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CARANA
CORPORATION

Providing Global Development Solutions

**USAID CROATIA PENSION REFORM
PUBLIC EDUCATION**

FINAL REPORT

January 10, 2001 - February 28, 2004

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Submitted by

CARANA CORPORATION

"The successful implementation of pension reform should be used as a model for all reforms being undertaken in Croatia".

**Prime Minister Ivica Racan, Government of Croatia press conference
February 13, 2002**



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I. PENSION REFORM

A. BACKGROUND

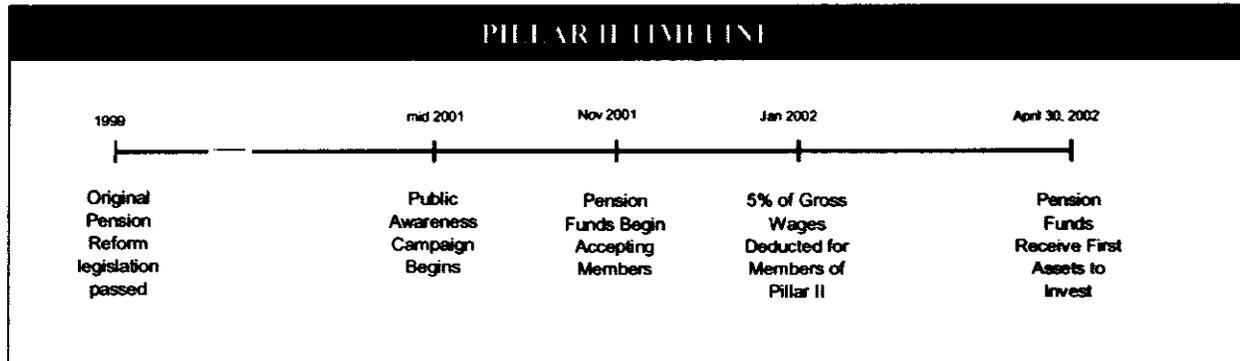
The reform of the Croatian pension system has engaged policy-makers, politicians and academics in a debate over the framework, sustainability and implementation of a new system for nearly a decade. The investment in a long and protracted debate proved extremely beneficial for the overall reform process and this extended period of discussion allowed for due diligence to occur on every conceivable issue within the reform framework. The analysis produced during this period led policy-makers to simple answers and creative solutions to address the various challenges and issues associated with the implementation of the reform. This cautious and rigid approach delivered a functional legislative and policy framework to the new Social Democratic Party led coalition government elected in 2000. Shortly after being elected, the government announced that during its mandate, reducing the fiscal impact of the social welfare system would be a major priority - with pension reform leading the way.

The multi-pillar pension framework adopted by the government in large part was a design developed with the significant input of the World Bank. As part of a larger structural adjustment loan to Croatia, the Bank had earmarked \$50 million dollars to cover transitional cost and for the provision of technical assistance for the reform process. In 2000, the negotiations on the terms of the SAL between the government of Croatia and the Bank came virtually to a standstill, effectively halting the pension reform process. This impasse had unintended consequences and benefits for the pension reform process. The Bank's design for the implementation of pension reform was based on timing, which complimented the structural adjustment loan process. The negative consequences appeared immediately among policymakers and government officials. A consensus position developed which maintained that without funding from the Bank the reform could not go forward. The Bank, to a certain degree, reinforced this notion by: reiterating its timetable for the reform process, which provided a start date for the reform early 2004. It was at this juncture that USAID agreed with the Bank to provide funding for a basic bridge project under its social transition portfolio, which would work with government officials and unions to develop public education initiatives. This initiative by USAID would begin a process that created unimagined benefits for the implementation of the reform process and for the government of Croatia.

The USAID Pension Reform Project began in 2001 with small ambitions but soon became the catalyst and accelerant for pension reform in Croatia. The project design advocated a more pragmatic view to the reform process by immediately moving away from the more legalistic and policy- oriented approach adopted by the Bank and government officials. Instead, the project developed a range of practical solutions for the strategic management of the reform. The project assessed that the framework for the reform was intact, sound and feasible. The problems identified rested more in the area of human resources in terms of experienced and skilled individuals to develop a strategic plan for the implementation of the reform. Two other areas were also identified as problematic: 1.) Accountability and responsibility for the reform rested with mid-level government officials and not with an appropriate person of political significance, and 2.) Specific constituency groups suspicious and distrustful of the proposed reform were capable of derailing the entire process. The project began developing initiatives that would specifically address these areas. Over a 3-year period, these initiatives achieved very measurable results which contributed significantly to the reform process.

(The government of Croatia and World Bank reached agreement in July 2003 on the scope of the SAL – but because of advice provided to the Ministry of Labor and Social Care by the USAID Pension Project, the government reduced the amount of the loan for pension reform from \$50 million to \$27.3 million, citing correctly that implementation of the reform had been underway and funded by government

revenues for almost 2 years thereby negating the need for nearly half of the expenditures originally earmarked in the funding prospectus.)

