materials,
- Recurrent costs,
- Equipment,
- Non-financial assets,
- Maintenance,
- Vehicles related to social care,
- ICT equipment.

In the regional budgets allocations to fill the gap between the sum of all expenditures from above and the revenues for special purposes (these are the revenues collected from the self-financing of the beneficiaries) must be provided for – i.e., to minimise the risk of unfunded mandates. In accordance with the Decision about minimal financial standards for the **decentralised financing of the homes of “elderly and helpless persons” (residential services) from 2011** (OG 29/11) financing is regulated with regard to employees, materials (goods and services), non-financial assets and emergency interventions. Homes are decentralised from the central government to the regions. Administration is also a regional responsibility as well as financing for emergency interventions, maintenance, space, vehicles, and equipment. The **methodology for allocation of financial means to cover services for homes of elderly and helpless persons** is prescribed in the decision of the government of Croatia from 2005 (Official Gazette-OG 185/04) as per the Ministry of health and social care security<sup>14</sup>. The decision is about the “**minimum financial standards for the decentralised functions of the health institutions**”<sup>15</sup>. The minimum standards are for investment in space,

<sup>14</sup>

[http://www.mzss.hr/ministarstvo/zakonodavstvo/uprava\\_socijalne\\_skrbi/odluka\\_o\\_minimalnim\\_financijskim\\_standardima\\_za\\_decentralizirano\\_financiranje\\_domova\\_za\\_starije\\_i\\_nemocne\\_osobe\\_2005\\_godini\\_n\\_185\\_04](http://www.mzss.hr/ministarstvo/zakonodavstvo/uprava_socijalne_skrbi/odluka_o_minimalnim_financijskim_standardima_za_decentralizirano_financiranje_domova_za_starije_i_nemocne_osobe_2005_godini_n_185_04).

<sup>15</sup> <http://narodne-novine.nn.hr/clanci/sluzbeni/313829.html>.

equipment and vehicles, maintenance and ICT investment. The minimum standards are prescribed in the Article 2, and form the basis for calculating the equalisation of decentralised functions of the regional units of the institutions. **The distribution by region is in accordance with the following criteria:**

- 80% of the total amount of the basis is depending on the percentage of the insured people in the region divided with the total insured people in the Croatia health insurance bureau
- 10% of the total amount of the basis is depending on the percentage of the number of locations where the health activity is conducted in the region divided with the total number of the locations
- 5% of the total amount of the basis is depending on the percentage of the health institutions in the region divided with the total number of health institutions with which the Croatia health insurance bureau have signed contract with
- 5% of the total amount of the basis is depending on the number of the agreed beds in the region divided with the total number of agreed beds with the Croatia health insurance bureau

The minimum standards are calculated by taking into account the capacities of the institutions measured with the number of beds. Correctional criteria are the share of investment in space, equipment and vehicles from other sources of financing. That means that regions receive additional amounts of money to complete investments that have already commenced<sup>16</sup>. The **minimum standards, criteria and financing the decentralised functions** are prescribed by the government of Croatia within a government's Decision – these decisions are updated each year<sup>17</sup>.

As per the Decision 29/11 the minimum standards are prescribed for homes of old and helpless persons for which the founder is the regional tier. The detailed expenditures are prescribed and the **financial standard per beneficiary** is calculated for salaries, goods and services, and non-financial assets. It is also prescribed that **each region should allocate an additional flat amount of money per home for emergency interventions** related to maintenance of all assets. In accordance with these standards there is a list per region how much each region will have expenditures for old and helpless persons. These standards/expenditures are the **base for calculation of the equalisation of the decentralised function for old and helpless persons**. The regions should allocate the amount of money to equal the difference between the standards and the revenues for special purposes.

Thus, total transfer from the central government for decentralised function has two parts: an increased local share of the personal income tax and a grant (G), which is calculated as

**G** = [Estimated Spending for the Service] – [Increased Local Share of Personal Income Tax].

[Estimated spending for the services] = **TMS** – [Revenues from beneficiaries] – [Allocations for emergency interventions]

**TMS** = Total minimal financial standards

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<sup>16</sup> Care should be exercised in these observations. The Ministry of Health has recently announced that this methodology will be used for homes of elderly and helpless persons.

<sup>17</sup> For 2011 minimum standards for the social care centers and accommodation of beneficiaries with heating on woods see: [http://narodne-novine.nn.hr/clanci/sluzbeni/2011\\_03\\_29\\_619.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2011_03_29_619.html).