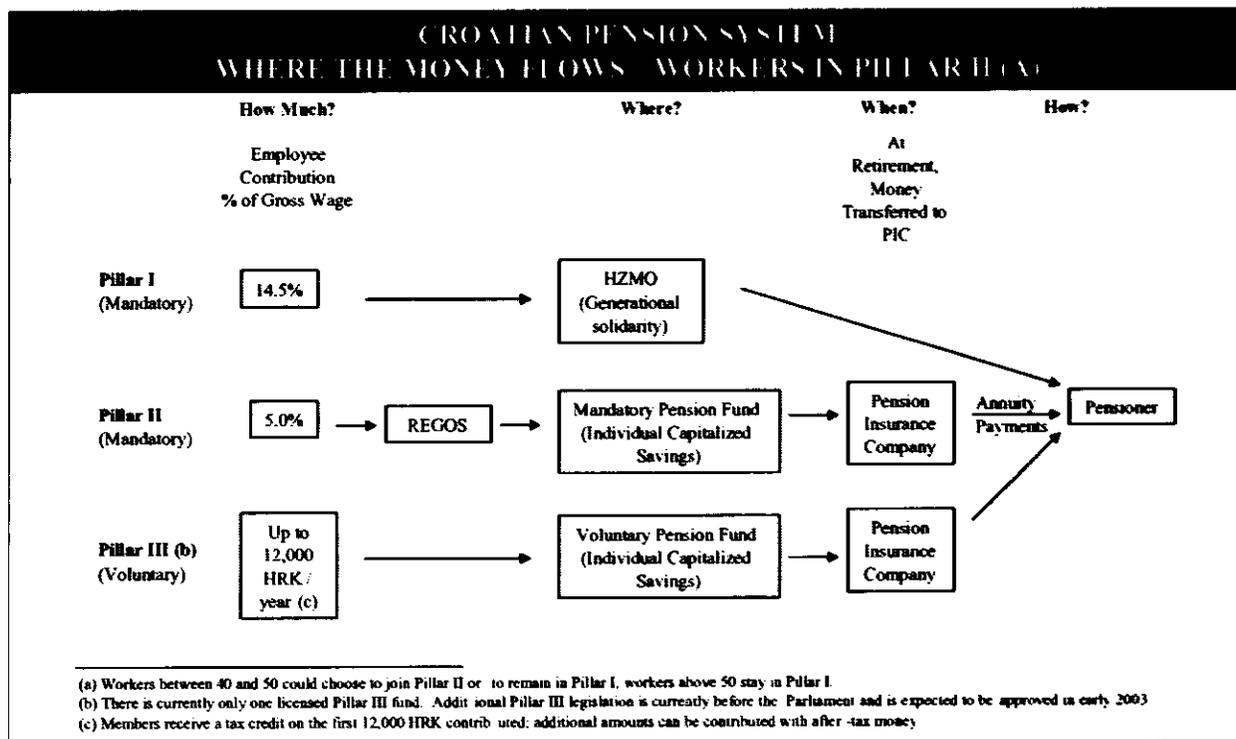


Today, a fully functional multi-pillar pension system exists in Croatia. The new system is regarded on many levels by leading pension experts to be a modern day success story – one that suggests that despite political opposition, severe economic conditions and budget constraints, countries can efficiently manage and implement a new system which benefits the government fiscally, as well as its citizens by providing a more secure source of retirement income. The new system in Croatia has clearly benefited from successes and failures of previous reform efforts undertaken by a number of countries like Poland, Chile, Mexico, Hungary and Bulgaria. But what makes the Croatia model and experience unique is the speed and efficiency of the reform implementation. In less than 18 months, the two agencies charged with the supervision and operations of the pension reform created and implemented a functioning system which allowed for the establishment of four mandatory pension funds, four voluntary pension funds and three custodian banks, as well as a registration system for private accounts for over 1.1 million citizens.

PENSION SYSTEM AT A GLANCE

Croatia's new pension system has three pillars:

Pillar I	Pillar II	Pillar III
<ul style="list-style-type: none"> ✓ Mandatory; Pay-as-You-Go ✓ Current pensioners, workers over 50 	<ul style="list-style-type: none"> ✓ Mandatory; individual capitalized accounts ✓ Workers under 40; workers between 40 and 50 choosing Pillar II 	<ul style="list-style-type: none"> ✓ Voluntary; individual capitalized accounts ✓ Anyone over 18
<ul style="list-style-type: none"> • Pillar II funds invest their assets subject to strict investment limits which include: <ul style="list-style-type: none"> - Minimum 50% invested in Croatian government bonds - Maximum 15% invested outside Croatia 		
<ul style="list-style-type: none"> • There are currently 4 licensed Pillar II funds and 4 licensed Pillar III funds. 		
<ul style="list-style-type: none"> • As of February 28, 2004, Pillar II funds had: <ul style="list-style-type: none"> - 1,100,000 members; - HRK 6.0 billion / Euro 814.8 million in total assets; and - Achieved a weighted average return of over 11% in just eighteen months. 		



B. OBJECTIVES

The overall objective of the USAID Pension Project was to assist the government of Croatia to “promote and support pension reform, including developing a private pension industry.” In order to achieve this objective, CARANA proposed that the project be divided into two major components: public education and training. CARANA designed a comprehensive public education and training program to educate the policy makers and public about the importance of reforming Croatia’s pension system and establishing and/or improving the relevant institutions that would manage the process. More specifically, the objectives were:

1. Maintain contributor and key stakeholder support for pension reform,
2. Maximize contributor participation and employer compliance in pillar II,
3. Strengthen the capacity of key stakeholders (REGOS, HAGENA, private pension industry) and thus increase public confidence in the reformed system through rapid response capabilities.

C. RESULTS

Public Opinion – A critical factor in creating political will for the reform

One of the benchmarks utilized to grade and monitor the reform has been the use of public opinion polling of citizens, effected by participating in the new system. The nature of the reform, which was complicated in framework, required that a direct dialogue with citizens be established in order to provide

correct and relevant information. The first public opinion poll was conducted in April 2001 the findings indicated that less than 30% of the population supported reform in any manner. The low level of public support for the reform provided serious concerns to government officials and other stakeholders about the feasibility of implementing the reform in face of opposition from the public. Anticipating the evaporation of political will for the implementation of the reform, the project began to direct public education initiatives towards targeted groups (unions, media and pensioners) capable of derailing the reform.

The initiatives proved to be critical elements in changing the public's perception by allaying any negative concerns surrounding the reform. In less than 8 months, public support increased from 30% in April 2001 to 81% in November 2001. Today, with regular progress updates, information flows from the agencies with fair and balanced coverage of issues by the media and accessible pension funds managers, public support for the new system has been sustained at an exceptionally high level: the last public opinion poll conducted in February 2004, indicated that 75% of respondents viewed positively all advances associated with the reform. Respondents also cited substantial knowledge of the reform process and developments within system and were advocating that the new government continue providing support to the reformed pension system.

Furthermore, the views and endorsement of political commentators, the financial industry, policy-makers, unions, businesses, media and politicians have converged in a rare consensus which clearly declares pension reform in Croatia a success and gives credit to the project as an important factor.

Buy-in from the government of Croatia, Ministry of Labor Social Care, HAGENA, REGOS and HZMO

The pace and depth of the reform process centered on three state agencies and one Ministry (HAGENA, the agency for fund supervision, REGOS the central registry of affiliates, HZMO, the Croatian Pension Institute and the Ministry of Labor and Social Care). In 2001, the project began as purely a bridge program until such time as the World Bank could step-in to develop the technical and policy aspects. Unfortunately, this dependence on the World Bank by the agencies and the ministry led to confusion and a decentralized approach to the reform. Each agency worked independently from one another while trying to develop an operational framework for their respective portfolios. It was clear to the USAID project that a more unified and strategic approach was necessary if the reform was to succeed. The project made an appeal to Dr. Kovacevic, Director of HAGENA, for direct access to his inner circle of advisors. At the same time, the project made a request to be housed inside REGOS the central registry of affiliates which was located in the same building as HAGENA. Anelka Buneta, the Director of REGOS agreed and thus effective work was able to begin. Both agencies assigned staff members to work directly with the project and to provide access to information and personnel.

The first significant project initiative came in the development of a strategic communications plan incorporating ideas and needs envisioned by the agencies. An interesting challenge came with the planning of a media seminar which would give the agencies the opportunity to outline the plans for the reform. Both agencies were skeptical of the importance of such an event, but were convinced that it was necessary to allay fears and concerns being voiced by different constituency groups. The media seminar proved to be the cornerstone of the relationship that the project and counterparts would point to for the next two years as an example of effective technical assistance in which all parties were equal partners. Shortly after the media seminar, the agencies invited the project to broaden its role by requesting specific technical assistance in the areas of information technology and supervision. The request marked a profound change in the way the agencies and ministry viewed the capabilities of the project. For the next three years, the project was to play an important role in shaping the debate and implementation of pension

reform in Croatia, thanks in significant measure to the first media seminar, which was the seminal event creating political will to implement the reform.

July 15, 2001, 27 journalists participated in a two-day media seminar focused on various aspects of pension reform. The journalists were treated to presentations and discussions by the primary implementers of the reform. For the journalists, this access to policymakers was unprecedented, especially with a reform of this magnitude. The tradition of reform in Croatia essentially was one in which the government decreed a reform and implemented it without public input or consultation. This seminar was the first of many to be held over the next few years, but the impact had a direct link in creating an environment for more open and transparent exchanges of information in the future.

"At a seminar organized last week in Trakoscan by the CARANA Corporation (with the assistance of World Learning), journalists were able to observe the enormous difference between the people who are putting into place the new multi-pillar pension system and the people who led similar public projects in the past. Even the atmosphere in which the new pension institutions are being established today is more ambitious, more lively and more transparent than, for example, the atmosphere around the capital markets which was established in secrecy, and the voucher privatization carried out with a hidden agenda or the frantically introduced PDV."

*- Ratko Boskovic, journalist for Jutarni List
July 18, 2001*

Employer and Employee Compliance

The project identified the issue of compliance as an important factor in establishing a functional pension system. The first pillar pension system suffered from non-compliance, which damaged the existing pension system by severely under funding it. For the second pillar system to function the issue had to be addressed with the development of a new reporting system. Working with REGOS, the project funded several IT initiatives and training sessions ranging from software development, establishing ISO standards, development of internet security policy to the development of an information call-center.

The IT initiatives have been credited as key elements in the success of the pension reform. The new software has the ability to track, monitor and move contributions through the system from the employer to the employee's account. This innovation is due to the REGOS IT system, which is responsible for ensuring the smooth transfer of pension contributions. 97% of all funds are accurately deposited into individual accounts in the corresponding banks and pension funds. The forms and systems behind this have other implications outside the Pillar II system for which they were originally intended. The ability to transfer funds in a timely manner has helped boost public support for the reform. Individual account holders can access their accounts either through REGOS or through the pension fund and the use of IT systems allows for transparency in financial matters which never existed before in Croatia.

In order to track and enforce compliance of employer contributions, REGOS designed a new reporting form: R-S. The use of the single R-S form replaces up to 11 other separate forms that employers filled out in the past, saving them time and money (the savings occurred in 2003; during 2002, companies had been running parallel reports). In addition, R-S forms are filed monthly whereas many past filings were done on an annual basis. This more timely reporting system should increase compliance rates from 50% to about 90%). Anecdotally, tax and pension receipts are up 10% over the past two years as a result of the new system.

Because of this centralized, accurate, monthly reporting system, REGOS duties have been expanded to include data collection of all obligatory contributions including income tax and additional income tax. Currently, REGOS sends data to the Health Ministry (HZZO), the tax department (PU) and the Pillar I Pension Institute (HZMO). The R-S Form tracks data on everyone in the Croatian labor market,

regardless of whether a worker is in Pillar II or not. In the future, REGOS may also send data directly to the government for timely use in decision-making.

Lastly, an additional benefit of the reform may be to drive people out of the “grey” economy into the “real” economy since membership in Pillar II is only available to registered workers. This should have the effect of raising tax and pension receipts, which will help to finance and overcome the deficit in Pillar I.

Financial and In-kind Contributions – A major sign of involvement by pension stakeholders

During the implementation of the pension reform project, a number of initiatives were funded by the government of Croatia through the Ministry of Labor and Social Care, HAGENA and REGOS. In addition, the World Bank and several pension funds contributed directly to program activities. The involvement by so many stakeholders was a clear indication of support and confidence that they place in the capability and importance of the project.

FINANCIAL and In-KIND CONTRIBUTIONS:

	Value
World Bank – funding for survey and focus groups	\$ 70,000.00
Government of Croatia – funding for materials distribution	\$ 879,375.00
HAGENA – media support, 3 rd pillar study, other activities	\$ 1,380,000.00
Ministry of Labor and Social Care- computers and staff	\$ 92,000.00
REGOS- operational support and office space	\$ 51,000.00
Pension funds, HAGENA and REGOS- Argentina-Chile	<u>\$ 20,000.00</u>
Total	\$ 2,492,375.00

The following table highlights the important stakeholders in the new pension system and their associated Pillar(s).

INSTITUTION	RELATED PILLAR(S)	DESCRIPTION MAIN TASK
HAGENA (Pension Funds and Insurance Supervisory Agency)	II, III	Supervises and regulates entire pension industry in Pillars II and III. Approves, licenses and monitors pension funds, pension insurance companies, custodian banks and REGOS. Drafts legislation surrounding reform including setting of investment limits.
REGOS (Central Register of Insured Persons)	II	Technical and professional center collecting contributions, keeping records, transferring money to private accounts at relevant fund and issuing reports to account holders. Role expanded to include collection and tracking of tax data.
Mandatory Pension Funds	II	HAGENA approved seven private funds which began signing up members in November 2001. The funds are: AZ, Erste-Plavi, PBZ and Raiffeisen. The funds have formed a formal association through which to lobby the regulator and government.

INSTITUTION	RELATED PILLARS	DESCRIPTION - MAIN TASK
Pension Insurance Companies (PIC)	II, III	Upon retirement, an individual's pension assets are transferred to a PIC and placed in an annuity chosen by the pensioner. To date, only one PIC exists.
Voluntary Pension Funds	III	Four currently licensed. Legal and tax issues to be ironed out before more entrants. Expected after current amendments to the law are passed.
Custodian Banks	II	Three banks are licensed to be custodians. Responsible for safekeeping of pension fund assets and for checking that pension fund stays within the investment limit guidelines. The custodian banks are: HVB, Hypo-Alpe Adria and HPB.
Pension Institute (HZMO)	I	Administers the PAYG system.
World Bank	I,II,III	Providing a loan of \$27.3 million; primarily focused on restructuring of Pillar I institutions.

D. PROJECT DELIVERABLES, REPORTS AND ACTIVITIES

This next section outlines all the project deliverables, reports and activities required by the scope of work and work plans from January 10, 2001 to February 28, 2004. It shall be noted that an initial 12 month Task Order was followed by two subsequent one year extensions.