Each of the decentralised function has a unique increase in the total local share of the personal income tax:

- 1) for elementary education – 3.1%
- 2) for secondary education – 2.2%
- 3) for social care centres – 0.5%
- 4) for health maintenance expenditure – 3.2%
- 5) for homes for the elderly people – 1.7%
  
- 6) for fire-fighting – 1.3%

And the equalisation formula for social care in each region is:

$$P_j = MS_j - (0,005 \times PIT_j) - S_j$$

where: **i** - represents local or regional government unit

**P<sub>j</sub>** – the amount of support to the social care centres for regions;

**MS<sub>j</sub>** – the minimal financial standards for the year;

**PIT<sub>j</sub>** – the amount of collected Personal income tax (without surtax on PIT) from residents in the territory of the local and regional government unit;

**S<sub>j</sub>** – the amount of state budget (current) expenditures for heating that need to be financed from the state budget for the centres by the counties (standard in costs per beneficiary).

And the equalisation formula for homes of elderly and helpless for each region is:

$$P_j = MS_j - (0,017 \times PIT_j) - S_j$$

where: **i** - represents local or regional government unit

**P<sub>j</sub>** – the amount of support to the homes of elderly and helpless for regions;

**MS<sub>j</sub>** – the minimal financial standards for the year;

**PIT<sub>j</sub>** – the amount of collected Personal income tax (without surtax on PIT) from residents in the territory of the local and regional government unit;

**S<sub>j</sub>** – the amount of state budget (current) expenditures for heating that need to be financed from the state budget for the homes of elderly and helpless by the regions.

Thus, each year the government adopts a regulation about the calculation of the equalisation of decentralised functions (basic and secondary schools, social care, health and fire-fighting) for the regional and local self government. A base for equalisation is the minimum standards prepared by the government with a Decision as explained above. The financial resources are (in accordance with the Law on financing regional and local self government) are sourced **from the central budget i.e. the 17.5% share of the PIT<sup>18</sup>**. Out of what is supposed to be covered by the regions (standards-revenues) i.e. out of the base for calculation of the equalisation of the

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<sup>18</sup> For 2011 see regulation: [http://narodne-novine.nn.hr/clanci/sluzbeni/2011\\_03\\_29\\_612.html](http://narodne-novine.nn.hr/clanci/sluzbeni/2011_03_29_612.html).

decentralised function for old and helpless persons the additional PIT for decentralised functions is subtracted and what is left is covered by the equalisation fund.

The Plan for deinstitutionalisation and transformation of the social welfare homes and other legal entities conducting social care activities in Croatia 2011-2016 (2018) notes that state residential care homes consume a lot of financial resources and advises that these resources should be reallocated towards smaller capacity homes and/or outside institutions that provide social care services. The calculation for 71 of the homes of social care presented in the plan illustrates the cost structure as in Table 9 below.

**Table 9: Cost structure of 71 residential care homes in Croatia.**

Budget item	Budget structure
Wages, salaries and compensation of employees	73%
Direct costs for beneficiaries (materials, food, health services)	14%
Operational and infrastructure (energy, services, maintenance, administration)	14%

Source: Plan for deinstitutionalization and transformation of the social welfare homes and other legal entities conducting social care activities in Croatia 2011-2016 (2018).

Capital expenditures (rehabilitation of the assets) account for around 10% of the total costs. With non-public social care homes the Ministry of Health and Social Security can enter into contracts which regulate the type of services, the number of beneficiaries, and price per beneficiary per month. **The comparison between public and non-public homes that provide social care** clearly illustrates the higher economic efficiency of the non-public homes compared to public homes as illustrated in the next table.

**Table 10: Indices of average cost per beneficiary, highest and lowest cost per beneficiary in public and non-public homes for social care in Croatia (average for public=100)**

Cost per beneficiary	Public homes for social care	Non-public homes for social care
Highest	150	78
Average	100	69
Lowest	67	51

Source: DFID Project staff calculations from the Plan for deinstitutionalisation and transformation of the social welfare homes and other legal entities conducting social care activities in Croatia 2011-2016 (2018).

In accordance with the Strategy for development of the social care system in Croatia 2011-2016, around 96% of the social care financing is from the state budget and 4% is sourced from fees and charges from the beneficiaries – fees and charges for residential services are subject to strict regulations. The **state financing structure** for social care services is illustrated in Table 11 - 0.8% from the GDP in 2007, 0.79% in 2008 and 0.89% in 2009.

**Table 11: State Financing for Social Services by Economic Classification - in percentages for the period 2007-2009**

Item	2007	2008	2009
Social care support	63.7	62.0	64.5
Gross salaries and compensation of employees in the centres for social care	23.7	24.2	22.9
Operation and materials costs	8.2	8.0	7.3
Maintenance and capital expenditures	4.4	5.8	5.3

Source: Strategy<sup>19</sup> for development of the social care system in Croatia 2011-2016

The **responsibility of financing the centres of social welfare by government level** is illustrated in Table 12 below.