USAID PENSION REFORM PROJECT – January 10, 2001 to February 28, 2004
Chart of Project Deliverables, Reports and Activities

DELIVERABLES AND REPORTS	DESCRIPTION	DATE OF COMPLETION
Submission to USAID-- within 25 days of execution of task order a draft work plan done in collaboration with GOC---reviewed by CTO	<u>REPORTS:</u> <ul style="list-style-type: none"> ▪ Work Plan I - January 2001 to January 2002 ▪ Work Plan II (modification) - January 2002 to January 2003 ▪ Work Plan III (modification) - February 2003 to February 2004 	<ul style="list-style-type: none"> ▪ February 28, 2001 ▪ March 28, 2002 ▪ March 30, 2003
(18) Bi-monthly reports	<u>REPORTS:</u> <ul style="list-style-type: none"> ▪ (18) Bi-monthly reports outlining project status and description of program activities 	<ul style="list-style-type: none"> ▪ Bi-monthly basis from February 2001 to February 2004
Pension Reform Public Education Campaign Multi-media Initiatives	<u>PRINT MATERIALS:</u> <ul style="list-style-type: none"> ▪ Multi-Media Strategic Plan - outline of elements to be encompassed in pension reform educational campaign; ▪ 200,000 copies Pension Reform brochures, 6 pages - targeting union workers with basic information on the new multi-pillar system; ▪ 2.7 million copies - Pension booklets 12-pages containing basic information on the new multi-pillar system; ▪ 200,000 copies Pension fact sheets - targeting pensioners with basic information about the effects of pension reform on the 1st pillar; ▪ 5,000 copies - REGOS newsletter - explaining the new multi-pillar system; ▪ 5,000 copies - RS handbook for Employers explaining new compliance requirements for the 2nd pillar; ▪ 10,000 copies - Pension reform pamphlets - general information on the new multi-pillar system; ▪ 5,000 copies - 2nd pillar pension brochures targeted towards Employers; ▪ 5,000 copies - 3rd pillar pension brochures targeted towards Employers. <u>COMMERCIALS:</u> <ul style="list-style-type: none"> ▪ 1, 2, 3, Go! 30-seconds announcement of the start of pension reform; ▪ Disco! Brief explanation and motivational commercial 90 seconds; ▪ Pension Reform update, (40 seconds) basic information; ▪ 1, 2, 3, Hurry! (45 seconds) reminding citizens to choose a pension fund; ▪ 5 days! (15 seconds) reminder of registration deadline; ▪ 4 days! (15 seconds) reminder of registration deadline; ▪ 3 days! (15 seconds) reminder of registration deadline; ▪ 2 days! (15 seconds) reminder of registration deadline; ▪ Tomorrow! (15 seconds) reminder last day to register; ▪ The Big Band! (30 seconds) ▪ Quiz show! (45 seconds) Reminder to check your account! ▪ Handball! (30 seconds) 	<ul style="list-style-type: none"> ▪ May - 2001 ▪ June - 2002 ▪ September - 2002 ▪ October - 2002 ▪ October - 2002 ▪ November - 2002 ▪ November - 2002 ▪ August - 2003 ▪ September - 2003 ▪ June - 2002 ▪ September - 2002 ▪ October - 2002 ▪ October - 2002 ▪ November - 2002 ▪ June - 2003 ▪ October - 2003 ▪ February - 2004

USAID PENSION REFORM PROJECT – January 10, 2001 to February 28, 2004
Chart of Project Deliverables, Reports and Activities

DELIVERABLES AND REPORTS	DESCRIPTION	DATE OF COMPLETION
	<u>RADIO SHOWS:</u> <ul style="list-style-type: none"> • Pension Reform and You! • Registration for new pension system! • 40 - 50 year olds more time to register! 	<ul style="list-style-type: none"> • September - 2001 • November - 2001 • January - 2002
(5) Media Seminars— Pension Reform	<u>EVENT:</u> <ul style="list-style-type: none"> • 1st Pension Reform Media Seminar - Trakoscan, Croatia • 2nd Pension Reform Media Seminar - Plitvice, Croatia • 3rd Pension Reform Media Seminar - Opatija, Croatia • 4th Pension Reform Media Seminar - Brijuni, Croatia • 5th Pension Reform Media Seminar - Rijeka, Croatia 	<ul style="list-style-type: none"> • July 13 - 14, 2001 • September 5 - 7, 2001 • January 25 - 27, 2002 • May 31 - June 2, 2002 • April 11 - 13, 2003
Ministry of Labor and Social Care (7) Policy workshops and seminars	<u>EVENT:</u> <ul style="list-style-type: none"> • Labor Law Seminar - Villa Weiss • National Family Policy - Villa Prekrižje • Work In Progress - Labor Law - Villa Prekrižje • Pension Reform in Croatia - Ukraine delegation • Aspects of Unemployment - Zagreb • Gender Equality Law - Zagreb • Workshop for Government on Labor Law • Flexibility and Security - Labor Law - Government Building • Reform of the Social Security System - Castle Bezanec • Different Genders Equal Rights - Nikola Tesle • Access to Social Rights - Opatija, Croatia 	<ul style="list-style-type: none"> • May 12, 2002 • November 19, 2002 • January 18, 2003 • February 24, 2003 • March 12, 2003 • March 15, 2003 • May 21, 2003 • May 27, 2003 • July 5, 2003 • October 13, 2003 • October 17, 2003
(13) Study Tours and Conferences	<u>LOCATION and EVENT:</u> <ul style="list-style-type: none"> • Warsaw, Poland - Pension Supervisory Agency • Sophia, Bulgaria - Ministry of Labor and Supervision Agency • Tallin, Estonia - INPRS Seminar • Budapest, Hungary - INPRS Seminar • New York, New York - World Bank Conference on Pensions • Ljubljana, Slovenia - INPRS Seminar • Las Vegas, Nevada - COMDEX Convention • Trieste, Italy - Call-center development • Lisbon, Portugal - DB2 IBM conference • Milan, Italy - EU pension Conference • Zagreb, Croatia - INPRS Seminar • Buenos Aires, Argentina and Santiago, Chile - Supervisory Agencies and Pension Funds • Washington D.C. and Baltimore Maryland - Supervisory Agencies, Plan administrators and IT departments 	<ul style="list-style-type: none"> • November 8 - 10, 2001 • January 8 - 11, 2002 • February 5 - 10, 2002 • April 11 - 12, 2002 • April 16 - 21, 2002 • November 7 - 8, 2002 • November 15 - 19, 2002 • October 11 - 12, 2002 • October 19 - 24, 2002 • May 18 - 20, 2003 • May 27 - 28, 2003 • June 6 - 16, 2003 • October 25 - November 2, 2003

USAID PENSION REFORM PROJECT – January 10, 2001 to February 28, 2004
Chart of Project Deliverables, Reports and Activities

DELIVERABLES AND REPORTS	DESCRIPTION	DATE OF COMPLETION
Public Opinion Research Surveys – (12) REPORTS	<u>ISSUE:</u> <ul style="list-style-type: none"> ▪ Public Opinion Survey – Pension Reform ▪ Public Opinion Survey – Social Reforms ▪ Public Opinion Survey – Labor Law ▪ Public Opinion Survey – Pension Reform ▪ Public Opinion Survey – Pension Reform 	<ul style="list-style-type: none"> ▪ March – 2001 ▪ April – 2001 ▪ May – 2001 ▪ July – 2001 ▪ September – 2001 ▪ October – 2001 ▪ November – 2001 ▪ January 2002 ▪ October – 2002 ▪ December – 2002 ▪ April – 2003 ▪ February – 2004
Focus Group Reports – (13)	<u>TARGET AUDIENCE:</u> <ul style="list-style-type: none"> • Pension Reform and Union members • Pension Reform and Media • Pension Reform and Employees ▪ Pension Reform and Employees and Pensioners • Pension Reform and Employees • Social Welfare – Pensioners • Social Welfare – Women • Social Welfare – Unemployed • Social Welfare and Youth • Social Welfare – Serbs and Croatsians • Social Welfare – Employed • Social Welfare – Unemployed • Social Welfare – Entrepreneurs 	<ul style="list-style-type: none"> ▪ May – 2001 • June – 2001 • September – 2001 • November – 2001 • May – 2002 • March – 2003

USAID PENSION REFORM PROJECT – January 10, 2001 to February 28, 2004
Chart of Project Deliverables, Reports and Activities

DELIVERABLES AND REPORTS	DESCRIPTION	DATE OF COMPLETION
Rapid Response Initiatives Support to HAGENA – Supervisory Agency Consultant Nick Stuparich Development of manuals and training sessions for agency personnel.	Activities and Reports <u>KEY REPORTS, MANUALS AND MEMORANDUM PRODUCED FOR HAGENA</u> <ul style="list-style-type: none"> • Supervisory Examination Manual • Supervisory Examination Program • Legislative Amendment Priority areas • On-site Examination Training Plan • Manual for On-site Examination • Qualitative Supervisory Tests • Commentaries on the by-laws on Informative prospect of Pension Funds • Custodian Supervision Analysis • Prospectus Requirements by-laws • Regulatory System assessment • Report Analysis for Pension Companies • Strategy for Work Plan • Supervision Rule Book <u>TRAININGS</u> <ul style="list-style-type: none"> • On-site examination training • Examination training program • Certification process training for fund managers • Custodian supervision training HAGENA has conducted over 18 on-site examinations and conducts daily off-site supervision of Croatia's 4 pension funds.	February – May 2002
Support to REGOS – Central Registry for pension reform Information technology Initiatives—software, security standards, database management	<u>INFORMATION TECHNOLOGY INITIATIVES:</u> <ul style="list-style-type: none"> • Development of RS Software for REGOS reporting and compliance system additional training and workshops for employers in the area of compliance and use of software; • Information Technology assessment conducted by IBM; • Development of Security policy conducted by IBM; • IT call-center and complaint process – web application implemented by SV group; • Development of new program solution for RS software implemented by SV Group • Team building and human resources training REGOS has a fully functional IT system that collects and distributes pension funds. Also, the agency operates the only government call-center.	<ul style="list-style-type: none"> • July 2001 • March – 2002 • September 2002 • December 2002 • January 2003 • March 2003
Support to specific pension reform initiatives Consultant Peter Hurd Financial report, study tour and 3rd pillar tax incentive study	<u>REPORTS:</u> <ul style="list-style-type: none"> • Pension Reform One year later! • Preparatory work for Argentina and Chile • 3rd pillar Tax Incentive Study 	<ul style="list-style-type: none"> • January 2003 • June 2003 • August – 2003

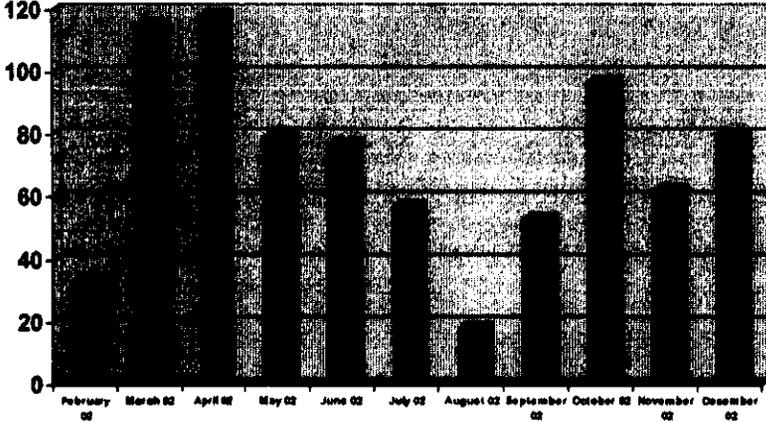
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Chart of Project Deliverables, Reports and Activities

DELIVERABLES AND REPORTS	DESCRIPTION	DATE OF COMPLETION																					
<p>KEY BENCHMARKS</p> <p>Maintain a level of the public reporting a positive understanding and confidence in the pension reform process.</p>	<p align="center">LEVEL OF SUPPROT FOR THE REFORM OF THE PENSION SYSTEM</p> <table border="1"> <caption>LEVEL OF SUPPROT FOR THE REFORM OF THE PENSION SYSTEM</caption> <thead> <tr> <th>Date</th> <th>General Population (%)</th> <th>Employed (18-50 y) (%)</th> </tr> </thead> <tbody> <tr> <td>VII/01</td> <td>48%</td> <td>41%</td> </tr> <tr> <td>X/01</td> <td>78%</td> <td>80%</td> </tr> <tr> <td>XI/01</td> <td>77%</td> <td>84%</td> </tr> <tr> <td>XII/02</td> <td>79%</td> <td>81%</td> </tr> <tr> <td>IV/03</td> <td>74%</td> <td>-</td> </tr> <tr> <td>II/04</td> <td>-</td> <td>77%</td> </tr> </tbody> </table>	Date	General Population (%)	Employed (18-50 y) (%)	VII/01	48%	41%	X/01	78%	80%	XI/01	77%	84%	XII/02	79%	81%	IV/03	74%	-	II/04	-	77%	
Date	General Population (%)	Employed (18-50 y) (%)																					
VII/01	48%	41%																					
X/01	78%	80%																					
XI/01	77%	84%																					
XII/02	79%	81%																					
IV/03	74%	-																					
II/04	-	77%																					