**Table 12: Responsibility for Financing Expenditures in Social Services by Tier of Government**

Government level	Responsibility
Central level	<ul style="list-style-type: none"> <li>• Gross wages and salaries</li> <li>• Contributions to salaries</li> <li>• Purchasing capital assets</li> <li>• Training and capacity building of employees</li> </ul>
Regional level	<ul style="list-style-type: none"> <li>• Materials</li> <li>• Audit</li> <li>• Intellectual services (contracts)</li> <li>• Fees</li> <li>• Heating</li> <li>• other</li> </ul>
Local and regional	<ul style="list-style-type: none"> <li>• accommodation costs</li> </ul>

Source: Strategy<sup>20</sup> for development of the social care system in Croatia 2011-2016

The NGO sector operates in the area of social care services financed partly from the state revenues from the games of chance.

<sup>19</sup> [http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/reforma\\_sustava\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/reforma_sustava_socijalne_skrbi).

<sup>20</sup> [http://www.mzss.hr/zdravstvo\\_i\\_socijalna\\_skrb/socijalna\\_skrb/reforma\\_sustava\\_socijalne\\_skrbi](http://www.mzss.hr/zdravstvo_i_socijalna_skrb/socijalna_skrb/reforma_sustava_socijalne_skrbi).

## Section 4: SWOT Analysis of the Croatian System for the Delivery of Social Services

	<b>Strengths</b>	<b>Weaknesses</b>	<b>Opportunities</b>	<b>Threats</b>
<b>Overall policies stance and policy effectiveness</b>	<p>Closing of chapter 19 with EU on social policy and employment: <a href="http://www.delherv.ec.europa.eu/?lang=en&amp;content=67">http://www.delherv.ec.europa.eu/?lang=en&amp;content=67</a>. According to screening report from 2006, Social protection expenditures in 2003–2004 accounted for nearly 24 % of GDP. Croatia has higher social protection expenses relative to its GDP than the EU and South-East European countries. Less than 20 % are spent on social welfare, child allowances, unemployment benefits, etc.</p>	<p>The pension insurance and the healthcare system absorb more than 80 % of social protection expenditures (pension insurance accounting for more than 50 % of the expenditures).</p>	<p>EU membership in 2012 and implementation of European social fund</p> <p>The results from the project with the World Bank on social inclusiveness</p> <p>The Joint inclusion memorandum between Croatia and EU from 2007</p>	<p>An ageing population will require further reforms of the pension and health care system that ensure both financial sustainability and social effectiveness.</p> <p>Global economic crisis</p>
<b>Constitutional and legal framework</b>	<p>Social care is a constitutional category.</p> <p>Plan for deinstitutionalization of social care services</p>		<p>Political will for reforms</p>	
<b>Central government institutional and regulatory framework</b>	<p>Proper legislation is in place. Proper institutions are operational. Minimum standards are set. There is a methodology to monitor and assess the</p>	<p>Quality of projections from the Plan for deinstitutionalization and transformation of the social welfare homes and other legal entities conducting social care activities in</p>	<p>EU ESF and ERDF funds</p>	

	outcomes of the social activity	Croatia 2011-2016 (2018), especially with the global economic crisis		
<b>Local/ regional government institutional and regulatory framework</b>	Proper legislation is in place	There are LSGs and cities that are small. As a result, may not have the financial, administrative, and personnel resources to carry out the functions of social care.	EU ESF and ERDF funds	
<b>Participation by NGO sector</b>	The new law recognized CSOs as one of the providers of social protection activities that can be effectuated by a network of public social services: <a href="http://www.balkanecd.net/component/content/article/702-croatia-the-new-law-on-social-protection-gives-csos-the-opportunity-to-be-a-service-provider.html">http://www.balkanecd.net/component/content/article/702-croatia-the-new-law-on-social-protection-gives-csos-the-opportunity-to-be-a-service-provider.html</a> .		Strong developed NGO sector for social services: <a href="http://www.mzss.hr/linkovi/udruga">http://www.mzss.hr/linkovi/udruga</a> .	
<b>Participation by private sector</b>	Legal background and political will to move with the participation of the private sectors with the new Law on social care	There must be strong monitoring system of the quality of the services for the concessions	Public services can be under some conditions granted under concession in a public bidding. This article in the new law on social services will encourage competition between providers, which can result in higher quality for users	