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<p>Maintain a level of the public reporting a positive understanding and confidence in the pension reform process.</p>	<p align="center">HOW WELL INFORMED ARE YOU ABOUT THE PENSION REFORM IN CROATIA?</p> <table border="1"> <caption>Data for: HOW WELL INFORMED ARE YOU ABOUT THE PENSION REFORM IN CROATIA?</caption> <thead> <tr> <th>Date</th> <th>Somewhat Informed (%)</th> <th>Very Well Informed (%)</th> </tr> </thead> <tbody> <tr> <td>VII/01</td> <td>6%</td> <td>26%</td> </tr> <tr> <td>VIII/01</td> <td>7%</td> <td>34%</td> </tr> <tr> <td>IX/01</td> <td>16%</td> <td>45%</td> </tr> <tr> <td>X/01</td> <td>18%</td> <td>45%</td> </tr> <tr> <td>XI/01</td> <td>24%</td> <td>49%</td> </tr> <tr> <td>XIV/01</td> <td>32%</td> <td>49%</td> </tr> <tr> <td>I/02</td> <td>28%</td> <td>56%</td> </tr> <tr> <td>IV/03</td> <td>21%</td> <td>32%</td> </tr> <tr> <td>II/04</td> <td>15%</td> <td>48%</td> </tr> </tbody> </table>	Date	Somewhat Informed (%)	Very Well Informed (%)	VII/01	6%	26%	VIII/01	7%	34%	IX/01	16%	45%	X/01	18%	45%	XI/01	24%	49%	XIV/01	32%	49%	I/02	28%	56%	IV/03	21%	32%	II/04	15%	48%	
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USAID PENSION REFORM PROJECT – January 10, 2001 to February 28, 2004
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II. MINISTRY OF LABOR AND SOCIAL WELFARE

A. BACKGROUND

CARANA's previous success in working with the MRSS on Pension Reform led to the extension of the project to include other partners, such as HAGENA, GSV, HZMO, REGOS, Croatian Employment Bureau, Croatian Red Cross, various non-governmental organizations, elected officials, the Assistant Ministers of MRSS, and others.

From CARANA's perspective, the need was apparent for ongoing communications support and policy assistance. The MRSS had learned a great deal during the Pension Reform process – both in terms of developing sound public policy and in educating the public about complex changes in a longstanding, deep-rooted social service program. However, while Pension Reform created a foundation, more work was necessary to help the MRSS transition toward greater democratic governance.

In the same light, the MRSS and its partners wanted to build upon what had been created during Pension Reform, to learn new ways of communicating more effectively with Croatian citizens and among themselves. Thus, in September 2002, CARANA launched a new public education and policy initiative in cooperation with the MRSS.

The project – and its impact – proved to be a transformational process for the MRSS. To the extent that it touched upon cultural and political traditions and systems in Croatia, the project set new standards. Policymakers in the MRSS shifted their perspective on democratic governance in response to favorable poll results that showed a positive reaction to the Ministry's new public education initiatives. They began to view openness with constituencies seeking public input from partners and the media as a crucial part of their roles.

In turn, those considered the beneficiaries of the project's work were also changed as a result. Journalists who had been accustomed to very little access, for example, were provided substantive information about the MRSS' social service agenda. The quality of reporting grew and the stories became more sophisticated as a result. As NGOs and other organizations participated in drafting legislation and formulating policy, they had a vested interest in a positive outcome.

Still, there were challenges –while the MRSS and its partners were eager to build on the lessons learned during Pension Reform process and the success of that initiative, the idea of democratic governance still was in its infancy and political operation was bound to some degree by traditional perceptions. Suggestions for change struggled against more familiar ways of doing business that had evolved during *decades of socialist governments*. CARANA's role was to keep the pressure on change while respecting cultural and political tradition.

The fundamental goal of the project was to create a more inclusive, civic-minded and targeted process of policy making and communication, starting with the MRSS operation and extending into Croatian constituencies and communities. Guided by focus group data, CARANA's strategy and approach consisted of several levels from developing new ways of formulating MRSS policy to creating new systems of communicating information. As part of the project, MRSS officials began including NGOs, other organizations, local officials and members of Parliament in creating legislation and policies. These NGOs, organizations, and public officials, in turn, educated their members and constituencies. Meanwhile, the MRSS Press Office disseminated information on a larger scale to the press and public using a variety of communications tools and systems.

B. OBJECTIVE

Improve the status of selected vulnerable groups with public education and information campaigns working with the Ministry of Labor and social care institutions

C. CHALLENGES

CHALLENGE:	OUTCOME:
<p>Lack of Communication Network: The MRSS lacked a database of contacts and sources and, thus, had no reliable method of contacting NGOs, political partners, local elected officials and media outlets. The MRSS missed many opportunities to disseminate effective, timely and accurate information about the Ministry's work.</p>	<p>Cooperation between CARANA, the MRSS and other partners led to the creation of a new MRSS database. The database, organizes and sorts contact information, allowing the MRSS to send press releases, press statements, media advisories, audio (mp3) and video statements and other informational materials to targeted audiences. The system sends information primarily through the Internet, but also allows for the faxing and mailing of information. With more than 11,000 entries, the MRSS database is one of the most expansive communications tools in Croatia and has become the backbone of outreach from the MRSS.</p>
<p>Lack of Communications Strategy: The day-to-day activity of the MRSS Press Office consisted of reaction to news events instead of an active engagement with the press. The MRSS did not set the news agenda and, instead, followed the lead set by reporters looking for stories. The MRSS did not have a strategic communications plan and the Press Office did not have the expertise to create one.</p>	<p>CARANA used focus group data to gain a better understanding of current social issues and to gauge the success of newly developed communications tools and systems. Focus groups were conducted periodically throughout the project. The results allowed CARANA to advise the Ministry to shift focus when appropriate and to employ different modes of communication, varying between organizing media seminars, writing newsletters and policy letters, producing presentations, designing leaflets and brochures, lobbying members of Parliament, taping radio programs and organizing community outreach initiatives.</p>
<p>Exclusion of Citizens: Citizens and citizens groups were not included in the drafting of complicated benefits plan legislation. Civic participation is a fundamental element missing from the post-socialist government model and system in Croatia and was a key challenge for the project.</p>	<p>CARANA encouraged MRSS Minister Vidovic and other public officials to invite citizens and the media to public meetings, roundtable discussions, media seminars and workshops to discuss proposed legislation. As a result, groups such as the Mayors Association of Croatia, Queer Zagreb and other special interest groups assisted the MRSS in crafting legislation for the 2003 Parliamentary agenda.</p>
<p>Lack of Communication with the MRSS Beneficiaries: The MRSS did not communicate with the Ministry's beneficiaries. The Ministry did not engage in active outreach to social centers, for example, which MRSS funded either directly or through joint funding.</p>	<p>The MRSS began collecting resource information (activities, events, personnel, etc.) related to its beneficiary institutions and organizations. The information made it possible for the MRSS to distribute regular updates, (policy papers, brochures, etc) to this social service network. Directors of social service centers, once included in the process, became more involved in the process of crafting social service legislation.</p>

<p>Lack of Funding: Inadequate government funding to develop communication tools and maintain information systems is a common concern among policymakers and press spokespeople in Croatia.</p>	<p>The MRSS spent more than \$180,000 on state-of-the-art computers, printers, office space, qualified personnel and office supplies. This illustrates the importance the MRSS placed on the CARANA-MRSS project.</p>
<p>Developing Standards of Democratic Governance: The MRSS was in the early stages of understanding how to communicate openly and consistently with NGOs, political partners, citizens and the media. This reflected a lack of political sophistication regarding democratic governance.</p>	<p>As the project evolved and the benefits of an effective communications/outreach strategy became clear, the Minister and other MRSS officials embraced the notion of open government. They began to generate their own ideas and to develop some of their own approaches.</p>

D. COMMUNICATIONS TOOLS

TOOL:	OUTCOME:
Database	Used on a daily basis to send out press statements, position papers, audio/video segments, communication with social centers and journalists. Database entries include: non-governmental organization operating in Croatia (150), media sources and outlets, both local and national (250), elected officials, from President to city council members (4,400), all members of government (300), all government institutions and agencies (500), union representatives (6,000), employers associations (1000), foreign embassies (40).
Media seminars, roundtable discussions, town hall meetings and workshops to explain proposed legislation and policies	Held more than 30 different public policy discussions in 2003, highlighting a range of issues, including legislation for: family policy; social welfare reform; pension reform (third pillar); labor law; gender equality; children's ombudsman; workers safety and the complete labor law package.
News conferences and press events	<p>CARANA changed the style of media events organized by the MRSS, with more emphasis on visual images and creativity. Among the press events:</p> <ul style="list-style-type: none"> • A technology firm, an award-winner for its women-friendly corporate policies, unveiled the new Gender Equality Law in Zagreb. More than 100 Croatian women attended. • A Sisak-based steel factory was the site of the public kick-off for a new government employment incentive program. The steel factory already was benefiting from the incentives package. • A new school for the mentally disabled in Koprinica hosted a festive ribbon-cutting event for more than 350 mentally disabled students, their parents and a number of well-known Croatian personalities. • University graduation ceremonies provided an opportunity for MRSS Minister Vidovic to launch and promote the "School to Work Program."
Policy papers	During a campaign to pass a package of Labor Law Reform legislation, campaign, the MRSS Press Office developed more than 25 position papers and distributed them through the MRSS database.

TOOL :	OUTCOME :
Press advisories, releases and statements	More than 200 information packages were created and distributed to Croatian journalists, containing substantive information.
Presentations made to SABOR Members	Minister Vidovic and MRSS Assistant Ministers produced eight PowerPoint presentations for SABOR members and political party committees.
Brochures, flyers and handouts	Four brochures (25,000 pieces) and 13 flyers/handouts (10,000 pieces) were designed and printed, highlighting MRSS services, issues and reforms.
Press clippings	A news-clipping booklet was compiled daily, which included articles from newspapers and magazines that were relevant to the MRSS. The MRSS Press Office prepared the booklet and distributed it the Minister, the Assistant Ministers and the Prime Minister.
Web page	The new MRSS web page provides one-stop shopping for those interested in the MRSS. Among the information available on the web site, were: current news from the MRSS, press advisories, stories about the Minister's activities, contact information and biographies, newspaper clippings and links to other resources. On one page, citizens can pose questions to Minister Vidovic and other MRSS employees. Both the questions and the answers are posted. The web page has won two national awards: Vidi Magazine named it one of the top 10 state-sponsored web pages, and BUG Magazine named it among the top 50 best web pages throughout Croatia.

E. LEGISLATIVE SUCCESSES

CARANA and the MRSS designed several aggressive civic education campaigns around proposed policies and legislation, which incorporated the communication tools and strategies developed as part of the project. The effort paid off handsomely. Every piece of legislation proposed by the MRSS in 2003 passed unanimously in the Parliament (known as the Sabor). The laws were complex, but the education campaign and policy initiatives aimed to explain the legislation in understandable terms. All of the new laws met the legislative standards set by the European Union (EU) which was an important step for Croatia as it moves toward the goal of EU membership.

E.1. Legislative Achievements

Labor Law: For nearly three years the government, employers and unions were locked in heated debates over the substance of a new labor law for Croatia. Unfortunately, these debates ended in deadlock and only the government was satisfied with the final proposal. In 2003, CARANA worked with the MRSS on a strategy to pass labor law reform that would satisfy all parties to the debate by first demonstrating that the MRSS proposals were sound policy. The MRSS hosted a series of media seminars and published policy papers to explain the proposed changes. The media seminars gave the government an opportunity to articulate its vision of a flexible and growing labor market. The seminars led to a more balance portrayal of the proposal in the press and in July 2003, the SABOR passed Labor Law Reform, ending years of pointless debate.

"The labor reform package is necessary. There is a high probability that flexible legislation would lead to an increase in employment. This law is not designed for firing people, but for an investment in Croatia."

- Glas Slavonije, July 23, 2003

The amendment to existing Croatian labor law brought the code into accord with EU standards. Two years of negotiation between the three partners on the law – the Government, employers and unions – led to a compromise accepted by all three. The Government agreed to increase severance packages for employees who have worked more than 20 years and lengthened the required time for notices of dismissal. The law also seeks to raise the competitiveness of Croatian business practices while introducing anti-discrimination statutes. Vote: 71 for, 41 against, 5 abstentions.

Gender Equality: Prior to 2003, little consensus existed among women’s organizations, state institutions and the MRSS in how to craft the first Gender Equality Law in Croatia and competing visions and agendas made it impossible to make strides toward gender equality legislation. With CARANA’s encouragement, the MRSS in 2003 organized roundtable discussions, informal gatherings and meetings with non-governmental organizations throughout the country, and these discussions led to compromise and an agreement on the actual language of the law. Once agreement had been reached, the various interest groups began educating their members about the law through a series of policy letters and seminars driven by the MRSS.

"With implementation of the Gender Equality Law Croatia will be closer to Europe where similar laws already exist."

- Ana Prebeg, Fokus, April 11, 2003

Giving voice to working women in Croatia, and drafted to synchronize with provisions of Croatia’s Labor Law and EU standards, the new Gender Equality Law defines sexual harassment, creates a national Gender Equality law and provides women with a system to report grievances. Vote: 75 for, 0 against, 0 abstained.

Family Law/Same Sex Union Background: A primary goal for MRSS in 2003 was to pass comprehensive social welfare legislation that would provide a combination of rights for families, women, children, and partners of same sex unions. The legislation had been in the works for several years, but had been tabled since 2002 because the same sex union portion of the bill created fierce opposition. Discouraged by the backlash, the MRSS backed away from the entire legislative package. With CARANA’s help, the MRSS brought the legislation back to life, developing a comprehensive strategy to communicate its benefits using media seminars, lobbying members of the SABOR, distributing handouts and brochures and producing a radio program along with two 10-minute mini-documentaries for television. All of the activities that related to same sex unions were coordinated with a number of gay and lesbian organizations in Croatia, most notably, Queer Zagreb. The legislation ended up with a broad base of support in the Sabor, notwithstanding the portion aimed at providing rights to partners of same sex unions. The laws are in harmony with EU and Western standards.

Family Law: Increasing protections for victims of domestic abuse (such as a one-month separation of an offender from the household), this law protects Croatia’s youngest and most vulnerable. Introduction of paternity leave and more maternity leave were also a portion of the newly enacted rights for families. Vote: 71 for, 0 against, 0 abstentions.

"One day, when the historical overview of the sexual and gender minorities' movement will be written, July 14th 2003 will be marked as one of the key moments. On that day the Croatian Parliament implemented the same sex community's law for the first time."

- Trpimir Matasovic, ZAREZ, September 11, 2003

Same Sex Unions: Allowing equal rights for partners of same-sex relationships that are considered common-law unions. This law recognizes financial assistance, joint property and inheritance rights for same-sex relationships. Vote: 61 for, 11 against, 13 abstentions.

Additional pieces of legislation passed by the Sabor in 2003:

LEGISLATION:	VOTE COUNT:
Protection of Work Law: This new law allows Croatian employees to form safety advisory boards to help make working conditions safer and save employers money.	For: 98 Against: 0 Abstained: 7
Bankruptcy Law: As a result of this law, employees can seek compensation if their employing companies enter into bankruptcy proceedings.	For: 99 Against: 0 Abstained: 0
Protection of Military and Civil War Invalids: This law harmonizes the rights and benefits provided to veterans of World War II and the Homeland War.	For: 70 Against: 27 Abstained: 0
Humanitarian Assistance: The most disadvantaged in Croatian society are eligible for help under this law, which aims to raise the living standard of those in need. <i>"By passing the Humanitarian Assistance Law, Parliamentarians have finally adjusted social rights with the real responsibilities of the state." – Novi List, June 13, 2003</i>	For: 73 Against: 28 Abstained: 2
Social Welfare: Plans are in the works for a reform of Croatia's Social Security system, to bring it in line with EU standards. The new Social Welfare law provides for a new pilot project to launch reform measures.	For: 68 Against: 35 Abstained: 3
Obligatory and Volunteer Pension Funds: A new law helps define the conditions under which pension funds can be established in Croatia.	For: 80 Against: 13 Abstained: 7
Children's Ombudsman: A new Croatian law has created the special role of ombudsman, to protect the rights of children. <i>"This law is the most important step for the institutional protection of children. The Ombudsmen is needed and useful. This helps Croatia meet the norms and standards of many western countries." Mirjana Nazor, Vjesnik, April 15, 2003</i>	For: 62 Against: 38 Abstained: 2
Awarding Promotion of Children's Rights: This award is presented to an individual, a group or an association that works for children's rights.	For: 100 Against: 0 Abstained: 2

F. MRSS CULTURAL TRANSFORMATION

Using the tools that CARANA had developed, such as visual identity elements and the new database, the MRSS began communicating with various organizations and constituencies. For example, the MRSS produced a series of letters and information packets and distributed them through the database. Incorporating this group of civic partners into the information loop eventually helped to form stronger relationships.

Perhaps the best example of the MRSS transformation occurred in December 2002 when MRSS invited local mayors from areas throughout Croatia to participate in an open discussion about an upcoming Family Law proposal. During the large gathering, the MRSS unveiled the framework of the law and experts offered opinions while the mayors were invited to actively join in an exchange of ideas and

dialogue. From these discussions, the MRSS ended up with a better understanding of the mayors' concerns; for their part, the mayors felt they were partners with the MRSS in developing the initiative. The MRSS eventually made changes to the Family Law proposal based on ideas that emerged during the one-day discussion.

Activities such as the coordination of media seminars, writing of newsletters, creation of policy letters, creation of PowerPoint presentations, development of leaflets and brochures, lobbying of members of parliament, production of radio programs and the organization of community outreach programs helped to create a civic-minded approach at the MRSS. By informing civic groups about the work of the MRSS, these groups became motivated to get involved and, over time, grow in support.

The building of such grassroots support demonstrated to the MRSS policy makers that the inclusion of citizens in the legislative process is not only good policy, but also an important step in the evolution of democracy in Croatia.

Before January 2003, MRSS conducted itself in much the same way as any other post-socialist institution – creating laws and regulations with little input from citizens or citizens groups. However, during CARANA's cooperative partnership with the MRSS, the success of the project changed what even the people considered to be the most difficult to change: the policy makers themselves. CARANA worked closely with the following policy makers: Mr. Dvorko Vidovic, Minister, Ms. Vera Babic, Assistant Minister of Labor; Mr. Nino Znagnic, Assistant Minister of Social Welfare; Ms. Helena Hovart, Assistant Minister of Gender; Ms. Fran Mirovic, Assistant Minister of Workers Rights; and Mr. Darko Stazic, Press Spokesman.

As a result of CARANA's positive relationship with Minister Vidovic, the partnership provided enough latitude to persuade and challenge policy makers to expect more out of the legislative process. CARANA worked on an individual basis with each assistant minister and explained the goal of developing a 'civic loop' at the MRSS. This civic loop incorporated citizens groups, the media and the MRSS lawmakers in creating effective public policy. MRSS lawmakers were expected to make the legislative process more transparent by including citizens in roundtable discussions; inviting the media to attend media seminars; distributing legislative updates through the new MRSS database; leading dialogue with special interest groups and eventually creating legislation with these groups. NGOs and other organizations were encouraged to work side-by-side with the Assistant Ministers, issue specialists and the Minister to create legislation.

The media seminars assisted journalists in publishing accurate and insightful stories about laws and reforms, which in turn generated citizen and MP support. The citizen groups that were part of the initial process of creating legislation supported the reforms enough to lobby members of the Sabor and to educate their members and constituents.

Overall, the results are impressive. Every piece of legislation proposed by the MRSS received unanimous approval in the Sabor during the project period. In the end, a civic culture has been created within the MRSS and now one of the first questions MRSS policymakers ask is: "How can we get citizens involved in the process."

The combined experience of this USAID financed Task Order, emphasizing public education and outreach in support of both pension reform and a broader labor and social assistance reform agenda, demonstrates the critical importance of incorporating public education as an integral element of USAID policy and economic reform projects.